2019

ANNUAL
REPORT

sorgenia

YOUR NEXT ENERGY

IN SHORT

REPORT ON OPERATIONS

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LETTER OF THE CHIEF EXECUTIVE OFFICER

We were established 20 years ago, together with the free energy market, and today we are the main Italian private energy operator.

Our strategy is based on a flexible energy production and management model, to accelerate our country's energy transition.

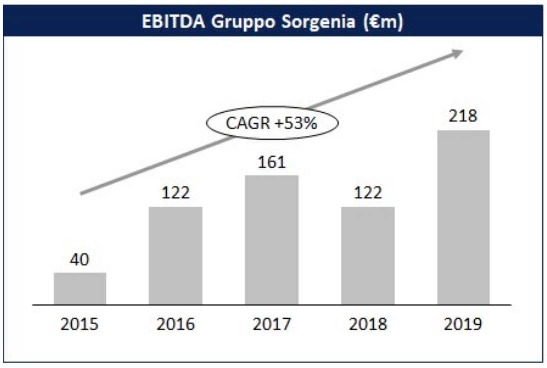
We work every day to bring sustainable energy and to provide simple, personalized and shared services to our customers, through digital technologies.

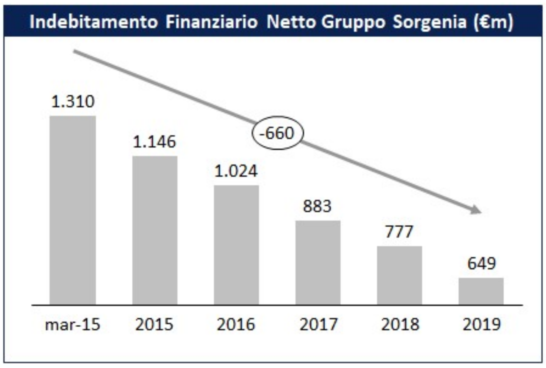
Gianfilippo Mancini - Chief Executive Officer

The five-year period just ended

March 27, 2020 is a particularly important date for Sorgenia. In fact, it's the end of a five-year cycle - that began on March 27, 2015 with the entry of the financing banks into the Company's shareholding structure and the appointment of a new Board of Directors - during which we carried out an extraordinary transformation and relaunch process.

If we look at the economic-financial results, EBITDA increased from just under 40 million euro in 2015 to roughly 220 million euro in the year that just ended; our net financial indebtedness fell from 1,310 million euro as of March 31, 2015 to 649 million euro as of December 31, 2019. Thus repaying 660 million euro to the lending banks and paying 90 million euro of financial expenses.





Starting from the need to carry out two consecutive debt financial restructuring operations, pursuant to bankruptcy law, in few years Sorgenia completed its economic and financial recovery, and today represents a unique reference of how to get successfully around a difficult corporate crisis. This was possible thanks to a strategic and organisational repositioning that today makes Sorgenia a forward-looking company and an innovative key player in the creation of a more sustainable, distributed and engaging way to relate with energy.

All company's business units contributed to this result through important turnaround initiatives: from power generation to energy management, from the sale of energy to end customers to the development of renewable energy sources and new business lines.

Generation and Energy Management

As regards the production of electricity, in recent years Sorgenia has deeply changed the way its combined cycle gas turbines (CCGT) power plants take part in the market. Infact, we have introduced a strong digitalisation in operations and close integration between the management of these plant and the energy management strategies on the energy and ancillary services markets, and therefore we have succeded in promptly respond to the volatility of the demand.
By doing so, we have enabled the electrical network to accomodate increasing volumes of production from non-programmable renewable energy sources (wind, sun, water) and we have grasped the different opportunities presented by the energy markets.

Last year was globally characterised by the reduction of the cost of gas and the increasing cost of CO2 emissions. In Italy, this led to a notable increase in gas production (94.1 TWh in 2018 vs 105.5 TWh in 2019) and an equivalent drop in coal production (26.1 TWh in 2018 vs 17.1 TWh in 2019). The reduction in CO2 emissions and other polluting substances released into the atmosphere by coal plants in our country, are the result of this trend.
In this scenario, Sorgenia managed to increase its production volumes by 34%, rising from 5.7 TWh in 2018 to 7.6 TWh in 2019.

In addition, in 2019, the Regulatory Authority for Energy, Networks and Environment (ARERA) acknowledged the fundamental role that our Modugno (BA) power plant plays for the electrical system safety, including it in the list of plants considered “essential” and therefore worthy of a specific regulatory regime.

Another really important event was the adoption of the “Capacity Market” regulations for the years 2022 and 2023. During the auctions held in November 2019, Sorgenia was awarded the entire production capacity offered, with the higher auction prize available. For these years, the company can therefore rely on lower volatility of production margins.

Lastly, 2019 was an important year in the process of industrial and financial restructuring of Tirreno Power, a company in which Sorgenia holds a 50% equity investment. As shareholders, we supported the company’s industrial projects, including the definitive decommissioning of the coal-fired units in Vado Ligure (SV) – another important contribution to the decarbonisation of our country – and the redevelopment of the areas that are no longer in use. Also thanks to these actions, Tirreno Power achieved positive and improved economic-financial results in 2019, which allowed an early repayment of the debt to the lending banks.

Looking at a future characterised by the growing role of renewable energy sources, non-programmable, and by the abandonment of coal, Sorgenia can now rely on two assets that will remain strategic in the long term: gas-efficient, flexible and with low environmental impact, power plants, and solid dynamic management skills on wholesale energy markets.

Development of renewable energy sources

In the past five years, we developed a diversified portfolio of projects for renewable energy power plants: geothermal, hydroelectric, photovoltaic, wind and biomethane.
The commitment towards the construction of renewable energy power plants is not only an industrial strategic decision, but also a precise assumption of responsibility based on our mission, completely focused on sustainability. For the same reason, in designing each new plant we consider both the adoption of the most advanced and sustainable technologies and the creation of benefits for local communities.

In 2019, the release procedure for the Single Authorisation to build and operate the “Saragiolo” plant (5 MW) was completed successfully. It is the first closed cycle geothermal plant, without atmospheric emissions and without water consumption, to achieve this result in Tuscany, the region that hosts all the geothermal plants in operation in our country.

Sale to end customers

Regarding the sale of electricity, gas and services to the end customers, Sorgenia has, in recent years, established and then consolidated its position as the top Italian digital energy company, a leader in terms of innovation and number of customers acquired through digital channels in the Residential and Business segments.

We implemented transformation projects to strengthen customer management processes, service quality and customer satisfaction, improve credit management processes and collection performances, and to control unpaid ratios and working capital.

To this regard, in 2019 two important certifications were confirmed: the one of the CODICI (Centro per i Diritti del Cittadino) consumer protection association, with the maximum rating for “Highly Reliable Operator”; and the one issued by DNV for the quality of the end customer assistance processes.

The commitment to assure a positive and appealing *customer experience* is important for Sorgenia as the growth of its customer base. That’s why in 2019 we dedicated many resources to create new methods of interaction and to optimise management processes for our customers, starting from the dedicated web area and the mobile app. As a *digital energy company*, our goal is to always use the best technologies to improve the customer experience and to make the relationships with energy more personal and, at the same time, engaging. This way, we are willing to facilitate the adoption and integration of new services with environmental sustainability characteristics.

Speaking about new services, in 2019 Sorgenia extended its commercial offer to photovoltaic and energy efficiency solutions (with the new Sorgenia Green Solutions brand), both for the retail and corporate markets. The early months of 2020 instead saw the inclusion of FTTH (*Fiber to the Home)* in our portfolio.

The new strategy has led to very positive and constantly improving results: in the last year, both the customer portfolio and EBITDA grew by 25% compared to the previous year.

Positioning, environmental and social sustainability

Growth on the end customers market and business development have embodied a radical relaunch of Sorgenia, which, in the five-year period just ended, has significantly enhanced its position, strengthen its role as a company engaged in the environmental and social responsibility field.

Since 2016, we have chosen Paralympic fencing champion Bebe Vio as the testimonial of our company, as a symbol of an inclusive society in which technologies are at the service of people. Our 2019 campaign had a strong focus on one of our key brand values: environmental protection, and the need of an energy system that respects the Earth.
Save the environment is, in fact, one of the four key elements of our company purpose, together with transforming the relationship with energy, making the company in which we operate better and helping the self-fulfilment of those working with us.

In line with these guiding principles, in 2019 we once again confirmed our social commitment, for example with the new edition of the #sempre25novembre communication campaign on violence against women.

The value of a clear position in social responsibility is confirmed by the awards which, in 2019 as well, rewarded our various initiatives. Including the "*Diversity Media Award*", the first time to a service company.

Innovation, people, identity and values

We live in a constantly changing world: more uncertain, complex and ambiguous than ever. On the counterpart, more opportunities are arising, which makes the spirit of initiative and the ability to innovate key elements for the success of a company.

We've been able, in just few years, to transform Sorgenia into a company that has the ability to use innovation as a competitive advantage, that understands the positive potential of innovation on customers and society, and that translates innovation into tangible results.

However, innovation is not only about technology. True innovation depends on people and their participation, starting from the ability to see themselves in the principles and values expressed by the company.

Throughout these five years, we have launched and implemented a number of initiatives around our work environment, safety and health, training, motivation, engagement, participation, well-being and self-fulfilment within the organisation. We have created a company in which people can collaborate, experiment and make decisions - without fear and with confidence - to create something bigger that could be achieved by each person working alone.

This is Sorgenia's major strength: a young, fast and digitally-focused organisation, which operates in a rapidly evolving sector. It is not by chance that Sorgenia was recognised as "Great Place To Work Italia 2019-2020".

This evolution created a unique and distinctive company identity, characterised by a strong sense of belonging. And this identity has been the inspiration for the economic and financial results and the multitude of growth initiatives under development.

Sorgenia's change of shareholding structure and future

At the end of 2018, Nuova Sorgenia Holding decided to assess the possibility of opening the share capital to new shareholders. An initial exploration phase highlighted significant interest in Sorgenia by numerous Italian and international investors.

This was followed by a competitive sale process at the end of which, on December 23, 2019, the Board of Directors of Nuova Sorgenia Holding - a company that controls Sorgenia's share capital and whose main shareholders are Banco BPM, Banca Intesa Sanpaolo, Monte Paschi, Ubi Banca and Unicredit – accepted the binding offer jointly formulated by the Italian infrastructure fund F2i and by the Spanish fund Asterion Industrial Partners.

The transaction establishes a price that will recognise to the sellers the significant value created throughout these 5 years, and will allow the company to achieve immediate and significant growth in the field of production from renewable energy sources which, as mentioned above, is one of the main priorities for Sorgenia's strategic development. In fact, as part of this transaction, F2i will transfer approximately 300 MW of power generation wind farms and approximately 70 MW of biomass plants, with the related management organisations.

Thanks to the positive results and many activities in the development phase, further sustained by these renewable assets and by new Shareholders determined to support their growth, Sorgenia can now play a leading role in the energy transition in Italy and be an innovative player in the field of business management according to ESG (*Environmental, Social and Governance*) criteria.

Thanks

An extraordinary process, then, with results that were almost unthinkable five years ago, the outcome of excellent teamwork, for which I feel the need to express my deepest gratitude:

- to the outgoing Shareholders and the lending banks, for the far-sightedness they showed in operating in a role different from the usual, and for allowing the Board of Directors and the management to work autonomously on defining and implementing the transformation and relaunch plan;
- to the new Shareholders, for having seized and recognised the value and the significant potential of the Company;
- to the Board of Directors, for the in-depth analysis, the debates and the dialogue, also intense, which made it possible to take the most appropriate decisions, and for the support even in the most difficult periods;
- to the management, for continuous dialogue and for guiding the organisation, always pursuing excellence;
- to all colleagues, true champions of the transformation, for having understood and realised it with a great sense of belonging and enthusiasm, also in adverse and complicated situations.

CoViD - 19

A special thanks - lastly - to all colleagues and to the many precious individuals who are working with us during this difficult situation caused by the CoViD-19 pandemic. It is down to them that, despite working remotely and under conditions that are sometimes extremely difficult, we have managed to guarantee the functioning of the production plants and service standards to customers. By continuing, in the meantime, to design and build the future.

This pandemic has really put us our life systems to the test, from healthcare to socio-economic, and provided a stark reminder of how fragile they are. And it will certainly require a big effort from everyone to leave the crisis behind. These months have, however, mapped out the path to be taken: one of environmental sustainability, social solidarity and digital innovation. The same guidelines on whose basis we have developed, over the last few years, the identity of Sorgenia, which thanks to this, has effectively dealt with the most serious phase of the crisis, and is now ready to take on the new one, the rebuilding and relaunch phase.

Therefore, I am confident that we all rise up again with renewed energy, and I am certain that Sorgenia will provide an even more significant contribution to improving the economic, social and environmental conditions of our country.

Milan, June 8, 2020

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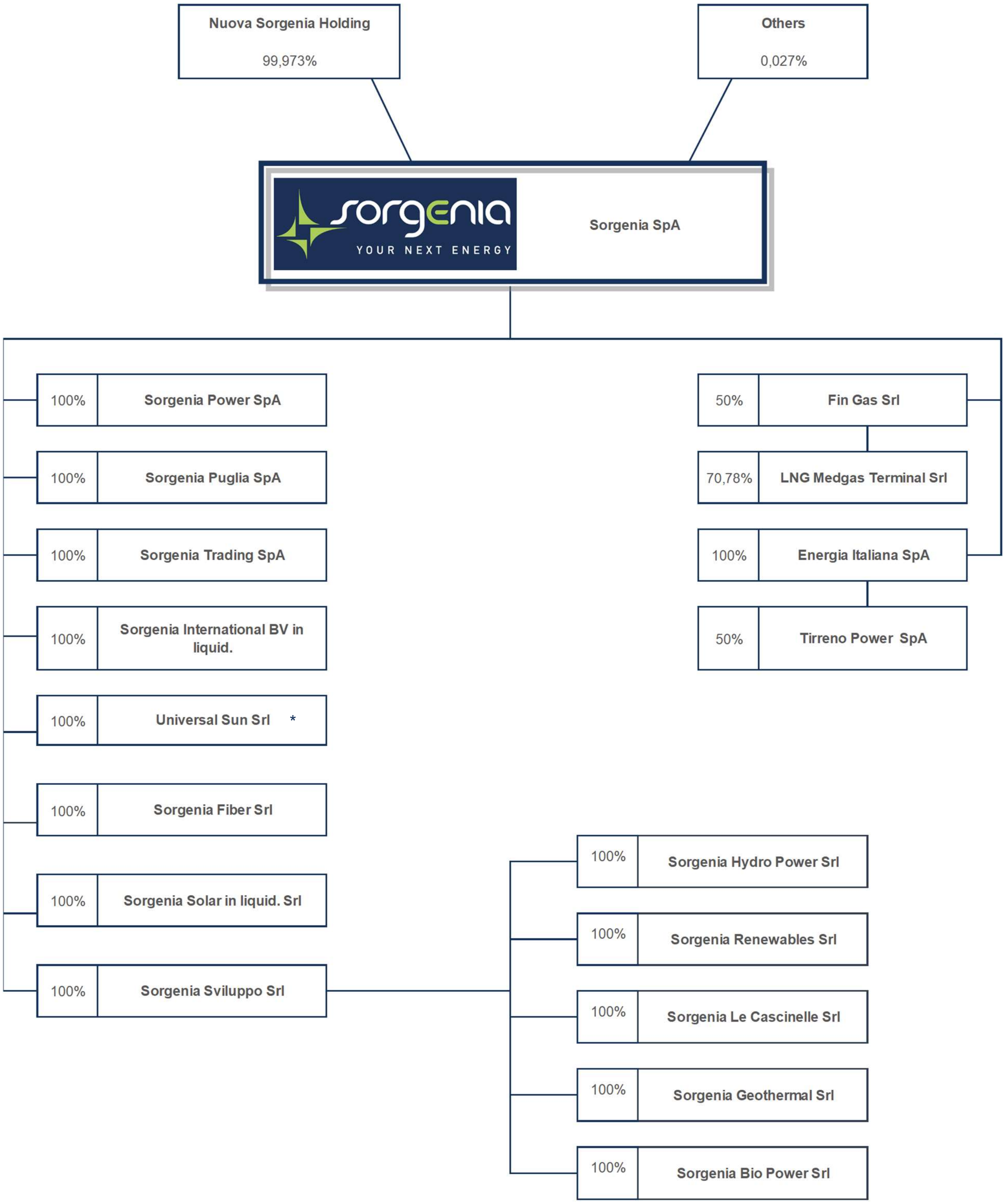
THE SORGENIA GROUP AND THE SHAREHOLDERS



*Now Sorgenia Green Solutions

THE COMPANY BODIES

BOARD OF DIRECTORS

Chairman	Enrico (known as Chicco) Testa
Vice Chairman	Francesco Taranto
Directors	Giovanni (known as Gianfilippo) Mancini (Chief Executive Officer) Nicolò Dubini Alberto Irace Fabrizio Bonelli

BOARD OF STATUTORY AUDITORS

Chairman	Fabio Cassi
Statutory Auditors	Daniele Discepolo Vincenzo Nicastro

INDEPENDENT AUDITORS

Deloitte & Touche SpA

Company name	**Sorgenia SpA**
Share Capital	406,676,603.81 euro
Divided into	40,667,660,381 shares (par value of 0.01 euro)
Registered and administrative office	***Via A. Algardi, 4 - Milan, Italy***
Taxpayer's Code and Milan Register of Companies	no. 07756640012
VAT	no. 12874490159

PERFORMANCE INDICATORS

In order to provide information in line with the analysis and control parameters by the Management of the Company's performance, the Statement of Financial Position and Income Statement referring to the financial statements as of December 31, 2019, as well as those relating to 2018 were reclassified and supplemented with a series of operating indicators.

The alternative performance indicators shown in the Reclassified Income Statement and in the Reclassified Balance Sheet, not defined by the IFRS, are used by the Management because they contribute to providing useful information for a better assessment of the performance of the economic management and the financial position (*Non-GAAP Measures*). These indicators must not be considered replacements for those set forth in the IFRS.
The content of the alternative performance indicators and the items reclassified or grouped, not immediately traced back to the Financial Statements, are illustrated below:

- **EBITDA (Gross Operating Margin)**: this parameter is used by Sorgenia as financial indicator for both internal presentations (reporting) and external ones (e.g. to analysts and investors) to assess the operating performance of the individual Group companies, in addition to EBIT (Operating result). These indicators are determined as follows:

Income (losses) before taxes from operating activity	
+	Financial expense
-	Financial income
+/-	Adjustment of values of financial assets and dividends
EBIT - Operating Result	
+/-	Write-downs (reversing impairment losses) of tangible and intangible assets
+	Depreciation and amortisation
+/-	Allocations (releases) to provision for the write-down of receivables
EBITDA - Gross Operating Margin	

- **Change in Revenues, EBITDA and EBIT**: these indicators express the change, in absolute value and/or as a percentage of revenues, in EBITDA and EBIT. Sorgenia believes that the presentation of this additional information offers a more complete and effective comparison of the deviation of the Group's operating performance between two years.

- **Net Financial Debt**: Sorgenia believes that Net Financial Debt represents an indicator of the ability to meet its financial obligations, represented by the gross financial debt less cash and cash equivalents and other financial assets (current and non-current). Net Financial Debt includes net financial assets and liabilities *at fair value* relating to derivative contracts entered into to hedge interest rate risk. This Report on Operations includes a table highlighting the values of the equity and financial position used for calculating Group Net Financial Debt. Net Financial Debt is calculated as follows:

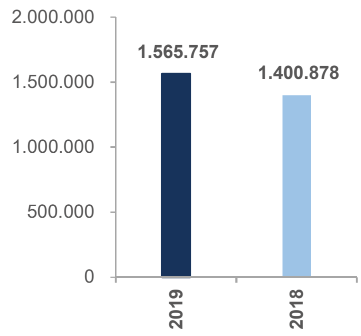
+	Non-current financial liabilities
+	Current financial liabilities
+	Current and non-current liabilities from financial hedging contracts
A) Gross Financial Debt	
+	Non-current financial assets
+	Current financial assets
+	Current and non-current assets from financial hedging contracts
+	Cash and other cash equivalents
B) Financial Assets	
C =(A-B) Net Financial Debt	

All items are stated at amortised cost or *at fair value*.

KEY INDICATORS OF THE SORGENIA GROUP

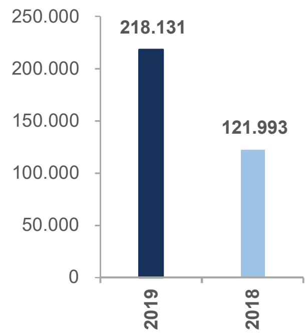
SALES REVENUES

Revenues for 2019 totalled 1,565,757 thousand euro. The increase, compared to 2018, is mainly due to the increase in volumes of electricity and gas sold on wholesale markets, and to the increase in revenues from the sale of electricity and gas to end customers (also note that the customer portfolio increased by 25% compared to the previous year).



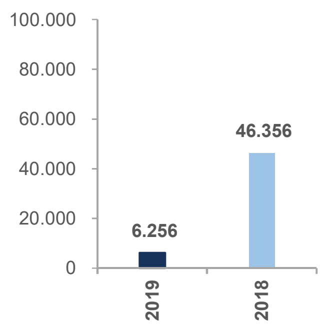
EBITDA or GROSS OPERATING MARGIN

EBITDA - Gross Operating Margin in 2019 stood at 218,131 thousand euro. The positive change, compared to 2018, is essentially due to the higher operating margins recorded on the various wholesale energy markets by the Group's generation plants.



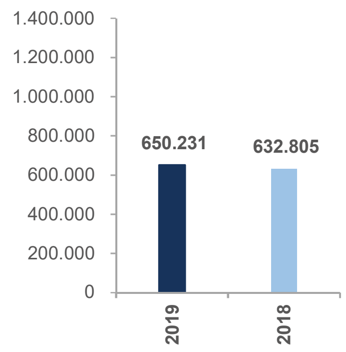
NET INCOME (LOSS) OF THE GROUP

Profit in 2019 amounted to 6,256 thousand euro. The decrease compared to 2018 is mainly attributable to (i) higher figurative financial expenses from the change in estimates on financial payables (114,232 thousand euro in 2019 compared to 717 thousand euro in 2018) and (ii) lower deferred tax assets recognised in the financial statements (5,834 thousand euro in 2019 compared to 38,395 thousand euro in 2018), which more than offset the increase in the Gross Operating Margin.



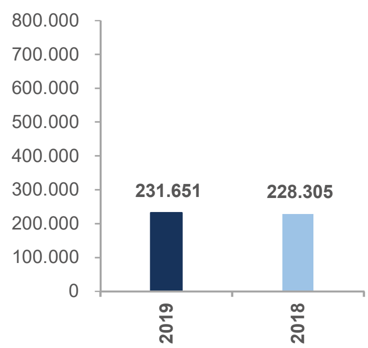
NET FINANCIAL DEBT

Net Financial Debt in 2019 totalled 650,231 thousand euro, marking an increase of 17,426 thousand euro (+2.75%) compared to 2018. This increase is due essentially to the recognition of the expense pertaining to the year and the revision of the estimate of the payment flows of the debt in the measurement at amortised cost of financial payables (with a worsening effect on net financial debt amounting to 135,459 thousand euro compared to 2018), partially offset by self-financing deriving from operations (the nominal value of net financial debt is roughly 648.7 million euro in 2019 - excluding lease liabilities, amounting to 11.4 million euro, in application of IFRS 16 - compared to 777 million euro in 2018).



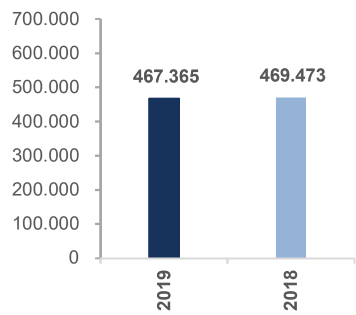
CASH AND CASH EQUIVALENTS

The liquidity of the Sorgenia Group as of December 31, 2019 stood at 231,651 thousand euro, registering an increase of 3,346 thousand euro (1.5%). The change relates to the operating cash flow generated during the year net of repayments of loans made in 2019 (130,384 thousand euro repaid to lending banks in 2019).



GROUP SHAREHOLDERS' EQUITY

The Group shareholders' equity as of December 31, 2019 amounts to 467,365 thousand euro. The decrease recorded compared to the previous year is due to the combined effect of the positive result of the Group (6,256 thousand euro), and the negative change in the reserve for expected cash flow hedge transactions (8,098 thousand euro).



KEY INDICATORS OF THE SORGENIA GROUP

The Consolidated Financial Statements of the Sorgenia Group as of December 31, 2019 have been prepared in compliance with the valuation and measurement criteria established by IAS (*International Accounting Standards*) and IFRS (*International Financial Reporting Standards*).

EUR/000	31/12/2019	31/12/2018	Change %
ECONOMIC DATA			
Sales revenues	1,565,757	1,400,878	11.77%
Gross Operating Margin	218,131	121,993	78.81%
% Sales revenues	13.9%	8.7%	
Operating result	146,805	49,682	195.5%.
% Sales revenues	9.4%	3.5%	
Profit (loss) before tax	(1,849)	9,984	N.S.
Net income (loss) of the Group	6,256	46,356	N.S.
% Sales revenues	0.4%	3.3%	

EQUITY AND FINANCIAL DATA	31/12/2019	31/12/2018	Change %
Net Invested Capital	1,117,596	1,102,279	1.39%
Net Financial Debt amortised cost/FV Adj	650,321	632,805	2.75%
Net Financial Debt at Nominal Value	660,140*	776,900	(15.3)%
Shareholders' Equity (including minority interest)	467,365	469,473	N.S.
Shareholders' Equity of the Group	467,365	469,473	N.S.

OPERATIONAL DATA	31/12/2019	31/12/2018	Change %
Employees - exact value	352	310	14.5%
Employees – average	339	304	11.5%

*Net financial debt would amount to 648.7 million euro, excluding lease liabilities, amounting to 11.4 million euro; accounted for in application of IFRS 16 from January 1, 2019.

IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

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RELEVANT CONTEXT

_Main macroeconomic indicators

_Macroeconomic scenario

_Legislative and regulatory provisions of the electricity and gas sector

MAIN MACROECONOMIC INDICATORS

GDP	**2019**	**2018**	**2017**
Eurozone (18 countries)	1.20%	1.80%	2.40%
Italy	0.20%	0.90%	1.60%
Eurostat, Bloomberg data			

Unemployment rate	**2019**	**2018**	**2017**
Eurozone (18 countries)	7.60%	8.20%	9.10%
Italy	9.80%	10.60%	11.20%
Eurostat, Bloomberg data			

Main power exchanges *(EUR/MWh)*	**2019**	**2018**	**2017**
IPEX	52.35	61.29	53.94
EPEX GER	37.93	44.64	34.22
EPEX FR	39.48	50.20	44.98
GME and EEX data			

Exchange rates	**2019 (annual.avg.)**	**2018 (annual.avg.)**	**2017 (annual.avg.)**
EUR/USD	1.12	1.18	1.13
EUR/GBP	0.88	0.88	0.88
ECB data			

Interest Rates	**2019**	**2018**	**2017**
ECB	0.00%	0.00%	0.00%
FED	1.75%	2.50%	1.50%
Boe	0.75%	0.75%	0.50%
ECB, FED, BoE data			

CO_2 markets *(EUR/t)*	**2019 (annual.avg.)**	**2018 (annual.avg.)**	**2017 (annual.avg.)**
EUA	24.83	15.94	5.83
CER	0.26	0.24	0.22
Source: Bloomberg listings ICE			

MACROECONOMIC SCENARIO

Italian economy[1]

The year 2019 recorded an increase of 0.2% in GDP, a significant drop compared to 0.8% in 2018, due in particular to the negative data in the fourth quarter, which led to zero growth, neutralising the positive performance in previous periods. The international context with the trade war between China and the United States, Brexit and the severe slowdown in the German economy continue to have a negative impact on the Italian situation.

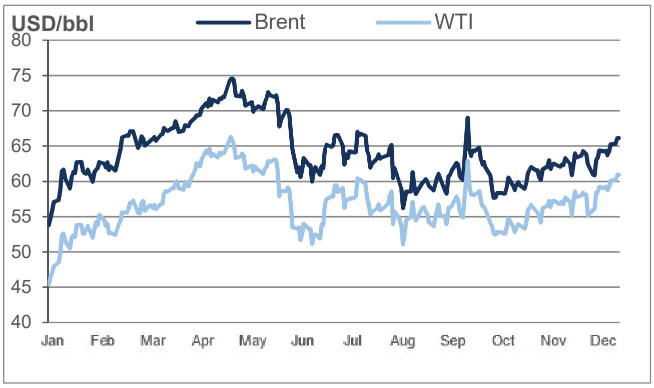
In 2019, inflation recorded an average increase of 0.6%, exactly half the figure recorded in 2018 (+1.2%).

In 2019, the unemployment rate fell to 9.9% compared to 10.6% in 2018.

Euro/USD exchange rate

The exchange rate also continued, in 2019, to reflect the weakness of the Euro, remaining in the 1.15-1.10 range, then closing on December at 1.12. The situation in Europe, with the German figures that show GDP of 0.6% in 2019, with the lowest growth in the last six years, and a situation of domestic instability due to Brexit, is in contrast to the US economic figures, which continued to be positive, with growth of 2.3%.

Oil[2]



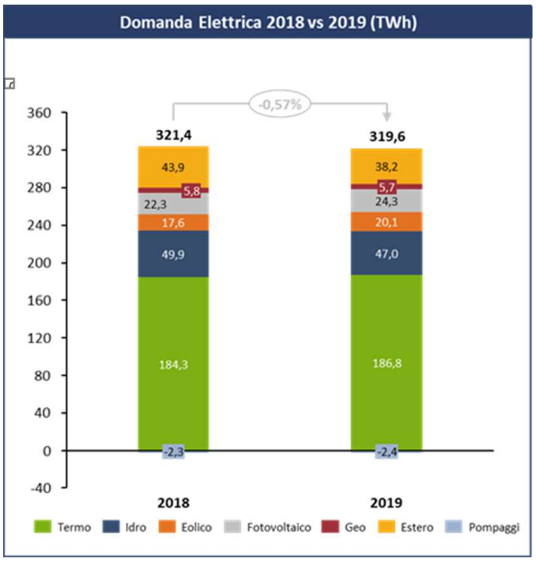
The demand for oil was sustained in 2019, passing 100 Mbbl/day, with constant growth throughout the whole year, and closing the final quarter at 101.4 Mbbl/day, thanks in particular to the increase in the volumes of non-OECD countries.

Price observed movements that started at the beginning of the year with a sharp increase that brought the price from 55 $/bbl to 75 $/bbl in mid-April due to an expansive US monetary policy; subsequently, tensions between the US and China over customs duties reduced the value to 57 $/bbl in mid-August due to decreasing demand expectations. In the

[1] source: Istat and Bank of Italy
[2] source: OPEC and ICE

last part of the year, the OPEC cuts on production at a level of -1.7Mbbl/day, together with growing optimism over the possibility of a commercial agreement between China and the US brought the level back to 65 $/bbl.

Electricity demand in Italy[3]

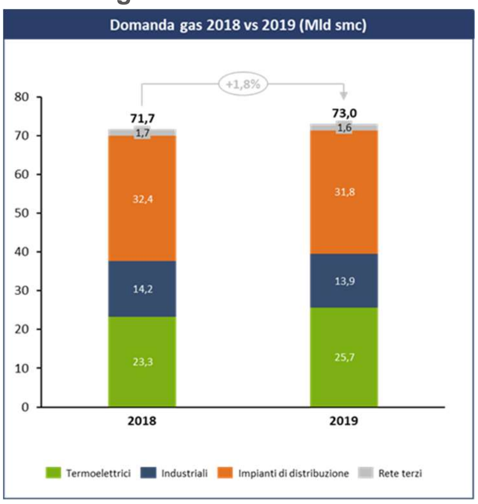


Terna's figures for 2019 show a slight increase in demand for electricity, which, at the end of the year was 0.57% lower with respect to 2018, reaching an estimated value of 319.6 TWh.

The foreign balance in 2019 reached 38.2 TWh net of imports, marking a decrease of 13.1% compared to 2018, determined primarily by a reduction in flows in the first part of the year.

The thermoelectric plants increased production by 1.3% over the previous year; however, while an increase of 12.1% was registered in production by combined-cycle plants (105.5 TWh) thanks to the greater competitiveness of gas fuel with respect to coal, the latter recorded a decrease of 34.4%. A comparison with production in 2018 shows a redistribution between the various technologies where, against a decrease in hydroelectric production of 5.9%, wind and photovoltaic production recorded increases of 14.3% and 9.3%. Both technologies reached highest ever production levels of 24.3 TWh for photovoltaic power and 20.1 TWh for wind power.

Natural gas demand[4]

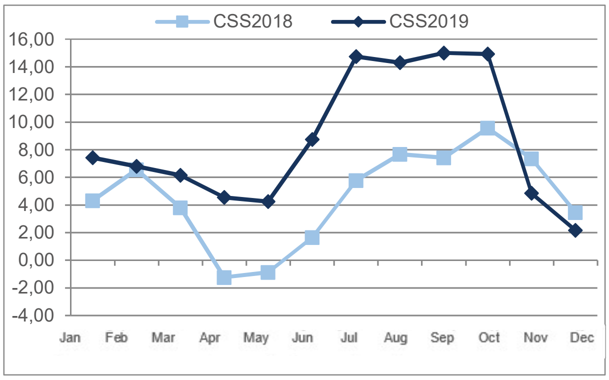


Gas consumption increased by 1.8% compared to 2018. The demand estimated by Snam is 73 billion cubic meters. Demand linked to thermoelectric power rose by 10.0%, reaching 25.7 billion cubic metres, thanks to greater competitiveness of gas with respect to coal. All other sectors showed a reduction compared to last year. The most significant reduction concerns consumption by residential customers, down by 1.8% to 31.8 billion cubic metres. The large industrial plants connected directly to the national transport network used 13.9 billion cubic metres, down by 2.3% on 2018. A total of 11.5 billion cubic metres was injected

[3] Source: Terna and GME
[4] Source: Snam

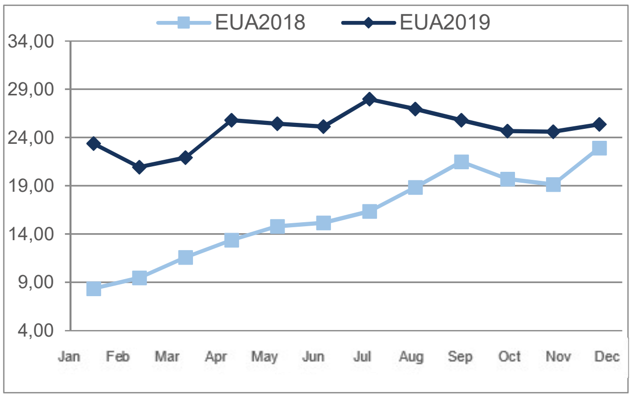
into storage centres, a reduction of 3.8% compared to 2018, owing to higher stocks at the start of the injection campaign.

Clean spark spread



The clean spark spread baseload in Italy increased by +70% to over 9 €/MWh mainly due to the sharp drop in gas prices, not balanced by the decrease in electricity prices. The mild winter temperatures, the US LNG flows that were directed to Europe due to low demand in Asia, the Russian political strategy of guaranteeing a significant contribution of volumes and the high levels of stocks reduced the price of gas by 40% compared to 2018, while the price of electricity more connected with internal trends decreased by less than 20%.

CO_2



The sharp price increase recorded in 2018 was not repeated in 2019 due to the uncertainty in the market linked to the Brexit situation, the global economy and due to lower demand owing to the switch to gas plants with respect to coal plants for the production of electricity. The auctions reduced the available volumes from 909 Mt in 2018 to 589 Mt in 2019 owing to the MSR (Market Stability Reserve) and the situation in the UK, but the price observed in 2019 did not follow directional movements, hovering in the 25 €/t region, closing the year at 24.5 €/t.

LEGISLATIVE AND REGULATORY PROVISIONS OF THE ELECTRICITY AND GAS SECTOR

LEGISLATIVE PROVISIONS

Italian **Law Decree no. 162 of December 30, 2019** (***Milleproroghe* Decree** published in the Official Gazette on December 31, 2019) envisaged, with respect to what was originally established in the 2017 Competition Law, the further postponement of the end of the Additional Safeguards.
In this sense, the Law converting the *Milleproroghe* Decree, definitively approved on February 26, 2020, postponed the end of the Additional Safeguards to January 1, 2021 for small businesses pursuant to Article 2 of Directive (EU) 2019/944, and to January 1, 2022 for the micro-firms referred to in Article 2 of Directive (EU) 2019/944 and for domestic customers.
The Authority for Energy, Networks and Environment is responsible for adopting provisions in preparation of reaching the above-mentioned dates. In order to implement the regulation, it will also be necessary to adopt some ministerial decrees on the issues: Supplier Register and End of Protection.

Italian **Law no. 160 of December 27, 2019** (**2020 Financial Law** published in the Official Gazette on December 30, 2020) provides for the repeal, with effect from January 1, 2020, of Article 10, paragraph 3-ter of Italian Law Decree no. 34 of April 30, 2019, converted into Italian Law no. 58 of June 28, 2019. The regulation envisaged the transfer of the tax credit for energy redevelopment initiatives through the installation of renewable energy plants.

In 2019, the Court of Cassation (see **Court of Cassation decision no. 15198 of June 4, 2019, no. 27099 of October 23, 2019 and no. 27101 of October 23, 2019**) declared that the provincial surcharge on the electricity excise duty pursuant to Italian Law Decree no. 511 of November 28, 1988, with EU regulations (Council Directive no. 2008/118/EC of December 16, 2008), applied to the supply of electricity in 2010 and 2011, was incompatible.

Sorgenia, as the party obliged to pay the excise duty and the associated surcharges, has exercised its right to claim these sums back from customers, applying the surcharge to the excise duty in force at the time on them in the invoices issued.

As a result of the aforementioned legal rulings, considering the purely private relationship, end consumers who intend to object to their supplier's incorrect charging of amounts by way of excise duty and surcharge, must exercise the action of recovery of objective undue payments in accordance with Article 2033 of the Italian Civil Code within the ten-year period, at the end of which the associated right is extinguished.

At present, the Company is evaluating the procedure to be followed and the potential effects deriving from the position taken by the Court of Cassation, which are not currently estimated, taking into account the uncertainty of possible scenarios. In this regard, various trade associations have also decided to submit to the attention of the Ministry of Economy and Finance and the competent authorities the problem in question and the critical issues that may derive from the application of the repayment and recovery procedure currently in force.

REGULATORY MEASURES

Capacity Market

On June 28, 2019, the Ministry of Economic Development approved, with the Ministerial Decree, the **Capacity Market Regulation.**

The auctions, relating to the awarding of production capacity with delivery for the years 2022 and 2023, were held in November 2019.

The following were able to participate in the competitive procedure: *(i)* the existing capacity with an emission index of no more than 550 grCO_2/kWh, *(ii)* the authorised capacity, and *(iii)* the capacity not yet authorised.

By means of resolution 363/2019/R/eel, ARERA set the economic parameters, determining a maximum value of the bonus that can be assigned based on technology. For existing capacity, this value stands at 33,000 €/MW and is guaranteed for the years 2022 and 2023. For the new capacity and for the capacity not yet authorised, the *CAP* was set at 75,000 €/MW and is guaranteed for 15 years.

By means of the same resolution, ARERA established that the value of the strike price will be calculated by taking as a reference the variable cost of an open cycle turbogas plant fuelled by natural gas.

Essential nature of Modugno plant

With reference to Sorgenia Puglia SpA, on June 4, 2019, the Regulatory Authority for Energy, Networks and Environment approved, through resolution 222/2019, the inclusion by Terna of the Modugno plant in the list of essential plants (with reference to the period July 15, 2019 - December 31, 2019), in accordance with the regulations on the essentiality governed by resolution 111/06.

A production plant is defined as essential for the safety of the electrical system if, in the absence of the plant, it is not possible to ensure adequate safety management standards of the system itself, also due to the planned maintenance requirements of the other production plants and of the network elements.

Article 63.11 of resolution 111/06 provides that dispatching users who own essential plants may request, for the period of validity of the list drawn up by Terna or for a multi-year period starting from the beginning of the period of validity of the same list, the admission to the cost recovery regime.

On June 18, 2019, Sorgenia presented ARERA (Regulatory Authority for Energy, Networks and Environment) with an application for admission to the cost recovery regime for a multi-year period for the Modugno plant.

Through the adoption of resolution 290/2019, on July 2, 2019 ARERA resolved to accept the request for admission to the recovery regime relating to the Modugno plant, based on the higher expected benefit for consumers, also for the period from January 1, 2020 to December 31, 2020.

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IN SHORT

REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE FINANCIAL STATEMENTS

SORGENIA GROUP

_Group results of operations

_Analysis of the main business sectors

_Significant events of the year

GROUP RESULTS OF OPERATIONS

The Consolidated Financial Statements of the Sorgenia Group as of December 31, 2019 have been prepared in compliance with the valuation and measurement criteria established by IAS (*International Accounting Standards*) and IFRS (*International Financial Reporting Standards*).

GROUP ECONOMIC RESULTS

EUR/000	**31/12/2019**	**31/12/2018**	**Change %**
REVENUES FROM SALES AND SERVICES	**1,565,757**	**1,400,878**	**11.8%**
Other operating income	60,397	89,654	(32.6)%
Costs for the purchase of goods	(1,257,751)	(1,248,704)	0.7%
Costs for services	(90,800)	(74,305)	22.2%
Other operating costs	(31,537)	(13,775)	128.9%
Personnel costs	(57,663)	(31,754)	81.6%
Adjustments to the value of investments valued at equity	29,729	-	0.0%
GROSS OPERATING MARGIN	**218,131**	**121,993**	**78.8%**
Amortisation/depreciation, net allocations to provisions for risks and losses, and write-downs	(71,326)	(72,312)	(1.4)%
OPERATING RESULT	**146,805**	**49,682**	**195.5%**
Net financial income/expenses and value adjustments of financial assets	(148,655)	(39,698)	N.S.
INCOME BEFORE TAXES	**(1,849)**	**9,984**	**(118.5)%**
Current/deferred taxes	8,106	36,373	(77.7)%
INCOME (LOSS) FOR THE PERIOD / YEAR	**6,256**	**46,356**	**(86.5)%**
of which:			
Net income (loss) of the Group	**6,256**	**46,356**	**(86.5)%**
Net income (loss) of minority interests	-	-	0.0%

Consolidated revenues in 2019 came to 1,565,757 thousand euro (1,400,878 thousand euro in 2018), marking a 164,879 thousand euro increase compared to the previous year (11.8%).

The increase compared to 2018 is attributable to: (i) higher revenues achieved on the Dispatching Services Market by the Group's generation plants (+92,816 thousand euro), (ii) increase in volumes of electricity and gas sold on the wholesale market (+34,379 thousand euro) and (iii) higher revenues from the sales of electricity and natural gas to end customers, which rose from 607,927 thousand euro in 2018 to 645,631 thousand euro in 2019, marking a variation of 37,704 thousand euro; this increase is due mainly to higher volumes of sales to higher value added customer segments - Small and Medium Enterprises (SMEs), "Professionals" and "Residential" - which have a higher sale price than large and medium enterprises. It should also be noted that the customer portfolio rose from around 275 thousand in 2018 to around 345 thousand in 2019, an increase of over 25% compared to the previous year.

It should also be noted that, the item also includes the revenues achieved by the subsidiary Sorgenia Puglia, following ARERA's approval of Terna's inclusion of the Modugno plant in the list of essential plants and the subsequent admission to the generation costs recovery regime relating to the Modugno plant, based on the expected greater benefit for consumers, for an amount of 17,404 thousand euro.

The other operating income, amounting to 60,397 thousand euro (89,654 thousand euro in 2018), includes contingent assets, income connected with the activity of the subsidiary Sorgenia Trading SpA, deriving from the purchase and sale of electricity and natural gas on the regulated markets, and releases of provisions for risks and losses. The decrease recorded compared to the previous year is mainly due to (i) lower income earned on transactions carried out on wholesale markets by the subsidiary Sorgenia Trading SpA and (ii) lower considerations recognised by Terna for the availability of production capacity pursuant to Resolution 48/04 for the year 2018 compared to the amount recognised in 2017.

Costs for the purchase of goods in 2019 came to 1,257,751 thousand euro (1,248,704 thousand euro in 2018), marking an increase of 9,047 thousand euro compared to the previous year. The change in the item (equal to 0.7%) is mainly linked: (i) to the increase in the volumes of gas consumed and the price of CO_2 which involved a higher expense for the fulfilment of CO_2 delivery obligations, (ii) higher transport, dispatching, and distribution costs deriving from the rise in sales of electricity and gas and the increase in transport tariffs; (iii) partly offset by the fall in commodity prices and the change in inventories of natural gas stored at Stogit SpA, the result of the lower awarding of auctions for the allocation of storage capacity with respect to the previous year.

Costs for services recorded a 22.2% increase during the year, rising from 74,305 thousand euro in 2018 to 90,800 thousand euro in 2019. The increase compared to the previous year is mainly due: (i) to costs for maintenance “extra-work” incurred by the subsidiary Sorgenia Power SpA, linked to the extension of the maintenance shutdown at the Termoli and Aprilia plants and to the reconditioning work of the rotor at the Lodi plant; (ii) to higher customer acquisition and assistance costs incurred in the income statement, as they do not meet the requirements of IFRS 15 and therefore are no longer capitalised within balance sheet assets and are amortised over several financial years.

The other operating costs amounting to 31,537 thousand euro (13,775 thousand euro in 2018), mainly include miscellaneous operating costs and costs relating to the activity of the subsidiary Sorgenia Trading SpA coming from the purchase and sale of electricity and natural gas on the regulated markets, and the contingent liabilities. Compared to the previous year, there was an increase in the costs incurred by Sorgenia Trading SpA deriving from financial transactions carried out on markets organised by the company on behalf of the parent company Sorgenia SpA, and higher contingent liabilities recognised compared to 2018.

Personnel costs, which rose from 31,754 thousand euro to 57,663 thousand euro, reflect: (i) non-recurring costs linked to the closing of the Group sale transaction - for further details, please refer to the paragraph

“Significant events during the year” - (20,139 thousand euro), (ii) the allocation of a variable medium/long-term incentive (LTI) as well as (iii) the increase in the average headcount.

The item "Value adjustments to equity investments valued at equity" (29,729 thousand euro) represents the increase to reach the pro rata value of shareholders' equity, recorded on December 31, 2019 in order to align the value of the equity investment in the affiliate Tirreno Power to the corresponding portion of shareholders' equity pertaining to the Group (for more details please refer to next paragraph "Analysis of the main business sectors").

The Gross Operating Margin was positive, amounting to 218,131 thousand euro, with a 96,138 thousand euro increase over the previous year (positive for 121,993 thousand euro). This change is essentially due to the higher operating margins achieved on the various markets of sale of energy by the Group’s generation plants, also as a result of the higher volumes of electricity produced.

The Operating Result of 2019 was positive for 146,805 thousand euro (positive for 49,682 thousand euro in the previous year), marking an increase of 97,123 thousand euro. The variation is essentially attributable to the positive trend in the Gross Operating Margin (96,138 thousand euro), previously mentioned, considering that the amount of amortisation, depreciation and write-downs is in line with the previous year.

Financial management (including the items “Net financial income/expenses” and “Adjustment of values of financial assets”) shows a net charge of 148,655 thousand euro, with a net increase of 108,957 thousand euro compared to the previous year (net charge of 39,698 thousand euro in 2018).

Financial management in 2019 was characterised by:

- interest expense on the nominal value of payables (9,023 thousand euro);
- figurative interest expense deriving from the "measurement at amortised cost" (135,459 thousand euro, of which 114,232 thousand euro relating to figurative financial expenses from *change in estimates* on financial payables);
- interest expense related to the financial adjustment of the dismantling and maintenance provisions (2,320 thousand euro);
- interest expense related to the financial adjustment of liabilities deriving from leases measured at amortised cost (393 thousand euro);
- other miscellaneous financial income/expense tied to Group operations, including commissions and charges on guarantees and bank guarantees (net charges totalling 2,756 thousand euro).

The change compared to the previous year is mainly due to the recognition in 2019 of higher figurative financial expenses from changes *in estimates* of financial payables due to banks (deriving from the recognition of the difference between the present value of expected cash flows and its nominal value) compared to December 31, 2018. This new valuation is the result of the expected full repayment of the debt, in advance of the originally expected maturity, following the closing of the sale transaction (for further details, please refer to the paragraph “Significant events during the year” and “Financial debt restructuring agreement”). In fact, following the sale of Sorgenia SpA shares, refinancing of the Sorgenia Group’s bank debt will be implemented (for further details, please refer to the paragraph “Significant events during the year” and “Financial debt restructuring agreement”).

The consolidated result before tax was negative for 1,849 thousand euro (positive for 9,984 thousand euro in 2018), marking a decrease of 11,833 thousand euro. The negative change compared to 2018 was mainly due to the worsening effect deriving from financial management, which offset the improvement in the gross operating margin, as described above.

The tax component was positive for 8,106 thousand euro (positive for 36,373 thousand euro in the previous year), and relates primarily:

- to the recognition of the income from tax consolidation for the 2013 tax period recognised to the Company by CIR SpA (which in 2013 was the tax consolidating entity), amounting to 8,576 thousand euro;
- to the change in deferred tax assets and deferred tax liabilities on temporary differences and on previous tax losses that involved the recognition of an income of 5,834 thousand euro. This income is mainly attributable to the net effect of (i) the recognition of deferred tax assets on own previous tax losses, and contributed by the Group, as a result of the recoverability analysis carried out by the Directors on the achievement of sufficient future taxable income for the use of the benefits of deferred tax assets; (ii) the release of the deferred tax provision allocated on the effect of the amortised cost and (iii) the use and recognition of the receivable for deferred tax assets on the temporary differences carried out during the year.

As a result of the above, the Sorgenia Group reported a profit of 6,256 thousand euro in 2019 (profit of 46,356 thousand euro in the year 2018). The decrease compared to 2018 is mainly attributable to (i) higher figurative financial expenses from the *change in estimates* on financial payables (114,232 thousand euro in 2019 compared to 717 thousand euro in 2018) and (ii) the lower positive effect deriving from the recognition of deferred tax assets (5,834 thousand euro in 2019 compared to 38,395 thousand euro in 2018), which more than offset the increase in the Gross Operating Margin.

ANALYSIS OF THE EQUITY AND FINANCIAL STRUCTURE OF THE GROUP

EUR/000	**31/12/2019**	**31/12/2018**
NET NON-TRADING ASSETS		
Intangible assets	60,623	45,390
Tangible assets	969,197	986,954
Investments in companies valued at equity	54,520	25,000
Other non-current assets	18,077	13,063
TOTAL FIXED ASSETS	**1,102,416**	**1,070,407**
NET WORKING CAPITAL		
Inventories	29,325	52,626
Current trade receivables	259,718	225,891*
Current trade payables	(238,642)	(242,394)
Other current assets	20,686	54,755
Other current liabilities	(42,867)	(58,735)
TOTAL NET WORKING CAPITAL	**28,221**	**32,143**
GROSS INVESTED CAPITAL	**1,130,637**	**1,102,550**
Provisions for current risks and losses	(41,506)	(30,815)*
Personnel provisions	(1,325)	(1,118)
Provisions for non-current risks and losses	(40,350)	(30,344)
Deferred tax liabilities and deferred tax assets	70,142	62,006
NET INVESTED CAPITAL	**1,117,597**	**1,102,279**
Shareholders' Equity of the Group	467,365	469,473
Minority Interests in Shareholders' Equity	-	-
TOTAL SHAREHOLDERS' EQUITY	**467,365**	**469,473**
Long-Term Net Financial Debt	8,850	795,797
Short-Term Net Financial Debt	641,381	(162,992)
NET FINANCIAL DEBT	**650,231**	**632,805**
SOURCES OF FUNDS	**1,117,597**	**1,102,279**

*With respect to the financial statements published in 2018, the balance relating to the provision for volume bonuses was reclassified from the item
“Current trade receivables” to the item “Provisions for current risks and losses”, while the total of the item “Provisions for current risks and losses” was reclassified from “NET WORKING CAPITAL” to "GROSS INVESTED CAPITAL".

The Group’s equity and financial position in 2019 showed that Net Invested Capital increased by 15,318 thousand euro compared to December 31, 2018.

This change mainly refers to:

- the 32,009 thousand euro increase in fixed assets mainly due to the following events:
  - increase in intangible fixed assets of 15,223 thousand euro, deriving primarily:
    - *(i)* from the net effect of the recognition of rights of use of assets held under lease agreements, accounted for according to the provisions of new IFRS 16, adopted by the Group from January 1, 2019, for an amount of 9,434 thousand euro;

(ii) from the recognition of incremental costs of obtaining contracts with new customers in accordance with the provisions of IFRS 15 ("Cost to acquire"), for an amount of 15,366 thousand euro;

(iii) from the investments made for the continuation of the process of improvement of the Digital Strategy, for the implementation of systems relating to Group security and privacy and for the activation of the new fibre data connection service sold in addition to the Electricity and Gas commodity for a total of 13,172 thousand euro;

(iv) from the amortisation and depreciation in the year, amounting to 27,370 thousand euro;

- decrease in tangible fixed assets of 17,757 thousand euro, deriving primarily (i) from the depreciation in the year of 36,529 thousand euro partially offset, for a total of 15,434 thousand euro, by the investments made in the period for the overhaul and improvement of existing systems in the plants in operation and (ii) the adjustment of the discount rate of future decommissioning costs, which involved an increase in the value of the plants and machinery amounting to 4,511 thousand euro;
- increase in the value of the equity investments in companies measured at equity for an amount of 29,520 thousand euro, deriving entirely from the revaluation of the jointly controlled investment held in Tirreno Power.

  In the three previous years, the Directors had saw fit, despite the positive operating results generated by the subsidiary, to maintain the book value of the equity investment in Tirreno Power aligned to the value resulting from an appraisal carried out by an independent third party, following the signing, in 2015, of the Financial Debt Restructuring Agreement, endorsed pursuant to Article 182-bis of the Bankruptcy Law (amounting to 25,000 thousand euro), given considered representative of the recoverable value. At the year end of the financial statements as at December 31, 2019, the book value of the equity investment, measured using the equity method, was aligned with the value of the corresponding portion of the shareholders' equity of the subsidiary at the same date (net of the nominal value of the Participating Financial Instruments, PFIs) given considered recoverable in consideration of the constant improved results achieved in the last three years, compared to the final Business and Financial Plan underlying the Restructuring Agreement.

  More specifically, the shareholders' equity of Tirreno Power as at December 31, 2019 amounted to 393,426 thousand euro and the nominal value of the PFIs came to 284,386 thousand euro, therefore, the portion of the shareholders' equity pertaining to the Sorgenia Group corresponded to 54,520 thousand euro;
- increase in other non-current assets of 5,013 thousand euro, mainly linked to the change in security deposits necessary for the Company's operations on the commodities market;

- the 3,922 thousand euro reduction of net working capital mainly due to:
  - the decrease in inventories of 23,301 thousand euro, due mainly to the decrease in natural gas

stocks, as a result of the lower awarding of auctions for the allocation of storage capacity at Stogit SpA, compared to the previous storage period;

- the increase in current trade receivables of 33,827 thousand euro, attributable primarily to higher receivables for invoices to be issued of the parent company Sorgenia SpA to Terna linked (i) to the essentiality regime for the Modugno plant and (ii) the increased operations of the Group's production plants on the services markets in the last two months of the year.
  However, there was also an increase in receivables from end customers mainly related to the increase in revenues from the sale of electricity and gas. The customer portfolio also grew compared to the previous year - customer base - from 275 thousand in 2018 to around 345 thousand in 2019;
- the net reduction in other current assets and current liabilities for an amount of 18,201 thousand euro, due mainly to the decrease in proprietary trading operations carried out by the subsidiary Sorgenia Trading with respect to 2018;

- the net increase in the current and non-current provisions for risks and losses, totalling 20,905 thousand, mainly due:
  - to the allocation set aside by the subsidiary Sorgenia Power, for the likely expense payable by the Company for the adjustment of the imbalance by Terna due to possible revisions of national production, for an amount of 6,959 thousand euro;
  - to the allocation of short and medium-term variable incentives linked to the closing of the Group's sale transaction (for further details, please refer to the paragraph "Significant events during the year" in this document).
  - to the release during the year, for 12,200 thousand euro, of the provision allocated by Sorgenia Puglia based on the Directors' re-examination of the likelihood of occurrence of risk scenarios involving potential action by the Authority, on the basis of which the allocation to the provision for risks was estimated in 2017 and adjusted in 2018;

- to the increase in deferred taxes of 8,136 thousand euro, mainly due to the positive change in deferred tax assets for tax losses contributed to the Group and the release of the provision for deferred taxes allocated on the effect of the amortised cost.
  The recognition of higher deferred tax assets derives from the recoverability analysis carried out by the Directors on the achievement of sufficient future taxable profits for the use of the benefits of deferred tax assets.

The Net Invested Capital was financed, except for own equity, by bank borrowings and payables to bondholders that, as a whole, brought about a consolidated net financial debt of 650,231 thousand euro, up by 2.75% compared to the 632,805 thousand euro as of December 31, 2018.

Consolidated Shareholders' Equity as of December 31, 2019 was positive and totalled 467,365 thousand euro, versus positive Shareholders' Equity of 469,473 thousand euro as at December 31, 2018. The change of 2,108 thousand euro is attributable, not only to the result achieved during the year, but also to the negative change in the reserve for hedging transactions on expected cash flows.

The breakdown by due date and type of Net Financial Debt, as presented in the Financial Statements and at nominal value, is shown in the following tables.

EUR/000	**31/12/2019**	**31/12/2018**	**Change %**
NON-CURRENT FINANCIAL LIABILITIES			
Non-current bonds	-	(309,359)	(100.00)%
Non-current payables for loans to banks	-	(487,713)	(100.00)%
Non-current financial payables for leases	(8,348)	-	-
Other non-current bank borrowings	(519)	-	
Non-current liabilities from derivative instruments	-	-	-
NON-CURRENT FINANCIAL ASSETS			
Non-current assets from derivative instruments	16	1,274	(98.7)%
Other non-current financial receivables	-	-	-
CURRENT FINANCIAL LIABILITIES			
Current bonds	(403,913)	-	-
Current payables for loans to banks	(474,593)	(72,515)	N.S.
Other current financial payables	-	-	-
Current financial lease liabilities	(1,208)		
Liabilities from financial hedging contracts	-	(702)	(100.0)%
CURRENT FINANCIAL ASSETS			
Current financial assets	6,682	7,903	(15.5)%
Cash and cash equivalents	231,651	228,305	1.5%
Long-Term Financial Debt	**(8,850)**	**(795,797)**	**(98.9)%**
Short-Term Financial Debt	**(641,381)**	**162,992**	**N.S.**
NET FINANCIAL DEBT	**(650,231)**	**(632,805)**	**2.75%**

The current net financial position as at December 31, 2019 amounted to a negative 641,381 thousand euro (positive 162,992 thousand euro as at December 31, 2018) while the non-current net financial position amounted to a negative 8,850 thousand euro (795,797 thousand euro as at December 31, 2018).

It should be noted that the net financial position includes the financial assets and liabilities from the *fair value* measurement of financial derivative contracts to hedge interest rate risk, for a positive net value of 16 thousand euro as at December 31, 2019 and 572 thousand euro as at December 31, 2018.
The phenomena that changed the net financial position are as follows:

- the decrease in the financial payables of the companies amounting to 85,636 thousand euro, attributable to the combined effect of the following events: *(i)* reimbursements in the form of cash sweep which took place in January and July 2019 for 130,384 thousand euro, set forth in the Financial Debt Restructuring Agreement owing to the excess cash as of December 31, 2018 and as of June 30, 2019; partially offset *(ii)* by the recognition of the expense pertaining to 2019, in application of the measurement at amortised cost for a total of 11,033 thousand euro, and *(iii)* the expense deriving from the revision of the estimate of the payment flows of the payables in the measurement at amortised cost, carried out during 2019, to reflect the effect of the purchase and sale transaction and refinancing of the

Sorgenia Group, which will involve the full repayment of the financial payables, for an amount of 33,711 thousand euro;

- the increase in the value of the bond, connected *(i)* with the accounting of interest expense on the nominal value of the bond of 3,840 thousand euro; *(ii)* the recognition of the expense pertaining to 2019, in application of the measurement at amortised cost for 10,194 thousand euro, and *(iii)* revision of the estimate of the payment flows of the bond, for an amount of 80,521 thousand euro, carried out during 2019, to reflect the effect of the purchase and sale transaction and refinancing of the Sorgenia Group, which will involve the full repayment of the bond;
- recognition of financial lease liabilities, of 9,556 thousand euro as of December 31, 2019, as a result of the adoption of new IFRS 16. The adoption of the standard entailed, at the date of first-time application (January 1, 2019), the recognition of a financial liability for an amount equal to the present value of future payments for lease contracts signed by Group companies;
- the increase in cash and cash equivalents, which totalled 3,346 thousand euro. The change mainly relates to the net effect of the operating cash flow generated during the year and repayments of loans made during the year.

The item “Other long-term bank borrowings” includes the financial payables, existing as of December 31, 2019, of the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl).

Lastly, the table below shows the nominal values of the Net Financial Debt and the effects of its recognition according to the IAS/IFRS standards adopted by the Sorgenia Group, which envisage the measurement of financial payables at amortised cost and of the assets and liabilities relating to derivative financial instruments at fair value.

EUR/000	NFD NOMINAL VALUE	AMORTISED COST AND DISCOUNTING OF ADJUSTED FV	NFD FINANCIAL STATEMENTS
NON-CURRENT FINANCIAL LIABILITIES			
Non-current bonds	-	-	-
Payables for non-current bank loans	-	-	-
Non-current financial payables for leases	(10,176)	1,829	(8,348)
Other non-current bank borrowings	(519)	-	(519)
Non-current liabilities from financial hedging contracts	-	-	-
NON-CURRENT FINANCIAL ASSETS			
Non-current assets from financial hedging contracts	-	16	16
Other non-current financial receivables	-	-	-
CURRENT FINANCIAL LIABILITIES			
Current bonds	(408,700)	4,787	(403,913)
Payables for current bank loans	(477,870)	3,277	(474,593)
Current lease liabilities	(1,208)	-	(1,208)
Other current financial payables	-	-	-
Liabilities from financial hedging contracts	-	-	-
CURRENT FINANCIAL ASSETS			
Current financial assets	6,682	-	6,682
Cash and cash equivalents	231,651	-	231,651
Long-Term Financial Debt	**(10,695)**	**1,845**	**(8,850)**
Short-Term Financial Debt	**(649,445)**	**8,064**	**(641,381)**
NET FINANCIAL DEBT	**(660,140)***	**9,909**	**(650,231)**

*Net financial debt would amount to 648.7 million euro, excluding lease liabilities, amounting to 11.4 million euro; accounted for in application of IFRS 16 from January 1, 2019.

More specifically, based on the requirements of IFRS 9, these effects are represented by the recognition according to the amortised cost criterion when financial payables and the bond are discounted, totalling 8,064 thousand euro, and by recognition at fair value of derivatives, for 16 thousand euro.

ANALYSIS OF THE MAIN BUSINESS SECTORS

GENERATION AND ENERGY MANAGEMENT AREA

	2019	2018	Change %
Electricity (GWh)			
Volumes generated	7,574	5,652	34.0 %
Volumes sold*	6,603	6,669	(0.0) %%

** Not including Sorgenia Trading volumes for proprietary trading activities*

In 2019, the production volumes of the Sorgenia Group's combined cycle thermoelectric plants (CCGT) recorded a net increase compared to the previous year: all plants recorded better performances than in 2018, including the Modugno plant, which from July 15, 2019 was declared essential for the safety of the electricity system and, in the second part of the year, recorded an increase in volumes produced. Despite electricity demand falling by around 0.6% in 2019, the reduction in imports from abroad and the loss of competitiveness of coal plants determined an increase in contestable demand of CCGTs, with an increase in production for this technology of roughly 13%.

Termoli (CB) Combined Cycle plant

In 2019, the Termoli power plant produced 1,883 GWh (1,203 GWh in 2018) and the average load was 290 MW during the hours of operation.

Modugno (BA) Combined Cycle plant

In 2019, the Modugno power plant produced 1,364 GWh (796 GWh in 2018) and the average load was 300 MW.

Turano Lodigiano – Bertonico (LO) Combined Cycle plant

In 2019, the Turano Lodigiano - Bertonico power plant produced 2,114 GWh (1,695 GWh in 2018) and the average load was 430 MW.

Aprilia (LT) Combined Cycle plant

In 2019, the Aprilia power plant produced 2,213 GWh (1,958 GWh in 2018) and the average load was 370 MW.

In 2019, the parent company Sorgenia SpA sold total energy of 6,603 GWh, of which, roughly half (3,059 GWh) relates to end customers, as specified below, and the remainder is connected to the energy management activities carried out on the wholesale markets.

MARKET AREA

	2019	2018	Change %
Electricity (GWh)			
Distributed volumes	3,059	3,267	(6.4)%
Gas (MSm3)			
Distributed volumes	142	136	4.4%

In 2019, lower volumes of electricity were sold to end customers than in 2018 (the sales volumes of natural gas instead recorded an increase), due to the commercial decision to reduce sales to high-consumption customers and focus sales on Small and Medium Enterprises (SMEs), on "Professionals" and on the Residential segment, customers with higher added value. Vice versa, the customer portfolio grew considerably, rising from about 275 thousand in 2018 to approximately 345 thousand in 2019, marking growth of 25.5% compared to the previous year.

The development of the sales network to businesses continued during the year, through the definition of a more widespread territorial organisation focused, as highlighted above, especially on the medium and low-consumer customer segments (Small and Medium Enterprises – SMEs - and Professionals) in which Sorgenia has operated for many years.

As a result of the acquisition of Universal Sun S.r.l. (now Sorgenia Green Solutions) ESCo certified in accordance with the UNI CEI 11352 regulation, the Group extended its commercial offer to energy efficiency services for both the retail and corporate markets, developing a specific sales network that operates in a synergistic and integrated manner with the pre-existing network.

As regards the sale of electricity and gas, in 2019 Sorgenia strengthened its position as the leading Italian digital energy company, confirming its position as a leading company in the sector in Italy in terms of number of customers acquired through digital channels in the Residential and Professionals segments.

The acquisition method envisages that the offer may be signed mainly online, in a few simple steps, by accessing the Sorgenia.it website. Bills can be paid using automated methods (e.g. by choosing between direct charging of the current account or RID (direct debit)/SDD (Sepa direct debit), credit card and similar), while traditional physical instruments are excluded, such as cheques or postal slips. Similarly, customer interaction also takes place through digital channels: paper bills are not envisaged, but electronic documents (pdf cards) sent by e-mail or through the app dedicated to customers, and more generally customer care is managed via telephone, chat, dedicated app, while there are no physical sales points.

The digital acquisition channel represents one of Sorgenia's main commercial growth levers, also in view of the integration into its fibre optic offer system (FTTH - Fiber to the Home), starting in 2020, and the complete deregulation of the market expected for the next few years.
In 2019, Sorgenia confirmed its commitment to constantly focus on improving the quality of its sales and customer assistance processes, identifying new partners and investing in the training of internal personnel and external resources in direct contact with customers.

Two important certifications were also confirmed: the one obtained in 2018 by CODICI (Centro per i Diritti del Cittadino), one of the major consumer protection associations, with the maximum rating of "Highly Reliable Operator"; and the one for the quality of the management processes of the assistance of end customers issued for the first time in 2015 by DNV GL, then renewed each year through audits of the certification body.

During 2018, Sorgenia was also subject to a challenging audit of its credit management processes, which in January 2019 led it to obtaining - first utility in Italy - the Certification of its Credit Risk Management System by the certification body DNV GL. An important recognition that confirms the Company's focus on containing working capital, unpaid amounts and credit losses.

The commitment to guaranteeing a positive and appealing customer experience is important for Sorgenia as the growth of its customer base. For this reason, in 2019 it dedicated additional efforts and resources to targeted projects, which involved cross-functional teams and based on design thinking methodology, in order to define new methods of interaction and optimise the management processes of each customer, simplifying both the language used and the interaction tools made available. Among the other innovations implemented, the complete redesign of the web area and of the app reserved for customers was particularly important, released in January 2020.

The objective of an increasingly closer service to customers and an advanced management of energy supply, able to use the most advanced technologies in an efficient and sustainable manner, are perfectly consistent with Sorgenia's positioning in the last three years.
The collaboration with the Paralympic fencing champion Bebe Vio was confirmed, in itself symbolic of the vision of an inclusive company and supported by a technology serving people, the ATL 2019 campaign forcefully declares one of the key issues of Sorgenia's positioning to the environmental protection. Filmed at the futuristic location of the "Nuvola" made by architect Fuksas in Rome, the advertisement shines the spotlight on the contrast between the huge progress of technology and the apparent global inability to manage energy that respects the Earth.
For Sorgenia "Salvare l'ambiente" (Save the environment) is instead, one of the cornerstones of its meaning, understood as the company purpose, as well as:

- Transforming the relationship with energy

- Making the company in which we operate better
- Helping those working with us to achieve self-fulfilment.

In a manner consistent with these guiding principles, in 2019 the company's social commitment was confirmed, in particular with the new edition of the #sempre25novembre violence against women campaign.

Sorgenia's net position in the social sphere is confirmed by numerous recognitions which, also in 2019, rewarded its various initiatives, with the Media Diversity Award standing out, assigned from 2013 by a technical panel on a selection of names taken from a survey of the Italian population. The award in question is attributed to the "persons and media content that have made an appreciable contribution to diversity in the gender areas and gender identity, sexual orientation and emotional connections, ethnicity, age and generations, (dis)ability". Sorgenia is the first service company to obtain the recognition.

INDUSTRIAL DEVELOPMENT AREA

In 2019, the Sorgenia Group worked to develop a diversified, innovative and environmentally friendly generation portfolio from renewable sources, consistently with the market context characterised by increasingly more incisive energy decarbonisation policies (objectives of the 2030 National Integrated Plan for Energy and Climate) which reward further growth in renewable energy sources through specific incentive measures, recently or soon to be issued. In addition, the portfolio of initiatives aims to enhance the opportunities offered by the achievement of *market parity* by some renewable sources such as wind and photovoltaic.

Geothermal

During the year, the procedure to issue the thirty-year production concession called "Poggio Montone" was successfully completed, with the simultaneous issue of the Single Authorisation for the construction and operation of the "Saragiolo" plant (5 MW). It is the first closed cycle geothermal plant (without emissions into the atmosphere and without water consumption) that achieved this result in the region that hosts all the geothermal plants currently in operation in our country.

Two appeals were filed against the aforementioned provisions, including that of the VIA ("Valutazione Impatto ambientale" - Environmental Impact Assessment) - towards the TAR ("Tribunale Amministrativo Regionale" - Regional Administrative Court) and the President of the Republic. At the end of 2019, a single trial hearing was set by the judge in the first half of 2020.

With regard to the contracting of the activities for the subsoil part (upstream), a scope of work optimised with the preferred bidder was defined. The consequent cost assessments led to the opportunity to explore, at the end of the year, the option to split the scope of work into different contracts. With regard to downstream activities (geothermal power plant, Balance of Plant-BOP and process), an initial technical and economic study was conducted which highlighted the need to analyse and optimise the entire process

mentioned above. The initial assessments regarding an additional plant were also started, to be constructed in the Eastern area of the concession called Poggio Montone.
In relation to the research authorisation called “Le Cascinelle”, in the first few months of 2019, preliminary planning and localisation of the well field and of the “Val di Paglia” plant (10 MW) were completed, which made it possible to submit the application for the production concession in April 2019. Following the acceptance of the connection estimate prepared by the electricity grid operator, in September 2019, the application for the Environmental Impact Assessment relating to the geothermal plant project was submitted. The latter, located in the industrial area of the municipality of Abbadia San Salvatore (SI), is based on the closed cycle technology, without atmospheric emissions.

Photovoltaic

Sorgenia intends to return to being one of the main players at national level in the industrial photovoltaic sector, seizing the opportunities offered by the considerable reduction in generation costs from this source and exploiting consolidated skills and experience.

In 2019, the company continued the development and follow-up of initiatives in the industrial photovoltaic sector. The number of co-development contracts with engineers and contacts with the main suppliers of trackers, modules and inverters was expanded.

Mini-hydro
In 2019, the development and follow-up of the hydroelectric pipeline continued, consisting of small power plants (mini-hydro) with high environmental compatibility.

An extension was obtained for the authorised project “Dora” (0.35 MW) for the beginning of works, and an application was submitted for the listing in the register of GSE (Energy Services Operator) incentives (Tender I) pursuant to Ministerial Decree 04/07/2019. In addition, the Agreement with the Municipality of Sant’Antonino di Susa (TO) was signed. In November 2019, following a specific tender procedure for the construction of the plant, the investment decision was taken with the consequent signing of the tender contract. The appeal filed before the TSAP (“Tribunale Superiore delle Acque Pubbliche” - National Court for Public Waters), against the authorisation of the aforementioned project, is still in progress.

For the authorised “Arno” and “Taro” projects, additional extensions were requested for the start of works to be able to participate in the subsequent tenders for incentives envisaged in 2020 pursuant to Ministerial Decree 04/07/2019.

Certain opportunities for the acquisition of companies owning hydroelectric plant authorisations were identified.

Biomethane

The main areas of activity related to the development of plants for the production of biomethane from organic matrices (FORSU (Organic Fraction of Solid Urban Waste), agricultural by-products, purification sludge, etc.) regarded, on the one hand, the possible acquisition of projects at the advanced authorisation/construction stage, and on the other hand the "*greenfield*" development of similar initiatives in areas of strategic interest.

In October 2019, a binding offer was submitted to acquire the majority package of a Project Company that holds the authorisation for the construction of a plant for the production of organic biomethane from the Organic Fraction of Solid Urban Waste (FORSU) in Lombardy. The offer was accepted, allowing the continuation of negotiations and the definition of the contracts pertaining to the transaction, still in progress.

In addition, the identification and preliminary planning of an additional initiative was identified in the municipality of Terlizzi. The project provides for the anaerobic digestion of agricultural by-products (for the vast majority of olive pulp, supplied by virtue of an agreement signed with Consorzio Italia Olivicola (Italian Consortium for olive growing)) and the production of biogas and liquefied CO_2.

Wind power

Throughout 2019, scouting activities were launched in order to acquire authorised wind initiatives or in authorisation procedures ("brownfield" initiatives), located in Italy and in line with corporate objectives.
In addition to this, there was the identification of areas suitable for the development of greenfield projects.
Four greenfield initiatives and three brownfield initiatives were identified during the year.

TIRRENO POWER SPA

Tirreno Power, a joint venture that is 50% owned by the Sorgenia Group and Engie Italia SpA, active in the production of thermoelectric and hydroelectric energy.
In particular, the company operates through the production units of Vado Ligure, Torrevaldaliga, Naples (with thermoelectric production units with a capacity of roughly 2.4 GW), and through 18 hydroelectric plants located along the entire arc of the Ligurian Apennines (renewable sources production units with a capacity of 75 MW).

The **energy sold** in 2019 came to 8,240 GWh, a decrease of 6,361 GWh compared to the previous year. The decrease is attributable to the elimination of sales of energy carried out as guarantee of the gas contract to Edison in 2018 - equal to 4,982 GWh - which were replaced by bank guarantees in 2019. However, it should be noted that the energy sold to Edison in 2018 was purchased entirely on the power exchange;

therefore, the elimination of these sales also had the same impact on the energy being purchased, generating a substantially zero effect in terms of margins.

The **energy injected** by the Company during the year came to 5.2 TWh, down by 0.7 TWh compared to 5.9 TWh in 2018.

In 2019, CCGT production was essentially in line with the previous year, with the sole exception of the Vado Ligure plant, which recorded a drop in production, having injected roughly 1,913 GWh of energy into the grid in 2019, a decrease of roughly 600 GWh compared to 2018.

Hydroelectric production also recorded a decrease of 34 GWh compared to the previous year due to lower rainfall.

The main operating figures of the various production units and the main economic, equity and financial figures are shown below.

OPERATIONAL DATA		**2019**	**2018**	**Change %**
Vado Ligure	*(GWh)*	1,913	2,519	(24.1%)
Torrevaldaliga	*(GWh)*	1,777	1,817	(2.2%)
Naples	*(GWh)*	1,329	1,367	(2.8%)
Renewable sources	*(GWh)*	178	213	(16.4%)
Total energy injected	*(GWh)*	5,197	*5,916*	*(12.2%)*

ECONOMIC DATA		**2019**	**2018**	**Change %**
Energy sold	*(GWh)*	8,240	14,601	(43.6%)
Turnover	*(EUR/million)*	672	1,091	(38.4%)
Gross Operating Margin	*(EUR/million)*	213	136	56.4%
Net profit (loss) for the period	*(EUR/million)*	167	40	315.7%

EQUITY AND FINANCIAL DATA		**2019**	**2018**	**Change %**
Net financial debt	*(EUR/million)*	305	444	(31.5%)
Shareholders' Equity	*(EUR/million)*	393	226	73.8%
Net Invested Capital	*(EUR/million)*	698	671	4.1%
Employees	*(units)*	231	233	(0.9%)

Sales and service revenues on December 31, 2019, totalled 666,543 thousand, a reduction compared to the previous year. Other operating income amounted to 5,430 thousand euro.

It should be noted that the reduction in revenues, in addition to resulting from lower volumes of energy sold, is due to the elimination of sales made to Edison as guarantee for the gas supply contract as of December 31, 2018, as previously highlighted.
By contrast, higher revenues of 57,348 thousand euro were recorded, deriving from sales on the dispatching market (Dispatching Services Market revenues of 234,667 thousand euro in 2019, 177,319 thousand euro in 2018).

The gross operating margin stood at a value of 213,180 thousand euro, up by 76,836 thousand euro compared to December 31, 2018. The substantial improvement is mainly *due to (i)* higher margins realised in the Dispatching Services Market; *(ii)* the increase in the cost of CO_2 emission rights that made gas plants more competitive than coal plants; and *(iii) a* general containment of all operating costs compared to the previous year.

Financial management presents a net expense of 16,270 thousand euro; the decrease of 2,585 thousand euro compared to the previous year (net expense of 18,855 thousand euro in 2018) is mainly due to the reimbursement of the payable and the fall in the cost connected to lower exposure to guarantees issued.
Net financial debt fell from 444,278 thousand euro as of December 31, 2018, to 304,518 thousand euro as of December 31, 2019; the reduction is the net result of the generation of operating cash and the amount repaid in the year (146,811 thousand euro in terms of principal and interest), partially offset by the increase deriving from the capitalisation of financial expenses in the year for a total of 8,550 thousand euro.
It should also be noted that, in January 2020, in consideration of the evolution of the cash available due to the excellent results achieved, together with the repayment linked to the excess cash as on 31/12/2019 (Cash Sweep - contractual obligation), the Company made an additional advance payment ("Voluntary Prepayment") totalling 46,377 thousand euro.

Shareholders' equity came to 393,426 thousand euro on December 31, 2019 and changed with respect to the previous year, due to the net profit for the year, amounting to 167,099 thousand euro, as well as due to the net increase of 41 thousand euro, deriving from the changes in the IAS 19 and IFRS 9 reserves.

In particular, Tirreno Power's 2019 result, with a significant improvement compared to the previous year, in addition to the economic results achieved in previous years, and in particular in 2018 and 2019, confirmed better performances than expected in the Business and Financial Plan; furthermore, the ascertained capacity to generate cash, which allowed an acceleration of the repayment of the loan as such to extinguish an entire tranche "A" 3 years earlier than the natural expiry of the instalments, (the last of which was repaid in January 2020) made the Sorgenia Group Directors confident of Tirreno Power's ability to achieve the results expected in the "Plan" also in future years.
Therefore, for the purposes of the preparation of the financial statements as of December 31, 2019, the Directors decided to carry out the revaluation of the equity investment in Tirreno Power, aligning it to the

value of the corresponding portion of shareholders' equity (net of the nominal value of the Participating Financial Instruments, PFIs) held in the subsidiary at the same date.

The value of the equity investment, shown in the financial statements as of December 31, 2019, amounts to 54,520 thousand euro, an increase of 29,530 thousand euro compared to December 31, 2018.

SIGNIFICANT EVENTS OF THE YEAR

Sorgenia Puglia S.p.A. and essentiality of the Modugno (BA) plant

On June 4, 2019, the Italian Regulatory Authority for Energy, Networks and Environment (ARERA), approved, with resolution no. 222/2019, the inclusion of the Modugno plant, owned by Sorgenia Puglia S.p.A. (whose share capital is fully held by Sorgenia S.p.A.), in the list of essential plants (for the period July 15, 2019 – December 31, 2019), in accordance with the regulations on the essentiality set forth in resolution no. 111/06.
A production plant is defined as essential for the safety of the electrical system if, in the absence of the plant, it is not possible to ensure adequate safety management standards of the system itself, also due to the planned maintenance requirements of the other production plants and of the network elements.
Article 63.11 of resolution 111/06 provides that dispatching users who own essential plants may request, for the period of validity of the list prepared by Terna or for a multi-year period beginning from the start of the period of validity of the same list, the admission to the cost recovery regime.
With its subsequent resolution no. 290/2019 of July 2, 2019, the Regulatory Authority for Energy, Networks and Environment (ARERA) accepted the application for admission to the recovery regime relating to the aforementioned plant formulated by the Company, based on the higher expected benefit for consumers, also for the period from January 1, 2020 to December 31, 2020.

For further information, please refer to the information described previously in the section “Legislative and regulatory provisions in the electricity and gas sector”.

Sorgenia Fiber S.r.l.

On July 9, 2019, Sorgenia Fiber S.r.l. was established, with the corporate purpose, inter alia, of the creation, development and installation of telecommunications and electronic communication networks and systems, as well as telecommunications services and electronic communication services, both fixed and mobile. The entire share capital of Sorgenia Fiber S.r.l., amounting to 10,000 euro, is held by Sorgenia S.p.A., which also carries out management and coordination activities.

Universal Sun S.r.l.

On September 5, 2019, the Company acquired, for a consideration of 445 thousand euro, the residual portion, equal to 33% of the share capital of Universal Sun S.r.l. (now Sorgenia Green Solutions), still owned by minority shareholders, thus completing the acquisition process started in December 2018 with the purchase of 67% of the share capital.

Following the purchase of the residual shares, Sorgenia S.p.A., which became the sole shareholder of Universal Sun S.r.l. (now Sorgenia Green Solutions) and entity that exercises management and coordination activities, appointed a new Chief Executive Officer.

Marcallo Project

On October 1, 2019, Sorgenia Sviluppo S.r.l., whose share capital is wholly owned by Sorgenia S.p.A., submitted a binding offer - subject, as normal, to the verification, by the first few months of 2020, of certain conditions precedent and accepted by the counterparty on October 9 - for the acquisition of up to a maximum of 80% of the share capital of Green Power Marcallese S.r.l. The purpose of the transaction is to create a project for the production of advanced biomethane through the recovery of the organic fraction of separated collection of solid urban waste (FORSU) with the use of an innovative technology called “Biosip”.

Capacity Market auctions

On November 6 and 28, 2019, respectively, Asta Madre 2022 (Main Auction) and Asta Madre 2023 were held, as provided for in recent regulations on *capacity market*.

The Sorgenia Group obtained (i) the award of the entire "Likely available capacity" (CDP) offered for 2022 and 2023, equal to 2,580 MW for each year, with an auction premium equal to the maximum premium that can be assigned, for a period of one year and (ii) the award of the entire new unauthorised capacity offered for 2023, equal to 181 MW, also in this case with an auction premium equal to the maximum value but for a period of 15 years effective from 2023 for the *Peaker* project to be implemented on the Turano Lodigiano - Bertonico plant.

For further information, please refer to the information described previously in the section "LEGISLATIVE AND REGULATORY PROVISIONS IN THE ELECTRICITY AND GAS SECTOR".

Competitive procedure for the acquisition of Sorgenia S.p.A.

At the end of 2018, in order to identify the opportunities for growth of the Sorgenia Group (hereinafter “the Group”), also through the change of the shareholding structure, Nuova Sorgenia Holding S.p.A. - Group controlling shareholder (whose shareholders are Banco BPM, Banca Intesa, Monte dei Paschi di Siena, Ubi and UniCredit) - gave an advisory mandate to independent professionals.

After assessing the offers received, on December 23, 2019 Nuova Sorgenia Holding S.p.A. announced that it accepted the binding purchase offer of the Group formulated jointly by F2i SGR S.p.A. (hereinafter “F2i”), independent Italian manager of infrastructural funds, and by Asterion Industrial Partners SGEIC SA (hereinafter “Asterion”), an independent Spanish company specialised in infrastructural investments in Europe.

Based on the binding purchase offer, the Group launched activities targeted at signing the preliminary purchase and sale agreement, which was expected to be finalised by the end of April 2020. As a result of some subsequent events that materialised, including the spread of CoViD-19 and the redefinition of some terms of the refinancing contract, the preliminary purchase and sale agreement of the Group was signed on June 3, 2020. Said agreement will be executed on unconditional obtainment of approval of the transaction by the Italian Authority for the protection of competition and the market and the Presidency of the Council of Ministers as part of the application of the “golden power” regulation. These authorities have a period equivalent to 30 calendar days and 45 working days respectively to express a judgment, except where there is a need for an in-depth investigation.

Following obtainment of the above authorisations, the purchase and sale agreement will be signed, at which time the purchase by the offerers (F2i and Asterion) of the entire capital of Sorgenia S.p.A. will be completed and, at the same time, the refinancing of the financial debt of the Sorgenia Group with regard to the banking system will be carried out, through the signing of a new bank loan obtained on the market, which will entail the full repayment of financial payables and therefore the termination of the 2017 Restructuring Agreement.

Sorgenia SpA

_Key Indicators

_Results of operations of Sorgenia SpA

KEY INDICATORS OF SORGENIA SPA

The Financial Statements of Sorgenia SpA as of December 31, 2019 were drawn up in compliance with the national OIC accounting standards issued by ODCEC ("Ordine dei Dottori Commercialisti ed Esperti Contabili" – Order of the Accountant Doctors and Expert).

KEY INDICATORS OF SORGENIA SPA

EUR/000	31/12/2019	31/12/2018	Change %
ECONOMIC INDICATORS			
Revenues from Sales	1,747,705	1,743,715	0.2%
Gross Operating Margin	(14,883)	9,166	NS
% of Sales Revenues	-0.9%	0.5%	NS
Net Operating Margin	(34,939)	(11,434)	NS
% of Sales Revenues	(2.0)%	(0.7)%	NS
Net Income/(Loss)	358	18,367	NS
% of Sales Revenues	0.0%	1.1%	NS
FINANCIAL INDICATORS			
Net Capital Invested	527,355	483,941	9.0%
Net Financial Debt/(Surplus)	223,564	172,410	29.7%
Net Financial Debt/(Surplus)	227,807	245,303	(7.1)%
Shareholders' Equity	303,791	311,531	(2.5)%
OPERATING FIGURES			
Employees - actual number	256	232	10.3%
Employees - average	238	226	5.3%

RESULTS OF OPERATIONS OF SORGENIA SpA

ECONOMIC RESULTS OF SORGENIA SPA

EUR/000

RECLASSIFIED INCOME STATEMENT	31/12/2019	31/12/2018	Change %
Sales revenues	1,700,009	1,677,337	1.4%
Other revenues and income	47,696	66,378	(28.1%)
REVENUES FROM SALES AND OTHER OPERATING INCOME	**1,747,705**	**1,743,715**	**0.2%**
Consumption of raw materials, change in inventories	(1,206,618)	(1,246,611)	(3.2%)
Services and miscellaneous operating costs	(524,532)	(466,889)	12.3%
Labour costs	(31,438)	(21,049)	49.4%
GROSS OPERATING MARGIN	**(14,883)**	**9,166**	**N.S.**
Amortization, depreciation and write-down of fixed assets	(12,853)	(11,860)	8.4%
Net provision for risks and losses	(7,203)	(8,740)	(17.6%)
NET OPERATING MARGIN	**(34,939)**	**(11,434)**	**N.S.**
Net financial income (expenses)	(51,006)	6,200	N.S.
Revaluation (write-down) of financial assets	86,754	1,860	N.S.
INCOME BEFORE TAXES	**809**	**(3,374)**	**(124.0%)**
Current/ deferred taxes	(451)	21,741	(102.1%)
INCOME (LOSS) FOR THE PERIOD/ YEAR	**358**	**18,367**	**(98.1%)**

In 2019, Sorgenia SpA reported total revenues amounting to 1,747,705 thousand euro (1,743,715 thousand euro in the previous year), essentially in line with the previous year.

Revenues from sales recorded a change of 22,672 thousand euro compared to the previous year (1,700,009 thousand euro in 2019 compared to 1,677,337 thousand euro in 2018), attributable primarily to: i) higher revenues from sales of electricity and natural gas to end customers, which rose from 607,927 thousand euro in 2018 to 641,736 thousand euro in 2019, marking a variation of 33,809 thousand euro; this increase is due to higher volumes of sales to higher value added customer segments - Small and Medium Enterprises (SMEs), "Professionals" and "Residential" - which have a higher sale price than large and medium enterprises. It should also be noted that the customer portfolio rose from around 275 thousand in 2018 to roughly 345 thousand in 2019, marking growth of over 25% with respect to the previous year; (ii) higher revenues of 27,263 thousand euro linked to the sale of CO_2 emission rights to Group companies that own generation plants, attributable to both an increase in the unit price of the emission right and higher emissions resulting from a rise in plant production; (ii) lower revenues for 25,775 thousand euro due to the sale of natural gas to Group companies that own generation plants due to the decrease in the commodity price which more than offset the rise in volumes sold; (iv) lower revenues for 11,845 thousand euro for the sale of electricity and gas on wholesale markets, also through the subsidiary Sorgenia Trading.

Other operating income decreased from 66,378 thousand euro in 2018 to 47,696 thousand euro in the year under review. The item mainly includes: (i) contingent assets, (ii) releases of provisions for risks and (iii) revenues from the charge-back of intercompany costs. The net change of 18,682 thousand euro is attributable to: (i) lower contingent assets linked to the recognition of the consideration for the availability of production capacity pursuant to Resolution 48/04 for the year 2018 compared to the amount recognised for 2017 and (ii) higher intercompany charge-backs for costs incurred by the parent company on behalf of Group companies (ICT, development, due diligence costs).
The costs for consumption of raw materials (including the change in inventories too), especially relating to the purchases of electricity and natural gas and CO_2 emission certificates carried out during the year were 1,206,618 thousand euro (1,246,611 thousand euro in 2018), marking a decrease of 3.2% compared to the previous year. The net decrease is mainly due to: (i) higher purchase costs of emission rights both due to the higher quantities purchased and to the higher unit price compared to the previous year, more than offset by (ii) lower gas purchase costs due to a decreasing commodity price despite the higher volumes changed, (iii) lower purchase costs of electricity on wholesale markets due to the decrease in the price compared to 2018 and (iv) lower natural gas inventories stored at Stogit SpA, due to the lower award of auctions for the allocation of storage capacity with respect to the previous year.

Costs for services and other operating costs (including electricity and gas transportation, distribution and dispatching costs, marketing costs, etc.) came to 524,532 thousand euro (466,889 thousand euro during the previous year), marking a change of 12.3%. The increase is represented by: i) the increase in transport, dispatching and distribution costs deriving from an increase in wholesale electricity and gas sales and to the customer segments with higher added value and transport tariffs (following the change by the regulator of the tariff components that had been reduced, in the previous year, in order to mitigate the impact of the high prices recorded in 2018, of the energy commodities on the final cost of electricity for end users); and ii) by the higher extraordinary compensation to the Directors following the Sorgenia Group purchase and sale transaction.

Personnel costs totalled 31,438 thousand euro (21,049 thousand euro in the previous year). The change is mainly tied to the increase in the average number of employees as well as to the allocation of a medium/long-term variable incentive (LTI) for management.

The Gross Operating Margin was a negative 14,883 thousand euro (positive 9,166 thousand euro in 2018), therefore representing a worsening of 24,049 thousand euro, due to the phenomena described above.

The Operating Result was negative for 34,939 thousand euro (negative for 11,434 thousand euro in the previous year). The worsening, which totalled 23,505 thousand euro was mainly determined by:

- the change in the Gross Operating Margin for 24,049 thousand euro;

- the reduction in net provisions for the write-down of receivables and losses on receivables of 1.537 thousand euro, due to the improvement in credit management processes, with a consequent positive effect on collection performances, past due loans and unpaid ratios;
- the increase in amortisation, depreciation and write-downs of 993 thousand euro, an increase justified by investments in intangible assets (software).

Financial management presented net expenses of 51,006 thousand euro (net income for 6,200 thousand euro in 2018), and was primarily characterised by the recognition in 2019 (i) of dividends distributed by the subsidiary Sorgenia Puglia SpA for 22,000 thousand euro and (ii) the recognition of figurative interest expense deriving from the update of the measurement (change in estimates) of expected payment flows of the financial payables at amortised cost; this measurement is the result of the expected full repayment of the debt earlier than the original expiry set forth as a result of the closing of the sale transaction (for further details, please refer to the paragraph “Significant events during the year”); in fact, following the transfer of the Company's shares, the Sorgenia Group's financial debt towards the banking system will be refinanced, through the use of a new bank loan obtained on the market (for more details please refer to the paragraph "Significant events in the year" and "Financial Debt Restructuring Agreement"). More specifically, note that, in 2019:

- financial income was recognised for 23,148 thousand euro, mainly relating to dividends distributed by the subsidiary Sorgenia Puglia SpA (amounting to 22,000 thousand euro);
- financial expenses of 71,789 thousand euro were recorded, relating mainly to: i) expenses recorded on the bond loan of 60,559 thousand euro, composed of interest expense on the nominal value of the bond loan of 2,015 thousand euro, in addition to 58,544 thousand euro in figurative interest expense deriving from the updating of the measurement (*change in estimate*) of the expected payment flows of the financial payables at amortised cost carried out to reflect the expected full repayment of the debt following the forecast completion of the Group purchase and sale transaction ii) expenses recognised on the *term loan* of 10,934 thousand euro, composed of interest expense on the nominal value of the debt of 1,052 thousand euro, in addition to 9,882 thousand euro in figurative interest expense deriving from the variation in the estimate of the expected payment flows of the financial payables at amortised cost carried out to reflect the already mentioned Group purchase and sale transaction;
- bank charges and commissions related to the Company’s operations were recorded for an amount of 2,365 thousand euro.

The change of 57,206 thousand euro is attributable mainly, as reported above: to the reduction in the dividend received from the subsidiary Sorgenia Puglia SpA amounting to 4,000 thousand euro, in addition to the recognition, in 2019, of the expense deriving from the *change in estimates* of future cash flows, amounting to 58,871 thousand euro.

The item Revaluation/write-down of the financial assets showed net income of 86,754 thousand euro (1,860 thousand euro in income in 2018). The 2019 balance is mainly composed of revaluations and write-downs of equity investments, which present a positive balance of 90,455 thousand euro; in particular, write-backs were recorded on the equity investments of Sorgenia Power Spa for 68,846 thousand euro, and Energia Italiana Spa for 29,526 thousand euro, in contrast to the write-down of the equity investment in Sorgenia Sviluppo Srl for 8,502 thousand euro.

Therefore, for the purposes of the preparation of the financial statements as of 31 December 2019, the Directors of the subsidiary Energia Italiana SpA decided to carry out the partial restoration of the value of the equity investment in Tirreno Power SpA (previously written down), aligning it to the value of the corresponding portion of shareholders' equity, net of the nominal value of the junior participating financial instruments held amounting to 284,386 thousand euro. The result for the year of Tirreno Power came to 167,099 thousand euro, a significant improvement compared to the previous year (40,196 thousand euro). As a result of the economic results achieved in previous years and in 2019, which confirmed the better performances than those expected in the Business and Financial Plan, the shareholders' equity on December 31, 2019 stood at 393,426 thousand euro. These positive results led the Directors of Energia Italiana SpA to determine a partial write-back of the equity investment held in Tirreno Power, within the limits of the shareholders' equity pertaining to the closing date of the financial statements; as a result of these considerations, the Directors of the Company therefore carried out a partial write-back of the equity investment in Energia Italiana SpA, aligning also in this case the value of the equity investment to the shareholders' equity of the subsidiary.

Throughout 2015, the verification of the recoverable value of the equity investment in Sorgenia Power led the Directors to align its carrying amount to the lower recoverable value represented by the present value of expected cash flows, estimated at 175,476 thousand euro; as of December 31, 2019, the Directors, in consideration of the positive results achieved by the subsidiary Sorgenia Power in the year, as in previous years (the result in 2019 was a positive 63 million euro after the recognition of the negative effect deriving from the recording of the figurative financial expense due to the change in the estimate of the expected payment flows of the financial payables which is expected to be fully repaid in the short-term, and total shareholders' equity of 273 million) and the positive forecasts in the 2020 Budget, carried out a recovery of the book value of the equity investment in Sorgenia Power for the entire amount of the previous write-down, amounting to 68,846 thousand euro.

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The write-down in Sorgenia Sviluppo Srl derives from the presence in the company of projects and initiatives in an embryonic phase, both in the geothermal and photovoltaic and bio-methane sectors.

The balance also contains the write-down of 3,700 thousand euro of instruments hedging against the risk of volatility of the consideration for transfer capacity assignment (CCC) to the market operators who are holders of dispatching points for generation and import units.

The result before tax was positive for 809 thousand euro (negative for 3,374 thousand euro in 2018), marking an improvement of 4,183 thousand euro, due to the phenomena described above.

The tax component was a negative 451 thousand euro (positive 21,741 thousand euro in the previous year), and was generated by the following phenomena:

- recognition of taxes relating to previous years for a net expense of 3,065 thousand euro, relating to the fact that, during the year, the subsidiaries Sorgenia Puglia and Sorgenia Power, recalculated the taxable income for 2013, together with the tax consolidating entity at the time, CIR S.p.A., following the receipt, during the first half of 2019, of a positive opinion from the Tax Authorities on the 'interpello' (request for a tax ruling) presented regarding the criteria of deductibility of the write-down of the plants carried out in 2013; subsequently, the taxable income also for the 2015, 2016 and 2017 tax periods were recalculated, which had an impact on Sorgenia S.p.A., the tax consolidating entity from 2015, due to a different remuneration of income from tax consolidation;
- recognition of income for current taxes of 1,790 thousand euro, equivalent to the benefit recognised as a result of participation in the tax consolidation;
- net income of 824 thousand euro relating to deferred tax assets and liabilities, which mainly reflects: i) the write-down of deferred tax assets recorded as of December 31, 2018 on the portion of non-deductible interest expense prior to participation in tax consolidation, not considered recoverable as at December 31, 2019 on the basis of analyses conducted by the Directors; ii) the release of the provision for deferred taxes on figurative financial expense recognised in the income statement relating to the valuation at amortised cost of financial payables, more than offset iii) the recognition of the receivable for deferred tax assets on temporary differences generated during the year.

In 2019, Sorgenia SpA recorded a profit of 358 thousand euro (profit of 18,367 thousand euro in the previous year).

ANALYSIS OF THE EQUITY AND FINANCIAL STRUCTURE OF SORGENIA SPA

EUR/000

RECLASSIFIED BALANCE SHEET	31/12/2019	31/12/2018
Net intangible assets	25,045	26,898
Net tangible assets	1,841	2,336
Financial assets and other non-current assets	482,310	388,861
TOTAL Net fixed assets	**509,196**	**418,095**
Inventories	23,042	47,659
Trade receivables	318,032	284,924
Other current assets	20,162	26,836
Other current liabilities	(21,582)	(27,997) *
Trade payables	(323,203)	(283,863)
TOTAL Net working capital	**16,451**	**47,559**
Agents' leaving indemnity	(1,914)	(1,573)
Provisions for risks and losses	(35,526)	(15,976) *
Severance indemnity fund (TFR)	(560)	(492)
Prepaid taxes	39,708	36,328
NET INVESTED CAPITAL	**527,355**	**483,941**
Share capital	406,677	406,677
Reserves	(4,964)	3,134
Retained earnings (losses)	(98,280)	(116,647)
Net income (loss) for the period/ year	358	18,367
TOTAL Shareholders' equity	**303,791**	**311,531**
Medium and long term borrowings	-	250,620
Short term borrowings (receivables)	320,665	41,347
Cash and cash equivalents	(108,798)	(141,305)
Financial payables (Receivables) from subsidiaries	11,699	21,976
Derivatives	(2)	(228)
TOTAL net financial debt	**223,564**	**172,410**
TOTAL SOURCES OF FUNDS	**527,355**	**483,941**

*With respect to the financial statements published in 2018, the balance of the bonus provision for volumes was reclassified from “Other current liabilities” to “Provisions for risks and losses”, while the total of “Provisions for risks and losses” was reclassified from “Net working capital” to “Net invested capital”.

Net Invested Capital amounts to 527,355 thousand euro (483,941 thousand euro on December 31, 2018), marking an increase of 43,414 thousand euro, due mainly:

- to the increase in net fixed assets of 91,101 thousand euro, relating mainly: i) to the decrease of 2,348 thousand euro in tangible fixed assets and intangible fixed assets due to the net effect of amortisation, depreciation and write-downs, and investments in the year aimed at improvements in the company IT system, ii) the increase in financial fixed assets for 93,449 thousand euro due primarily to the revaluation of the equity investments in Sorgenia Power Spa and Energia Italiana Spa as described above;

- the 31,108 thousand euro reduction of net working capital mainly due to the following phenomena:
    - the decrease in inventories of 24,617 thousand euro, due mainly to the decrease in natural gas stocks, as a result of the awarding of auctions for the allocation of a lower storage capacity, compared to the previous year;
    - net decrease in trade receivables and trade payables of 6,232 thousand euro, attributable mainly to the decrease in sales revenues as a result of the fall in the price of gas, which more than offset the higher natural gas sales volumes;
    - decrease in other current assets and liabilities of 259 thousand euro;
- increase in provision for risks and losses for 19,550 thousand euro, mainly due to the allocation of a medium/long-term variable incentive in favour of company directors and employees;
- the increase of 3,380 thousand euro of deferred tax assets and liabilities on temporary differences mainly due to the change in receivables for deferred tax assets commented on in the tax component of the Income Statement.

Net Invested Capital was funded through a Net Financial Debt of 223,564 thousand euro, compared to 172,410 thousand euro on December 31, 2018, with a 51,154 thousand euro change.

The breakdown by due date and type of Net Financial Debt, as presented in the Financial Statements and at nominal value, is shown in the following tables. In particular, the valuation of financial payables at amortised cost reflects the effects of the differential between the contractual interest rate and the market interest rate.

The shareholders' equity of Sorgenia SpA as of December 31, 2019 stood at 303,791 thousand euro, down by 7,740 thousand euro compared to December 31, 2018 (311,531 thousand euro) due to the result for the year and the negative effect of the change in the cash flow hedge reserve (8,098 thousand euro).

NET FINANCIAL DEBT

In thousand of euros	**31/12/2019**	**31/12/2018**
Non-current financial liabilities		
Non-current bonds	-	(161,101)
Non-current borrowings	-	(89,519)
Non-current borrowings - intercompany	-	-
Other non-current borrowings	-	-
Non-current borrowing - finance leases	-	-
Current financial liabilities		
Current bonds	(221,660)	-
Current financial liabilities	(99,405)	(41,847)
Current borrowings - intercompany	(12,727)	(22,011)
Other current borrowings	-	-
Current borrowing - finance leases	-	-
Current financial assets		
Current financial receivables	-	-
Current financial assets	400	500
Current financial assets - intercompany	1,029	35
Current asset from financial hedging contracts	2	228
Cash and cash equivalents	108,798	141,305
Net financial debt - Long Term	**-**	**(250,620)**
Net financial debt - Short Term	**(223,564)**	**78,210**
Net Financial Debt	**(223,564)**	**(172,410)**

The reasons that changed the net financial debt were as follows:

- the decrease in the company's financial debt of 31,961 thousand euro deriving from the combined effect of the reimbursement, in the form of cash sweep, of 41,847 thousand euro in January 2019, set forth in the Restructuring Agreement, owing to the excess cash as of December 31, 2018, partially offset by the recognition of interest expense of 9,881 thousand euro deriving from the measurement at amortised cost (of which 7,339 thousand euro deriving from the revision of the estimated expected payment flows of the financial payables in the measurement at amortised cost, carried out in 2019, to reflect the purchase and sale and refinancing transaction of the Sorgenia Group that will involve the full repayment of the financial payables and the bond loan of 60,559 thousand euro deriving from the recognition of interest expense on the nominal value of the bond loan of 2,015 thousand euro, in addition to 58,544 thousand euro of interest expense deriving from the measurement at amortised cost of which 51,532 thousand euro from the revision of the estimated expected payment flows in the measurement at amortised cost, carried out in 2019, to reflect the purchase and sale and refinancing transaction of the Sorgenia Group that will involve the full repayment of the financial payables;

- decrease in financial payables due to Group companies of 9,284 thousand euro, related to: i) the offsetting of the debt recorded on December 31, 2018 to the company Puglia with the receivable arising on the basis of the dividend distribution resolution of the latter amounting to 22,000 thousand euro; offset by the obtaining of a new intercompany loan with the same Sorgenia Puglia SpA for 11,500 thousand euro and ii) the obtaining of two new intercompany loans for 1,205 thousand euro and 200 thousand euro respectively from Sorgenia Renewables Srl and Sorgenia Fiber Srl;
- increase in intercompany financial receivables of 994 thousand euro, mainly due to the short-term exposure of the receivable from Nuova Sorgenia Holding, which will become payable upon completion of the sale transaction of Group companies;
- the increase in cash and cash equivalents, which totalled 32,507 thousand euro. For additional details about the financial changes in the year, please refer to the Statement of Cash Flows.

Lastly, the table below shows the nominal values of the Net Financial Debt and the values at fair value and the effects of its recognition according to OIC standards.

In thousand of euros	NFP Nominal value	FAIR VALUE ADJUSTED	NFP Fair Value
Non-current financial liabilities			
Non-current bonds	-	-	-
Non-current borrowings	-	-	-
Non-current borrowings - intercompany	-	-	-
Other non-current borrowings	-	-	-
Non-current borrowing - finance leases	-	-	-
Current financial liabilities			
Current bonds	(225,035)	(3,375)	(221,660)
Current financial liabilities	(100,271)	(866)	(99,405)
Current borrowings - intercompany	(12,727)	-	(12,727)
Other current borrowings	-	-	-
Current borrowing - finance leases	-	-	-
Current financial assets			
Current financial receivables	-	-	-
Current financial assets	400	-	400
Attività finanziarie correnti	1,029	-	1,029
Current asset from financial hedging contracts	-	2	2
Cash and cash equivalents	108,798	-	108,798
Net financial debt - Long Term	**-**	**-**	**-**
Net financial debt - Short Term	**(227,807)**	**(4,239)**	**(223,564)**
Net Financial Debt	**(227,807)**	**(4,239)**	**(223,564)**

GOVERNANCE

_Corporate Governance

_Sustainability governance

_Risk management

_Human resources

CORPORATE GOVERNANCE

The Sorgenia Group's corporate governance and control system is based on the central role of the Board of Directors of the Parent Company Sorgenia S.p.A. and is focused on the concept of a balance in the representation and roles of corporate bodies, on dialogue with stakeholders and on transparency, both with the market and internal procedures.
The governance structure of the Sorgenia Group includes the following bodies: Shareholders' Meeting, Board of Directors, Board of Statutory Auditors, Related Parties Committee, Remuneration Committee and Supervisory Body. The Sorgenia Group has adopted its Code of Ethics, available on Sorgenia's website, with the aim of clearly and transparently defining the set of values and principles to which Group companies are inspired by pursuing their objectives, observing national and international regulations, in compliance with the legitimate interests of the various categories of stakeholders.

Shareholders' Meeting

The Shareholders' Meeting is called in accordance with the law and with the Articles of Association. The Shareholders' Meeting is chaired by the Chairman of the Board of Directors or, in his absence, by the Vice Chairman or, in his absence, by the person appointed by the Shareholders' Meeting.

Adoption of a shareholders' meeting regulation was not contemplated.
The procedure for voting on the single items is established by the Chairman of the Board of Directors, with secret voting ruled out.

Board of Directors

The Board of Directors manages and governs the Company while pursuing the goal of creating value for the shareholders in strict observance of the law, the Articles of Association and correct ethical conduct.
All projects that have a significant impact on the *performance* of the organisation are evaluated by the Chief Executive Officer who submits the most important issues to the Board of Directors.
The current Board of Directors, consisting of six members, was appointed by resolution of the Shareholders' Meeting of April 26, 2018. The mandate of the Directors, for the three-year period 2018-2020, will therefore expire with the approval of the financial statements as at December 31, 2020.
The Board of Directors of Sorgenia S.p.A. usually meets on a monthly basis.

The mechanisms for appointing the Board of Directors of the Parent Company, together with the criteria for selecting the directors in connection with the limited ownership structure, are contained in the Articles of Association; the Board of Directors is made up of a majority of non-operational directors as such to guarantee, in terms of number and authoritativeness, that their judgement can have a significant weight in taking Board decisions.

The assignment and revocation of the mandates to the directors are the responsibility of the Board of Directors that also defines the limits and procedures for exercising the mandate awarded.

The remuneration of the directors holding special offices is established by the Board of Directors after receiving the favourable opinion of the Board of Statutory Auditors.
In light of the above:

- the Shareholders' Meeting of April 26, 2018 resolved to pay the entire appointed Board of Directors a total fixed annual gross remuneration and gave it a mandate to divide this remuneration between its members while taking into account the specific mandates assigned, in addition to reimbursement of the expenses actually incurred after presenting the supporting documents;
- the Board of Directors meeting of April 27, 2018 divided this remuneration between its members while taking into account the specific mandates assigned.

The Chairman of the Board of Directors and the Chief Executive Officer are awarded operating powers consistent with the size of the Company and type of business that the Company carries on.

DIRECTOR	OFFICE HELD	COMMENCEMENT OF MANDATE	EXPIRATION OF MANDATE
Chairman	Enrico Testa	April 26, 2018	Approval of the 2020 Financial Statements
Chief Executive Officer	Giovanni Mancini	April 27, 2018	Approval of the 2020 Financial Statements
Vice Chairman	Francesco Taranto	April 26, 2018	Approval of the 2020 Financial Statements
Directors	Nicolò Dubini	April 26, 2018	Approval of the 2020 Financial Statements
	Alberto Irace	April 26, 2018	Approval of the 2020 Financial Statements
	Fabrizio Bonelli	April 26, 2018	Approval of the 2020 Financial Statements

Board of Statutory Auditors

The Board of Statutory Auditors, appointed by the Shareholders' Meeting, is made up of three statutory auditors and two alternate auditors selected from independent professionals who have gained professional experience deemed adequate in connection with the complexity of the office assigned.
The Board of Statutory Auditors plays a central role in the Group Corporate Governance system in so far as it supervises observance of the law and of the Articles of Association, interacting with the various Group functions and with the Independent auditors appointed to audit the Financial Statements.
The current Board of Statutory Auditors was appointed, for the three-year period 2018-2020, by resolution of the Shareholders' Meeting on April 26, 2018.

AUDITOR	OFFICE HELD	COMMENCEMENT OF MANDATE	EXPIRATION OF MANDATE
Chairman	Fabio Cassi	April 26, 2018	Approval of the 2020 Financial Statements
Statutory Auditors	Daniele Discepolo	April 26, 2018	Approval of the 2020 Financial Statements
	Vincenzo Nicastro	April 26, 2018	Approval of the 2020 Financial Statements
Alternate Auditors	Laura Guazzoni	April 26, 2018	Approval of the 2020 Financial Statements
	Stefania Bettoni	April 26, 2018	Approval of the 2020 Financial Statements

Related Parties and Related Party Transactions Committee

The Sorgenia Group deems it necessary to map transactions with the Related Parties carried out by its companies.

On October 26, 2017, Sorgenia S.p.A.'s Board of Directors resolved to establish a Related Parties Committee, as envisaged by the related parties procedure approved on July 27, 2017, as well as to approve the Regulation governing its operation.

Pursuant to paragraph 4.3 of the above procedure, the Related Parties Committee consists of three independent directors (one of whom is the Chairman of the Board of Directors), appointed by resolution of the Company's Board of Directors, which also identifies the Chairman.

The establishment of the Related Parties Committee and the approval of the related Regulations of operation became effective on December 29, 2017 following the definitive termination of the decree approving the Restructuring Agreement pursuant to Article 182 bis of the Bankruptcy Law.

The current Related Parties Committee, composed of the Chairman of the Board of Directors, Mr. Testa (also appointed Chairman of the Committee) and Directors Mr. Fabrizio Bonelli and Mr. Alberto Irace, was appointed by the Board of Directors' resolution of April 27, 2018. On the same date, the Board of Directors also approved the new Regulation governing its operation.

The Related Parties Committee operates in accordance with these principles:

- proper process for forming, approving and formalising contracts and relations with related parties;
- actual honesty and transparency in describing the various types of transactions carried out with related parties and relevant amounts (receivables, payables, costs and revenues), in the Financial Statements and in the other documents, if it is mandatory or even just deemed advisable, also consistent with what is established by international accounting standard IAS 24.

The Chairman of the Committee shall periodically inform the Board of Directors of the meetings held by the Committee.

Please refer to the Explanatory Notes for a detailed description of related party transactions.

Remuneration Committee

On April 27, 2018, the Company's Board of Directors established a Remuneration Committee consisting of three independent directors, in the person of Mr. Enrico (known as Chicco) Testa as Chairman, of Mr. Nicolò Dubini and Mr. Francesco Taranto, as members of the same.
This Committee is responsible for formulating proposals to the Board of Directors for the adoption and settlement of collective incentive plans for *management* and the Chief Executive Officer. The Committee also expresses opinions on additional matters that the Board of Directors should consider it appropriate to submit for aspects within its competence.
The Chairman of the Committee shall periodically inform the Board of Directors of the meetings held by the Committee.

Supervisory Body

Since 2005, the Company (and its main subsidiaries subsequently) has decided to adopt, in addition to the Group's Code of Ethics, its own organisational, management and control model in accordance with the principles established by Legislative Decree 231/2001 and in line with Confindustria Guidelines (Model 231), thus developing a specific compliance system. The Supervisory Body (SB) is responsible for overseeing the functioning of and compliance with the Model.
The current Supervisory Body, composed of two external professionals (one of which as Chairman) and the Internal Audit, Compliance & Risk Control Director of the Company, was appointed by resolution of the Board of Directors on April 27, 2018 and will remain in office until the end of the term of office of the same Board of Directors (approval of the financial statements as at December 31, 2020).

CONTROL TOOLS

The internal control system of Sorgenia is understood as the set of processes aimed at guaranteeing honesty, transparency, efficiency, effectiveness and reliability of corporate management, observance of the laws and the prevention of fraud to the detriment of the Company.
The systematic control of the correct application of corporate governance principles takes place through a system that envisages the presence of dedicated corporate structures, which carry out risk assessments for the identification and management of risks, monitoring and control (I levels), compliance verification (II level) and audit activities (III level).
The main control bodies are set out below.

Independent Auditors

The appointment of auditing the Parent Company's financial statements and the consolidated financial statements of the Sorgenia Group, pursuant to Article 14 of Italian Legislative Decree no. 39 of 27/1/2010, as well as the limited audit of the Consolidated half-yearly report (as envisaged in the Restructuring Agreement), was assigned, for the three-year period 2018 - 2020, to the independent auditors Deloitte & Touche SpA.

Supervisory Body

The Supervisory Body was established at the Sorgenia Group companies equipped with the Organisational Model pursuant to Italian Legislative Decree 231/01, and it supervises the implementation and updating of this model. With the renewal of the Board of Directors on April 26, 2018, the members of the Supervisory Body were also reconfirmed.
In 2019, all the Group's Supervisory Bodies periodically reported to the Board of Directors and to the Board of Statutory Auditors on the activities carried out.

Internal Audit, Compliance and Risk Control

The Internal Audit, Compliance & Risk Control Department performs monitoring functions and checks the proper functioning of the corporate internal control system. This structure carries out audits aimed at checking that the corporate activities are carried out in observance of legislation and of the internal procedures and provisions, and reports any corrective actions to top management.
The Internal Audit, Compliance & Risk Control Department, which oversees the main Group companies, receives the 231 Audit Plan annually, based on a risk-based approach, approved by the Board of Directors and by the Supervisory Bodies of the Group companies.
In 2019, the 231 Models of Sorgenia SpA, Sorgenia Power SpA, Sorgenia Puglia SpA and Sorgenia Trading SpA were updated in order to bring them into line with the new organisational structure and the new offences introduced by the reference decrees, subsequently carrying out specific training for company personnel.
The main changes to Model 231 approved in 2019 regard the following issues:

- Inclusion of Article 25 of Italian Legislative Decree 231/2001 relating to the offence of "illicit traffic of influence among the predicate offences referred to;
- formal updates to be made to the Model for the Special Parts on health and safety and the environment following the transfer of Sorgenia SpA's registered office to via Algardi, 4 Milan;
- Formal update following the approval of Legislative Decree no. 17 of August 10, 2018 (Regulations for the adaptation of national regulations to the provisions of Regulation (EU) no. 596/2014, relating to market abuse and repealing Directive 2003/6/EC and directives 2003/124/EU, 2003/125/EC and

2004/72/EC), which adapted national regulations (TUF, Consolidated Law on Finance) on market abuse to the provisions contained in EU Regulation no. 596/2014 (MAR).

In particular, the scope of application of the financial instruments traded on an organised Italian trading system was extended, the definition of “privileged information” was adopted pursuant to Article 7 of the MAR (Market Abuse Regulation, EU Regulation 596/2014) and the case of abuse of privileged information pursuant to Article 184 was changed.

SUSTAINABILITY GOVERNANCE

Governance of the Corporate Social Responsibility activities involves the different functions right across the Sorgenia Group. The monitoring of these activities can be summarised in this table:

Field	Activity	Department/Function
GOVERNANCE	Relations with the financial community	*Business Planning & Investor Relations*
	Monitoring and verification of the correct functioning of the internal control and supervision system of company processes	*Internal Audit & Compliance*
	Risk management	*Risk Owner/Risk Control*
INSTITUTIONS	Institutional relations	*Regulatory and institutional affairs*
PERSONNEL	Personnel administration and management	*People and Organisation*
	Personnel training	*People and Organisation*
MARKET	Management of the business partners and agencies throughout the territory	*Sales*
	Management of customer relations	*Commercial Operations*
	Management of relations with the Consumer Associations	*Regulatory and institutional affairs*
	Management of suppliers	*Procurement & General Services*
COMMUNITIES	Social activities and initiatives	*Brand Management*
	Activities and initiatives for the local community	*Generation & Energy Management*
ENVIRONMENT	Plant monitoring and management	*Health, Safety & Environment*
	Research and development	*Industrial Development*

RISK MANAGEMENT

Since 2016, the Sorgenia Group has adopted a new system of policies, procedures and organisational structures with the main purpose of monitoring and managing risks that might undermine the attainment of strategic and operational objectives, and observance of the current regulations.

The Group first of all defined a Group Risk Policy that sets out a common methodological approach with identified and repeatable phases. The players involved in the process and their activities/responsibilities are also specified. Afterwards, specific policies for managing homogeneous risk categories and an enterprise risk management policy were defined to monitor other risks not managed by the specific policies in the Group.

The risk management system is structured on specific roles and responsibilities, such as the risk management manager called Risk Owner, the independent control function called Risk Control, the Chief Executive Officer of Sorgenia SpA who approves the policies and sets the risk limits, while the Board of Directors of Sorgenia SpA approves the Group Risk Policy.

The main risks systematically monitored and actively managed by the Group are indicated below.

ENERGY RISKS

Market Risk

The Sorgenia Group is potentially exposed to the change in prices of energy commodities and to the exchange rates of the currencies in which they are traded, with potential effects on assets, liabilities, cash flows and profitability.
For this reason, a specific Commodity Risk Policy was defined, with the objective of specifying the guidelines, principles, responsibilities and methods for managing these risks.
The Energy Risk & Quantitative Analysis function within the Generation & Energy Management area is appointed to monitor market risk through specific tools in observance of the Risk Policy.
The Risk Control function is appointed to observe the performance of the risk indicators established and compliance with the aforesaid Risk Policy.

FINANCIAL RISKS

Interest Rate Risk

Interest rate risk is described and managed by a specific policy and focuses on managing the risk that the value of a financial instrument may fluctuate because of changes in market rates. This risk is particularly evident for financial instruments where the expense calculation is linked to the value of one or more market variables.

Sorgenia Group is exposed to interest rate risk because of the presence in its Balance Sheet of interest-bearing assets and liabilities whose value is based on indexes quoted in the market.
As regards the debt exposure of the Sorgenia Group, the interest rate risk is mostly due to the changes in the structure for EURIBOR deadlines. The Sorgenia Group manages its exposure to interest rate risk by executing derivative instruments, traded solely for non-speculative purposes and with leading banks so as to minimize counterparty risk.
At the reporting date, the derivative instruments traded by the Group to hedge interest rate risk were in the form of Interest Rate Caps.
For interest rate risk hedging instruments, hedge accounting rules are applied and, in particular, cash flow hedges, if they can be demonstrated.
The Sorgenia Group has adopted tools suitable for running financial tests necessary to prove the future and retrospective effectiveness of the derivatives used as hedges.

Liquidity Risk

The liquidity risk is managed and described by a specific policy. On the one hand, it consists of counterparty risk management in the case of liquidity deposit, whilst on the other, of proper short-term financial planning in order to meet one's financial and business obligations.
This risk is monitored centrally by Sorgenia SpA, which periodically verifies the Group's net financial position and its composition, in any event in compliance with the restrictions set by the Restructuring Agreement signed by the Company.
By preparing and analysing reports on the incoming and outgoing cash flows, the Administration, Finance and Control department aims at ensuring adequate coverage of Sorgenia Group's needs, allowing accurate monitoring of loans, available credit lines, and the relative uses, in order to optimise financial resources and manage any temporary liquidity surpluses.

Commercial and Counterparty Credit Risk

Commercial and counterparty credit risk is managed and described with a specific policy, and it represents the exposure to potential losses deriving mainly from the sale activity and the counterparty risk in case of purchasing activities.
Risk prevention starts at the customer acquisition phase through a complex credit check process, structured by consumption brackets, which adjusts the severity of the rating to the potential amount of the credit risk.
The final customer credit recovery processes is divided into three macro-phases: Dunning with suspension of the supply, Collection and Litigation. The Dunning phase is activated on all active customers, which start within 15 days from the expiry of the invoice, and reaches the ultimate phase of deactivation and/or termination of the supply of electricity and gas in compliance with the timescales and methods envisaged by sector regulations. On the other hand, Collection and Litigation activities are addressed to all customers

with terminated supplies and are broken down into specific recovery modules, designed on the basis of the amount and ageing of the loans and of the customer segment.
In the “Over the Counter” wholesale activity, this risk is measured, in respect of a specific procedure, through the allocation of credit limits and monitoring of contractual positions.
The credit line process, in particular, presumes the quantitative analysis of the financial statements data and any qualitative information available, in order to attain an allocation for each individual counterparty of a rating that summarises its credit rating and, consequently, makes it possible to set their operating limits.

OPERATING RISKS

Technological Risk

The Sorgenia Group manages technologically complex electricity generation plants built with technologies based on the market’s Best Available Technology, with high safety standards to protect assets and personnel, and significant levels of automation in order to minimise possible human error.
Periodic control plans and regular maintenance operations are aimed at keeping the plants in an optimum state of operation. Nonetheless, the plants still remain potentially subject to possible damages to the machinery or to unforeseeable events, such as to make production unavailable with resulting financial losses.
The dedicated business units, with the help of the Procurement & Insurance department, identify possible risk scenarios, assessing appropriate risk prevention, protection and reduction initiatives, also through an appropriate insurance programme.

Information Technology Risks

In 2014, the Sorgenia Group signed a long-term contract to fully outsource all services relating to the Information & Communication Technology (ICT) area with a leading operator in the field.
The contract provides for operational management of the platforms and application services, as well as the management of all their evolutions. In particular, in 2019 the review and modification of the entire existing application map continued to support the new objectives of the Sorgenia Group.
The contract is managed by Sorgenia personnel who control and verify the contractual contents and observance of specific service levels agreed to by the parties. A governance structure that involves several company representatives (Process Owners) of various company areas with duties of liaising with the contacts specified by the outsourcer has been established.
The infrastructural systems are hosted and managed in a data centre of a leading telecommunications operator boasting high physical security protection standards, while the operating software is managed in Cloud mode.

Safety and Environment Risks

The Group has adopted procedures and models that fall under the certified integrated environment and safety management systems aimed at guaranteeing the health and safety of personnel working on the plants, in addition to that of the neighbouring communities and protection of the environment. In full observance of current legislation, these guidelines adopt universally shared international industrial standards based on the industry’s best practices.

COMPLIANCE RISKS

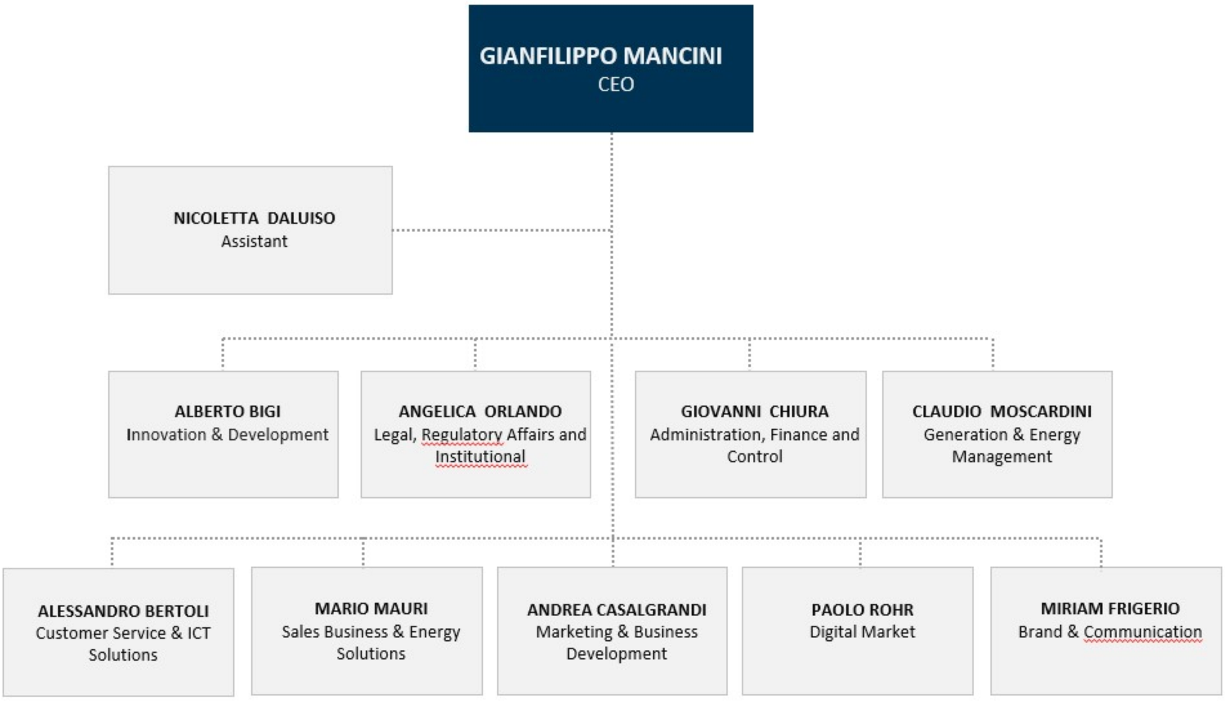
The Group operates in a strictly regulated sector that requires that national laws and rules implementing international protocols be observed.

The functions responsible for managing these risks are:

- *Institutional Affairs*, which monitors parliamentary and ministerial activities and the stages of any proposed new laws, ensuring that the relevant Group departments are kept informed*;*
- *Regulatory Affairs,* which ensures oversight of sector regulations (gas, power and environmental markets) and related application within the Group, in addition to compliance management as indicated in the antitrust model;
- *Compliance & Privacy,* which monitors the correct application of the organisational, management and control model adopted pursuant to Legislative Decree 231/2011 and manages issues relating to other compliance regulations, in particular as regards the new European data regulations on privacy (GDPR).

HUMAN RESOURCES

Organisational structure



Personnel in figures

As of December 31, 2019, the entire Sorgenia Group had 352 employees.

The breakdown by gender shows a presence of men equal to 64% of the Group's population compared to female employees. As proof of the special attention it focuses on the subject of the work-life balance, the Company has granted 11 part-time positions to female personnel (approving 100% of the requests received over the years).

As of December 31, 2019, approximately 98% of the workers were employed with an open-ended contract.

	2019			2018		
	MEN	WOMEN	TOTAL	MEN	WOMEN	TOTAL
WORKERS	20	-	**20**	18	-	**18**
OFFICE STAFF	141	93	**234**	121	82	**203**
MANAGERS	46	33	**79**	40	30	**70**
EXECUTIVES	17	2	**19**	17	2	**19**
TOTAL	224	128	**352**	196	114	**310**

The average age of employees is 39.

People strategy

For the personnel assessment and incentive process, the same Management by Objectives system (MBO process) used in the previous year is confirmed, which combines quantitative and qualitative objectives with company results, applied to all registered office employees and extended on an experimental basis also in 2019 to Central personnel.

Following a 3 years employee engagement measurement led through an internally-designed survey, Sorgenia decided in 2018 to rely on **Great Place To Work Italia** for its engagement survey: this allows us to compare ourselves with other companies and with their best practices with a view of continuous improvement. In addition, taking part in the survey conducted by Great Place To Work allows us to enhance all the activities and projects in which we are key players and to compare ourselves with the other companies in the Italian scenario in the category of *Best Workplaces Italy 2019*.

Sorgenia was awarded a prize as a **Certified Company by Great Place to Work® Italia for 2018-2019 and was classified 7th as a "Great Place to Work Italy" among the companies in the 150-499 employees' category.** In addition, Sorgenia was classified as "Best Place To Work Italy 2019" in the "Women" and "Millennials" categories, thus confirming that it is one of the best Italian companies to work for according to the opinion of its employees in general, and in particular according to female workers and young people.
Sorgenia has already reached the requirements for certification as a **Certified Company by Great Place to Work® Italia in 2019-2020.**

In 2019, Sorgenia invested heavily in Employer Branding policies through the strengthening of partnerships with the most prestigious universities throughout the country, the provision of various Work Experience projects as well as participation in the main Career Days at the main Italian universities.

Smart working

February 2018 saw the beginning of the Smart Working pilot project, which involved about 40 people and lasted 6 months. Today, the Smart Working project has been extended to the entire Sorgenia SpA and Sorgenia Trading SpA: approximately 80% of the company population that operates in staff and business functions have signed up. Employees can take advantage of smart working 1 day per week and on a voluntary basis.

Training and development

In-house training focused on both basic technical courses, many of which funded by Fondimpresa and customised for the people involved, to implement and improve the English language, Microsoft Office, Excel and Power Point, and on soft skills development courses.

In 2019, new individual coaching courses were launched for managers, in addition to new team coaching projects for certain business functions, in some cases also inter-functional, with the aim of enhancing the effectiveness and collaboration between members within the same team and interrelated teams. Alongside the activities of the team coaching in the strict sense, always supported by "business cases", with the aim of improving relations and processes, team building activities were carried out through the metaphor of music: participants tried their hand at singing and/or playing musical instruments to compose a melody.

The activities of the “O.N.E. Project” launched in September 2018 continue: a managerial development project that aims to stimulate the innovative process and create “collective intelligence”. The project initially involved top management in the development of new business innovation initiatives, then expanding its range of actions, thus reaching new participants for design activities and increasingly greater numbers of the population in terms of the use of results and active involvement.

The training course relating to soft skills, which involves all plant personnel, is continuing at the Central Offices; the path to developing leadership also continues, addressed both to the role of “plant manager” and to the professional role of the “Plant-Deputy Manager”.

In September 2019, a new training project was launched for young people between 28 and 31 years of age. This is a genuine research and innovation project from the highly innovative design developed collaboratively with the MIP – Business School Polytechnic of Milan – entitled “Embodying the Manifesto of Innovation in Sorgenia”, which involves thirty participants. The project leverages a series of strategic and innovation activities that the company has carried out in the last two years, in continuity with what was previously carried out, enriching new methods that combine research and innovation capacity, with a strong link to business issues.

Beaconforce

Since July 2018, Sorgenia has adopted the Beaconforce platform: a listening and development tool, combining Artificial Intelligence and Emotive Intelligence to create stimulating, challenging and engaging working environments.

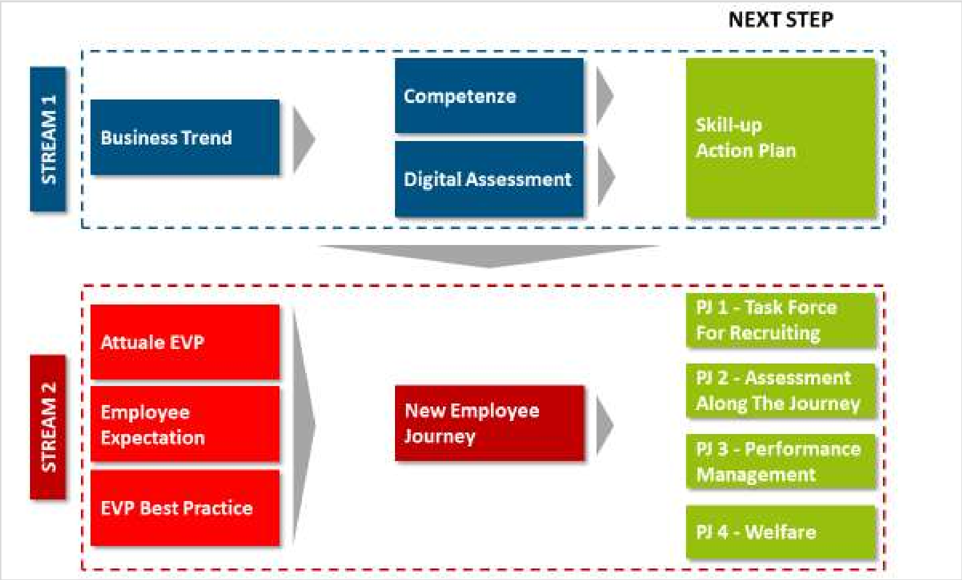
The aim of Beaconforce is to provide each person with a personal and anonymous channel to adapt the surrounding environment to their needs, a meeting point so they talk to one another and access more integrated information between them.

The Beaconforce project has been extended to the entire company population since January 2019: training activities for people managers continue so that they can have more and more instruments available to help their employees in their professional growth path.

EVP Project – Employer-Employee Value Proposition

At the beginning of 2019, a new strategic project was launched with the aim of assessing the impact that, in the medium term, the business trends of our market will have on the skills system in order to prepare a skill-up plan to tackle change; consistently, aligning the processes relating to the personal development with a new "agile" leadership model and best market practices.

The overall set-up of the project is as follows:



The **first stream** of the project concerned the potential development of the business trends of the energy market and the possible role of Sorgenia, in order to define the system of skills that will allow us to tackle the ongoing change as key players.

Thanks to this activity, we have acquired greater awareness of the skills we need to invest in and are already working on structuring new development processes.

In particular, additional training programmes were designed to accelerate the current process, with a particular focus on innovation and digital skills. We will all be required to work on our Digital Skills and we will do it through a training programme consisting of Digital Training, Digital Workshop and Digital Labs.

In the **second stream** of the project, we were questioned on the current Employer-Employee Value Proposition proposal, comparing it with the best market practices, in order to design a new one that is able to generate constant innovation, attract and retain the best talents.

Health and safety at Sorgenia

The Sorgenia Group has always focused its company culture on the health and safety of people, whether they are its own employees or contractors. It is for this reason that Sorgenia is committed to spreading and consolidating a culture of health and safety, encouraging the adoption of responsible behaviour, promoting greater attention and awareness of risks and working on the continuous improvement of *Health & Safety* standards.
Workplace safety, professional training and development, internal climate and company welfare were areas subject to significant commitment again in 2019.

The process of digitalisation of the relevant Health, Safety and Environment (HSE) processes continued at the plants. In 2019, the applications designed by Sorgenia for the management of delivery hand-overs between shift managers and the management and control of plant modifications that are combined with those already used for the management of tenders, the control of environmental and safety preparations, the analysis and sharing of accidents and near misses, the work permit for contracting companies, the complete management of the waste cycle and the training of personnel come to light. The use of innovative solutions has made it possible to improve the quality of work, control of individual processes, dematerialisation of paper documents as well as achieve high safety standards.

Safety is central to the project, currently at the phase of completion in the first Group plant, which will make it possible to drastically reduce the intervention times of the emergency team in the event of an accident involving a worker operating alone. Thanks to a tailor made app, rugged smartphones provided to personnel (mobile phones designed for those who need a device able to withstand shocks, water, dust, scratches and drops), to the indoor and outdoor georeferencing devices installed in the plant and to an innovative communications management system, the team in charge of managing emergencies will be able to assist the worker in difficulty as quickly as possible, by knowing their exact location.

But the interventions do not stop here: an augmented reality project is in the pilot phase to provide additional information and suggestions from colleagues remotely, thereby guaranteeing greater speed of interventions and the easy resolution of any problems. In this way, not only are costs lower, but information is obtained in real time on the power plants equipment.
What ensues from all this is the overall improvement of the health, safety and well-being conditions of all individuals directly and indirectly involved in the Company's growth.
A summary of the data pertaining to the accidents that occurred during the three-year period under review follows:

	2019		2018		2017	
Accidents	**TOTAL**	**1**	**TOTAL**	**3**	**TOTAL**	**2**
	men	**1**	men	**3**	men	**2**
	women	**0**	women	**0**	women	**0**
Accidents while travelling	**TOTAL**	**3**	**TOTAL**	**1**	**TOTAL**	**3**
	men	**1**	men	**1**	men	**1**
	women	**2**	women	**0**	women	**2**
Severity index[2]	**TOTAL**	**0.03**	**TOTAL**	**0.09**	**TOTAL**	**0.6**
Frequency index[3]	**TOTAL**	**1.9**	**TOTAL**	**5.78**	**TOTAL**	**4.11**

(2) Accident severity index, calculation method: (no. days of temporary disability*1,000)/hours worked. The indicator does not take into account the accidents while travelling

(3) Accident frequency index, calculation method: (no. days of temporary disability*1,000,000)/hours worked. The indicator does not take into account the accidents while travelling

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REPORT ON OPERATIONS

CONSOLIDATED FINANCIAL STATEMENTS

FINANCIAL STATEMENTS

REPORTS CORRELATED WITH THE FINANCIAL STATEMENTS

FINANCIAL DEBT RESTRUCTURING AGREEMENT

_Financial Debt Restructuring Agreement

FINANCIAL DEBT RESTRUCTURING AGREEMENT

The difficult economic and financial climate, together with a gradual worsening of the energy scenario had already, from 2013, created severe financial problems for the Sorgenia Group. This situation led to the Group undertaking a complex debt restructuring aimed at rebalancing the equity and financial position, with the signing - between Sorgenia S.p.A., Sorgenia Power S.p.A. and Sorgenia Puglia S.p.A. (the "Companies") and the related Financial Creditors - of a debt restructuring agreement pursuant to Article 182-bis of the Bankruptcy Law (the "2015 Restructuring Agreement"), which became effective on March 16, 2015.

In 2015, however, the persistence of the difficult economic and financial situation due, among other things, to the performance of the energy market - which was worse than the assumptions made in the business and financial plan underlying the 2015 Restructuring Agreement - did not allow achievement of the objectives included in the original business plan, as a result forecasting non-compliance with certain obligations envisaged in the 2015 Restructuring Agreement. The Sorgenia Group has therefore undertaken a new process to restructure financial payables, culminating in the stipulation - between Sorgenia S.p.A. and Sorgenia Power S.p.A. and the related financial creditors - since Sorgenia Puglia, in the meantime, generated sufficient financial resources to extinguish its financial payables, by making a full early repayment, in July 2017, for a total of 167 million euro - of a new debt restructuring agreement pursuant to and in accordance with Article 182-bis of the Bankruptcy Law (the "Financial Debt Restructuring Agreement"), which took effect on December 29, 2017.

The Restructuring Agreement, negotiated on a going concern basis, mainly concerned the terms and conditions of the existing debt, which improved in terms of:

- extension of the duration of financial payables;
- improvement in economic conditions and greater flexibility in repayment of debt;
- issue of a mandatory convertible bond to participating financial instruments for an amount of 180 million euro, which was subscribed and released by Sorgenia Power SpA's Financial Creditors by reclassifying a portion of the existing medium/long-term debt.

It should be noted that, as of December 31, 2019, the Group companies complied to a greater extent with the obligations envisaged by the Restructuring Agreement. In particular, from 2017 to December 2019, the companies repaid a total of approximately 489 million euro, of which 266 million euro thanks to the financial resources generated in excess (cash sweep) with respect to the provisions of the Business Plan underlying the Debt Restructuring Agreement.

It should also be noted that, thanks to the excess cash recognised on December 31, 2019, a further repayment of the debt was made in January 2020, for an amount of 91 million euro, also the latter not envisaged in the Business Plan underlying the Restructuring Agreement.

The Directors are confident that Sorgenia SpA and Sorgenia Power SpA are able to fulfill their obligations under the Restructuring Agreement based on the expectation that they will be able to achieve the results expected in Business Plans also for future years, although they are aware that the results expected in it materialize only when the hypotheses provided in it occur.

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REPORT ON OPERATIONS

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ADDITIONAL SIGNIFICANT INFORMATION

_Additional information

_Business outlook

_Proposal for allocation of the profit/(loss) of Sorgenia SpA

ADDITIONAL INFORMATION

TREASURY SHARES OF SORGENIA SPA

Pursuant to Article 2428 of the Italian Civil Code (points 3 and 4), it is reported that the Company held 415,500 treasury shares, 0.001%, on December 31, 2019, does not hold shares of parent companies and did not carry out any transactions on them during the year.

MAIN OFFICES

Registered and Administrative Office

Milan, Via Alessandro Algardi, 4 20148

SIGNIFICANT EVENTS AFTER DECEMBER 31, 2019

With reference to the Sorgenia Group's purchase and sale transaction, please refer to the information provided in the paragraph below, which comments on the business outlook.

Starting from the beginning of January 2020, the national and international scenario was characterised by the spread of CoViD-19 and the subsequent restrictions to contain it, implemented by the Government authorities of the countries concerned. These extraordinary circumstances, in terms of nature and scope, are having economic repercussions and have created a general climate of uncertainty, whose developments and associated effects are difficult to predict at present.

It should be noted that the Group, considering the sector in which it operates and the essentiality of the services provided, was not subject to the production limitations imposed by the Government and, therefore, Generation and Energy Management/Trading (GEM) activities and the Sale of electricity and gas on wholesale markets and to end customers continued with the necessary attention on employee and plant safety.

In order to overcome this difficult situation, the Directors have implemented all the necessary measures to ensure the safe operation of production plants, maintain high standards of customer service and guarantee the performance of Sorgenia's operating activities.

The company quickly reacted to the CoViD-19 emergency as regards the protection of employee health. In fact, an internal Crisis Committee was set up to best manage the situation, composed of colleagues, which meets on a daily basis. In addition, given that Sorgenia has always focussed on the digitalisation of processes and on “smart working”, remote working was authorised for employees, where possible.

With reference to the operating performance in the first few months of 2020, the following should be noted:

In the first few months of the year, the thermoelectric generation plants that operate on the basis of the free market system reported good results, in particular on the dispatching services market (DSM), which remains the most important market for the combined cycle gas turbines (CCGTs). The Modugno plant, operating under the regulated system, ensures a profit margin not subject to market fluctuations. At the date of drafting of these financial statements, therefore, the Group is recording positive results and in line with the Budget forecasts.

As regards trading activities carried out by the Group, it should be noted that operations remained contained in the first few months of the year and were carried out predominantly with financially solid counterparties that present guarantees; in addition, an attempt was made to limit the Group’s sales exposure and to minimise any transactions other than coverage of the industrial portfolio. Therefore, as of today, the economic impacts of the current scenario, characterised by elevated volatility, are contained and, nonetheless, fully in line with the Budget forecasts.

In relation to the sale of energy and gas to end customers, any possible effects of this current situation are carefully and constantly monitored, such as a reduction in sales, the deferment of collections and an increase in unpaid amounts. As regards the drop in revenues, no critical situations were recorded in relation to profit margins. Furthermore, no particularly worrying signs materialised in the first quarter regarding an increase in unpaid amounts.

As a result of the restrictions on the movement of people imposed by the Government, the activities targeted at acquiring new corporate customers by the physical network suffered a decrease which, however, in the short-term involve a subsequent decline in costs directly related to these activities, thus with a positive impact from a financial perspective, counter-balanced, however, by a reduction in the abandonment rate, as a result of the reduced activities of the sales networks of competitors. In the residential segment, given that the Company has been active in the digital sales channel for some time, no decreases were recorded with respect to the acquisition levels forecast in the Budget and, at the same time, an increase was registered in consumption by residential customers, similar to what happened at national level.

In relation to the development of new initiatives in the renewable sources sector, there was a delay in the activities planned in the Budget and a deferment of costs to the second half of the year, hence freeing up financial resources which can be used to cover any other internal Group requirements.

Lastly, at the current state of play, there are no indicators of impairment as regards the items booked to the Group’s statement of financial position.

As a result of all the circumstances reported above, the Group does not currently note any criticalities in terms of economic results in the first few months of 2020, nor from a financial tension perspective, due to the CoViD-19 emergency. As of today, the Directors do not believe there are any elements to suggest we may see significant decreases in the Group's results in the foreseeable future with respect to the Budget forecasts.

Looking forward, in light of the considerations reported previously, the Directors did not feel it necessary to revise the 2020 Budget and the cash flows expected in the foreseeable future.

In view of the circumstances commented on in detail in the previous sections, regarding:

- the expected effects of the spread of CoViD-19;
- the positive trend in 2019, in the first few months of 2020 and the Group's ability to attain the results expected in the provisional Plan underpinning the financial debt Restructuring Agreement.
- the expected completion of the acquisition of the Sorgenia Group and subsequent refinancing of bank payables;

the Directors - despite being fully aware that the results expected in the foreseeable future may only be achieved if certain events connected with the trends in the economic scenario and reference markets materialise, in addition to regulatory developments, subject owing to their very nature, to uncertainties in terms of how and when they will be realised - considered it reasonable to assume that the Company may continue to operate in the foreseeable future as an operating entity, by drafting these annual financial statements on the basis of the going concern assumption.

Sorgenia Green Solutions Srl (formerly Universal Sun Srl)

On March 16, 2020, the extraordinary shareholders' meeting of the subsidiary Universal Sun Srl resolved to change the company name to Sorgenia Green Solutions Srl. This amendment was registered with the Register of Companies on March 25, 2020.

BUSINESS OUTLOOK

In the second half of 2020, the sales process of the Sorgenia Group will be completed after Nuova Sorgenia Holding S.p.A. (NSH), on December 23, 2019, announced that it accepted the binding offer to purchase the Company formulated jointly by F2i SGR S.p.A. and Asterion Industrial Partners SGEIC SA.

Following the approval of the transaction by the Italian Authority for the protection of competition and the market and the Presidency of the Council of Ministers as part of the application of the "golden power" regulation, the purchase and sale agreement will be signed, at which time the purchase by the offerers (F2i and Asterion) of the entire capital of Sorgenia S.p.A. will be completed and, at the same time, the refinancing of the financial debt of the Sorgenia Group with regard to the banking system will be carried out, through the signing of a new bank loan obtained on the market, which will entail the full repayment of financial payables and therefore the termination of the 2017 Restructuring Agreement.

In 2020, the strategic actions set out in the Business Plan will also be implemented, with the aim of:

- Electricity generation: guaranteeing high levels of safety, reliability, efficiency and flexibility of the combined cycle gas turbine (CCGT) thermoelectric power plants, in order to take advantage of all opportunities on the Day-Ahead Market (MGP) and on the Dispatching Services Market (MSD);
- Energy Management: optimise dispatching of the generation plants and keep up adequate physical and financial coverage through transactions on the forward markets in order to protect the margins from generation and sales to end customers, and from strong volatility of the energy scenarios;
- Sales to end customers market: continue the commercial development in the market of small and medium-sized enterprises (SMEs) and "Professionals" - market segments in which Sorgenia has been operating since it was formed - and continue to grow in the Residential segment through innovative full digital offers;
- Improving operational efficiency and maintaining an extremely streamlined, efficient and flexible cost structure, in order to ensure a competitive advantage both in generation and in sales to end customers and with the aim of becoming industry *best practices* in terms of cost structure.

PROPOSAL FOR ALLOCATION OF THE PROFIT/(LOSS) OF SORGENIA SpA

Dear Shareholders,

the Financial Statements on December 31, 2019, which we are submitting for your approval, show a profit of 358 thousand euro, which we propose that you

- allocate the amount of 17 thousand euro to the Legal Reserve;
- carry forward the amount of 340 thousand euro to the following year.

Milan, March 27, 2020

for The Board of Directors

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_Consolidated statements of the Sorgenia Group

CONSOLIDATED BALANCE SHEET

EUR/000

	Notes	31/12/2019	31/12/2018
NON-CURRENT ASSETS			
Intangible assets	1	51,189	45,390
Rights of use	1	9,434	-
Tangible assets	2	969,197	986,954
Investments in companies valued at equity	3	54,520	25,000
Other equity investments	3	21	925
Non-current assets from derivative instruments	4	16	1,274
Other non-current assets	5	18,056	12,138
Deferred tax assets	6	79,934	103,977
TOTAL NON-CURRENT ASSETS		**1,182,367**	**1,175,659**
ASSETS HELD FOR SALE		**-**	**-**
CURRENT ASSETS			
Inventories	7	29,325	52,626
Current financial assets	8	6,682	7,903
Current assets from derivative instruments	9	263	28,092
Current trade receivables	10	259,718	225,891
Other current assets	11	20,422	26,663
Cash and cash equivalents	12	231,651	228,305
TOTAL CURRENT ASSETS		**548,061**	**569,480**
TOTAL ASSETS		**1,730,428**	**1,745,139**
LIABILITIES AND SHAREHOLDERS' EQUITY			
Share capital		406,677	406,677
Other retained earnings, Capital and minority reserve		(402,143)	(393,778)
Group earnings/losses carried forward		456,575	410,218
Income/(Loss) of the Group		6,256	46,356
Income/(Loss) of minority interests		-	-
TOTAL SHAREHOLDERS' EQUITY		**467,365**	**469,473**
of which:			
SHAREHOLDERS' EQUITY OF THE GROUP	**13**	**467,365**	**469,473**
NON-CURRENT LIABILITIES			
Non-current bonds	14	-	309,359
Non-current financial liabilities	14	519	487,713
Non-current financial lease liabilities	14	8,348	-
Deferred tax liabilities	15	9,792	41,971
Personnel provisions	16	1,325	1,118
Provisions for non-current risks and losses	17	40,350	30,344
TOTAL NON-CURRENT LIABILITIES		**60,334**	**870,505**
CURRENT LIABILITIES			
Current bonds	18	403,913	-
Current financial liabilities	18	474,593	72,515
Current financial lease liabilities	18	1,208	-
Current liabilities from financial hedging contracts	19	-	702
Current liabilities from derivative instruments	20	3,455	27,257
Current trade payables	21	238,642	242,394
Other current liabilities	22	39,412	31,478
Provisions for current risks and losses	23	41,506	30,815
TOTAL CURRENT LIABILITIES		**1,202,728**	**405,161**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**1,730,428**	**1,745,139**

CONSOLIDATED INCOME STATEMENT

EUR/000	Notes	31/12/2019	31/12/2018
Revenues from sales and services	24	1,565,775	1,400,878
Costs for purchases of goods; Change in Inventories	25	(1,257,770)	(1,248,705)
Costs for services	26	(90,800)	(74,305)
Personnel costs	27	(57,663)	(31,754)
Other operating income	28	59,015	89,332
Other operating costs	29	(31,350)	(13,019)
Gains/(Losses) from commodity derivatives	30	1,195	(434)
Adjustments to the value of investments valued at equity	31	29,729	-
Amortisation/depreciation, net allocations to provisions for risks and losses, and write-downs	32	(71,326)	(72,312)
OPERATING RESULT		**146,805**	**49,682**
Net financial Income/(Expense)	33	(149,473)	(37,732)
Income/(Expense) from financial derivatives	34	(1,267)	(1,909)
Adjustment of values of financial assets	35	2,085	(58)
INCOME (LOSS) BEFORE TAXES FROM OPERATING ACTIVITIES		**(1,850)**	**9,984**
INCOME (LOSS) BEFORE TAXES		**(1,850)**	**9,984**
Income taxes	36	8,106	36,373
INCOME (LOSS) AFTER TAXES FROM OPERATING ACTIVITIES		**6,256**	**46,356**
INCOME (LOSS) FOR THE PERIOD / YEAR		**6,256**	**46,356**
of which:			
Net income (loss) of the Group		6,256	46,356
Net income (loss) of minority interests		-	-

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

EUR/000	**31/12/2019**	**31/12/2018**
Income/(loss) for the year	**6,256**	**46,356**
Comprehensive income/losses that will not be subsequently reclassified to the Income Statement	-	-
Total income/losses that will not be subsequently reclassified to the Income Statement	**-**	**-**
Comprehensive income/losses that will be subsequently reclassified to the Income Statement		
- Effective part of income/(losses) of hedging derivatives	(10,655)	(3,559)
- Other adjustments to Shareholders' Equity	(265)	-
- Compr. tax effect on income/losses that will be subsequently recl. to the Income Statement	2,557	854
Total income/losses that will be subsequently reclassified to the Income Statement	**(8,363)**	**(2,705)**
Total comprehensive income/(loss)	**(2,107)**	**43,651**
of which:		
Income/(Loss) of the Group	(2,107)	43,651
Income/(Loss) of minority interests	-	-

CHANGE IN GROUP SHAREHOLDERS' EQUITY

31/12/2017 - 31/12/2018

EUR/000	Share Capital	Legal Reserve	CFH Reserve	Other reserves	Earnings/(losses) carried fwd	Income/(loss) for the year	Total
Shareholders' equity as at 31/12/2017	**406,677**	**1,816**	**4,614**	**(397,504)**	**359,142**	**43,946**	**418,691**
IFRS 15 FTA	-	-	-	-	7,338	-	7,338
Shareholders' equity at 01/01/2018 restated	**406,677**	**1,816**	**4,614**	**(397,504)**	366,480	**43,946**	**426,029**
Alloc. of income from previous year	-	-	-	-	43,946	(43,946)	-
Other changes	-	-	-	-	(207)	-	(207)
Comprehensive income/(loss) for the year	-	-	(2,705)	-	-	46,356	43,651
Total change in the year	**-**	**-**	**(2,705)**	**-**	**51,077**	**2,410**	**50,782**
Shareholders' equity as at 31/12/2018	**406,677**	**1,816**	**1,909**	**(397,504)**	**410,219**	**46,356**	**469,473**

31/12/2018 - 31/12/2019

EUR/000	Share Capital	Legal Reserve	CFH Reserve	Other reserves	Earnings/(losses) carried fwd	Income/(loss) for the year	Total
Shareholders' equity as at 31/12/2018	**406,677**	**1,816**	**1,909**	**(397,504)**	**410,219**	**46,356**	**469,473**
Alloc. of income from previous year	-	-	-	-	46,356	(46,356)	-
Effect of change in scope of consolidation	-	-	-	-	-	-	-
Other changes	-	-	-	-	-	-	-
Comprehensive income/(loss) for the year	-	-	(8,098)	(265)	-	6,256	(2,107)
Total change in the year	**-**	**-**	**(8,098)**	**(265)**	**46,356**	**(40,100)**	**(2,107)**
Shareholders' equity as at 31/12/2019*	**406,677**	**1,816**	**(6,189)**	**(397,769)**	**456,575**	**6,256**	**467,365**

*for details of the items and their changes please refer to Note 13 - Group shareholders' equity.

STATEMENT OF CASH FLOWS

The following chart shows the Consolidated Statement of Cash Flows with a breakdown by area where the cash flows are generated.

EUR/000	**31/12/2019**	**31/12/2018**
OPERATING ACTIVITY		
Net income of the Group including minority interests	6,256	46,356
of which: continuing operations	6,256	46,356
of which: discontinued operations	-	-
Adjustments:		
Amortisation, depreciation and write-downs	63,920	63,428
Net provisions and write-downs of receivables	7,227	8,884
Net provisions for sundry risks	10,691	(12,874)
Change to provision for employee leaving indemnity	128	(66)
Change to non-current provisions for risks	10,006	(93)
Other non-current assets	(6,377)	29,733
Increase/decrease in net working capital	(8,913)	23,091
Revaluation of companies valued at equity	(29,729)	-
Other adjustments for non-monetary items	(11,537)	(2,376)
Net financial income/(expense) for the year	149,473	37,732
(Loss)/Gain from sale of equity interests	-	-
Taxes for the year	(8,106)	(36,373)
Income taxes paid	(2,684)	(1,839)
Income taxes collected	8,537	-
CASH FLOW FROM OPERATING ACTIVITY	**188,895**	**155,613**
INVESTMENT ACTIVITIES		
Investments in tangible assets	(15,271)	(13,364)
Divestments of tangible assets	-	7
Investments in intangible assets	(30,191)	(24,154)
Divestments of intangible assets	51	-
Non-current financial assets	-	-
Other equity investments	(3)	(1,362)
Other non-current assets	-	-
Flow generated/(absorbed) by the acquisition of investment activities	**(45,416)**	**(38,373)**
Divestment of assets held for sale (Volterra SA sale)	100	1,500
CASH FLOW FROM INVESTMENT ACTIVITIES	**(45,316)**	**(37,373)**
FINANCING ACTIVITIES		
Non-current financial liabilities	-	-
Current financial liabilities	-	-
Non-current financial assets	-	-
Drawdown (repayment) of net financial payables	(130,596)	(44,307)
Drawdown (repayment) of net financial lease liabilities	(1,638)	-
Interest received	98	1,404
Interest paid	(8,098)	(9,588)
CASH FLOW FROM FINANCING ACTIVITIES	**(140,233)**	**(52,491)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**3,346**	**65,749**

CASH AND CASH EQUIVALENTS - BEGINNING OF PERIOD/YEAR	**228,305**	**162,556**
CASH AND CASH EQUIVALENTS - END OF PERIOD/YEAR	**231,651**	**228,305**

The item Cash and cash equivalents in the consolidated Statement of Cash Flows is made up exclusively of the positive balances of current accounts in banks and cash balances.
The cash flow from operating activities generated liquidity of 188,895 thousand euro. Investment activities absorbed liquidity for an amount of 45,316 thousand euro. During the year, payables totalling 130,596 thousand euro were repaid, mainly attributable to the Debt Restructuring Agreement for Sorgenia Power and Sorgenia SpA (for more details please refer to the paragraph "Financial Debt Restructuring Agreement").

The Group's net financial debt as of December 31, 2019 amounts to 650,231 thousand euro (632,805 thousand euro as of December 31, 2018).

EUR/000	**31/12/2019**	**31/12/2018**
Cash and cash equivalents	231,651	228,305
Current financial assets	6,682	7,903
Current payables for loans to banks	(474,593)	(72,515)
Current bonds	(403,913)	-
Current financial lease liabilities	(1,208)	-
Net liabilities from financial hedging contracts	-	(702)
TOTAL NET CURRENT FINANCIAL DEBT	**(641,381)**	**162,992**
Non-current assets from derivative instruments	16	1,274
Other non-current financial receivables	-	-
Non-current bonds	-	(309,359)
Non-current financial payables	-	(487,713)
Other non-current bank borrowings	(519)	-
Non-current financial lease liabilities	(8,348)	-
Non-current liabilities from derivative instruments	-	-
TOTAL NET NON-CURRENT FINANCIAL DEBT	**(8,850)**	**(795,797)**
NET FINANCIAL DEBT	**(650,231)**	**(632,805)**

Current net financial debt as of December 31, 2019 amounted to 641,381 thousand euro (162,992 thousand euro as of December 31, 2018) while the net non-current financial debt amounted to 8,850 thousand euro (795,797 thousand euro as of December 31, 2018).
It should be noted that the net financial debt includes the net financial assets and liabilities from the *fair value* measurement of financial derivative contracts to hedge interest rate risk, for a positive net value of 16 thousand euro on December 31, 2019 and 572 thousand euro on December 31, 2018.

The phenomena that changed the net financial debt were as follows:

- the decrease in the financial payables of the companies amounting to 85,636 thousand euro, attributable to the combined effect of the following events: *(i)* reimbursements in the form of *cash sweep* which took place in January and July 2019 for 130,384 thousand euro, set forth in the Financial Debt

Restructuring Agreement owing to the excess cash on December 31, 2018 and on June 30, 2019; partially offset *(ii)* by the recognition of the expense pertaining to 2019, in application of the measurement at amortised cost for a total of 11,033 thousand euro, and *(iii)* the expense deriving from the revision of the estimate of the payment flows of the payables in the measurement at amortised cost, carried out during 2019, to reflect the effect of the purchase and sale transaction and refinancing of the Sorgenia Group, which will involve the full repayment of the financial payables, for an amount of 33,711 thousand euro;

- the increase in the value of the bond, connected *(i)* with the accounting of interest expense on the nominal value of the bond of 3,840 thousand euro; *(ii)* the recognition of the expense pertaining to 2019, in application of the measurement at amortised cost for 10,194 thousand euro, and *(iii)* revision of the estimate of the payment flows of the bond, for an amount of 80,521 thousand euro, carried out during 2019, to reflect the effect of the purchase and sale transaction and refinancing of the Sorgenia Group, which will involve the full repayment of the bond;
- recognition of financial lease liabilities, of 9,556 thousand euro as of December 31, 2019, as a result of the adoption of new IFRS 16. The adoption of the standard entailed, at the date of first-time application (January 1, 2019), the recognition of a financial liability for an amount equal to the present value of future payments for *lease* contracts signed by Group companies;
- the increase in cash and cash equivalents, which totalled 3,346 thousand euro. The change mainly relates to the net effect of the operating cash flow generated during the year and repayments of loans made during the year.

The item “Other long-term bank borrowings” includes the financial payables, existing as of December 31, 2019, of the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl).

_Explanatory Notes to the Consolidated Financial Statements

STATEMENT OF COMPLIANCE WITH INTERNATIONAL ACCOUNTING STANDARDS

The Consolidated Financial Statements of Sorgenia Group on December 31, 2019 have been prepared in accordance with the "*International Financial Reporting Standards* – IFRS" issued by the International Accounting Standards Board (IASB), based on the text published in the Official Journal of the European Communities (OJEC), in force on December 31, 2011, as well as the provisions issued in implementation of Article 9 of Italian Legislative Decree no. 38/2005. These IFRS standards also include all revised international accounting standards (known as "IAS") and all interpretations of the *International Financial Reporting Interpretations Committee* ("IFRIC"), previously known as the *Standing Interpretations Committee* ("SIC").

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED AS FROM JANUARY 1, 2019

The following IFRS accounting standards, amendments and interpretations were applied for the first time by the Group starting from January 1, 2019:

- On January 13, 2016, the IASB published ***IFRS 16 - Leases***, to replace IAS 17 - *Leases*, as well as the interpretations *IFRIC 4 Determining whether an Arrangement contains a Lease*, SIC-15 *Operating Leases — Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease.*

  The standard provides a new definition of lease and introduces a criterion based on control (right of use) of an asset to distinguish lease agreements from service agreements, identifying the following discriminating factors of leases: identification of the asset, the right to replace it, the right to obtain substantially all the economic benefits deriving from use of the asset and, lastly, the right to direct use of the asset underlying the agreement.

  The standard establishes a single model for the recognition and measurement of *lease* contracts for the *lessee*, which envisages the recognition of the asset forming the object of the *lease*, including operating lease, in the assets with a contra-item under financial payables. On the contrary, the Standard does not provide significant changes for lessors.

  The Group chose to apply the standard retrospectively based on the *"modified retrospective approach"*, however, recognising the cumulative effect deriving from the application of the standard in shareholders' equity as of January 1, 2019 (not modifying the comparative data for 2018), in accordance with the provisions of IFRS 16:C7-C13.

  In particular, in relation to the *lease* contracts previously classified as operating leases, the Group accounted for:

- a financial liability, equal to the present value of residual future payments at the transition date, discounted by using, for each contract, the incremental borrowing rate applicable at the transition date;
- a right of use equal to the value of the financial liability at the transition date, net of any accrued income and prepaid expenses and accrued expenses and deferred income relating to the lease and recognised in the Balance Sheet at the reporting date.

The following table shows the impacts of the adoption of IFRS 16 at the transition date:

ASSETS	**Impacts at the transition date (01/01/2019)**
Non-current assets	
Right of use - Buildings	8,330
Right of use - Vehicles	278
Right of use - Other assets	506
Current assets	
Prepaid expenses	(94)
TOTAL ASSETS	**9,020**
SHAREHOLDERS' EQUITY AND LIABILITIES	
Non-current liabilities	
Financial liabilities for non-current lease	(7,900)
Current liabilities	
Financial liabilities for current lease	(1,141)
Accrued expenses	21
Shareholders' Equity	-
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**(9,020)**

It should be noted that the weighted average *incremental borrowing rate* applied to financial liabilities recognised on January 1, 2019 was 4.50%.

The value of non-current assets relating to operating lease agreements was increased by the balance of prepaid expenses recognised as of December 31, 2018 for an amount of 94 thousand euro and decreased by the balance of accrued expenses recognised as of December 31, 2018 for an amount of 21 thousand euro.

In applying IFRS 16, the Group availed itself of the exemption allowed by paragraph IFRS 16:5(a) in relation to short-term leases with reference to some property leases and vehicle leases with a duration of less than 12 months at the date of first-time application.

Likewise, the Group availed itself of the exemption granted by IFRS 16:5(b) concerning *lease* agreements for which the underlying asset is classified as a *low value asset* (i.e., the assets underlying the *lease* agreement have a fair value not exceeding 5,000 euro, when new). Contracts for which the exemption has been applied mainly fall into the following categories:

- Computers, telephones and tablets;
- Printers;
- Other electronic devices.

For these contracts, the introduction of IFRS 16 did not entail the recognition of the financial liability of the *lease* and the related right of use, but the lease instalments are recognised in the Income Statement on a straight-line basis for the duration of the respective contracts.

In addition, with reference to the transition rules, the Group used the following practical expedients available in the event the modified retrospective transition method is chosen:

- Classification of contracts that expire within 12 months from the transition date as short-term lease. For these contracts, lease instalments will be recognised in the Income Statement on a straight-line basis;
- Use of the information at the transition date for the determination of the lease term, with particular reference to the extension option and early closure.

- On December 12, 2017, the IASB published the document ***"Annual Improvements to IFRSs 2015-2017 Cycle"***, which acknowledges the amendments to some standards as part of their annual improvement process.

  The main amendments concern:

  - IFRS 3 *Business Combinations* and IFRS 11 *Joint Arrangements*: the amendment clarifies that when an entity obtains control of a *business* that represents a joint operation, the interest previously held in that business must be remeasured. However, this process is not envisaged in the case of joint control.

  - IAS 12 *Income Taxes*: the amendment clarifies that all tax effects related to dividends (including payments on financial instruments classified within shareholders' equity) should be accounted for in a manner consistent with the transaction that generated such profits (Income Statement, OCI or equity).

  - IAS 23 *Borrowing costs*: the amendment clarifies that in the event of loans that remain in place even after the qualifying asset is already ready for use or for sale, the same become part of the loans used to calculate the financing costs.

The adoption of this amendment does not have impact on the consolidated financial statements of the Group.

- On February 7, 2018, the IASB published the document "***Plan Amendment, Curtailment or Settlement (Amendments to IAS 19)***. The document clarifies how an entity must recognise a change (i.e. a *curtailment* or *settlement*) of a defined benefit plan. The amendments require the entity to update its assumptions and quantify the net liability or asset deriving from the plan. The amendments require an entity to use updated assumptions to determine *current service cost* and net interest for the remainder of the period after a plan amendment, curtailment or settlement.
The adoption of this amendment does not have impact on the consolidated financial statements of the Group.

- On October 12, 2017, the IASB published the document "***Long-term Interests in Associates and Joint Ventures (Amendments to IAS 28)***". This document clarifies the need to apply IFRS 9, including the requirements tied to *impairment*, to other long-term interests in associated companies and joint ventures for which the equity method is not applied.
The adoption of this amendment does not have impact on the consolidated financial statements of the Group.

- On June 7, 2017, the IASB published the interpretation "***Uncertainty over Income Tax Treatments (IFRIC Interpretation 23)***". The interpretation addresses the issue of uncertainties over income tax treatments. In particular, the Interpretation requires an entity to analyse the *uncertain tax treatments* (individually or collectively, depending on the characteristics), always assuming that the tax authority examines the tax position in question, having full knowledge of all relevant information. If the entity considers it unlikely that the tax authority will accept the tax treatment applied, the entity must reflect the effect of the uncertainty in measuring its current and deferred income taxes. Moreover, the document does not contain any new disclosure information but it does stress that the entity shall establish whether it will be necessary to provide information about the considerations of the management in relation to the uncertainty connected with accounting for taxes, in accordance with IAS 1.
The adoption of this amendment does not have impact on the consolidated financial statements of the Group.

- On October 12, 2017, the IASB published an amendment to **IFRS 9** "***Prepayment Features with Negative Compensation***. This document specifies that instruments providing an early repayment could pass the "SPPI" *(Solely Payments of Principal and Interest*) test even if the *reasonable additional compensation* to be paid in case of advance repayment is a *negative compensation* for the lender.

The adoption of this amendment does not have impact on the consolidated financial statements of the Group.

IFRS AND IFRIC ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BY THE EUROPEAN UNION, WHICH ARE NOT YET REQUIRED TO BE APPLIED AND NOT ADOPTED IN ADVANCE BY THE GROUP ON DECEMBER 31, 2019

- On October 31, 2018, the IASB published the document ***"Definition of Material (Amendments to IAS 1 and IAS 8)"***. The document introduced a change to the definition of "relevant" contained in IAS 1 – *Presentation of Financial Statements* and IAS 8 – *Accounting Policies, Changes in Accounting Estimates and Errors.* The objective of this amendment is to clarify the definition of "relevant" and introduce the concept of *"obscured information"* alongside the omitted or incorrect information already present in the two standards subject to amendment. The amendment clarifies that an item of information is "obscured" if it has been described in such a way as to produce for primary readers of a set of Financial Statements a similar effect to the one that would have been produced if this item of information had been omitted or incorrect.
  The amendments introduced were endorsed on November 29, 2019 and apply to all transactions after January 1, 2020.
  The Directors do not expect this amendment to have a significant effect on the consolidated financial statements of the Group.

- On March 29, 2018, the IASB published an amendment to *"**References to the Conceptual Framework in IFRS Standards**"*. The amendment is effective for periods starting on or after January 1, 2020, but early application is permitted.
  The Conceptual Framework defines the fundamental concepts for financial disclosure and guides the Board in developing IFRS. The document helps to ensure that the standards are conceptually consistent and that similar transactions are treated in the same way, so as to provide useful information for investors, lenders and other creditors.
  The Conceptual Framework helps companies to develop accounting standards when no IFRS standard is applicable to a particular transaction and, more generally speaking, helps interested parties to understand and interpret the standards.

- On September 26, 2019, the IASB published the amendment called "***Amendments to IFRS 9, IAS 39 and IFRS 7: Interest Rate Benchmark Reform***". Said amendment modifies IFRS 9 - *Financial Instruments* and IAS 39 - *Financial Instruments: Recognition and Measurement* aside from IFRS 7 - *Financial Instruments: Disclosures*. In particular, the amendment modifies some of the requirements set forth for the application of hedge accounting, making provision for temporary exemptions to these, in order to mitigate the impact of the uncertainty of the reform of the IBOR (still in progress) on the future cash flows in the period prior to its completion. The amendment also requires companies to provide additional information in the financial statements on their hedging relations that are directly concerned by the uncertainties generated by the reform and to which the aforementioned exemptions apply.

The amendments entry into force from January 1, 2020, but the companies can choose to apply it early.

The Directors do not expect the adoption of this amendment to have any impact on the consolidated financial statements of the Group.

IFRS ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

At the reference date of this document, the relevant bodies of the European Union have not yet completed the endorsement process necessary for adoption of the amendments and of the principles described below.

- On October 22, 2018, the IASB published the document ***"Definition of a Business (Amendments to IFRS 3)".*** The document provides some clarifications regarding the definition of a business for the purposes of the correct application of IFRS 3. In particular, the amendment clarifies that, while a business usually produces an output, the presence of an output is not strictly necessary to identify a business in the presence of an integrated set of activities/processes and assets. However, to meet the definition of business, an integrated set of activities/processes and assets must include, as a minimum, an input and a substantial process that significantly contributes to the ability to create output. To this end, the IASB replaced the term "ability to create output" with "ability to contribute to the creation of output" to clarify that a business can also exist without the presence of all the inputs and processes needed to create an output.

  The amendment also introduced an optional test (*"concentration test"*), which makes it possible to exclude the presence of a business if the price paid essentially relates to a single asset or group of assets. The amendments apply to all *business combinations* and acquisitions of assets after January 1, 2020, but early application is permitted.

  The Directors do not expect the adoption of this amendment to have any impact on the consolidated financial statements of the Group.

GENERAL CRITERIA

The Consolidated Financial Statements have been prepared on the assumption of going concern.
The Group's financial statements were drafted on the basis of the going concern assumption, based on the considerations reported in subsequent paragraphs “Financial Debt Restructuring Agreement”, “Significant events in the year” and “Significant events after 31 December 2019”.

FINANCIAL DEBT RESTRUCTURING AGREEMENT

The difficult economic and financial climate, together with a gradual worsening of the energy scenario had already, from 2013, created severe financial problems for the Sorgenia Group. This situation led to the Group undertaking a complex debt restructuring aimed at rebalancing the equity and financial position, with the signing - between Sorgenia S.p.A., Sorgenia Power S.p.A. and Sorgenia Puglia S.p.A. (the “Companies”) and the related Financial Creditors - of a debt restructuring agreement pursuant to Article 182-bis of the Bankruptcy Law (the “2015 Restructuring Agreement”), which became effective on March 16, 2015.

In 2015, however, the persistence of the difficult economic and financial situation due, among other things, to the performance of the energy market - which was worse than the assumptions made in the business and financial plan underlying the 2015 Restructuring Agreement - did not allow achievement of the objectives that had been outlined in the original business plan, as a result forecasting non-compliance with certain obligations envisaged in the 2015 Restructuring Agreement. The Sorgenia Group has therefore undertaken a new process to restructure financial payables, culminating in the stipulation - between Sorgenia S.p.A. and Sorgenia Power S.p.A. and the related financial creditors - whilst Sorgenia Puglia, in the meantime, generated sufficient financial resources to extinguish its financial payables, by making a full early repayment, in July 2017, for a total of 167 million euro - of a new debt restructuring agreement pursuant to and in accordance with Article 182-bis of the Bankruptcy Law (the “Financial Debt Restructuring Agreement”), which took effect on December 29, 2017.

The Restructuring Agreement, negotiated on a going concern basis, mainly concerned the terms and conditions of the existing debt, which improved in terms of:

- extension of the duration of financial payables;
- improvement in economic conditions and greater flexibility in repayment of debt;
- issue of a mandatory convertible bond to participating financial instruments for an amount of 180 million euro, which was subscribed and released by Sorgenia Power SpA’s Financial Creditors by reclassifying a portion of the existing medium/long-term debt.

As at the date of these consolidated financial statements, the Group companies complied to a greater degree with the obligations envisaged by the Restructuring Agreement. In particular, from 2017 to December 2019, the companies repaid a total of approximately 489 million euro, of which 266 million euro thanks to the financial resources generated in excess (cash sweep) with respect to the provisions of the Business Plan underlying the Debt Restructuring Agreement.

It should also be noted that, thanks to the excess cash recognised as of December 31, 2019, a further repayment of the debt was made in January 2020, for an amount of 91 million euro, also the latter not envisaged in the Business Plan underlying the Restructuring Agreement.

The Directors are confident that Sorgenia SpA and Sorgenia Power SpA are able to fulfill their obligations under the Restructuring Agreement based on the expectation that they will be able to achieve the results expected in Business Plans also for future years, although they are aware that the results expected in it materialize only when the hypotheses provided in it occur.

SIGNIFICANT EVENTS OF THE YEAR

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Competitive procedure for the acquisition of Sorgenia S.p.A.

At the end of 2018, in order to identify the opportunities for growth of the Sorgenia Group (hereinafter “the Group”), also through the change of the shareholding structure, Nuova Sorgenia Holding S.p.A. - Group controlling shareholder (whose shareholders are Banco BPM, Banca Intesa, Monte dei Paschi di Siena, Ubi and UniCredit) - gave an advisory mandate to independent professionals.

After assessing the offers received, on December 23, 2019 Nuova Sorgenia Holding S.p.A. announced that it accepted the binding purchase offer of the Group formulated jointly by F2i SGR S.p.A. (hereinafter “F2i”), independent Italian manager of infrastructural funds, and by Asterion Industrial Partners SGEIC SA (hereinafter “Asterion”), an independent Spanish company specialised in infrastructural investments in Europe.

Based on the binding purchase offer, the Group launched activities targeted at signing the preliminary purchase and sale agreement, which was expected to be finalised by the end of April 2020. As a result of some subsequent events that materialised, including the spread of CoViD-19 and the redefinition of some terms of the refinancing contract, the preliminary purchase and sale agreement of the Group was signed on June 3, 2020. Said agreement will be executed on unconditional obtainment of approval of the transaction by the Italian Authority for the protection of competition and the market and the Presidency of the Council of Ministers as part of the application of the “golden power” regulation. These authorities have a period equivalent to 30 calendar days and 45 working days respectively to express a judgment, except where there is a need for an in-depth investigation.

Following obtainment of the above authorisations, the purchase and sale agreement will be signed, at which time the purchase by the offerers (F2i and Asterion) of the entire capital of Sorgenia S.p.A. will be completed and, at the same time, the refinancing of the financial debt of the Sorgenia Group with regard to the banking system will be carried out, through the signing of a new bank loan obtained on the market, which will entail the full repayment of financial payables and therefore the termination of the 2017 Restructuring Agreement.

SIGNIFICANT EVENTS AFTER DECEMBER 31, 2019

With reference to the Sorgenia Group's purchase and sale transaction, please refer to the information provided in the previous paragraph "Significant events during the year".

Starting from the beginning of January 2020, the national and international scenario was characterised by the spread of CoViD-19 and the subsequent restrictions to contain it, implemented by the Government authorities of the countries concerned. These extraordinary circumstances, in terms of nature and scope, are having economic repercussions and have created a general climate of uncertainty, whose developments and associated effects are difficult to predict at present.

It should be noted that the Group, considering the sector in which it operates and the essentiality of the services provided, was not subject to the production limitations imposed by the Government and, therefore, Generation and Energy Management/Trading (GEM) activities and the Sale of electricity and gas on wholesale markets and to end customers continued with the necessary attention on employee and plant safety.

In order to overcome this difficult situation, the Directors have implemented all the necessary measures to ensure the safe operation of production plants, maintain high standards of customer service and guarantee the performance of Sorgenia's operating activities.

The company quickly reacted to the CoViD-19 emergency as regards the protection of employee health. In fact, an internal Crisis Committee was set up to best manage the situation, composed of colleagues, which meets on a daily basis. In addition, given that Sorgenia has always focussed on the digitalisation of processes and on "smart working", remote working was authorised for employees, where possible.

With reference to the operating performance in the first few months of 2020, the following should be noted:

In the first few months of the year, the thermoelectric generation plants that operate on the basis of the free market system reported good results, in particular on the dispatching services market (DSM), which remains the most important market for the combined cycle gas turbines (CCGTs). The Modugno plant, operating under the regulated system, ensures a profit margin not subject to market fluctuations. At the date of drafting of these financial statements, therefore, the Group is recording positive results and in line with the Budget forecasts.

As regards trading activities carried out by the Group, it should be noted that operations remained contained in the first few months of the year and were carried out predominantly with financially solid counterparties that present guarantees; in addition, an attempt was made to limit the Group's sales exposure and to minimise any transactions other than coverage of the industrial portfolio. Therefore, as of today, the

economic impacts of the current scenario, characterised by elevated volatility, are contained and, nonetheless, fully in line with the Budget forecasts.
In relation to the sale of energy and gas to end customers, any possible effects of this current situation are carefully and constantly monitored, such as a reduction in sales, the deferment of collections and an increase in unpaid amounts. As regards the drop in revenues, no critical situations were recorded in relation to profit margins. Furthermore, no particularly worrying signs materialised in the first quarter regarding an increase in unpaid amounts.
As a result of the restrictions on the movement of people imposed by the Government, the activities targeted at acquiring new corporate customers by the physical network suffered a decrease which, however, in the short-term involve a subsequent decline in costs directly related to these activities, thus with a positive impact from a financial perspective, counter-balanced, however, by a reduction in the abandonment rate, as a result of the reduced activities of the sales networks of competitors. In the residential segment, given that the Company has been active in the digital sales channel for some time, no decreases were recorded with respect to the acquisition levels forecast in the Budget and, at the same time, an increase was registered in consumption by residential customers, similar to what happened at national level.
In relation to the development of new initiatives in the renewable sources sector, there was a delay in the activities planned in the Budget and a deferment of costs to the second half of the year, hence freeing up financial resources which can be used to cover any other internal Group requirements.
Lastly, at the current state of play, there are no indicators of impairment as regards the items booked to the Group's statement of financial position.
As a result of all the circumstances reported above, the Group does not currently note any criticalities in terms of economic results in the first few months of 2020, nor from a financial tension perspective, due to the CoViD-19 emergency. As of today, the Directors do not believe there are any elements to suggest we may see significant decreases in the Group's results in the foreseeable future with respect to the Budget forecasts.
Looking forward, in light of the considerations reported previously, the Directors did not feel it necessary to revise the 2020 Budget and the cash flows expected in the foreseeable future.
In view of the circumstances commented on in detail in the previous sections, regarding:

- the expected effects of the spread of CoViD-19;
- the positive trend in 2019, in the first few months of 2020 and the Group's ability to attain the results expected in the provisional Plan underpinning the financial debt Restructuring Agreement.
- the expected completion of the acquisition of the Sorgenia Group and subsequent refinancing of bank payables;

the Directors - despite being fully aware that the results expected in the foreseeable future may only be achieved if certain events connected with the trends in the economic scenario and reference markets materialise, in addition to regulatory developments, subject owing to their very nature, to uncertainties in terms of how and when they will be realised - considered it reasonable to assume that the Company may continue to operate in the foreseeable future as an operating entity, by drafting these annual financial statements on the basis of the going concern assumption.

FINANCIAL STATEMENTS

The Consolidated Financial Statements of the Sorgenia Group on December 31, 2019 consist of the Consolidated Statement of Financial Position, Consolidated Income Statement, Consolidated Statement of Comprehensive Income, Consolidated Statement of Cash Flows, Statement of Changes in Consolidated Equity and the associated notes. The Consolidated Financial Statements have been drawn up in thousands of euro without any decimals, except where stated otherwise; likewise, the comments on the individual items of the various statements contained in the explanatory notes are also expressed in thousands of euro.
The Financial Statements used for the consolidation are those prepared by the subsidiaries at December 31, 2019, amended, where necessary, to bring them into line with the accounting principles of the Group, which comply with international accounting standards.
These Consolidated Financial Statements have been audited for legal purposes by Deloitte & Touche SpA.
Regarding the form in which the Consolidated Financial Statements of the Group are presented, the Group has opted to present the following types of schedules:

Consolidated Statement of Financial Position

The Consolidated Statement of Financial Position is presented in two sections with a separate indication of the assets and liabilities and shareholders' equity.
Assets and liabilities are, in turn, shown in the Consolidated Financial Statements according to whether they are classified as current or non-current.
An asset/liability is classified as current when it meets one of the following criteria:

- it is expected to be realised/extinguished or sold or utilised in the normal operating cycle *or*
- is held mainly for trading purposes *or*
- it is expected to be realized/extinguished within twelve months of the period end.

If none of these conditions are met, the assets/liabilities are classified as non-current.
Lastly, a liability is classified as current when the entity does not have an unconditional right to defer settlement of the liability for at least 12 months from the year end.

Consolidated Income Statement

The Consolidated Income Statement is presented with a classification according to type of entry and presents the following consolidated interim results:

- Operating result;
- Income (Loss) before taxes from operating activity;

- Income (Loss) before taxes;
- Income (Loss) after taxes from operating activity;
- Net income (loss) for the year;
- Net income (loss) of the Group;
- Net income (loss) of minority interests.

Consolidated Statement of Comprehensive Income

The Consolidated Statement of Comprehensive Income includes all of the changes in Other comprehensive income (losses) which took place during the year, generated by transactions other than those carried out with shareholders and on the basis of the specific IAS/IFRS. The Group has opted to represent these changes in a separate statement from the Consolidated Income Statement.
Changes in Other comprehensive income (losses) are shown separately from the related tax effects.

Consolidated Statement of Cash Flows

The Consolidated Statement of Cash Flows is presented with a breakdown by areas where the cash flows are generated, as indicated in international accounting standards.
The Consolidated Statement of Cash Flows has been prepared using the indirect method.

Statement of Changes in Consolidated Equity

The Statement of Changes in Consolidated Equity is prepared as required by international accounting standards with an indication of the result for the year and of any other change that did not affect the Income Statement, but was posted directly to Other consolidated comprehensive income/(losses), with a separate indication of the cash flows relating to cash flow hedge reserves based on specific IAS/IFRS accounting standards, as well as transactions with shareholders in their specific role as shareholders.

CONSOLIDATION METHODS

The Consolidated Financial Statements include the Financial Statements of the Parent Company Sorgenia SpA and the companies over which the former exercises direct, indirect, or de facto control. These companies are fully consolidated from the date of their acquisition or from the date on which control is acquired.

In this case, the assets, liabilities, income, and expense of companies being consolidated are included in Consolidated Financial Statements on a line-by-line basis. The carrying amount of equity investments is eliminated against the corresponding portion held in the shareholders' equity of the investee companies.

The identifiable assets and liabilities acquired that meet the conditions for recognition are accounted for at their *fair value* on the date of acquisition of control. Any positive difference between the acquisition cost and the *fair value* of the portion of equity acquired that is attributable to the Group is accounted for as goodwill or, if negative, recognised to the Income Statement.

Taking advantage of the option provided in IFRS 3, these assets and liabilities can be allocated on a preliminary basis by the end of the year in which the transaction takes place, after which the values assigned temporarily can be adjusted within twelve months of the date of acquisition of control.

Receivables, payables, income, and expense relating to transactions carried out between companies included in the consolidation are eliminated. Gains on transactions between the various companies on values that are included in the assets of the Group are eliminated. Gains on the sale of equity investments in consolidated companies, without any transfer of control, are recognised to the Income Statement for the amount corresponding to the difference between the selling price and the corresponding portion of the equity sold (known as the *"Parent entity extension method*").

Companies controlled jointly with other shareholders and associates over which a significant influence is exercised are valued using the equity method. The carrying amount of these investments is therefore adjusted to take into account the economic results of the investee company as well as any changes in its shareholders' equity.

The portions of shareholders' equity and the result attributable to minority shareholders, where present, are shown separately in the Balance Sheet and Income Statement, respectively.

Companies controlled jointly with other shareholders and associates over which a significant influence is exercised are valued using the equity method. The carrying amount of these investments is therefore adjusted to take into account the economic results of the investee company as well as any changes in its shareholders' equity.

The assets and liabilities of foreign companies included in the consolidation that are expressed in a currency other than the euro, where present, are translated at the period-end exchange rate for asset/liability items. Income and expense items are translated at the average exchange rate for the year and shareholders' equity items are translated at historical exchange rates.

Any conversion differences are recognised to shareholders' equity, where they are shown separately in a specific reserve.

The currency conversion reserve is recognised to the Income Statement when the investment is sold or when the capital invested is reimbursed.

On December 31, 2019, the assets and liabilities of all consolidated companies are expressed in euro.

SCOPE OF CONSOLIDATION AT DECEMBER 31, 2019

Companies consolidated on a line-by-line basis

Company name	Percentage of ownership for consolidation purposes			Consolidation/measurement method
	direct	indirect	total	
Energia Italiana SpA	100.00%		100.00%	Line-by-line
Sorgenia Power SpA	100.00%		100.00%	Line-by-line
Sorgenia Puglia SpA	100.00%		100.00%	Line-by-line
Sorgenia Trading SpA	100.00%		100.00%	Line-by-line
Sorgenia Fiber Srl	100.00%		100.00%	Line-by-line
Universal Sun Srl (now Sorgenia Green Solution Srl)	100.00%*		100.00%	Line-by-line
Sorgenia Sviluppo Srl (formerly Sorgenia Hydro Srl)	100.00%		100.00%	Line-by-line
Sorgenia Hydro Power Srl		100.00%	100.00%	Line-by-line
Sorgenia Bio Power Srl		100.00%	100.00%	Line-by-line
Sorgenia Renewables Srl		100.00%	100.00%	Line-by-line
Sorgenia Le Cascinelle Srl		100.00%	100.00%	Line-by-line
Sorgenia Geothermal Srl		100.00%	100.00%	Line-by-line

* Reference should be made to the paragraph “Business combinations during the reference period”

Companies valued using the equity method

Company name	Percentage of ownership for consolidation purposes			Consolidation/measurement method
	direct	indirect	total	
Fin Gas Srl	50.00%		50.00%	Shareholders’ Equity
LNG Med Gas Terminal Srl		35.39%	35.39%	Shareholders’ Equity
Tirreno Power SpA		50.00%	50.00%	Shareholders’ Equity

Other non-consolidated companies

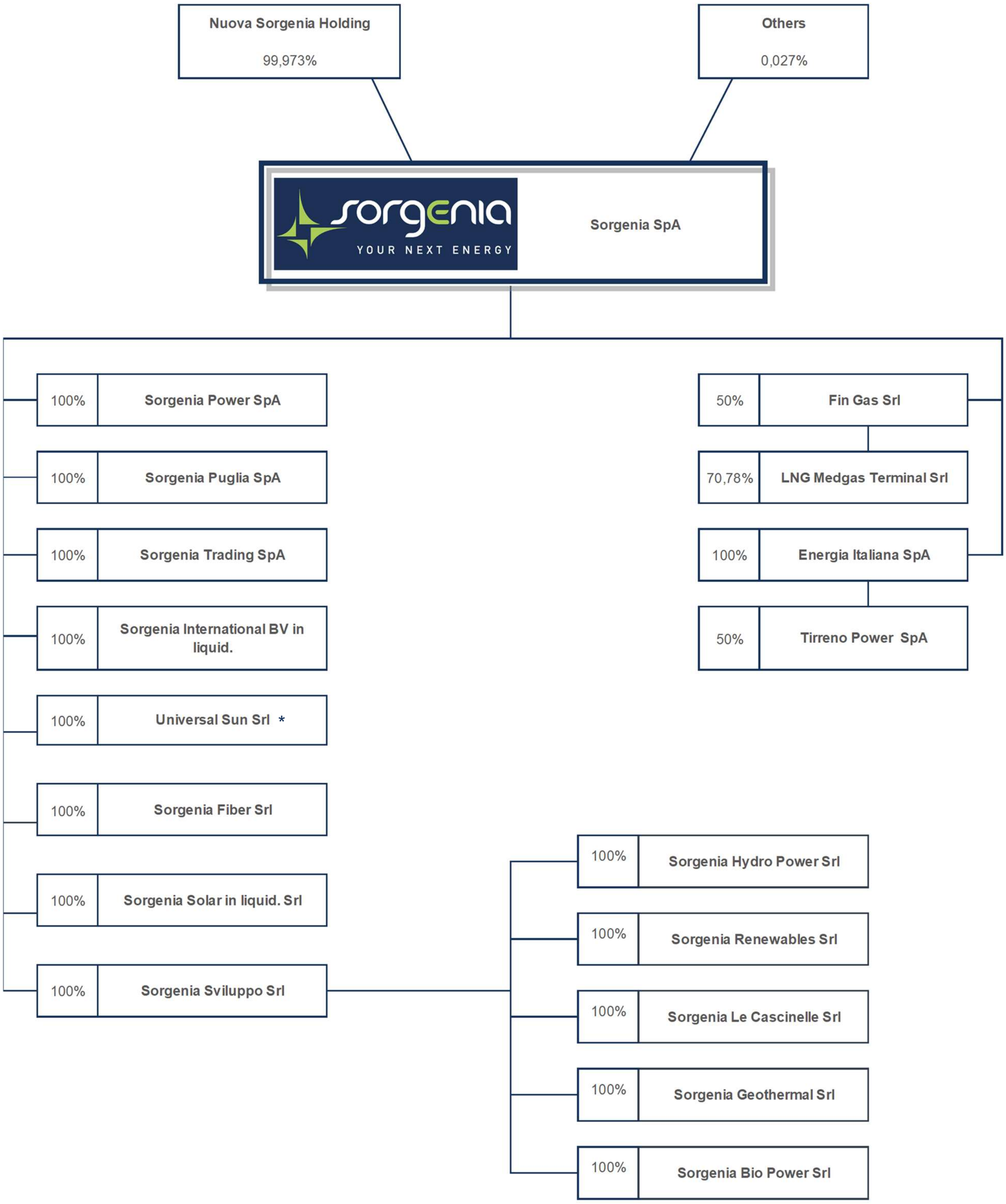
Company name	Percentage of ownership for consolidation purposes		
	direct	indirect	total
Sorgenia Solar Srl	100.00%	-	100.00%
Sorgenia International BV in liquidation	100.00%	-	100.00%

In 2019, the Group recorded, compared to December 31, 2018, the inclusion in the consolidation area of the companies listed below:

- Universal Sun Srl (now Sorgenia Green Solutions Srl), of which a stake of 67% was first acquired in December 2018, then, 100% in September 2019, consolidated on a line-by-line basis from 2019;

- Sorgenia Fiber Srl; established on July 9, 2019, with the goal of allowing the Group to operate in the market for the creation, development and installation of telecommunications and electronic communication networks and systems, both fixed and mobile.

The following table shows the Group's shareholding in its entirety as of December 31, 2019.



*Now Sorgenia Green Solutions

ACCOUNTING POLICIES

CHANGES IN ACCOUNTING POLICIES

The measurement criteria adopted in the preparation of the Consolidated Financial Statements on December 31, 2019 comply with those used for the Consolidated Financial Statements on December 31, 2018, with the exception of the international accounting standards that came into force on January 1, 2019, already illustrated in the section “Statement of compliance with international accounting standards”. In particular, for the purposes of the Consolidated Financial Statements on December 31, 2019, the provisions of IFRS 16 are relevant, whose effects are reported in the “Statement of compliance with international accounting standards” of this document and in the comments on the items "Rights of use" and "Financial lease liabilities".

INTANGIBLE ASSETS

An intangible asset is an “identifiable non-monetary asset without physical substance”, which may have a finite or an indefinite useful life. It is considered as having an indefinite useful life when an analysis of the relevant factors shows that it is impossible to establish the year up to which the asset is expected to generate net positive cash flows for the Group.
Intangible assets are recognised at purchase or internal production cost when it is likely that the use of such assets will give rise to future economic benefits and their cost can be reliably estimated.

Concessions, licenses, trademarks and similar rights

Concessions are recorded at their purchase cost.
The item also includes costs for the external acquisition of software.

Rights of use and Financial lease liabilities

The item “rights of use” includes the value of assets represented by rights of use of assets held through *lease* agreements, accounted for in accordance with the provisions of the new IFRS 16, adopted by the Group as from January 1, 2019.

By applying IFRS 16 to all *lease* agreements (with the exception of what is reported below), the Group:

- recognises the right of use of the asset and the *lease* payable in the statement of financial position, initially at the present value of future *lease payments*;

- recognises the amortisation of the right of use of the asset and the interest of the liability deriving from the *lease* in the income statement;
- subdivides the total amount paid between principal (recognised in the cash flow deriving from financial activities) and interest (booked to the cash flow deriving from operating activities) in the statement of cash flows.

Following the adoption of IFRS 16, the item "right of use" of the statement of financial position represents the value of the assets initially booked at the present value of future *lease payments*.

The right of use is amortised systematically at the lower of the *lease term* and the residual useful life of the underlying asset. The start of amortisation coincides with the start of effectiveness of the *lease*.

The financial liability deriving from the *lease* is initially recognised at the present value of future payments at the date of effectiveness of the agreement, discounted at the implicit rate of the *lease*. If the established rate cannot be readily determined, the rate used will be the marginal borrowing rate of the lessee.
Following initial recognition, by applying the amortised cost method for the measurement of the *lease* liability, the book value of said liability is increased by the interest on the same (using the effective interest method) and decreased to take account of the payments made on the basis of the *lease* agreement. Liabilities deriving from *leases* to be settled within 12 months are booked under current liabilities, while those to be settled after 12 months are classified under non-current liabilities.

The Group redetermines the balance of liabilities deriving from *leases* (and carries out an adjustment of the corresponding value of the right of use) if:

- the duration of the *lease* changes or there is a change in the measurement of the option right during the year, in that case, the liability deriving from the *lease* is redetermined by discounting the new *lease* payments at the revised discount rate.
- the value of the payments of the *lease* changes as a result of modifications to indexes or rates or the amount of the guarantees for the expected residual value changes; in these cases, the liability deriving from the *lease* is redetermined by discounting the new payments of the *lease* at the initial discount rate (unless the payments of the *lease* agreement change following a fluctuation in the variable interest rates; in these cases, the revised discount rate is used.
- a *lease* agreement has been modified and the change does not fall under the cases for the recognition of a separate agreement, in these cases, the liability deriving from the *lease* is redetermined by discounting the revised payments of the *lease* at the revised interest rate.

For *short-term leases* with a duration not exceeding 12 months and for *leases* for *low-value assets*, for which the value of the asset, when new, does not exceed 5,000 euro, the Group has opted to recognise *lease* expenses on a straight-line basis, as permitted by IFRS 16. These costs are shown under other operating costs in the income statement.

As set forth in IFRS 16, the Company has opted to present *lease* assets and liabilities deriving from *leases* separately from other assets and liabilities in the statement of financial position.

Other intangible assets

This category includes:

- the expenses incurred for easements (rights of way), which can have both a finite or indefinite useful life. Where these are identifiable as having a finite useful life, they are amortised over the period of their duration;
- the expenses incurred for the activation of new contracts ("*Cost to acquire*" – *CTA*) with end customers; "*Cost to acquire"* are amortised on the basis of the average duration of permanence of end customers, broken down on the basis of homogeneous characteristics;
- the costs directly related to the design of customised software where such costs are specifically identifiable, can be controlled by the Group, and are able to generate future economic benefits which exceed the cost incurred.

Amortisation of intangible assets

Amortisation of intangible assets with a finite useful life is calculated on a straight-line basis over the estimated useful life of the asset and is reviewed at least once a year. Any changes in amortisation criteria are applied prospectively.
Amortisation begins when the intangible asset is available for use. The estimated useful life of the main intangible assets is shown below.
Intangible assets with an indefinite useful life are not amortised.
The estimated useful life of the main intangible assets is shown below.

INTANGIBLE ASSETS	TYPE OF USEFUL LIFE	METHOD OF AMORTISATION
Concessions, licences, trademarks		
Concessions	Finite	Contract duration
Other intangible assets		
Easements	Indefinite/finite	Indefinite/contract duration
Expenses for new customers activation	Finite	Average duration of permanence of end customers
Software	Finite	3/5 years

TANGIBLE ASSETS

Property, plant and equipment are recognised at historical cost, including any directly attributable ancillary costs which may be necessary to prepare the asset for the use for which it was purchased. This cost is increased by the present value of the estimated cost of site clearance when there is a legal or constructive (i.e. implicit) obligation to decommission the asset. When a significant period of time is needed to prepare

the asset for use, the purchase or production cost includes the financial expense incurred during the time needed to prepare it for use.
Any costs incurred after acquisition are recognised as an increase in the carrying amount of the item to which they refer, when it is likely that the future benefits resulting from replacement of part of an item of property, plant and machinery will go to the Group and the cost involved can be reliably determined.
All other costs are recognised to the Income Statement during the year in which they are incurred.
When significant elements of property, plant and machinery have been identified as having different useful lives, they are recorded separately and depreciated accordingly.
The costs incurred for routine maintenance carried out at regular intervals are allocated to the assets to which they refer and are depreciated over their residual useful life.
Costs for replacing all or part of an asset are recognised as an increase in the value of the asset concerned and are depreciated over its useful life. The net carrying amount of the item replaced is reversed to the Income Statement and any capital gain or loss is recognised.

Depreciation of tangible assets

Property, plant and equipment are shown net of accumulated depreciation and any impairment adjustments, determined as explained below. Depreciation is calculated on a straight-line basis over the estimated useful life of the asset, which is reviewed once a year. Any changes are reflected prospectively. Depreciation begins when the asset is ready for use.
The economic and technical useful life of each category of tangible assets is represented by the following rates:

TANGIBLE ASSETS	USEFUL LIFE (YEARS)
Land	-
Buildings	25-40
Plant and machinery	4-40
Industrial and commercial equipment	3-17
Other assets	3-10

The value of land is shown separately from the value of the property built on it and is not subject to depreciation.
Combined cycle gas plants (CCGT), from 2018, are amortised over the economic-technical useful life of 40 years, as a result of the assessments carried out by the Group with the support of an independent expert of primary standing specialised in the energy sector.

TREASURY SHARES

Treasury shares are shown as a deduction from shareholders' equity. The original cost of the shares and the proceeds of any subsequent sales are recognised as changes in equity.

INVENTORIES

Inventories are measured at the lower of weighted average cost, including ancillary charges, and their estimated realisable value based on market trends.
Inventory write-downs are charged to specific provisions, which are then deducted from the value of the assets in the Balance Sheet.

INVESTMENTS VALUED AT EQUITY

Investments in joint ventures and associates on which considerable influence is exercised are measured using the equity method. This method applies to Tirreno Power SpA and Fingas Srl and to all their subsidiaries and associates.

INVESTMENTS IN SUBSIDIARIES

The other equity investments include subsidiaries given that they do not meet the criteria to be consolidated (these relate to companies in liquidation). For this reason, equity investments are accounted as financial assets, based on the provisions of IFRS 9. The same standard establishes that, when a financial asset is recognised for the first time, it must be booked at *fair value* and recorded in the income statement. If it is not possible to quantify the *fair value* of this category of equity investments, they are measured at cost, net of impairment.

OTHER NON-CURRENT RECEIVABLES

These are measured at amortised cost using the effective interest rate.

CURRENT TRADE RECEIVABLES

Receivables are initially recognised at the *fair value* of the amount to be received, which normally corresponds to the nominal value indicated in the invoice, adjusted (where necessary) to the presumed realisable value by drawing on a provision for the write-down of receivables for the adjustment of nominal values. The provision for the write-down of receivables reflects the estimates of expected losses connected to the Group's customer portfolio, based on the *expected loss* model envisaged by IFRS 9.

Receivables that are factored on a non-recourse basis, as a result of which substantially all of the risks and rewards of ownership are transferred on a definitive basis to the transferee, are derecognised at the time the transfer takes pace.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments are initially recognised at *fair value* on the date they are stipulated.
At the start of a hedging transaction, the Group formally designates and documents the hedging transaction to which it intends to apply *hedge accounting*, including its risk management objectives and the strategy that it is pursuing. The documentation includes identification of the hedging instrument, the element or transaction that is to be hedged, the nature of the risk and the procedures that the Group intends to use to assess the effectiveness of the hedge in offsetting the exposure to changes in the *fair value* of the hedged element or the cash flows attributable to the risk being hedged.
The hedges are expected to be highly effective in compensating for the exposure of the hedged element to changes in *fair value* or in the cash flows attributable to the risk being hedged. The effectiveness of hedges is assessed on a regular basis over the years in which hedges are designated as such.
Transactions that satisfy the criteria for *hedge accounting* are accounted for as follows:

Fair value hedges

If a derivative financial instrument is designated as a hedge of exposure to changes in the *fair value* of an asset or liability attributable to a particular risk, the gain or loss resulting from subsequent changes in the *fair value* of the hedging instrument is recognised to the Income Statement. The gain or loss resulting from the adjustment of the *fair value* of the hedged item, for the part pertaining to the risk being hedged, changes the carrying amount of the item in question and is recognised to the Income Statement.

Cash flow hedges

If a derivative financial instrument is designated as a hedge of exposure to changes in the cash flow of an asset or liability recorded in the Financial Statements or of a transaction that is seen as highly probable, the effective part of the gains or losses resulting from the *fair value* adjustment of the derivative is recognised to a specific equity reserve. The accumulated gains and losses are reversed out of this equity reserve and are recognised to the Income Statement when the effects of the transaction being hedged are posted to the Income Statement.
The gains and losses associated with the ineffective part of the hedge are posted to the Income Statement.
If a hedging instrument is extinguished, but the hedged transaction has not yet been carried out, the accumulated gains and losses remain in the equity reserve and will be recognised to the Income Statement when the transaction in question is completed. If the hedged transaction is no longer considered likely, the unrealised gains and losses in the equity reserve are recognised to the Income Statement.

If *hedge accounting* cannot be applied, any gains and losses from measuring the derivative financial instrument at *fair value* are recognised in the Income Statement.
The balances relating to the *fair value* of derivatives hedging commodity or foreign exchange risks are recognised to other assets or liabilities, while those relating to derivatives hedging interest rate risk are included in financial assets/liabilities. Realised gains/losses and those resulting from the *fair value* measurement of derivative financial assets instruments relating to commodity and exchange rate risk are included in other operating income/expense in the Income Statement. Gains/losses recognised on derivatives hedging interest rate risk are recognised to financial income/expense.

CASH AND CASH EQUIVALENTS

Cash and cash equivalents include items that meet the requirements of being available at very short notice, with successful collection guaranteed and without costs. Cash and cash equivalents denominated in foreign currency are measured at the exchange rate at year-end.

CURRENT AND NON-CURRENT PAYABLES

When a payable is recognised, the *fair value* of the amount to be paid is recorded. Subsequently, the payable is valued at amortised cost, using the effective interest rate estimated by the Group. In estimating future cash flows, contractual clauses are taken into account.
Short-term payables without an intrinsic pre-established interest rate are measured at their nominal value. Payables with a maturity of over twelve months are discounted to present value, with the resulting effect on the Income Statement treated as interest over the duration of the payable until its final maturity.

TRADE PAYABLES

Trade payables are recorded net of any commercial discounts, whereas cash discounts are recognised on payment. The nominal value of payables is adjusted for any returns or rebates (billing adjustments) according to the amount agreed with the counterparty.

FINANCIAL LIABILITIES

Financial liabilities are classified according to the substance of the contractual agreements which generated them.
Interest-bearing bank loans and overdrafts are recognised on the basis of the amounts received, net of transaction costs, and are subsequently valued at amortised cost using the effective interest rate method.

PROVISIONS FOR RISKS AND LOSSES

Provisions for current and non-current risks and losses

Provisions for risks and losses are recognised when, at the end of the reporting period, there is a legal or constructive obligation as a result of a past event and an outflow of resources to meet the obligation is probable, assuming that the amount due can be reliably estimated.

If the financial effect of the time factor is significant, provisions are determined by discounting expected future cash flows at a rate that reflects the current market assessment of the time value of money.

Decommissioning and clearance provision

The decommissioning and clearance provision contains an estimate of any significant liabilities resulting from the obligation to decommission tangible assets and restore the environment in the area when production is terminated. The provision offsets the tangible asset to which it refers and the charge to the Income Statement is made according to the asset's depreciation schedule.

The obligation, which is based on financial and engineering assumptions, is estimated by discounting to present value the cash flows that the Company estimates that it will have to pay for decommissioning.

The rate used to discount the liability is the *risk-free rate*, before taxes, and is based on economic parameters of the country in which the production plants are located.

This liability is determined on the basis of the technology that exists at the date of the valuation and is revised every year taking into account any developments made in methods of decommissioning and site clearance, as well as the ongoing evolution of current law on the subject of health and safety and protection of the environment.

Changes in the estimate are reflected in the Income Statement in the year in which the change takes place, except for changes in expected decommissioning and clearance costs due to changes in timing and the use of economic resources necessary to discharge the obligation or resulting from a change in the discount rate. Such changes are added to or deducted from the assets to which they refer and are posted to the Income Statement through the depreciation process.

EMPLOYEE BENEFIT OBLIGATION

EMPLOYEE LEAVING INDEMNITY

Employee benefits paid after termination of employment and other long-term benefits are subject to actuarial valuation.

Following this methodology, the liabilities that have been recognised represent the present value of the obligation, adjusted for any actuarial gains or losses not accounted for.

Finance Law no. 296/2006 made important changes to employee leaving indemnity by introducing the possibility for workers to transfer their leaving indeminty maturing after January 1, 2007 to various types of external pension funds that they choose from. The employee leaving indemnity accrued as of December 31, 2006 for employees who exercised this option, while still remaining within defined benefit plans, are determined using actuarial methods, although they do not take into account the actuarial/financial elements relating to future payroll trends.
Regulation no. 475/2012 approved the amendments to IAS 19 - Employee Benefits, as approved by the IASB on 16 June 2011, with the aim of promoting the understandability and comparability of Financial Statements, especially with respect to defined benefit plans. The most important change concerns the elimination of the different accounting treatments that were permitted for the recognition of defined benefit plans and the consequent introduction of a single method that provides for immediate recognition in the statement of comprehensive income of any actuarial gains/losses that arise when the obligation is reassessed. In relation to the previous accounting treatment adopted by the Group, the main effect is the elimination of the "corridor method", with immediate recognition in the statement of comprehensive income, and therefore in equity, of changes in the value of the obligations and assets serving the plan.

REVENUES

Revenues are recognised to the extent that it is possible to determine their value reliably and when it is probable that the future economic benefits will flow to the Group. Revenues are recorded net of any returns, discounts, allowances or premiums.

Sales of electricity and gas

Revenues from the sale of electricity and gas to customers refer to the quantities respectively supplied and delivered during the year, even if not yet billed, and they are calculated by supplementing the consumption data obtained from the distributors with suitable estimates.
These revenues are based on contractual agreements with customers and, where applicable, on tariffs and limits imposed by law and the Italian Electricity and Gas Authority (ARERA), in force during the reporting period.

Sale of goods and services

Revenues from the sale of goods other than electricity and gas and revenues from services are recognised when the goods have been shipped and the services rendered and the Group has transferred substantially all of the risks and rewards of ownership of the goods or completion of the services to the buyer.

Trading activities

Physical and financial trading of energy *commodities* continued as part of Sorgenia Group's core business. These activities are governed by the appropriate procedures and are segregated on an *ex ante* basis from the other ordinary activities (Industrial activities") in special "Trading Portfolios"; they are measured at *fair value* with any changes in *fair value* being posted to the Income Statement under other operating income/expense.

FINANCIAL INCOME AND EXPENSE

Financial income and expense are recognised according to the accrual principle and include interest accruing on the net value of the various financial assets and liabilities using the effective interest rate. They include the ineffective part of changes in the *fair value* of derivatives designated as hedges of financial transactions.

Dividends

Dividends are recognised and accounted for when the shareholders have the right to receive payment.

TAXES

Current income taxes are calculated on the basis of an estimate of taxable income for the year in compliance with current regulations.
Deferred income taxes refer to taxes which are expected to be paid or recovered on temporary differences between the carrying amount of assets and/or liabilities and their respective tax bases. Deferred tax liabilities are recognised for all taxable temporary differences, whereas for deferred tax assets they are recognised to the extent that it is considered likely that sufficient taxable income will be generated in the future against which the receivable can be offset.
Taxes on items recognised directly to equity are, in turn, also recognised directly to equity.
Deferred tax assets and liabilities are determined based on tax rates expected to be applicable under the tax regulations of the countries in which the Group operates during the period when the differences will reverse, considering tax rates currently in force or those known to be applicable later.
Regarding the future recovery of deferred tax assets, see the paragraph below on "Use of Estimates".

USE OF ESTIMATES

Note that preparation of the Consolidated Financial Statements requires the Directors to make estimates and assumptions that affect the values of revenues, costs, assets, and liabilities; estimates and assumptions also have to be made in determining the *fair value* of financial instruments and in the disclosures regarding contingent assets and liabilities at the end of the reporting period.

If in the future these estimates and assumptions differ from the real situation, they will be amended appropriately in the period when the change in circumstances becomes known.

In this regard, it should be noted that the estimates drawn up as at 31 December 2019 do not reflect the consequences of the possible developments in the current national and international scenario characterised by the spread of CoViD-19 and the subsequent restrictions to contain it, implemented by the Government authorities of the countries concerned. These circumstances, which came to light in the first few months of 2020, despite representing a subsequent event which does not require a correction to the financial statements pursuant to IAS 10/OIC 29, are extraordinary in terms of their nature and scope and may have direct and indirect repercussions on economic activities, creating a general situation of uncertainty, whose developments and associated impacts cannot be predicted at the current state of play. The effects of this event will also depend on how quickly the Government institutions define monetary and fiscal measures to support the most exposed sectors and operators.

The use of estimates is particularly significant for the following items:

Revenue recognition

Revenues from sales of electricity and gas to end customers are recognised at the moment of supply and, apart from what is billed based on quantitative data provided by the distributors and related to the year, they also include an estimate of the electricity and gas distributed during the year but not yet billed, that is, the difference between the total amount of electricity and gas fed into the grid and the amount actually billed during the year, taking into account any leaks in the network. This estimate of revenues is based on estimates of the client's consumption based on his or her historical profile, adjusted to take into account weather conditions or any other factors that could affect the consumption being estimated.

Provision for the write-down of receivables

The provision for the write-down of receivables reflects the estimates of expected losses connected with the Group's loan portfolio, based on the *expected loss* model set forth in new IFRS 9. Provisions are made against expected credit losses, estimated both on the basis of past experience with reference to loans with similar credit risk and on the basis of the estimate of the expected future loss of open positions at the reporting date, as well as careful monitoring of the quality of the loan portfolio.

While the existing provision is considered adequate, the use of different assumptions or a change in economic conditions could result in adjustments to the provision for the write-down of receivables, which would have an impact on the Group's result. The estimates and assumptions are revised periodically and the effects of each variation are reflected in the Income Statement in the appropriate year.

Recoverability of non-current assets

Tangible and intangible assets with a finite useful life

Tangible and intangible assets are written down when events or changes in circumstances lead to the conclusion that the book value may not be recoverable.

The types of events that can lead to assets being written down are as follows: a change in business plan, changes in market prices that may cause lower operating performance, and/or under-utilisation of plant capacity.

The decision whether to go ahead with a write-down and its quantification depend on the Directors' assessment of complex and highly uncertain factors, including future price trends, the impact of inflation and of technological improvements on production factors, production profiles, and the level of supply and demand on a global, national, and regional scale.

The write-down is calculated by comparing the book value of the asset with its recoverable value, represented by the higher of *fair value*, less costs to sell, and value in use, determined by discounting to present value the cash flows expected from the use of the asset, net of costs to sell. The expected cash flows are established in the light of information available at the time the estimate is made and based on subjective judgements regarding future trends in a number of variables - such as prices, costs, the rate of growth in demand, production profiles - and are then discounted to present value using an after-tax discount rate that includes the risk inherent in the specific business.

For an asset that does not generate fully independent cash flows, the recoverable value is calculated in relation to the *cash generating units* to which said asset belongs. The *cash generating units* are identified in line with the Group's organisational and business structure as homogeneous combinations that generate independent cash inflows deriving from the continuous use of the assets to which they are attributable. In particular, the Group operates through a single CGU which oversees the energy production from CCGT plants and sale of electricity and natural gas.

An asset write-down due to impairment is reversed when there is an indication that the impairment has decreased or no longer exists, or when there has been a change in the assessment of its recoverable value.

Intangible assets with an indefinite useful life

The value of intangible assets with an indefinite useful life, as well as that of intangible assets not yet ready for use, is instead checked at least once a year for impairment by comparing the carrying amount with the recoverable value.

The recoverable value of an asset is the higher of its *fair value* less costs to sell and its value in use.

In determining value in use, expected future cash flows are discounted to present value using a pre-tax interest rate which reflects current market assessments of the time value of money and the risks specific to the business.

An impairment loss is recognised to the Income Statement when the book value of the assets, or of the relative *cash generating unit* to which it is allocated, is higher than its recoverable value.

An asset write-down due to impairment is reversed when there is an indication that the impairment has decreased or no longer exists, or when there has been a change in the assessment of its recoverable value.

Future recovery of deferred tax assets

The preparation of the Consolidated Financial Statements of the Group requires Directors to measure deferred tax assets relating to previous tax losses and the recognition of financial costs deductible in subsequent years, within the limits of the Sorgenia Group companies' ability to generate taxable income.
The evaluation of the aforementioned recoverability takes into account the estimates of future taxable income and is based on the multi-year plan approved by the Directors of the Sorgenia Group, and on forecasts extended to the period of operations of the assets held by Sorgenia Group companies as the result of complex assumptions; however, if at any time it were to become obvious that the Company was not able to recover all or part of these deferred tax assets in future periods, the resulting adjustment would be recognised to the Income Statement in the year in which such a circumstance came to pass.

Legal and tax disputes

The Group makes provisions mainly for pending legal and tax disputes.
Given the nature of these disputes, it is not always objectively possible to foresee the final result of these proceedings, some of which could have an unfavourable outcome.
The estimate of the provisions made for such issues is based on the subjective opinion of the Company's management.

Other items in the Financial Statements

In addition to the items indicated above, the use of estimates also affected:

- measuring assets and liabilities, other than derivative financial instruments and equity investments, at amortised cost;
- measuring non-current financial assets at *fair value*;
- measuring employee benefits;
- the determination of the useful life of tangible and intangible assets for the calculation of their depreciation and amortisation respectively;
- measuring liabilities for the decommissioning of plants and the restoring of sites.

For these items, the use of estimates and the assumptions made are contained in the comments on the accounting policies used.

BUSINESS COMBINATIONS OCCURRED IN THE REFERENCE PERIOD

In December 2018, the Parent Company Sorgenia SpA completed the purchase of 67% of the share capital of Universal Sun Srl (now Sorgenia Green Solutions Srl). On September 5, 2019, the Company acquired the residual portion of the share capital of 33%, still owned by the minority shareholders as of December 31, 2018, hence becoming the sole shareholder.

The following table shows the reference values:

(Amounts in thousands of Euro)	**Carrying amount of the acquired company at the acquisition date**	**Allocation**	**Consolidation values**
Tangible assets	367	-	367
Intangible assets	327	1,338	1,665
Financial fixed assets	4	-	8
Other deferred tax assets/liabilities	98	(373)	(252)
Other assets/(liabilities)	328	-	305
Financial assets/(liabilities)	(739)	-	(739)
Net assets acquired	**385**	**965**	**1,350**
Acquisition price	1,350		
of which:			
Consideration 2018	904		
Consideration 2019	445		
Capital gain from acquisition	**965**		
Cash and cash equivalents acquired	443		
Acquisition price	1350		
Portion of price not paid	-		
Cash flows absorbed by acquisition	**(461)**		

The purchase price of 100% of the share capital was set at 1,350 thousand euro, of which 905 thousand euro paid at the closing date, December 2018 (67% of the share capital) and 445 thousand euro paid following the acquisition of the remaining part (33% of the share capital), corresponding to the *fair value* measurement of the payable deriving from the Put option on minority interests.

As a result of the acquisition from the minority shareholders of the residual part of the share capital equal to 33%, through the exercise of the call option for an amount of 445 thousand euro, Sorgenia S.p.A., became the sole shareholder of Universal Sun Srl (now Sorgenia Green Solutions Srl)

The transaction was accounted for according to the acquisition method from 1 January 2019. The capital gain generated by the acquisition of 1,337 thousand euro (determined according to the "full goodwill" method and before the deferred tax effect of 373 thousand euro) was allocated to the item "intangible assets".

COMMENT ON THE ITEMS OF THE CONSOLIDATED FINANCIAL STATEMENTS

1) INTANGIBLE ASSETS

The following table highlights the changes that took place to intangible assets, including rights of use deriving from *leases*, with reference to the year 2019.

EUR/000	CLOSING POSITION	CHANGES IN YEAR						CLOSING POSITION		
	31/12/2018	INV.	DECR.	AMORT./WRITE-DOWNS	RECLASS./OTHER CHANGES	EFFECT AS AT JANUARY 1, 2019 IFRS 16	CHANGE SCOPE OF CONSOLIDATION	31/12/2019	of which ORIG. COST	of which ACCUM. AMORT.
Start-up and expansion costs	-	-	-	-	-	-	-	-	-	-
Research and development costs	-	877	-	(667)	98	-	119	427	1,554	(1,127)
Industrial patent and intellectual property rights	-	56	-	(3)	-	-	38	91	97	(5)
Concession of licences, trademarks and similar rights	517	-	-	(11)	(360)	-	-	147	173	(26)
Rights of use	-	1,686	-	(1,200)	(166)	9,114	-	9,434	10,670	(1,236)
Long-term charges	73	35	-	(47)	(61)	-	-	-	-	-
Other intangible assets	39,590	19,802	-	(25,443)	4,751	-	1,343	40,043	165,600	(125,558)
Assets in progress and adv. paym.	5,210	9,812	(51)	-	(4,653)	-	162	10,481	10,481	-
TOTAL INTANG. ASSETS	**45,390**	**32,268**	**(51)**	**(27,371)**	**(392)**	**9,114**	**1,663**	**60,623**	**188,575**	**(127,952)**

Research and development costs

Development costs amounted to 427 thousand euro and include:

- development costs capitalised internally by the subsidiary Sorgenia Fiber, for a total of 355 thousand euro, attributable to the development of the project linked to the definition and implementation of a growth strategy for appurtenances in the Ultra Broad-Band market in partnership with an operator active in the telecommunications market;
- costs incurred internally by the subsidiary Universal Sun (now Sorgenia Green Solutions Srl) for the implementation of new projects aimed at achieving the strategic objectives of growth in size and improvement of the Company's profitability.

The balance shown in the column "Change in the scope of consolidation" refers to the balance of the development costs of the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl) at the date of first consolidation.

Industrial patent and intellectual property rights

Industrial patent and intellectual property rights amounted to 91 thousand euro and include the costs incurred internally by the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl). The balance shown in the column “Change in the scope of consolidation” refers to the balance of the subsidiary at the date of first consolidation.

Concessions, licenses, trademarks and similar rights

This item amounted to 147 thousand euro and mainly includes the user licences acquired by the companies operating in the renewables sector. The balance shown in the column “Reclassifications and other movements” mainly refers to unprotected application software, reclassified in 2019 for the subsidiaries Sorgenia Power and Sorgenia Puglia under “Other intangible assets”.

Rights of use

The item “rights of use” includes the value of assets represented by rights of use of assets held through *lease* agreements, accounted for in accordance with the provisions of the new IFRS 16, adopted by the Group as from January 1, 2019.

The Group recognised in the statement of financial position as of December 31, 2019 assets represented by rights of use of assets held through *lease* agreements for 9,434 thousand euro, mainly referring to leased properties in which the Group’s offices are located (8,895 thousand euro), and motor vehicles (205 thousand euro). The right of use is amortised systematically at the lower of the *lease term* and the residual useful life of the underlying asset. The balance shown in the column “effect as of January 1, 2019” refers to the impact deriving from the application of the new standard at the transition date. For further details on the impacts deriving from the first-time adoption of the standard and on the practical expedients adopted by the Group at the transition date, please refer to the paragraph “IFRS accounting standards, amendments and interpretation applied from January 1, 2019”.

Other intangible assets

Other intangible assets amounted to 40,043 thousand euro and mainly include, for an amount of 16,747 thousand euro, sales costs incurred for the acquisition of new contracts with end customers (“*Cost to acquire*”), which increased the Balance Sheet assets following the application, effective as of January 1, 2018, of IFRS 15 standard, as described above.

The item also includes the costs incurred for unprotected IT systems for the commercial and organisational development of the Group for 20,977 thousand euro; easements on land used for the construction of gas pipelines and the power lines connected to the Group's plants for 1,214 thousand euro. As they are expenses with indefinite useful life, the latter are not amortised.

The most significant increases during the year mainly refer to the costs incurred for the activation of new customers for an amount of 15,366 thousand euro, amortised over the average useful life of the customers. It should also be noted that, during the year, the Group recorded increases of 7,919 thousand euro (of which 4,015 thousand euro had already been recognised under assets in progress in the previous year), mainly attributable to software projects in progress for the implementation of the Digital Strategy for the acquisition and management of customers.
The following are also at the implementation phase:*(i)* solutions that improve the level of security and privacy envisaged by both current regulations and the risks identified;*(ii)* the development of systems that allow greater knowledge and better relations with the customer through *Big Data, Business Analytics* and *Artificial Intelligence* infrastructures; *(iii)* activation of systems to manage customers and telecommunication service providers through the fibre channel.

The ERP IT system implemented in 2016 is amortised over a period of five years, which corresponds to the economic-technical useful life of the system, valued in consideration of the financial and commercial benefits as part of expected sales growth. Other software is instead amortised over a period of three years.

The balance shown in the column “Change in the scope of consolidation” refers to the balance of software held by the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl), for a value of 5 thousand euro, and to the positive cancellation difference recognised at the time of the first consolidation of said Universal Sun Srl (now Sorgenia Green Solutions Srl), as of 1 January 2019, for a value of 1,337 thousand euro, allocated to other intangible fixed assets.

Intangible assets in progress and advance payments

This item includes 10,481 thousand euro for advance payments for intangible assets being acquired.
The increases in the year are mainly attributable to *(i)*the continuation of the constant improvement process of the Digital Strategy described, *(ii)*the phase of implementation of the Systems and Processes relating to Security and Privacy *(iii)*the development of new components of the Big Data infrastructure and *(iv)* the activation of the new fibre data connection service sold in addition to the electricity and gas commodity.

This category also includes development costs, amounting to 445 thousand euro, relating to the Your Next Experience project, through which the customer relationship criteria were defined for the development of the new APP and the WEB Customer Area.

The “Reclassifications” column shows amounts relating to software projects for which advances were paid to the suppliers in prior periods that entered production during this year.

2) TANGIBLE ASSETS

The following table highlights the changes that took place to tangible assets, with reference to the entire year:

EUR/000	CLOSING POSITION	CHANGES IN YEAR					CLOSING POSITION		
	31/12/2018	INV.	DE CR.	DEPREC. /WRITE-DOWNS	RECLASS./ OTHER CHANGES	CHANGE SCOPE OF ONSOLIDATION	31/12/2019	of which ORIG. COST	of which ACCUM. DEPREC.
Land	8,256	26	-	-	-	-	8,282	8,282	-
Buildings	91,320	-	-	(2,912)	-	-	88,408	134,450	(46,042)
Plant and machinery	870,789	12,892	-	(32,270)	3,985	353	855,749	1,617,689	(761,940)
Ind. and comm. equipment	10,874	479	-	(547)	54	4	10,864	18,010	(7,146)
Other assets	3,984	629	-	(800)	3	12	3,828	17,980	(14,152)
Assets in progress and adv. paym.	1,731	1,405	-	(21)	(1,050)	-	2,065	2,065	-
TOTAL TANG. ASSETS	**986,954**	**15,431**	**-**	**(36,550)**	**2,993**	**369**	**969,197**	**1,798,476**	**(829,279)**

Verification of recoverable value of Fixed Assets

As envisaged in IAS 36, for the purposes of the drafting of the financial statements as of December 31, 2019, the Group conducted an analysis on potential indicators of impairment of fixed assets, both external and internal, for which the following considerations should be noted:

- the economic-financial results achieved in 2019 were significantly higher than the provisions of the multi-year forecast plan approved by the Directors;
- the forecast data for 2020 (2020 Budget), approved by the Board of Directors on December 16, 2019, are better than the figures of the multi-year forecast plan for the same year;
- the Regulatory Authority for Energy, Networks and Environment (ARERA) approved Terna's inclusion of the Modugno plant in the list of plants considered "essential" (for the period July 15, 2019 - December 31, 2020), thereby ensuring the stability of the Company's margins and reducing the exposure to the volatility risk of the energy markets;
- in November 2019, the auctions for the awarding of the Capacity market for the 2022 and 2023 period were held. The Sorgenia Group obtained the awarding of the entire production capacity offered, with an auction premium equal to the maximum one that can be awarded, for both years, during which a lower volatility of generation margins can be relied on. The allocation on an auction basis of the capacity market for the years 2022 and 2023 and the application of the transitional regime for the period 2020 and 2021 are therefore not worse than the provisions of the multi-year forecast plan for the same years;
- from internal analyses, the market scenario forming the basis of the multi-year forecast plan is still valid to represent the margins of the company's plants;

- the change in the elements incorporated in the weighted average cost of capital would have resulted in the determination of a lower discount rate compared to the last *impairment* test carried out for the purposes of the 2018 consolidated financial statements.

In light of these considerations, the Directors did not identify any potential impairment indicators that would require a new verification of the recoverable value of the fixed assets.

Land

The Land item totals 8,282 thousand euro and includes land intended to house production sites.
The balance mainly comprises the industrial areas of land in the Municipalities of Modugno-Bari-Bitonto, for the subsidiary Sorgenia Puglia and of Turano Lodigiano – Bertonico, Termoli and Aprilia for the subsidiary Sorgenia Power.

Buildings

The item Buildings totals 88,408 thousand euro. The buildings owned by the Group are of an industrial nature and relate to the thermoelectric power plants.

Plant and machinery

The item Plant and machinery amounts to 855,749 thousand euro and refers to the assets of the Group used for the production of conventional energy. This category includes the thermoelectric power plants situated in the municipalities of Termoli, Modugno, Turano Lodigiano and Aprilia.
The increases of 12,892 thousand euro mainly refers to the capitalisation of costs for the construction of new specific installations or the upgrade and improvement of already existing installations of the 4 power plants in operation.

The balance relating to "Other changes and Reclassifications", amounting to 3,985 thousand euro, is the result of a combination, primarily, of the reclassification of plants that started production in 2019, and recorded under fixed assets in progress in the previous year (836 thousand euro), and the effect of the revised estimate of the value of the decommissioning provision as a result of the update of the discount rate used to discount the costs that the Group will incur at the time it decommissions the plants, thus resulting in an increase of 4,511 thousand euro in the item. In particular, the update of the discount rate involved a change in the estimate of the provision for the plants, which produced a lower discount rate, and was subject to an increase as a balancing entry to the increase in the value of the asset.

The balance shown in the column “Change in the scope of consolidation” refers to the balance of plant and machinery owned by the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl), at the date of first consolidation.

Industrial and commercial equipment

The Industrial and commercial equipment item totals 10.864 thousand euro and includes the industrial and commercial equipment of the Group used to run the thermoelectric power plants.

Other assets

The item Other assets amounts to 3,828 thousand euro and mainly includes office furniture and IT equipment.

Assets in progress and advance payments

Assets in progress and advance payments amount to 2,065 thousand euro and include advances to suppliers of assets in progress together with the costs incurred for investment projects not yet finalised.

3) EQUITY INVESTMENTS

Investments in companies valued at equity

The following table shows the changes that took place during 2019.

EUR/000	**31/12/2018**	**Inc.**	**Decr.**	**31/12/2019**
Tirreno Power SpA	25,000	29,729	(209)	54,520
Fin Gas Srl	-	-	-	-
TOTAL	**25,000**	**29,729**	**(209)**	**54,520**

The value of equity investments in companies measured at equity matches the value of the equity investment held in the company Tirreno Power SpA - 50% stake held through the subsidiary Energia Italiana SpA – equal to 54,520 thousand euro.

Up until December 31, 2018, the Directors had saw fit, despite the positive operating results generated by the subsidiary, to maintain the book value of the equity investment in Tirreno Power aligned to the value resulting from an appraisal carried out by an independent third party, following the signing, in 2015, of the Financial Debt Restructuring Agreement, endorsed pursuant to Article 182-bis of the Bankruptcy Law (amounting to 25,000 thousand euro), given considered representative of the recoverable value of the investee. At the close of the financial statements as of December 31, 2019, the book value of the equity investment, measured using the equity method, was aligned with the value of the corresponding portion of the shareholders' equity of the subsidiary at the same date (net of the nominal value of the Participating Financial Instruments, junior PFIs of 284,386 thousand euro).

The result of Tirreno Power amounted to 167,099 thousand euro, a significant improvement compared to the previous year (40,196 thousand euro).

As a result of the economic results achieved in previous years and in 2019, which confirmed the better performances than those expected in the Business and Financial Plan, the shareholders' equity on December 31, 2019 stood at 393,426 thousand euro. This trend confirms the reasonableness of the assumptions used by Tirreno Power Directors in the preparation of the “Plan” and its update, making the latter aware of the company’s ability to reach the results expected in the “Plan” also for future years, although it is aware that the results expected in the Plan may only occur when the assumptions provided for therein occur.

It should also be noted that the shareholders' equity of Tirreno Power, net of the participating financial instruments, amounted to 109,040 thousand euro, and was supported by the *impairment test* performed by the company, which concluded that the value of the fixed assets as of December 31, 2019 is recoverable.

The above considerations led the Directors to determine that the reasons that had led to the write-down of the equity investment held in Tirreno Power had ceased to exist and, therefore, to proceed with the measurement of the equity investment at an amount corresponding to the portion of shareholders’ equity pertaining to the closing date of the financial statements (54,520 thousand euro).

The decrease of 209 thousand euro is attributable to the change in the *cash flow hedge* reserve recorded by the subsidiary Tirreno Power, and booked to the Group's Consolidated financial statements in other comprehensive income, as set forth by IAS 28.

The value of the equity investment of the subsidiary Fingas Srl, in previous years, was written down for the entire book value of the equity investment, since the subsidiary is not deemed strategically significant within the Group. It should be specified that the original cost of recognition of the equity investment was 555 thousand euro.

Other equity investments

EUR/000	**31/12/2018**	**Increases**	**Decreases**	**31/12/2019**
Sorgenia International BV in liquidation	21	-	-	21
Sorgenia Solar Srl in liquidation	-	-	-	-
Universal Sun Srl (now Sorgenia Green Solutions)	904	-	(904)	-
TOTAL	**925**	**-**	**(904)**	**21**

The values relating to equity investments in companies in liquidation are included in said item, measured according to the cost method. In particular, the balance as of December 31, 2019, amounting to 21 thousand euro, refers to the equity investment in Sorgenia International BV in liquidazione (in liquidation).

The reduction compared to the previous year, amounting to 905 thousand euro, relates to the inclusion of the company Universal Sun Srl (now Sorgenia Green Solutions Srl) in the scope of consolidation as from January 1, 2019, as described in the paragraph “Scope of consolidation as of December 31, 2019”.

The equity investment in Sorgenia Solar in liquidation is recorded at zero under the Balance Sheet assets owing to the presence of negative shareholders’ equity. In addition, the directors recorded a provision for risks of 260 thousand euro in the financial statements as of December 31, 2019 (1,675 thousand euro as of December 31, 2018). This provision was recognised to cover the expected future losses in light of the negative shareholders’ equity of the company and the costs that should be incurred. At the end of the year, the provision was released for an amount of 1,415 thousand euro, by aligning it to the distribution plan which will be recognised to the Group at the close of the liquidation of the subsidiary, which took place in the first few months of 2020.

4) NON-CURRENT ASSETS FROM DERIVATIVE INSTRUMENTS

For details on item 4 - Non-current assets from derivative instruments, please refer to note 20.

5) OTHER NON-CURRENT ASSETS

EUR/000	**31/12/2019**	**31/12/2018**
Non-current intercompany financial receivables	-	463
Non-current tax receivables	712	906
Other non-current receivables	17,344	10,769
OTHER NON-CURRENT ASSETS	**18,056**	**12,138**

The item Other non-current assets amounts to 18,056 thousand euro.

The item Non-current tax receivables mainly included 705 thousand euro in IRES credits of the subsidiary Energia Italiana SpA, which arose due to the tax transparency regime with the subsidiary Tirreno Power in previous years, for which a specific request for reimbursement was submitted. As of December 31, 2018, these receivables amounted to 895 thousand euro.

The item Other non-current receivables primarily refers to:

- for 11,755 thousand euro, long-term receivables designed for business operations, such as security deposits for the lease or rental of third-party assets, deposits paid to companies involved in electricity transportation and gas distribution, and to institutional counterparties with which the Group operates in the electricity and gas markets.
  As of December 31, 2018, this item amounted to 4,139 thousand euro. The change with respect to the previous year (7,616 thousand euro) relates primarily, for 6,964 thousand euro, to the payment of

security deposits, made by Sorgenia SpA, in favour of Terna, on behalf of the subsidiaries Sorgenia Power and Sorgenia Puglia, based on the mandate without representation conferred by the subsidiaries in favour of the parent company Sorgenia SpA.

These payments, made in the form of security deposits, represent the payment of contributions to the guarantee fund *(i)* for the purposes of participation in the Aste Madri (Main Auctions) for the procurement of capacity with delivery in the years 2022 and 2023, and *(ii)* for the purposes of qualification for the Asta Madre of new production units still not authorised for the procurement of capacity with delivery in fiscal year 2023.

- for 5,589 thousand euro, charges to activate and continue the maintenance service for the Turano Lodigiano power plant (3,019 thousand euro) and the Aprilia power plant (2,570 thousand euro), paid in advance at the time the plants were first started up and released in the Income Statement throughout the useful life of the plants.

As of December 31, 2018, the balance of non-current intercompany financial receivables referred to the non-interest bearing long-term loan granted to the Parent Company Nuova Sorgenia Holding SpA, disbursed in 2018. The balance reported as of December 31, 2018 is the result of the measurement according to the amortised cost method of the loan granted for a nominal amount of 1,000 thousand euro. As of December 31, 2019, the loan was reclassified to the item "Current financial receivables", as reported in note 8 - Current financial assets.

6) DEFERRED TAX ASSETS

Deferred tax assets amount to 79,934 thousand euro (103,977 thousand euro on December 31, 2018) and include the deferred tax assets relating to the temporary differences between the values of the assets and liabilities recorded in the financial statements and the corresponding values recognised for tax purposes, as well as the deferred tax assets recorded on the previous tax losses for the portion deemed recoverable. The value consists primarily of deferred tax assets recognised on the various risk provisions and the provision for the write-down of receivables (20,271 thousand euro), the decommissioning and maintenance provision (7,988 thousand euro), plus the deferred tax assets recognised on tax losses, transferred to the Group tax consolidation regime (41,430 thousand euro), and the ACE (Aid for economic growth – “Aiuto per la crescita economica”) benefit (6,643 thousand euro).

The change compared to December 31, 2018, negative by 24,043 thousand euro, is mainly due to:

- the use of the portion of non-deductible interest expense in previous years, recovered following the ROL (gross operating profit) capacity generated by the Group as part of the tax consolidation, which led to the release of deferred tax assets amounting to 9,548 thousand euro;
- the release of the portion of non-deductible interest expense in previous years of the consolidating entity Sorgenia Spa for 21,525 thousand euro, considered non-recovered as the Directors believed that

there was no reasonable certainty of recoverability of the associated deferred tax assets, in consideration of a different time horizon of recovery of said temporary difference, as well as the expected effects of the Group's sale transaction.
In particular, the expected refinancing of the Group will involve the incurring of higher financial expenses than current nominal charges, hence not allowing previous financial expenses to be deducted;

- the net effects arising from changes in deferred tax assets relating to provisions for risks and losses, totalling 4,861 thousand euro;
- the use, made in 2019, for 900 thousand euro of deferred tax assets recognised on the decommissioning and maintenance provision.

In particular, for the measurement of the recoverability of deferred tax assets relating to tax losses and ACE recognised (200,304 thousand euro, which corresponds to a tax credit of 48,073 thousand euro), the Directors considered the tax recoverability over a time horizon until 2023 to be likely, the year in which the current Capacity Market regulation will expire and owing to the limited visibility on the subsequent regulatory regime. The recoverability of the aforesaid tax losses was estimated on the basis of future taxable income from tax consolidation resulting from the 2016-2027 Business Plan, appropriately updated to reflect the final data as of December 31, 2019, the forecasts relating to the 2020 budget and the new regulations on the Capacity Market in 2022 and 2023.
The Directors deemed that this plan represents convincing evidence to support the recoverability of deferred tax assets. However, given the long time horizon of the aforementioned forecast plan, the estimates made could differ, including significantly from the actual circumstances, leading to a subsequent impact on the recoverability of deferred tax assets.

As regards the measurement of the recoverability of deferred tax assets recorded in previous years on temporarily non-deductible interest recognised (89,687 thousand euro, which corresponds to a tax credit of 21,525 thousand euro), the Directors judged that there is no reasonable certainty as to their recoverability, in consideration of a different time horizon for recovery of said temporary difference, as well as the expected effects of the Group's sale transaction; in particular, the expected refinancing of the Group will involve the incurring of higher financial expenses than the current nominal expenses, hence not allowing the deductibility of previous financial expenses. The recoverability assessment is mainly derived from the analysis of the time profile of taxable profits, both at individual Company and Group level, for the period 2020-2023 as envisaged in the above-mentioned Business Plan.
Lastly, note that the residual previous tax losses contributed to the Group through the tax consolidation, whose recoverability is not deemed likely on December 31, 2019, as they are expected beyond a time horizon of 4 years, amounted to around 136,557 thousand euro. No deferred tax assets were recognised on said losses; while the portion of temporarily non-deductible interest expense on which no deferred tax assets were recorded, given the recoverability is not considered likely as of December 31, 2019, amounted to 86,361 thousand euro.

For a breakdown of the composition of this item and of the changes that took place in the year, see the paragraph entitled “Income Taxes”.

7) INVENTORIES

EUR/000	**31/12/2019**	**31/12/2018**
Gas	22,830	47,658
CO_2 certificates	-	-
Spare parts	5,618	4,968
Work in progress and semi-finished products	878	-
TOTAL	**29,325**	**52,626**

The item Inventories totals 29,325 thousand euro. The decrease recorded in 2019, equal to 23,301 thousand euro, mainly reflects the reduction in natural gas stocks, as a result of the lower awarding of auctions for the allocation of storage capacity at Stogit SpA, compared to the previous year. The storage transactions were implemented in order to guarantee flexibility in procurement and to manage the volatility of intra-day prices. Inventories are recognised at weighted average cost.

Work in progress refers to works of interim duration carried out by the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl) for the development of photovoltaic projects. The increase recorded as of December 31, 2019 refers to the inclusion of the subsidiary in the scope of consolidation from January 1, 2019.

8) CURRENT FINANCIAL ASSETS

EUR/000	**31/12/2019**	**31/12/2018**
Current intercompany financial receivables	1,341	-
Other current financial receivables	5,341	7,903
CURRENT FINANCIAL ASSETS	**6,682**	**7,903**

Current intercompany financial receivables, amounting to 1,341 thousand euro, represent:

- the non-interest-bearing multi-year loan granted to the parent company Nuova Sorgenia Holding SpA in 2018. As of December 31, 2019, the receivable is measured according to the amortised cost method for a value corresponding to its nominal value, amounting to 1 million euro. This measurement stems from the revision of the estimate of the credit collection flows and, specifically, from the expected early repayment with respect to the original maturity, which will take place in 2020, as a result of the Sorgenia Group’s purchase and sale transaction, as described in the section "Significant events in the year".

As of December 31, 2019, the receivable was reclassified from the item "Non-current financial assets" to the item "Current financial assets", based on the expected early repayment, mentioned above.

- the interest-bearing loan granted in 2019 to the subsidiary Sorgenia Solar Srl in liquidazione (in liquidation), not included in the scope of consolidation and paid in the first few months of 2020.

The item Other current financial receivables amounted to 5,341 thousand euro.
These receivables include:

- for 4.941 thousand euro, restricted sums (mainly on the Macquarie Ltd and ED&F account) in order to guarantee the operations of the subsidiary Sorgenia Trading SpA on regulated energy and gas markets. As of December 31, 2018, the item came to 7,403 thousand euro; the decrease recorded in 2019 is connected with better lending conditions granted to the subsidiary to operate on organised markets (Cleared);

- the short-term portion, amounting to 400 thousand euro, of the receivable for the sale of the equity investment in Volterra SA, partially collected (300 thousand euro) in January 2020.

9) CURRENT ASSETS FROM DERIVATIVE INSTRUMENTS

For details on item 10 - Current assets from derivative instruments, please refer to note 20.

10) CURRENT TRADE RECEIVABLES

EUR/000	**31/12/2019**	**31/12/2018**
Current trade receivables - customers	287,215	257,421
Current intercompany trade receivables	35	-
Other current trade receivables	3,487	4,152
Provision for the write-down of receivables	(31,019)	(35,682)
CURRENT TRADE RECEIVABLES	**259,718**	**225,891**

Current trade receivables amounted to 259,718 thousand euro and increased by 33,827 thousand euro compared to December 31, 2018.

Current trade receivables - customers

Trade receivables amounted to 287,215 thousand euro, and refer to trade receivables arising from the Group's supply of electricity and the sale of natural gas. The change compared to the previous year is attributable primarily to higher receivables for invoices to be issued of the parent company Sorgenia SpA to Terna linked (i) to the essentiality regime for the Modugno plant and (ii) the increased operations of the Group's production plants on the services markets in the last two months of the year.

However, there was also an increase in receivables from end customers mainly related to the increase in revenues from the sale of electricity and gas. The customer portfolio also grew compared to the previous year, the customer base went from 275 thousand in 2018 to around 345 thousand in 2019.

The adjustment of the nominal value of the receivables to their presumed realisable value was obtained through a provision for the write-down of receivables amounting to 31,019 thousand euro as of December 31, 2019 (35,682 thousand euro on December 31, 2018) which represents the best estimate of the risk of breach of the obligations assumed by customers. The Group identifies two homogeneous classes of customers: “Mass market customers”, comprising “Professionals” and household customers, and “Corporate customers”, comprising Small and Medium Enterprises (SMEs) and Large Enterprises. Overdue receivables are managed by class and type of recovery action and written down on the basis of the expected outcome of the recovery action taken.

On April 11, 2019, the Parent Company Sorgenia SpA sold a portfolio of trade receivables deriving from electricity and gas supply contracts to a third party. The nominal value of the portfolio amounted to 4,925 thousand euro, fully recognised as a loss in previous years against a consideration of 165 thousand euro, collected in 2019.

In the year under review, the Group recognised a negative net effect in the Income Statement deriving from the management of receivables of 7,227 thousand euro, consisting of *(i)*losses on receivables amounting to 12,022 thousand euro (14,337 thousand euro on December 31, 2018), fully covered by the use of the provision for the write-down of receivables,*(ii)*an allocation to the provision for the write-down of receivables of 7,265 thousand euro, *(iii)* contingent assets from the release of the provision for the write-down of receivables of 38 thousand euro

Other current trade receivables

The balance, amounting to 3,487 thousand euro, includes amounts paid in advance but pertaining to the subsequent year, such as insurance, advertising, leases, maintenance contracts and software.

11) OTHER CURRENT ASSETS

EUR/000	**31/12/2019**	**31/12/2018**
Tax receivables	17,260	20,101
Other current assets	3,162	6,562
OTHER CURRENT ASSETS	**20,422**	**26,663**

The item Other current assets totalled 20,422 thousand euro, marking a decrease compared to the previous year of 6,240 thousand euro.

Tax receivables

The item Tax receivables is broken down as follows:

EUR/000	**31/12/2019**	**31/12/2018**
Tax receivables - IRAP	175	-
Tax receivables - current VAT	12,090	14,143
Tax receivables - excise duties	3,112	4,108
Other current tax receivables	1,883	1,850
TAX RECEIVABLES	**17,260**	**20,101**

The balance of tax receivables, equal to 17,260 thousand euro, represents the receivable from the Tax Authorities mainly related to:

- Receivables from Tax Authorities for current VAT, amounting to 12,090 thousand euro, mainly relating to the Parent Company Sorgenia SpA, by virtue of the Group VAT agreement in place with the subsidiaries;
- Receivables from Tax Authorities for excise duties, amounting to 3,122 thousand euro, generated as a result of the higher payments made in previous years;
- Other receivables due from the Tax Authorities, for an amount of 1,883 thousand euro, composed primarily of residual IRES tax credits carried forward from the previous year in relation to higher advance payments made in previous year.

Other current assets

Other current assets amount to 3,162 thousand euro and mainly include:

- margin calls made in favour of leading wholesalers during the year for the purposes of the operations of Sorgenia Trading on the electricity and gas markets for a total of 980 thousand euro;
- advance payments and payments on account made to suppliers for 474 thousand euro, which include significant sums paid in advance by the parent company Sorgenia SpA for legal and tax advisory services for 288 thousand euro;
- amounts paid in advance of 673 thousand euro, belonging to the following year, mainly relating to commissions on bank guarantees.

The change compared to the previous year amounting to 3,399 thousand relates mainly to: (i) the decrease the sums deposited (described above) by the subsidiary Sorgenia Trading, which, in fact, benefited from the better contractual conditions with its counterparties, as a result of an improvement in the credit rating and the optimisation of the procurement mix with a subsequent reduction in the sums requested in the form of margin calls.

12) CASH AND CASH EQUIVALENTS

EUR/000	**31/12/2019**	**31/12/2018**
Bank and post office deposits	231,643	228,299
Cash and valuables on hand	8	6
CASH AND CASH EQUIVALENTS	**231,651**	**228,305**

Cash and cash equivalents amounts to 231,651 thousand euro, with a positive change of 3,346 thousand euro. The change is mainly due to the net effect: *(i)* of the operating *cash flow* generated by the Group companies during the year; *(ii)*the *cash flow* absorbed by investment activities and repayments of loans made during the year.

For additional details about the financial trends in 2019, please refer to the Statement of Cash Flows.

In addition, it should be noted that the item includes the credit balances relating to bank current accounts, to accounts with *clearing houses* (on which positions outstanding in financial derivatives are settled on a daily basis) and foreign currency accounts and bank deposits at December 31, 2019.

13) SHAREHOLDERS' EQUITY OF THE GROUP

Group shareholders' equity on December 31, 2019 amounts to 467,365 thousand euro, a decrease of 2,108 thousand euro compared with the end of 2018 when Group shareholders' equity stood at 469,473 thousand euro.
The change is mainly related to the profit achieved in 2019, equal to 6,256 thousand euro, partially offset by the negative change in the *cash flow hedge* reserve, equal to 8,098 thousand euro.

The negative balance of the *Cash Flow Hedge Reserve*, which contributed to forming the value of Group shareholders' equity at December 31, 2019 amounts to 6,189 thousand euro, net of the associated tax.

The item Other reserves includes the actuarial gains/losses arising from the discounting of the provision for employee leaving indemnity, from the purchase of treasury shares and the effect of the share capital increase recorded in 2015 and the treasury share reserve.

At the end of the 2019 reporting period, the Share Capital of the Parent Company, fully subscribed and paid up, was divided as shown in the following table:

Holder	No. of Shares repres.	%
Nuova Sorgenia Holding SpA	40,656,530,744	99.973%
Monte dei Paschi di Siena	10,639,464	0.026%
Sorgenia SpA (treasury shares)	415,500	0.001%
Others	74,673	0.0002%
TOTAL	**40,667,660,381**	**100.000%**

The share capital of Sorgenia Group is held as follows:

- A stake of 99.9726% is held by Nuova Sorgenia Holding SpA;
- A stake of around 0.0262% is held by Banca Monte dei Paschi di Siena SpA;
- A stake of 0.0002% is held by individuals;
- The remaining 0.001% of share capital consists of ordinary treasury shares.

As regards the changes in the individual items in the current year and the previous year, please refer to the tables of changes in shareholders' equity.

14) NON-CURRENT FINANCIAL LIABILITIES

EUR/000	31/12/2019	31/12/2018
Non-current bonds	-	309,359
Non-current financial payables	519	487,713
Non-current financial lease liabilities	8,348	-
NON-CURRENT FINANCIAL LIABILITIES	**8,867**	**797,072**

Non-current financial liabilities amount to 8,867 thousand euro as of December 31, 2019.

The decrease in non-current financial liabilities, amounting to 788,205 thousand euro, is mainly due to the combined effect of the following events: *(i)* the recognition of the financial lease liabilities of 8,348 thousand euro, following the adoption of IFRS 16, which involved, at the date of first-time application, as of January 1, 2019, the recognition of a non-current financial liability for an amount equal to the present value of payments due for leases signed by Group companies, after the next 12 month period from the date of the end of the 2019 reporting period*; (ii)* the recognition of medium/long-term payables due to banks for 519 thousand euro, following the inclusion in the scope of consolidation of the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl); *(iii)* the reclassification under current financial liabilities, of the bond and the financial payables, in anticipation of the repayments of bank borrowings - deriving from the Financial Debt Restructuring Agreement signed by the Group companies - which will be made in 2020, as a result of

the binding offer received by the Group on December 23, 2019 from F2i SGR S.p.A. and Asterion Industrial Partners SGEIC SA; as described in the paragraph "Significant events in the year".
In particular, this transaction will lead to the refinancing of Sorgenia Group's financial debt with the banking system, through the opening of a new loan obtained on the market which will entail the full repayment of existing financial payables and the termination of the Financial Debt Restructuring Agreement signed on December 29, 2017 (for further details, please refer to the paragraph "Financial debt restructuring agreement" and the paragraph "Significant events in the year" of this document).

Non-current financial liabilities deriving from leases

This item amounted to 8,348 thousand euro and refers to the non-current portion of liabilities deriving from lease agreements recorded following the adoption of IFRS 16.

The liabilities are mainly attributable to payables to third parties for *lease* agreements referring to the rental of properties, mainly the property in Milan for office use and car rentals. Lease liabilities are recognised at amortised cost and financial expenses are recognised in the item "Net financial income (expenses)" in the Income Statement. The amount of the liability deriving from the *lease* to be repaid by December 31, 2020, amounting to 1,208 thousand euro, is recorded under current liabilities.

15) DEFERRED TAX LIABILITIES

Deferred tax liabilities amounted to 9,792 thousand euro on December 31, 2019 (41,971 thousand euro on December 31, 2018), with a decrease of 32,179 thousand euro and includes mainly the provision for deferred tax liabilities recognised on the income deriving from the measurement of bank payables at amortised cost, amounting to 1,936 thousand euro and on the expenses linked to the acquisition of new customers capitalised, according to the provisions of IFRS 15, amounting to 4,672 thousand euro.
For changes in and the breakdown of the item in question, please refer to the appropriate section of the Income Statement relating to income taxes.

16) PERSONNEL PROVISIONS

On December 31, 2019, the changes in the item Personnel provisions are as follows:

EUR/000	31/12/2018	Allocation	Decreases	31/12/2019
Provision for employee leaving indemnity	1,118	1,375	(1,168)	1,325
PERSONNEL PROVISIONS	**1,118**	**1,375**	**(1,168)**	**1,325**

Employee leaving indemnity

The employee leaving indemnity set aside represents the current value of the amount due to employees, net of any advances paid out.

The entire amount is considered as due after twelve months.

17) PROVISIONS FOR NON-CURRENT RISKS AND LOSSES

EUR/000	31/12/2018	Allocation	Decreases	Other changes	31/12/2019
Retirement provision and similar obligations	1,214	542	(67)	-	1,689
Decommissioning provision	27,396	-	-	5,469	32,865
Provisions for other non-current risks and losses	1,734	4,096	(33)	-	5,796
PROVISIONS FOR NON-CURRENT RISKS AND LOSSES	**30,344**	**4,638**	**(100)**	**5,469**	**40,350**

The retirement provision relating to the sales force amounts to 1,689 thousand euro and includes the amounts of the client indemnity to which the commercial agents working for the Group are entitled.
The decommissioning provision, amounting to 32,865 thousand euro, includes the amounts relating to the present value of estimated expenses for the decommissioning of the thermoelectric plants and the restoration of the associated sites at the end of their useful life; the increase in the year derives mainly from the downward revision of the discount rate used to discount the future liability and is accounted for by recognising the impact on the assets and on the decommissioning provision recorded in the financial statements.

Other provisions for non-current risks and losses, amounting to 5,796 thousand euro, include: *(i)* for an amount of 1,700 thousand euro, the costs tied to the stipulation, upon building the plants, of agreements with the municipalities in which the Group's thermoelectric plants are located, which require future outlays whose amount and realisation date are not certain; *(ii)* for an amount of 4,096 thousand euro, the costs related to a medium/long-term variable incentive allocated for its employees.

18) CURRENT FINANCIAL LIABILITIES

EUR/000	31/12/2019	31/12/2018
Current bonds	403,913	-
Current financial payables	474,593	72,515
Current financial lease liabilities	1,208	-
CURRENT FINANCIAL LIABILITIES	**879,714**	**72,515**

The item current financial payables, amounting to 879,714 thousand euro, mainly includes: *(i)* the short-term portion of financial payables and the bond, amounting to 878,506 thousand euro; and *(ii)* the financial lease liabilities, amounting to 1,208 thousand euro, corresponding to the current portion of liabilities deriving from *lease* agreements recognised following the adoption of IFRS 16.

Current bonds and current financial liabilities

The book value was determined based on an interest rate deemed representative of market interest rates, adjusted to reflect the Group's credit rating at the subscription date thereof, represented by the effective date of the Restructuring Agreement of 2015.
The interest expense accrued during the year was duly paid by Group companies on a monthly basis, with regard to the loans. As indicated above, the interest expense accrued on the bonds, amounting to 3,840 thousand euro, instead, was capitalised to increase the debt, as set forth in the contractual agreements.

In particular, as envisaged in the Financial Debt Restructuring Agreement, payables due in 2027 and relating to Sorgenia SpA are to be repaid in a single instalment on the maturity date; while Sorgenia Power has a pre-established amortisation plan, without prejudice to the mandatory early repayment plan for both Companies (Sorgenia Power and Sorgenia SpA).
These repayments are due within the limit of the amounts exceeding the minimum cash defined by the Financial Debt Restructuring Agreement.
The calculation for early repayments is carried out on the cash available as of December 31, of each year for Sorgenia Power and for Sorgenia SpA and as of 30 June of each year, only for Sorgenia Power.
Any cash flows deriving from the aforementioned available cash are provided in the month following the calculation date (January and July).
The debt accrues interest at a nominal rate equal to the 1, 3 or 6 month Euribor plus a spread.

Mandatory *convertible* bonds shall be repaid at the maturity date, set as of December 31, 2027, for the nominal amount plus the interest at that date. In any case, the Restructuring Agreement envisages that, once the medium/long-term financial debt is fully repaid, the Companies will start to repay the mandatory convertible bond through the available cash as defined above.

It should be noted that, during the year, changes were made to the flows used for the measurement of the bond at amortised cost deriving from the fact that, on December 23, 2019, the Group received a binding purchase offer from F2i SGR S.p.A and Asterion Industrial Partners SGEIC SA. In particular, this transaction will lead to the refinancing of Sorgenia Group's financial debt with the banking system, through the opening of a new loan obtained on the market which will entail the full repayment of existing financial payables and the termination of the Debt Restructuring Agreement.

In view of this binding offer and the new repayment forecast, the convertible bonds and the financial payable are shown with maturity within the following year.

For more details, please refer to the paragraph "Financial Debt Restructuring Agreement" and the paragraph "Significant events of the year" in this document.

The following table details the characteristics of the Group's loans at the close of the year:

EUR/000						
Company	**Type**	**Maturity date**	**Nominal value 31.12.2019**	**Amortised cost 31.12.2019**	**Of which Short**	**Of which Long**
Sorgenia SpA	Mandatory convertible bond	Dec-27	225,035	221,660	221,660	-
Sorgenia SpA	Term loan	Dec-27	100,270	99,404	99,404	-
Sorgenia Power	Term loan	Dec-27	377,599	375,188	375,188	-
Sorgenia Power	Mandatory convertible bond	Dec-27	183,665	182,253	182,253	-
TOTAL FINANCIAL LIABILITIES			**886,569**	**878,505**	**878,505**	**-**
LIABILITIES FROM FINANCIAL HEDGING CONTRACTS			**-**	**-**	**-**	**-**
TOTAL FINANCIAL LIABILITIES			**886,569**	**878,505**	**-**	**-**

It should also be noted that the phenomena that led to a change in the current value of financial payables and the bond as of December 31, 2019 (886,569 thousand euro) compared to the value of these as of December 31, 2018 (72,515 thousand euro), are as follows:

- reclassification of financial payables and convertible bonds from non-current to current, in respect of the binding offer and the new repayment provision, as detailed previously, for 869,587 thousand euro;
- the decrease in the financial payables of the companies amounting to 85,636 thousand euro, attributable to the combined effect of *(i)* reimbursements in the form of *cash sweep* which took place in January and July 2019 for 130,384 thousand euro, set forth in the Financial Debt Restructuring Agreement owing to the excess cash as of December 31, 2018 and as of June 30, 2019; *(ii)* the recognition of the expense pertaining to 2019, in application of the measurement at amortised cost for a total of 11,033 thousand euro, and *(iii)* the revision of the estimate of the payment flows of the payables for an amount of 33,711 thousand euro, carried out during 2019, to reflect the effect of the purchase and sale and refinancing transaction of the Sorgenia Group;
- the increase in the value of the bond, connected *(i)* with the accounting of interest expense on the nominal value of the bond of 3,840 thousand euro; *(ii)* the recognition of the expense pertaining to 2019, in application of the measurement at amortised cost for 10,194 thousand euro, and *(iii)* revision of the estimate of the payment flows of the bond, for an amount of 80,521 thousand euro, carried out during 2019, to reflect the effect of the purchase and sale and refinancing transaction of the Sorgenia Group.

19) CURRENT LIABILITIES FROM FINANCIAL HEDGING CONTRACTS

For details on item 19 - Current liabilities from financial hedging contracts, please refer to note 20.

20) CURRENT LIABILITIES FROM DERIVATIVE INSTRUMENTS

The following table shows the balance of assets and liabilities from derivatives.

EUR/000	**31/12/2019**	**31/12/2018**
Non-current assets from derivative instruments	**16**	**1,274**
Current assets from derivative instruments	**263**	**28,092**
Current liabilities from financial hedging contracts	**-**	**702**
Current liabilities from derivative instruments	**3,455**	**27,257**

Non-current assets from derivative instruments (4)

On October 19, 2017 the companies Sorgenia SpA and Sorgenia Power SpA signed an Interest Rate Caps (CAPs) for the period 2018-2022 with two primary operators of the banking sector, with a *strike price* of 0.5% and debt hedge of approximately 70%.
On December 31, 2018, the *fair value* of the aforementioned derivatives amounted to 16 thousand euro and included the long-term portion of the positive *fair value* of hedging derivatives against the risk of fluctuation in interest rates on financial payables.
These derivative instruments are ineffective as of December 31, 2019, given linked to the original flows of the loans, subject to a revised estimate of the payment flows in the current year.

Current assets from derivative instruments (9)

The *fair value* of derivative contracts stated under current assets is 263 thousand euro on December 31, 2019 and includes the short-term *fair value* of assets from derivative instruments on energy *commodities*. In particular, the amount includes the *fair value* asset, shown at net amount by deal, of derivatives stipulated for purposes of proprietary trading with leading physical counterparties (trading portfolio), in order to maximise arbitrage opportunities offered by the market through fluctuations in pricing. The decrease recorded compared to the previous year, for an amount of 27,829 thousand euro, derives mainly from the fall in the volumes of proprietary trading carried out in 2019.

Current liabilities from financial hedging contracts (19)

The item as of December 31, 2019 included the non-current portion of the negative *fair value* of derivatives hedging interest rate risk on loans, amounting to 702 thousand euro, expiring on June 30, 2019.

Current liabilities from derivative instruments (20)

In 2019, the *fair value* of derivatives classified under current liabilities is 3,455 thousand euro.
The item mainly includes:

- the negative *fair value*, shown at net amount by deal, of forward purchase and sales contracts for electricity and gas designated in the trading portfolio for 181 thousand euro, relating to derivatives stipulated for purposes of proprietary trading with leading physical counterparties as part of the trading portfolio, as described above;
- the *fair value* measurement of instruments hedging against the risk of volatility of the consideration for transfer capacity assignment (CCC), i.e. 3,274 thousand euro.

The decrease recorded compared to the previous year, for an amount of 23,802 thousand euro, derives mainly from the fall in the volumes of proprietary trading carried out in 2019.

21) CURRENT TRADE PAYABLES

EUR/000	**31/12/2019**	**31/12/2018**
Current trade payables - suppliers	233,047	229,975
Current intercompany trade payables	19	92
Other current trade payables	5,576	12,327
CURRENT TRADE PAYABLES	**238,642**	**242,394**

The item Current trade payables amounted to 238,642 thousand euro, marking a decrease of 3,752 thousand euro. Payables are measured at their nominal value, which approximates the value of payables at amortised cost, since there are no payables due after one year.

Trade payables - suppliers

Trade payables due to suppliers total 233,047 thousand euro.
These payables refer to costs for services, supplies, transportation costs, and ancillary costs relating to electricity and gas exchange.

Other current trade liabilities

The item “Other current trade liabilities” amounts to 5,576 thousand euro and refers almost entirely to advances and payments on account amounting to 5,068 thousand euro, received during the year and relating to the companies Sorgenia Puglia SpA, Sorgenia Trading SpA and Universal Sun Srl (now Sorgenia Green Solutions). The balance reported as of December 31, 2018, referred not only to the advances and payments on accounts cited above, for 5,531 thousand euro, but also to *(i)* invoices to be received from the affiliate Tirreno Power SpA, for electricity and gas purchases, for an amount of 1,834 thousand euro; and *(ii)* deferred income relating to *own use exemption* derivatives for CO_2 emission quotas, settled by the counterparties as of December 31, 2019, but whose physical delivery occurred in 2020, and therefore pertaining to 2019 for 4,148 thousand euro.

22) OTHER CURRENT LIABILITIES

EUR/000	**31/12/2019**	**31/12/2018**
Other intercompany current liabilities	705	1,149
Tax payables	9,047	5,503
Social security payables	3,142	2,277
Payables due to employees	6,088	4,699
Other current liabilities	20,431	17,850
OTHER CURRENT LIABILITIES	**39,412**	**31,478**

The item Other current liabilities amounted to 39,412 thousand euro, and registered an increase of 7,934 thousand euro.

Other intercompany current liabilities

Other intercompany current liabilities, totalling 705 thousand euro, includes mainly payables due to Tirreno Power SpA following application of the tax transparency regime which the Group signed with the subsidiary in previous years. The decrease compared to December 31, 2018 is due to the settlement of the requests for the reimbursement of IRES from IRAP, carried out by the subsidiary Tirreno Power SpA, for the years 2007 – 2011.

Tax payables

The item Tax payables amounted to 9,047 thousand euro. It mainly includes *(i)* the payable for IRAP for the year of 4,785 thousand euro; *(ii)* the payable for excise duties to be paid for 3,026 thousand euro; *(iii)*IRPEF withholdings for employees and professionals to be paid, amounting to 1,175 thousand euro. The change is mainly due to the increase in the payable due to the Tax Authorities for IRAP for 2019, deriving from the presence of higher positive taxable incomes due to the better results achieved in the year under review compared to 2018.

Social security payables

The item Social security payables stands at 3,142 thousand euro and includes payables due for social security contributions by the Group for the associated employee withholdings.
The payables in question are due within one year.

Payables due to employees

The item Payables due to employees amounted to 6,088 thousand euro and includes a productivity bonus accrued by employees during the year (3,825 thousand euro), and the cost for holidays accrued and not yet taken (2,263 thousand euro).

Other current liabilities

Other current liabilities total 20,431 thousand and mainly include the payable for the requirement to transfer CO_2 quotas to GSE (Gestore dei Servizi Energetici), accrued during the year based on the gas consumption of the Group-owned plants. The increase compared to the previous year is due to both higher production of Group plants and an increase in the unit cost of CO_2 quotas.

23) PROVISIONS FOR CURRENT RISKS AND LOSSES

EUR/000	31/12/2018	Allocation	Decreases	Other changes	31/12/2019
Other provisions for current risks and losses	30,241	27,891	(16,986)	-	41,148
Provisions for bonus on volumes	574	359	(574)	-	359
OTHER PROVISIONS FOR CURRENT RISKS AND LOSSES	**30,815**	**28,250**	**(17,560)**	**-**	**41,506**

Other provisions for current risks and losses, which have a balance of 41,506 thousand euro, mainly refer:

- to the provision for customer disputes and teleseller agency and miscellaneous disputes, for an amount of 3,385 thousand euro (4,040 thousand euro as of December 31, 2018), which includes the estimated costs of legal proceedings brought by customers, as well as the estimate for other outstanding legal disputes. During the year under review, provisions of 517 thousand euro, releases of 865 thousand euro and uses of 307 thousand euro were recorded;
- to the best estimate of 2,986 thousand euro made on the date of preparation of these Financial Statements (3,299 thousand euro on December 31, 2018) of costs linked to "collector" activities for trade receivable recovery actions as well as costs relating to the payment of fees for the execution of injunction orders against defaulting customers and costs for future expenses linked to the management of trade receivables assigned to third parties. In 2019, there were uses of 528 thousand euro, provisions of 515 thousand euro and releases of 300 thousand euro;
- to the provision for risks on equity investments equal to 260 thousand euro (1,675 thousand euro on December 31, 2018). The provision refers to the subsidiary Sorgenia Solar Srl (in liquidation).
  This provision was recognised to cover the expected future losses in light of the negative shareholders'

equity of the company and the costs that should be incurred. At the end of the year, the provision was released for an amount of 1,415 thousand euro, by aligning it to the distribution plan which will be recognised to the Company at the close of the liquidation of the subsidiary, which took place in the first few months of 2020;

- to the risk provision for Settlement by the gas Transport Operator. Following the issue by the Authority of resolutions 670/2017/R/gas and 782/2017/R/gas, the recalculation by the gas Transport Operator of the economic and physical items of 2015 began. The above resolutions have designed a model for the calculation of the positions accrued by the operators following adjustments of the measurements of the points underlying the distribution networks ("Settlement"). Based on the information available on the new Settlement model introduced by the Authority, the estimate of the probable charge to be paid to the Transport Operator for the period 2015-2018 was quantified at 1,931 thousand euro (1,933 thousand euro as of December 31, 2018). This estimate was made on the basis of the measurement adjustments communicated to Sorgenia by the distributors and on the comparison of these measurements revised with the values considered at the time by the gas Transport Operator, in line with the indications contained in Resolutions no. 670/2017/R/gas and no. 782/2017/R/gas. During 2019, the provision in question decreased by 2 thousand euro due to utilisation;
- to the risk provision connected with the Regulatory Authority for Energy, Networks and Environment (ARERA) preliminary investigation and, the Market and Competition Guarantor Authority (AGCM) investigation on prices for dispatching services; as of December 31, 2017, the Group estimated a total amount of 2,000 thousand euro as the potential outlay as a result of the Order to Comply no. 461/2017/E/EEL and penalty proceedings no. DSAI/96/2017/EEL. As of December 31, 2019, the balance of this provision was equal to 1,297 thousand euro (the same amount as of December 31, 2018). The amount corresponds to the best estimate of the probable charge that the Company must incur for the penalty proceeding which is still in progress;
- to the allocation of 19,610 thousand euro, relating to the portion of the costs linked to a variable short-term incentive allocated for its employees, in addition to an incentive connected with completion of the Group's sale transaction;
- to the provision for risks established in 2019 by the subsidiary Sorgenia Power, for an amount of 6,959 thousand euro, for the likely expense payable by the company for the adjustment of the imbalance by Terna due to possible revisions of national production;
- to the risk provision established by the subsidiary Sorgenia Power SpA, amounting to 2.500 thousand euro, in view of the dispute still pending, pertaining to the technical adjustments of the thermoelectric plant located in the Municipality of Aprilia.

Moreover, as of December 31, 2018, the parent company Sorgenia SpA reported a risk provision, in the amount of 1,201 thousand euro, related to charges on payment instruments and charges related to the sending of invoices recorded following the Market and Competition Guarantor Authority (AGCM) and the Regulatory Authority for Energy, Networks and Environment (ARERA) measures, which disputed with

Sorgenia the charging of expenses to customers for the receipt of invoices and for the completion of payments using different methods such as RID (direct debit) or credit card. The provision was used during the year in the amount of 903 thousand euro following the repayment of these charges to end customers; repayment was completed in the first half of 2019 and the residual amount of 298 thousand euro was released as a contingent liability.

The decrease in the item, amounting to 10,917 thousand euro, is mainly due to:

i) the release, for an amount of 12,200 thousand euro, of the residual part of the provision set aside by the subsidiary Sorgenia Puglia SpA, in light of a preliminary investigation procedure and a fact-finding survey launched by the Regulatory Authority for Energy, Networks and Environment (ARERA).

   The item provision represented the probable expense encumbering the Company for which the Directors, in light of a preliminary investigation and a fact-finding survey launched by the Authority, deemed it appropriate to allocate a provision for risks in 2017, for an amount of around 20 million euro, which represented the best possible estimate on the basis of the information available at the date of preparation of the financial statements.

   As of December 31, 2019, the Company released the residual part of the provision - allocated in 2017 and partially released as at December 31, 2018 - for 12,200 thousand as a result of the Directors' re-examination of the likelihood of occurrence of risk scenarios involving potential action by the Authority, on the basis of which the allocation to the provision for risks in 2017 was estimated and adjusted in 2018. More specifically, the considerations reached by the Directors also took into account the fact that, on June 4, 2019, the Regulatory Authority for Energy, Networks and Environment (ARERA), approved, through resolutions 222/2019 and 290/2019, Terna's inclusion of the Modugno plant in the list of essential plants (in relation to the period July 15 - December 31, 2020), according to the provisions of the regulation governing plants of an essential nature set forth in resolution 111/06.

   This resolution enables dispatching users who own essential plants to request, for the period of validity of the list drawn up by Terna, or for a multi-year period effective from the start of the period of validity of the list itself, admission to the cost recovery regime. On June 18, 2019, Sorgenia presented ARERA (Regulatory Authority for Energy, Networks and Environment) with an application for admission to the cost recovery regime for a multi-year period for the Modugno plant, which was approved by means of the adoption of resolution 290/2019 on July 2, 2019.

ii) to the release, for an amount of 1,415 thousand euro, of the provision for risks on the equity investment in Sorgenia Solar (in liquidation), as described above.

The volume bonus provision, amounting to 359 thousand euro (574 thousand euro last year and used during the year) is linked to the signing of annual supply contracts by the company Sorgenia SpA with its customers, which provide for the payment of annual bonuses if certain targets are reached in terms of volumes of electricity and gas withdrawn. On December 31, 2019, these bonuses, which are specific in nature and are likely to exist, are uncertain in terms of their amount and timing. The amount shown in the Financial Statements relates only to bonuses to be paid to customers on consumption in 2019.

24) REVENUES FROM SALES AND SERVICES

EUR/000	31/12/2019	31/12/2018	CHANGE
Revenues from sales and services	1,565,775	1,400,878	164,897
REVENUES BY BUSINESS SECTOR	**1,565,775**	**1,400,878**	**168,897**

EUR/000	31/12/2019	31/12/2018	CHANGE
Domestic	1,520,881	1,397,564	123,317
Foreign	44,894	3,314	41,580
REVENUES BY GEOGRAPHICAL AREA	**1,565,775**	**1,400,878**	**164,897**

On December 31, 2019, consolidated revenues amounted to 1,565,775 thousand euro and were mainly due: *(i)* to revenues from end customers and other counterparties for the sale of electricity and natural gas for 879,489 thousand euro, *(ii)* to revenues for the Energy Management activities carried out on wholesale markets, and on the Dispatching Services Market (MSD) for 673,277 thousand euro.
The increase in turnover compared to the previous year is attributable to: (i) higher revenues achieved on the Dispatching Services Market by the Group's generation plants (+92,816 thousand euro), (ii) increase in volumes of electricity and gas sold on the wholesale market (+34,379 thousand euro) and (iii) higher revenues from the sales of electricity and natural gas to end customers, which rose from 607,927 thousand euro in 2018 to 645,631 thousand euro in 2019, marking a variation of 37,704 thousand euro; this increase is due mainly to higher volumes of sales to higher value added customer segments - Small and Medium Enterprises (SMEs), "Professionals" and "Residential" - which have a higher sale price than large and medium enterprises. It should also be noted that the customer portfolio rose from around 275 thousand in 2018 to around 345 thousand in 2019, an increase of over 25% compared to the previous year.

It should also be noted that, the item also includes the revenues achieved by the subsidiary Sorgenia Puglia, following the Regulatory Authority for Energy, Networks and Environment (ARERA) approval of Terna's inclusion of the Modugno plant in the list of essential plants and the subsequent admission to the generation costs recovery regime relating to the Modugno plant, based on the expected greater benefit for consumers, for an amount of 17,404 thousand euro.

25) COSTS FOR THE PURCHASE OF GOODS AND CHANGES IN INVENTORIES

EUR/000	**31/12/2019**	**31/12/2018**	**CHANGE**
Purchase costs	740,323	848,226	(107,903)
Purchase of rights and certificates	87,305	73,420	13,885
Transportation costs	365,717	331,743	33,974
Other purchase costs	40,190	36,356	3,834
Change Inventories	24,235	(41,040)	65,275
COSTS FOR PURCH. GOODS AND CHANG. INVENTORIES	**1,257,770**	**1,248,705**	**9,065**

In 2019, Costs for the purchase of goods and change in inventories amounted to 1,257,770 thousand euro. This amount essentially comprises the costs for the purchase and transportation of electricity and natural gas purchases on wholesale markets.

The change in the item (an increase of 9,064 thousand euro compared to the previous year), attributable in particular to purchases of electricity and natural gas (to be read jointly with the change in inventories) and the costs of purchase of emission rights and certificates and transport costs, is mainly linked: (i) to the higher volumes of CO_2, deriving from the increase in production, as well as the rise in the unit price (ii) higher transport, dispatching, and distribution costs deriving from the rise in sales of electricity and gas and the increase in transport tariffs; (iii) partly offset by the fall in commodity prices and the change in inventories of natural gas stored at Stogit SpA, the result of the lower awarding of auctions for the allocation of storage capacity with respect to the previous year.

Changes in inventories amounted to 24,235 thousand euro. For additional details on the breakdown and changes, please refer to Note 7 - Inventories.

26) COSTS FOR SERVICES

EUR/000	**31/12/2019**	**31/12/2018**	**CHANGE**
Sales and distribution costs	22,669	17,870	4,799
Costs for services	30,718	27,211	3,507
Maintenance costs and contracts	31,945	23,809	8,136
Other costs for services	5,468	5,415	53
COSTS FOR SERVICES	**90,800**	**74,305**	**16,495**

Costs for services include all costs relating to routine business operations which, in 2019, amounted to 90,800 thousand euro, up by 16,495 thousand euro compared to the previous year.

Sales and distribution costs include customer assistance costs, costs for outsourced billing services, credit management costs and costs related to after-sales services provided to customers.

Costs for services includes the following:

- advertising and marketing costs;
- costs for technical, legal and notarial consulting;
- fees due to members of the Board of Statutory Auditors;
- audit fees paid to the Independent Auditors;
- IT consulting;
- personnel recruitment and training costs;

The item Maintenance costs is mainly built up by primarily costs for the maintenance of the plants located in Aprilia, Lodi, Termoli and Modugno, based on *Long Service Agreements*.

Other costs for services include:

- insurance costs that mainly contain the cost of the *"All Risks"* insurance policy taken out after the four plants owned by the Group companies started operating;
- rental and short-term rental costs.

The increase compared to the previous year is mainly due: (i) to costs for maintenance *"extra-work"* incurred by the subsidiary Sorgenia Power SpA, linked to the extension of the maintenance shutdown at the Termoli and Aprilia plants and to the reconditioning work of the rotor at the Lodi plant; (ii) to higher customer acquisition and assistance costs, as they do not meet the requirements of IFRS 15 and therefore are no longer capitalised within balance sheet assets and are amortised over several financial years.

27) PERSONNEL COSTS

EUR/000	31/12/2019	31/12/2018	CHANGE
Personnel costs	26,829	26,025	804
Employee leaving indemnity	1,375	1,232	143
Other personnel costs	29,459	4,497	24,962
PERSONNEL COSTS	**57,663**	**31,754**	**25,909**

Personnel costs totalled 57.663 thousand euro and include all expenses for employed staff, such as merit pay increases, promotions, automatic cost-of-living increases, cost of holidays not taken, and provisions as per the law and national labour agreements and production bonuses. The applicable national labour agreement is that of the electricity segment.

The change with respect to 2018 is mainly linked to the increase in the average headcount, as well as to the recognition of extraordinary costs linked to the completion of the Group purchase and sale transaction and the allocation of a medium/long-term variable incentive (LTI).

The following chart shows the breakdown of Group personnel on December 31, 2019:

	31/12/2018	HIRES	DEPARTURES	31/12/2019	YEAR AVG
Executives	19	2	2	19	19
Managers	70	13	5	79	74
Office staff	203	39	23	234	226
Workers	18	1	-	20	20
TOTAL EMPLOYEES	**310**	**55**	**30**	**352**	**339**

The Sorgenia Group reported, at the end of 2019, a total 352 employees and an average for the year of 339.

28) OTHER OPERATING INCOME

EUR/000	31/12/2019	31/12/2018	CHANGE
Other revenues	58,723	89,218	(30.495)
Revenues from the charge-back of costs	292	114	178
OTHER OPERATING INCOME	**59,015**	**89,332**	**(30,317)**

Other operating income totalled 59,015 thousand euro. The change compared to 2018 is mainly due to a combined effect linked to: *(i)* lower income from purchases and sales on regulated forward commodity markets and *(ii)* lower income received by way of recognition of the consideration for the availability of production capacity pursuant to Resolution 48/04 for 2018.

Specifically, the item on December 31, 2019 mainly includes:

- income connected with the activity of the subsidiary Sorgenia Trading SpA deriving from the trading of electricity and natural gas on the regulated forward markets, amounting to 11,044 thousand euro;
- release of provisions for risks and losses for roughly 13,837 thousand euro, due mainly to the release of the provision for 12,200 thousand euro allocated by the subsidiary Sorgenia Puglia SpA in 2017 (publication of Resolution 674/17), based on the Directors' re-examination of the likelihood of occurrence of scenarios involving potential action by the Authority and in light of resolutions 222/2019 and 290/2019, through which the Italian Regulatory Authority for Energy, Networks and Environment (ARERA) approved Terna's inclusion of the Modugno plant in the list of essential plants, according to the provisions of the regulation on essentiality pursuant to resolution 111/06 (for more details please

refer to note 23 - "Provisions for current risks and losses"), and which therefore removed the reasons that led to the allocation;

- fees paid by Terna attributable to the “consideration for the availability of production capacity for the plants of the companies Sorgenia Power SpA and Sorgenia Puglia SpA for 16,858 thousand euro pursuant to Resolution 48/04" for 2018;
- higher revenues pertaining to 2017, amounting to 2,288 thousand euro, attributable to the full repayment of the penalty issued by Snam relating to the settlement process relating to 2013-2017, with which the transport network operator adjusted the incorrect measurement of the gas capacity used by the Aprilia plant of the subsidiary Sorgenia Power SpA;
- higher revenues, for 3,951 thousand euro, relating to insurance reimbursements received in 2019 to compensate for claims, opened in previous years, regarding the technical damage suffered by the reducers of the Aprilia and Turano Lodigiano plants of the subsidiary Sorgenia Power SpA;
- higher revenues for electricity and natural gas pertaining to previous years, not allocated or allocated in excess, amounting to 1,583 thousand euro;
- non-recurring income relating to the non-existence of payables for invoices to be received relating to previous years, amounting to approximately 4,040 thousand euro;

29) OTHER OPERATING COSTS

EUR/000	**31/12/2019**	**31/12/2018**	**CHANGE**
Other costs	31,350	13,019	18,331
OTHER OPERATING COSTS	**31,350**	**13,019**	**18,331**

Other costs totalled 31,350 thousand euro. This item is mainly built up by:

- costs connected with the activity of the subsidiary Sorgenia Trading SpA from the sale of electricity and natural gas on the regulated markets, amounting to 16,947 thousand euro;
- contingent liabilities of 11,289 thousand euro mainly referred:
  - to adjustments to costs relating to previous years and release of higher allocations for invoices to be issued for 6,067 thousand euro;
  - to the expense deriving from the definition of a settlement agreement in relation to watchlist loans, that arose in previous years, for an amount of 1,286 thousand euro;
  - to the expense relating to the transport of electricity and natural gas pertaining to previous years, for a total of 561 thousand euro;
  - to the write-offs of non-recoverable receivables for excise duties on electricity and gas, for 262 thousand euro;

The item Other costs includes the net margin on trading activity in physical contracts on energy commodities, amounting to 1,136 thousand euro.

For a complete analysis of this item, see the following table, which shows the breakdown of economic results on December 31, 2019 for the trading activity.

EUR/000	F.V. recog. for contr. outst. 31/12/2018 (A)	F.V. recog. for contr. outst. 31/12/2019 (B)	Change F.V. in period/year (C)=(B-A)	Realis. during the period/year (D)	Net margin from trading activ. (E)=(C+D)
Sales rev. from derivatives included in trading portfolios	-	-	-	51,474	51,474
Other operating income from derivatives included in trading portfolios	(1,893)	2,803	910	351	(1,542)
Costs from derivatives included in trading portfolios	-	-	-	(51,006)	(51,006)
Other expenses from derivatives included in trading portfolios	-	-	-	(2,865)	(62)
NET INCOME/(EXPENSES) FROM TRADING ACT.	**(1,893)**	**2,803**	**910**	**(2,046)**	**(1,136)**

30) GAINS/(LOSSES) FROM COMMODITY DERIVATIVES

EUR/000	31/12/2019	31/12/2018	CHANGE
Gains on hedging contracts	1,382	306	1,076
Fair value gains	-	16	(16)
Losses on hedging contracts	(187)	(677)	490
Fair value losses	-	(79)	79
GAINS/(LOSSES) FROM COMMODITY DERIVATIVES	**1,195**	**(434)**	**1,629**

The item Gains on hedging contracts includes gains realised during the year on derivative instruments to hedge the risk of fluctuations in commodity prices (1,382 thousand euro).

The item Losses on hedging contracts includes losses realised during the year on derivative instruments to hedge the risk of fluctuations in commodity prices (187 thousand euro).

As of December 31, 2018, the item "Fair value gains/losses" included the positive and negative change in the *fair value* of the hedging contracts stipulated to hedge against the risk of fluctuation of prices and exchanges rates, tied to energy commodities.

31) ADJUSTMENTS TO THE VALUE OF INVESTMENTS VALUED AT EQUITY

EUR/000	31/12/2019	31/12/2018	CHANGE
Revaluations of jointly-controlled equity investments	29,729	-	29,729
ADJUSTMENTS TO THE VALUE OF INVESTMENT VALUED AT EQUITY	**29,729**	**-**	**29,729**

The positive balance of the item is attributable entirely to the revaluation of the value of the equity investment held in Tirreno Power SpA, - a shareholding 50% held through the subsidiary Energia Italiana SpA - for an amount equal to the portion pertaining to the Group of the shareholders' equity held in the subsidiary as of December 31, 2019, net of the nominal value of Participating Financial Instruments - PFIs (for more details please refer to note 3 - Equity investments in companies valued at equity).

32) AMORTISATION AND DEPRECIATION, NET PROVISIONS AND WRITE-DOWNS

EUR/000	31/12/2019	31/12/2018	CHANGE
Amortis. Intang. Assets	27,371	20,230	7,141
Deprec. Tang. Assets	36,529	36,116	413
Write-down of intangible assets	-	1,013	(1,013)
Write-down of tangible assets	21	6,071	(6,050)
Provisions and losses on receivables	7,227	8,883	(1,656)
Provisions for sundry risks	178	-	178
DEPRECIATION, AMORTISATION, NET PROVISIONS AND WRITE-DOWNS	**71,326**	**72,312**	**(987)**

In 2019, this item amounted to 71,326 thousand euro.

Amortisation of intangible assets, which amounts to 27,371 thousand euro, was calculated on the basis of the duration of the life of the assets and the use in the production phase for the Group's software and IT systems, and on the basis of the average duration of the contracts in place with end customers for the costs incurred for the activation of new customers ("*Cost to acquire*" – *CTA in accordance with the new IFRS 15*). The increase compared to the previous year, refers primarily:*(i)* to higher amortisation recognised in compliance with IFRS 15, as a result of higher costs incurred for the acquisition of new customers with respect to the previous year *(ii)* higher amortisation as a consequence of greater investments made in 2019 compared to 2018; *(iii)* amortisation pertaining to the year relating to rights of use linked to leases signed by the Group companies, in application of IFRS 16, with effects from January 1, 2019, for an amount of 1,200 thousand euro (for more details please refer to paragraph 1 - Intangible assets).

Also the depreciation of tangible assets, amounting to 36,529 thousand euro, was also calculated on the basis of the duration of the economic-technical useful life of the asset and its use during the production phase.

The item Provisions and losses on receivables, equal to 7,227 thousand euro, is down compared to the previous year (8,883 thousand euro as at December 31, 2018). This amount represents the best estimate in order to adjust the nominal value of the receivables to their presumed realisable value (for more details please refer to paragraph 10 - Current trade receivables).

33) NET FINANCIAL INCOME/(EXPENSE)

EUR/000	**31/12/2019**	**31/12/2018**	**CHANGE**
Financial income	636	1,404	(768)
Financial expense	(150,109)	(39,136)	(110,973)
NET FINANCIAL INCOME/(EXPENSE)	**(149,743)**	**(37,732)**	**(111,741)**

As of December 31, 2019, Net financial income and expense amounted to 149,743 thousand euro and mainly consists of:

- interest expense on the nominal value of payables (9,023 thousand euro);
- interest expense deriving from the "valuation at amortised cost" of financial payables (135,459 thousand euro);
- interest expense related to the financial adjustment of the decommissioning provisions (2,319 thousand euro);
- interest expense related to the financial adjustment of lease liabilities (393 thousand euro);
- other miscellaneous financial income/expense tied to Group operations, including commissions and charges on guarantees and bank guarantees (net charges totalling 2,756 thousand euro).

It should be noted that the change compared to the previous year is mainly due to the recognition in 2019 of higher figurative financial expenses from *changes in estimates* of financial payables due to banks (deriving from the recognition of the difference between the present value of expected cash flows and its nominal value) compared to December 31, 2018. This variation is the result of the revision of the estimate in the measurement at amortised cost carried out in the year to reflect the effect on expected cash flows of the Group's purchase and sale transaction as described in the section "Significant events in the year". This transaction will lead to the refinancing of Sorgenia Group's financial debt to the banking system, through the taking out of a new loan obtained on the market, which will entail the full repayment of existing financial payables and the termination of the 2017 Restructuring Agreement (for more details, please refer to paragraph 18 - Current financial liabilities).

34) GAINS/(LOSSES) FROM FINANCIAL DERIVATIVES

EUR/000	**31/12/2019**	**31/12/2018**	**CHANGE**
Fair value gains	702	1,770	(1,068)
Losses on hedging contracts	(712)	(1,855)	1,143
Fair value losses	(1,256)	(1,823)	567
GAINS/(LOSSES) FROM FINANCIAL DERIVATIVES	**(1,267)**	**(1,909)**	**644**

Fair value gains and losses on hedging contracts, for a net amount of negative 10 thousand euro, refer to derivatives on interest rates *(Interest Rate Swap)*, whose hedge was found to be ineffective. In particular, the gains of 702 thousand euro represents the change in fair value from the previous year, while the expenses of 712 thousand euro refer to the portion relating to the differential of the interest rates paid on the basis of the aforementioned hedge agreements.

The item relating to the fair value losses includes the change in the fair value of the Interest Rate Cap derivatives entered into by Sorgenia SpA and Sorgenia Power SpA through a dedicated agreement executed on October 19, 2017 with primary bank operators, to hedge the risk of fluctuation in interest rates on the existing loan, for an amount of 1,256 thousand euro.

These derivative instruments are ineffective as of December 31, 2019, given linked to the original flows of the loans, subject to a revised estimate of the payment flows in the current year.

35) ADJUSTMENT OF VALUES OF FINANCIAL ASSETS

EUR/000	**31/12/2019**	**31/12/2018**	**CHANGE**
Income from trading of equity investments	670	-	670
Write back/(Write down) of other equity investments	1,415	(58)	1,473
ADJUSTMENT OF VALUES OF FINANCIAL ASSETS	**2,085**	**(58)**	**2,143**

The item Income from trading of equity investments, amounting to 670 thousand euro, generated by the recognition of a receivable, collected in the year through the financial compensation on the *earn-out* recognised in 2017 to the company Renvico Holding Srl (acquirer of the former subsidiary of the Group Sorgenia Green Srl, in March 2015).

The revaluations of other equity investments, amounting to 1,415 thousand euro, are the result of the release of the provision for risks carried out on December 31, 2017 in order to adjust the liability, allocated in the previous year, to the value of the shareholders' equity of the subsidiary Sorgenia Solar Srl in liquidation, excluded from the scope of consolidation of the Sorgenia Group on December 31, 2019.

36) INCOME TAXES

EUR/000	**31/12/2019**	**31/12/2018**	**CHANGE**
Current taxes	2,272	(2,022)	4,294
Deferred tax assets and liabilities	5,834	38,395	(32,561)
INCOME TAXES	**8,106**	**36,373**	**(28,267)**

The tax component for 2019 was positive for 8,106 thousand euro (positive by 36,373 thousand euro in the previous year). This amount is mainly justified by the change during the period in deferred tax assets and liabilities on temporary differences.
The item Deferred tax assets and deferred tax liabilities is attributable primarily to the combined effect *(i)* of the release and the use of deferred tax assets recorded on interest expense, amounting to 31,073 thousand euro;*(ii)* the release of deferred tax liabilities relating to the amortised cost of financial payables of 32,510 thousand euro compared to December 31, 2018 and *(iii)* the recognition of higher receivables for deferred tax assets on provisions for legal and tax risks for 4,961 thousand euro, on previous tax losses for 4,072 thousand euro;*(iv)* for 8,576 thousand euro, to the recognition of income from tax consolidation for the 2013 tax period recognised to the companies Sorgenia Power SpA and Sorgenia Puglia SpA by CIR SpA (which, in 2013, was the tax consolidating entity) following the presentation of supplementary tax returns by these companies.

The recognition of higher deferred tax assets on tax losses derives from the recoverability analysis carried out by the Management on the achievement of sufficient future taxable profits for the use of the benefits of deferred tax assets.

For additional details, please refer to the comments of the related Balance Sheet items “Deferred tax assets” and “Deferred tax liabilities”.

The following table details the temporary tax differences.

EUR/000	31/12/2018			31/12/2019		
PREPAID AND DEFERRED TAXES FOR THE YEAR	**Temp. Differ.**	**Rate**	**Tax effect**	**Temp. Differ.**	**Rate**	**Tax effect**
Fees of the Directors, Board of Statutory Auditors and Independent Auditors	1,362	24.00%	327	1,404	24.00%	337
Decommissioning and maintenance provision	32,765	27.23%	8,888	29,115	27.43%	7,988
Provision for agents' leaving indemnities and merit system provisions	260	24.00%	62	2,186	6.40%	140
Provisions for legal and tax risks	29,140	28.30%	8,259	47,165	27.82%	13,121
Provision for the write-down of receivables	34,599	24.00%	8,304	29,793	24.00%	7,150
Personnel provisions	181	24.00%	44	229	24.60%	56
Premium transactions	178	24.00%	43	-	24.00%	-
Derivative instruments in CFH	-	24.00%	-	8,144	24.00%	1,954
Interest expense	129,472	24.00%	31,073	-	-	-
Financial leases	-	0.00%	-	207	28.17%	58
Tax losses	155,660	24.00%	37,358	172,625	24.00%	41,430
ACE (Aid for economic growth)	33,827	24.00%	8,119	27,679	24.00%	6,643
Other temporary differences	5,599	26.80%	1,501	3,783	27.95%	1,057
DEFERRED TAX ASSETS FOR THE YEAR	**423,043**		**103,977**	**322,328**		**79,934**
Amortised cost of financial payables	(143,524)	24.00%	(34,446)	(8,065)	24.00%	(1,936)
Derivative instruments in CFH	(2,511)	24.00%	(603)	-	-	-
Provision for agents' leaving indemnities and merit system provisions	(358)	27.90%	(100)	(245)	27.90%	(68)
Personnel provisions	(111)	24.00%	(27)	(143)	24.00%	(34)
Charges for acquisition of new capitalised customers	(14,255)	24.00%	(3,977)	(16,746)	27.90%	(4,672)
Surplus value of urbanisation charges	(3,480)	27.90%	(971)	(3,344)	24.00%	(955)
Capital gain from acquisition	-	27.90%	-	(1,070)	27.90%	(299)
Other temporary differences	(6,623)	24.00%	(1,848)	(6,574)	24.00%	(1,828)
DEFERRED TAX LIABILITIES FOR THE YEAR	**(171,056)**		**(41,971)**	**(36,188)**		**(9,792)**
TOTAL DEFERRED TAX LIABILITIES FOR THE YEAR						
TOTAL CHANGES			**36,410**			**8,136**
of which:						
Effect on Balance Sheet			***(1,985)***			***2,557***
Net Economic Effect for the Year			***38,395***			***5,834***

RELATED PARTY TRANSACTIONS

TAX CONSOLIDATION

Following the resolution of the Board of Directors on May 31, 2018, the national tax consolidation was renewed (pursuant to Articles 117 et seq. of Italian Presidential Decree 917/86 - Consolidation Act on Income Taxes - TUIR) for the 2018-2020 period, with the scope of consolidation including the consolidating entity, Sorgenia SpA and four Group companies: Sorgenia Power SpA, Sorgenia Puglia SpA, Sorgenia Trading SpA and Energia Italiana SpA.

National consolidation makes it possible to determine current IRES on a taxable basis corresponding to the algebraic amount of positive and negative taxable amounts reported by participating companies. The financial relations, in addition to reciprocal liability and obligations, are regulated by specific agreements between the parties, according to which, in the case of positive taxable amounts, the subsidiaries transfer to the Parent Company the financial resources corresponding to the higher tax amount owed by the subsidiaries by virtue of participation in national tax consolidation. In the case of negative taxable amounts, they receive compensation amounting to the corresponding tax savings gained by the Parent Company, if and in the amount in which there are expected earnings that enable the Group to recognise deferred tax assets.

GROUP VAT

Sorgenia SpA officially stated that it would be availing itself of the special VAT regime provided for parent companies and their subsidiaries in which the companies who meet the requisites according to tax regulations, can take part (Article 73, last paragraph of Italian Presidential Decree 633/72 – Article 3 Ministerial Decree 13.12.79).

In this area, all debit and credit positions with the Inland Revenue are transferred on a monthly basis to the Parent Company Sorgenia SpA, which will carry out the liquidation of Group VAT and, in the case of debit balance, the related tax payment.

OTHER RELATED PARTIES

The transactions between the Group and related parties mainly refer to trading goods, providing services, funding and use of financial means with parent companies, subsidiaries, associated companies and companies under joint control.

All of the transactions were carried out in the interest of the Group as part of ordinary operations and were regulated under market conditions, i.e. under the conditions and terms that would be applied to transactions between two independent parties.

The breakdown of Balance Sheet and Income Statement balances generated by related party transactions is shown in the following tables:

	REVENUES		COSTS SERV. AND PURCHASE OF GOODS			FIN. EXPENSE AND INCOME	
EUR/000	**Trade**	**Other operating Revenue**	**Costs for serv.**	**Costs for the purchase of goods**	**Other operating costs**	**Fin. income**	**Fin. expense**
PARENT COMPANIES							
Nuova Sorgenia Holding SpA	-	-	391	-	-	-	-
TOTAL PARENT COMPANIES	**-**	**-**	**391**	**-**	**-**	**-**	**-**
J. VENTURES - Other companies	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Tirreno Power	-	-	782	77	8	-	-
LNG Medgas Terminal	-	31	-	-	-	-	-
Fingas	-	15	-	-	-	-	-
Sorgenia Solar in liquidation	-	-	-	-	-	2	
TOTAL J. VENTURES - Other companies	**-**	**46**	**782**	**77**	**8**	**-**	**-**
TOTAL REL. PARTIES	**-**	**46**	**1,173**	**77**	**8**	**2**	**-**
TOTAL ITEMS IN FINANCIAL STATEMENTS	**1,565,775**	**57,816**	**1,233,533**	**90,800**	**30,151**	**636**	**150,109**
Incidence %	**0.0%**	**0.08%**	**0.09%**	**0.09%**	**0.03%**	**029%**	**0.0%**

	NON-CURRENT ASSETS		CURRENT ASSETS*			NON-CURRENT LIABILITIES			CURRENT LIABILITIES		
EUR/000	**Financ.**	**Other**	**Trade**	**Financ.**	**Other**	**Trade**	**Financ.**	**Other**	**Trade**	**Financ.**	**Other**
PARENT COMPANIES											
Nuova Sorgenia Holding SpA	-	-	-	1,000	-	-	-	-	-	-	-
TOTAL PARENT COMPANIES	**-**	**-**	**-**	**1,000**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
J. VENTURES - Other companies	-	-	-	-	-	-	-	-	-	-	-
Tirreno Power	-	-	-	-	-	-	-	-	187	48	705
Sorgenia Solar in liquidation	-	-	-	341	-	-	-	-	-	-	-
Fingas	-	-	5	-	-	-	-	-	-	-	-
TOTAL J. VENTURES - Other companies	-	-	**5**	**341**	**-**	-	-	-	187	48	**705**
TOTAL RELATED PARTIES	**-**	**-**	**5**	**1,341**	**-**	**-**	**-**	**-**	**187**	**48**	**705**
TOTAL ITEMS IN FINANCIAL STATEMENTS	**16**	**1,182,350**	**520,694**	**6,682**	**20,686**	**-**	**8,866**	**51,468**	**238,642**	**879,714**	**84,373**
Incidence %	**0.0%**	**0.0%**	**0.0%**	**20.1%**	**0.0%**	**0.0%**	**0.0%**	**0.3%**	**0.1%**	**0.0%**	**0.8%**

*Value after the provision for write-down of receivables

RISK MANAGEMENT

The Energy Management activities carried out by Sorgenia Group respond to the need to monitor the various risks to which the Group is exposed and to take appropriate action, from a non-speculative point of view, to limit such exposure by equipping the Company with procedures and instruments able to represent the risks in a transparent way.
With the aim of continuing to improve its business and monitor the risks, in 2019 Sorgenia Group also completed its map of the risk management processes, which will enable the Company to manage and deal with this activity as the businesses of the Group expand.
This chapter describes the policies and principles that the Group uses to manage and control the various risks to which it is potentially exposed.
The following paragraphs give the main qualitative and quantitative information (in thousands euro) on the nature of the risks that the Group is exposed to and the ways in which they can be mitigated.
Risk was reduced by entering into hedging contracts, matching sales and sourcing formulas and by taking out insurance policies.
The following table shows the different classes of financial instruments and for each one an indication is given of what kinds of risk were analysed in the following paragraphs.

EUR/000	Financial statement items	Liquidity Risk	Interest Rate Risk	Commodity risk	Credit risk
NON-CURRENT ASSETS					
Equity investments in subsidiaries	21	-	-	-	21
Non-current trade assets	-	-	-	-	-
Non-current financial assets	16	-	16	-	-
Other non-current assets (excl. non-current tax receivables)	11,755	11,755	-	-	-
CURRENT ASSETS					
Current trade receivables	259,718	-	-	-	259,718
Current financial assets	6,682	-	-	-	6,682
Other current assets (excl. current tax receivables)	3,426	980	-	263	2,183
Cash and cash equivalents	231,651	231,651	-	-	-
NON-CURRENT LIABILITIES					
Non-current bonds*	-	-	-	-	-
Non-current financial liabilities*	(8,866)	-	(519)	-	-
Non-current trade liabilities	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-
Other non-current financial liabilities*	-	-	-	-	-
CURRENT LIABILITIES		-			
Current bonds	(403,913)	-	(403,913)	-	-
Current financial liabilities*	(475,801)	-	(474,593)	-	-
Current trade liabilities	(238,642)	(238,642)	-	-	-
Other current liabilities (excl. payables to Tax Authorities and pension institutions)	(30,678)	(27,224)	-	(3,455)	-

**These values are also subject to liquidity risk*

DISCLOSURE IN ACCORDANCE WITH IFRS 7

In accordance with IFRS 7 Financial Instruments – Disclosures, consistent with the information provided in the Report on Operations, the following paragraphs present information on the nature of risks resulting from financial instruments based on accounting or management analyses.

Fair Value Hierarchy according to IFRS 13

IFRS 13 requires financial instruments to be classified at their *fair value* determined on the basis of the quality of the inputs used to measure them.
The aforementioned classification under IFRS 13 involves a "*fair value* hierarchy" comprising three levels which prioritises, within the measurement of *fair value*, the use of market-based information over entity-specific information and establishes a three-level hierarchy for *fair value* measurements based on the nature of inputs used in the valuation of an asset or liability at the measurement date.

The fair value measurement hierarchy as indicated in IFRS 13 is defined as follows:
Level 1: determination of fair value based on unadjusted prices quoted in active markets for identical assets or liabilities. This category includes instruments traded by the Group directly in active markets or in over-the-counter markets where the *assets* are identical to those traded in corresponding organised markets (e.g. futures);
Level 2: determination of fair value based on evaluation models that use inputs that are observable on active markets (other than the quoted prices included in Level 1 that are observable both directly and indirectly).
This category includes instruments traded by the Group in *over-the-counter* markets not characterised by a sufficient level of liquidity or where there is not always a market quote (e.g. OTC formula hedging);
Level 3: determination of *fair value* according to evaluation models whose inputs are not based on directly or indirectly observable market data (unobservable inputs) from any active market.

For *fair value* to be evaluated as belonging to Level 1 it is of fundamental importance that there should be at least one price quote in an active market for an instrument identical to the one being valued. On the basis of the indications given in IAS 39, a financial instrument is considered as being quoted in an active market if:

- prices quoted are promptly and regularly available through a list, operator, broker, industrial sector, price setting agency or regulatory authority;
- these prices represent actual market transactions that take place regularly in normal trading.

Certain characteristics may be symptomatic of the presence of an inactive market. These include the following:

- a significant contraction in volumes and number of trades;
- or prices that vary considerably over time and between market participants.

However, it must be stated that these factors, considered individually, may not necessarily indicate that a market is inactive.

Therefore, to conclude that a price is quoted in an active market there ought to be evidence of the following:

- recent transactions that take place with a certain regularity in relation to financial instruments identical to those that are being evaluated and
- prices of these transactions that are readily and regularly available.

On the basis of the above observations, it should be noted that inclusion in Level 1 of the fair value hierarchy is possible only for fair value measurements resulting from the market price of an identical financial instrument; it is not possible to include in this level a *fair value* measurement that is based on a technical valuation, even when the only inputs used come directly from market indexes or rates. For this reason, if the measurement techniques do not respect the conditions stated above, the derivative financial instruments must be classified in Level 2 even though they are measured on the basis of variables directly observable in the market.

Lastly, it should be pointed out that the classification of financial instruments can involve a significant level of discretion despite the fact that, in compliance with what is set out in IFRS, Sorgenia Group uses, where available, prices quoted in active markets as the best estimate of the *fair value* of all derivative instruments.

It should also be noted that during the year 2019 there were no transfers between the various levels of the fair value hierarchy.

Based on the above, the portfolio of financial instruments of Sorgenia Group is classified as follows:

TYPE OF INSTRUMENT - CONTINUING OPERATION	FAIR VALUE HIERARCHY
Interest Rate Derivatives (IRS, Cap, Basis Swap)	Level 2
CCC Derivatives	Level 3

MARKET RISK

The Sorgenia Group, in carrying out its business activity, is potentially exposed to the following market risks:

1. the risk of fluctuation in energy commodity prices;
2. the risk of fluctuation in foreign exchange rates;
3. the risk of fluctuation in interest rates;

To reduce these risks, where appropriate, the Sorgenia Group enters into different kinds of derivative contracts using instruments available in the market.

Commodity price risk and the associated exchange rate risk

Sorgenia Group is exposed to the risk of fluctuation of the energy commodity prices in which it deals because these affect the costs incurred to buy fuel for the power plants as well as the revenues/costs resulting from its gas and electricity sales businesses (where contracts are indexed to a basket of fuel prices). Furthermore, since some of the above commodities are priced in US dollars (USD), the Group is also exposed to changes in the EUR/USD exchange rate.
The Energy Management team in the Generation and Energy Management (GEM) area constantly monitors this exposure by breaking the contractual formulas down into the underlying risk factors.
This area manages the exposure following a procedure involving two separate stages.
Firstly, the GEM area takes part in the trading process for gas and power purchases and in the *pricing* policy decision-making process. Checking prices on both the purchasing side and the sales side ensures that there is a high level of *natural hedging*, thus minimising the impact on margins of the above-mentioned factors of uncertainty, not just at business-line level but also at the consolidated portfolio level.
Secondly, the area monitors the net exposure remaining after the procedure described above.
Energy Management periodically puts forward alternative hedging strategies for the exposure when market conditions make it possible, by taking part in the redefinition of sales formulas so as to minimize the remaining global exposure, by making use of financial instruments, and by direct sales and purchases of underlying assets. The strategies in question are discussed with the head of GEM. Energy Management trades in derivatives with leading financial institutions in order to minimize counterparty risk and purchases underlying assets with counterparties assessed through the internal credit risk procedure.
Part of the commodity derivative contracts managed by the Parent Company of the Group, as these are solely used for hedging, are managed according to the rules of hedge accounting as per IAS 39 and, as a result, the effects of changes in their fair value are posted directly to a special equity reserve (Cash Flow Hedge Reserve). If the effectiveness test should reveal a portion of ineffectiveness in the hedge, this will be recognised directly to the Income Statement in the item Operating income (expense) since it refers to the typical operating activity of the Group.
Derivative contracts managed by Sorgenia Trading contain derivative financial instruments in the Industrial Portfolio, with physical settlement of the commodities classified as Level 2.
The fair value of the derivative contracts with physical settlement of the commodity is calculated using market forward prices at the Balance Sheet date, when the underlying commodities are quoted in markets with a forward price structure. When this is not the case, the fair value is calculated by Risk Management on the basis of the data and information provided by recognised and reliable third-party sources, which are in any case derived from prices quoted in active markets.

Fair Value Hierarchy: regarding the hierarchical classification set out in IFRS 13, which is based on three levels depending on the method and the input used to determine fair value, it should be pointed out that, while derivatives with financial settlement belong to level 1 of the fair value hierarchy, the financial instruments used for hedging commodity risk belong to Level 2 of the Fair Value Hierarchy.

FAIR VALUE HIERARCHY	Lev. FV	FV at 31/12/2019	Val. Balance Sheet	Val. Income Statement
Commodities	1	(8,209)	(8,144)	(2,511)
Commodities	2	82	-	82
Commodities	3	(3,274)	-	(3,476)

COMMODITY PRICE SENSITIVITY ANALYSIS	31/12/2019		31/12/2018	
EUR/000	-5%	5%	-5%	5%
Change in Income Statement	43	(43)	(254)	254
Change in Shareholders' equity	(2,152)	2,153	(2,541)	2,541

Since 2010, Sorgenia Group has been engaging in speculative trading activity.

This activity is separated out into a special portfolio and transactions were entered into in the power, commodities and foreign exchange markets. This portfolio, which is monitored on a daily basis by a dedicated company function, has strict limits as to risk (calculated as VAR)[1] and profit and loss (calculated as a stop loss limit for P&L purposes).[2]

The daily VaR limit is fixed at 95%. The average usage of the daily VaR limit in 2019 in percentage terms was below 25 thousand euro, closing on December 31, with a value of 3 thousand euro, while the stop-loss limit was never activated. In order to calculate a reliable measure of VaR, the Risk Management department of Sorgenia SpA has developed a mixed parameter and simulation based methodology which generates price scenarios consistent with the parameters which describe historical observations. Value at Risk is on a daily basis with a confidence level of 95%.

Exchange rate risk

The Sorgenia Group is exposed to exchange rate risk only on its fuel purchases denominated in USD.

During 2019, the Group did not *use forward* contracts to cover the risk of fluctuation of the EUR/USD exchange rate. At December 31, there were no products linked to the monthly average exchange rate.

Also, as mentioned in the paragraph on commodity risk, in some cases the Group covers its purchase and sale formulas, the price of which is directly correlated with the EUR/USD exchange rate. By fixing the formulas in euro, the exchange rate risk is indirectly hedged as well.

[1] VAR indicates the potential loss on an investment position in a certain time frame with a certain level of confidence.
[2] P&L indicates the cumulative profit or loss for the year generated on all the transactions carried out.

Interest Rate Risk

Interest rate risk is the risk that the value of a financial instrument may fluctuate because of changes in market rates. This risk is particularly evident for financial instruments where the expense calculation is linked to the value of one or more market variables.

Sorgenia Group is exposed to interest rate risk because of the presence in its Balance Sheet of interest-bearing assets and liabilities whose value is based on indexes quoted in the market.

Sorgenia Group's exposure is mainly caused by changes in the EURIBOR maturity curve, because the interest-bearing assets and liabilities are almost all denominated in euro and are therefore linked to the EURIBOR index. Sorgenia Group manages its exposure to interest rate risk by trading in derivatives. The derivatives in question are traded solely for non-speculative purposes and with leading banks so as to minimise counterparty risk.

The *Finance & Treasury* Department identifies any interest rate hedging needs on the basis of contractual obligations or evaluations of the future trend of interest rates. Once the hedging needs have been identified, various alternatives involving derivatives are examined. The Finance & Treasury Department decides on the most appropriate form of hedging and uses the department's internal and external valuation models to calculate its cost. Once the hedging transaction has been approved by the *CFO*, the Finance & Treasury Department contacts various leading banks to find the best conditions to close the deal.

At the Balance Sheet date, derivative instrument transactions entered into by the Group for interest rate risk management purposes were the following:

- *Interest Rate Caps and Forward Caps*, the aim of which is to allow the buyer of the option, at pre-established dates and on payment of a premium, to receive a sum equal to the difference (if positive) between market rates and a rate fixed as a reference parameter for the hedge (strike rate). In a *forward* contract, application of the cover is deferred in time.

For instruments hedging interest rate risk, the rules of *hedge accounting*, and in particular of the *cash flow hedge* were applied, in some cases, for interest rate hedges. Thus, effectiveness tests are carried out to check the effectiveness of the derivative as a hedge of the underlying risk. Given that the effectiveness relationship is within an acceptable *range* which stands between 80% and 125%, at each *reporting* date the effective part of the *fair value* change from the previous *reporting* date is "suspended" in a special reserve under Shareholders' Equity (as shown in the "Statement of Changes in Shareholders' Equity"), pending release to the Income Statement when the cash flows hedged are actually realised. The non-effective part is recognised directly to the Income Statement.

As at December 31, 2019, the positive fair value of the Interest Rate Cap derivatives, subscribed during the previous year, they show a *positive* fair value on December 31, 2018, equal to 16 thousand euro, net of the negative effect of 1,258 thousand euro, deriving from the assessment of the credit rating of the Sorgenia Group.

Fair Value Hierarchy: as regards the hierarchical classification introduced by IFRS 13, it should be noted that the financial instruments used in relation to interest rate risk, belong to Level 2 of the Fair Value Hierarchy.

FAIR VALUE HIERARCHY (EUR/000)	Lev. FV	FV Risk Adj. at 31/12/2019	Val. Balance Sheet	Val. Income Statement
Interest rate derivatives (IRS, Collar, Cap)	2	16	-	(1,256)

The method of measuring fair value and the credit valuation adjustment/debt valuation adjustment, for derivatives outstanding on December 31, 2019, have not changed from those adopted in the previous year. To show the effects of changes in interest rates on the Income Statement and on Shareholders' Equity of Sorgenia Group, the results of a *sensitivity analysis* are provided below, in line with the requirements of IFRS 7, applying positive and negative parallel shifts to the zero-coupon curves of market rates. The shifts in the zero-coupon curves were set to +/- 100 basis points.

SENSITIVITY ANALYSIS	31/12/2019		31/12/2018	
EUR/000	-1%	1%	-1%	1%
Change in Income Statement	(16)	917	(1,545)	4,368
Change in Shareholders' equity	-	1,034	-	176

Lastly, the following table shows how the maturities of the underlying of the derivatives linked to interest rate risk are organised over time horizons considered to be significant:

Other instruments - Cash flow hedges (EUR/000) *	Notional amount 31.12.2019	FV Risk Adj. at 31/12/2019	Intrinsic Value at 31/12/2019
<= 1 year	425,020	16	-
>1<= 2 years	-	-	-
>2<= 5 years	-	-	-
>5 years	-	-	-

* Represents the division of the CAP derivatives by time horizon. It is presumed that the CAPs will be extinguished on April 30,2020.

On December 31, 2019, the Group hedges in total approximately 70% of the existing debt.

CREDIT RISK

Credit risk means the exposure to potential losses due to the failure of a commercial or financial counterparty to meet its obligations.

The risk of a loss for Sorgenia Group due to the default of a counterparty would mainly be due to the electricity and natural gas commercial business of its customers.

The amount of exposure to trade receivables risk is shown in the Balance Sheet net of the provision for the write-down of receivables.

Commercial credit risk

EXPOSURE TO TRADE RECEIVABLES FROM CUSTOMERS (EUR/000)	31/12/2019	31/12/2018
Trade receivables	287,215	257,421
Provision for the write-down of receivables	(31,019)	(35,682)
NET TRADE RECEIVABLES	**256,196**	**221,749**

Trade Receivables risk represents the exposure to potential losses deriving mainly from the sale of electricity and natural gas to end customers.

The risk of non-payment by a customer is handled by the Customer Risk & Credit function, part of the Market and ICT area, through a complex process of prevention and credit management, in observance of specific policies defined on an ad hoc basis. Risk prevention starts at the customer acquisition phase through a complex credit check process, structured by consumption brackets, which adjusts the severity of the rating to the potential amount of the credit risk. The credit recovery processes are divided into three macro-phases: Prevention (assessment of counterparty before supply), Dunning (until suspension of the supply), Collection and Litigation (credit collection or write-off). The Dunning phase is initiated for all active customers within 15 days after the day the invoice is due, and lasts until the phase of the deactivation of the supply of electricity and gas in observance of the timescales and methods set forth in industry legislation, and is concluded with the request to suspend the supply and cancel the contract. Collection and Litigation activities are instead targeted at all customers whose supply is terminated and are structured into specific recovery modules designed on the basis of the amount and ageing of the receivable.

Counterparty credit risk

Counterparty credit risk in the over-the-counter wholesale business is represented by the possible losses due to non-fulfilment of contractual obligations or default on the part of a counterparty involved in outstanding purchases or sales of electricity or natural gas.

This risk is measured, in respect of a specific ad hoc policy, through the allocation of credit limits and monitoring of contractual positions.

The credit line process, in particular, presumes the quantitative analysis of the financial statements data and any qualitative information available, in order to attain an allocation for each individual counterparty of a rating that summarises its credit rating and, consequently, makes it possible to set their operating limits.

In addition, during the negotiation phase and monitoring activities, the appropriate forms of risk mitigation are required through a request for additional means of protection such as: Bank guarantees or guarantees issued by parent companies, security deposits, CSA (Credit support Annex) type margin setting contracts.

EUR/000			BREAKDOWN RECEIV. OVERDUE					
Class of fin. ass. 31/12/2019	**Receivable falling due**	**Receivable overdue**	**Overdue (days)**				**Renegot.**	**Writ.**
			1 - 30	**31 - 60**	**61 - 90**	**Over 90**		
Mass market	42,770	10,262	1,812	946	624	6,880	154	(4,746)
Corporate	72,335	40,858	6,374	2,266	1,193	31,025	769	(25,461)
Other receivables	120,462	527	151	109	41	227	-	(812)
Total	**235,567**	**51,648**	**8,337**	**3,321**	**1,858**	**38,132**	**923**	**(31,019)**

LIQUIDITY RISK

Liquidity risk means, in a nutshell, not being able to meet financial and commercial obligations due to an inadequate supply of financial resources or unavailability of cash.

This risk is managed centrally by Sorgenia SpA, which checks the net financial position of the Group and its breakdown at least on a monthly basis.

The liquidity risk is initially managed by monitoring the rating of the counterparty on which the liquidity is to be deposited (a correlation table between rating and maximum inventory has been defined). Subsequently, provisions are made so that available credit lines and the funds that can easily be converted to cash are sufficient in the event of any disruptive situations in the short term. In particular, the Administration, Finance and Control department monitors the trend in liquidity risk through the preparation and analysis of reports on cash inflows and outflows, resulting from the business activity of the Group. The careful analyses of these reports aim to achieve adequate hedging of Sorgenia Group's needs, allowing accurate monitoring of loans, available credit lines, and the relative uses, in order to optimise financial resources and manage any temporary liquidity surpluses.

LIQUIDITY RISK (EUR/000)	<1 year	>1 <2 years	> 2 < 3 years	> 3 < 4 years	> 4 < 5 years	>5 years	Tot. expected flows
INTEREST-BEARING LIABILITIES							
Fixed rate							
Other financial payables							
Bonds	409,973						**409,973**
Current payables to banks							
Floating rate							
Other financial payables							
Current payables to banks	889,218						**889,218**
Non-current payables to banks							
NON-INTEREST-BEARING LIABILITIES							
Other financial payables							
Trade Payables							
Other liabilities							
FIN. LIABILITIES DERIV.							
Cash flows from hedging derivatives							
Cash flows from non-hedging derivatives (if any)	-						**-**

CLASSIFICATION OF FINANCIAL INSTRUMENTS

The following chart shows the disclosures required by IFRS 7, relating to the classification of financial instruments according to the categories given in IFRS 9. The chart contains the information relating to the Sorgenia Group. In the following breakdown, each time that it was necessary to determine the *fair value* of financial instruments, the value of future cash flows was calculated using forward prices and rates (from the market or calculated starting from the *spot* curve) as a *proxy* for *spot* prices and rates at the future settlement dates of the instrument. The *fair value* was then calculated as the sum of the present values of the cash flows as thus calculated.

EUR/000	**Ass. FV recog. in IS**	**Ass. FV recog. in OCI**	**Assets at amortised cost**	**Liab. FV recog. in IS**	**Liabilities at amortised cost**	**Total**	**Fair value**	**Eff. in IS (+)Revenues (-) Costs**	**Eff. in SE (+)Revenues (-) Costs**
NON-CURRENT ASSETS									
Equity investments in subsidiaries	21	-	-	-	-	21	21	2,085	-
Non-current trade receivables	-	-	-	-	-	-	-	-	-
Non-curr. fin. assets**	-	16	-	-	-	16	16	(1,256)	-
Other non-current assets*	-	-	11,755	-	-	11,755	-	-	-
CURRENT ASSETS									
Current trade receivables	-	-	259,718	-	-	259,718	-	(7,227)	-
Current financial assets	-	-	6,682	-	-	6,682	-	-	-
Other current assets*	263	-	3,163		-	3,426	263	-	(10,655)
Cash and cash equivalents	-	-	231,651	-	-	231,651	-	-	-
NON-CURRENT LIABILITIES									
Non-current bonds	-	-	-	-	-	-	-	-	-
Non-current fin. liabilities	-	-	-	-	(8,866)	(8,866)	-	-	-
Non-current trade payables	-	-	-	-	-	-	-	-	-
Other non-current liabilities	-	-	-	-	-	-	-	-	-
Other non-current fin. liabilities	-	-	-	-	-	-	-	-	-
CURRENT LIABILITIES									
Curr. Bonds	-	-	-	-	(403,913)	(403,913)	-	(90,714)	-
Current fin. liabilities	-	-	-	-	(475,801)	(475,801)	-	(44,435)	-
Current trade liabilities	-	-	-	-	(238,642)	(238,642)	-	-	-
Other current liab.*	-	-	-	(3,455)	(27,224)	(30,678)	(3,455)	-	-

(*) excluding receivables from/payables to Tax Authorities and receivables from/payables to Social security institutions

(**) the accounting of the CAP is based on the Hedge Accounting method of IAS 39, according to which only the change relating to the Intrinsic Value is booked to OCI.

OTHER INFORMATION

THE GROUP

Sorgenia SpA is a Company controlled as follows:

a) 99.9726% by the company Nuova Sorgenia Holding SpA, with registered office in Milan, Via Pietro Cossa, 2;

b) 0.0262% by Banca Monte dei Paschi di Siena SpA;

c) 0.001% by Sorgenia SpA (treasury shares);

d) 0.0002% by third parties.

DIVIDENDS

In the year ended on December 31, 2019, the company Sorgenia SpA has not paid any dividend to the Parent Company.

COMMITMENTS AND GUARANTEES

EUR/000	31/12/2019	31/12/2018	CHANGE
Guarantees issued	117,430	118,354	(924)
Bank guarantees	238,787	224,364	14,423
TOTAL	**356,217**	**342,718**	**13,499**

Guarantees issued

Guarantees were given in the Group to third parties for a total amount of 117,430 thousand euro.
In addition, it should be noted that, as collateral for loans obtained by subsidiaries, the Parent Company Sorgenia SpA had pledged, in favour of the disbursing institutions, securities representing the share capital of Sorgenia Power SpA for a total of 20,100 thousand euro. As a result of the reduction in the share capital of the subsidiary carried out in the previous year, the guarantee on the securities representing the company Sorgenia Power SpA was released for 15,100 thousand euro, therefore as of December 31, 2019, it amounted to 5,000 thousand euro (same amount as of December 31, 2018).

The Parent Company Sorgenia SpA has provided, on behalf of the subsidiary Sorgenia Trading SpA, guarantees for 63,500 thousand euro (40,500 thousand euro as of December 31, 2018) to the suppliers of electricity and gas, to cover any failure on the part of the subsidiary to meet its obligations.

Lastly, Sorgenia SpA, on behalf of the subsidiaries, issued guarantees for 48,930 thousand euro for the transfer of Group VAT credits for the years 2014, 2015 and 2017 and the first quarter of 2018 (72,854 thousand euro as of December 31, 2018).

Bank guarantees

Within the Group, there are bank guarantees issued to third parties for a total amount of 238,681 thousand euro.

Bank guarantees, issued by banks to guarantee third parties, mainly regard:

- electricity and gas transport and transmission contracts for 108,692 thousand euro;
- electricity and gas purchase contracts, as well as balancing contracts, dispatching and guarantees given to participate in interconnection auctions for 87,869 thousand euro;
- lease contracts for offices and land for 2,320 thousand euro;
- guarantees issued to the Italian Revenue Agency and Italian Customs Agency for payments related to excise and custom duties amounting to 566 thousand euro;
- contracts for input and output dispatch signed with Terna by the Group for 32,945 thousand euro.

INFORMATION PURSUANT TO ITALIAN LAW NO. 124 OF AUGUST 4, 2017

For further information regarding the obligations deriving from Italian Law no. 124 of August 4, 2017, on “Transparency in the public disbursement system”, please refer to the website of the State Aid Register, which can be accessed through the following link https://www.rna.gov.it/sites/PortaleRNA/it_IT/home.

INDEPENDENT AUDITORS

As regards the requirements of paragraph 16-bis of Article 2427 of the Italian Civil Code, information is hereby provided on fees for services supplied by the Company holding the audit mandate:

EUR/000	**31/12/2019**
Legal audit of the Financial Statements	376
Other services	-
TOTAL	**376**

Milan, March 27, 2020

for The Board of Directors

ANNEXES

LIST OF EQUITY INVESTMENTS INCLUDED IN LINE-BY-LINE CONSOLIDATION - IFRS 10

Company name	Registered office	Share Capital		% ownership for consolidation purposes				Consolid.	Participant	% of Share Capital
		currency	amount	direct	indirect	31/12/2019	31/12/2018			
Energia Italiana SpA	Milan (IT)	EUR	26,050,000	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Power SpA	Milan (IT)	EUR	5,000,000	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Puglia SpA	Milan (IT)	EUR	11,150,778	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Trading SpA	Milan (IT)	EUR	20,000,000	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Universal Sun Srl (now Sorgenia Green Solutions Srl) *	Grassobbio (IT)	EUR	111,111	100.00%	0.00%	100.00%	0.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Fiber Srl **	Milan (IT)	EUR	10,000	100.00%	0.00%	100.00%	0.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Sviluppo Srl (formerly Hydro srl)	Milan (IT)	EUR	375,000	100.00%	0.00%	100.00%	100.00%	Line-by-line	Sorgenia SpA	100.00%
Sorgenia Geothermal Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%
Sorgenia Hydro Power Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%
Sorgenia Renewables Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%
Sorgenia Le Cascinelle Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%
Sorgenia Bio Power Srl	Milan (IT)	EUR	10,000	0.00%	100.00%	100.00%	100.00%	Line-by-line	Sorgenia Sviluppo Srl	100.00%

*Already existing as of December 31, 2018, not included in the scope of consolidation in 2018.
**Company incorporated in 2019.

LIST OF EQUITY INVESTMENTS CONSOLIDATED USING THE EQUITY METHOD - IAS 28/31

Company name	Registered office	Share Capital		% ownership for consolidation purposes				Consolid.	Participant	% of Share Capital
		currency	amount	direct	indirect	31/12/2019	31/12/2018			
Fin Gas Srl	Milan (IT)	EUR	10,000	50.00%	0.00%	50.00%	50.00%	SHAREHOLDERS' EQUITY	Sorgenia SpA	50.00%
									IREN Energia Spa	50.00%
LNG MedGas Terminal Srl	Rome (IT)	EUR	16,602,236	0.00%	35.39%	35.39%	35.39%	SHAREHOLDERS' EQUITY	Fin Gas Srl	70.78%
									MedGas Italia Srl	29.22%
Tirreno Power SpA	Rome (IT)	EUR	60,516,142	0.00%	50.00%	50.00%	50.00%	SHAREHOLDERS' EQUITY	Energia Italiana SpA	50.00%
									Engie	50.00%

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Balance Sheet – Sorgenia SpA

EUR/000

BALANCE SHEET - ASSETS	31/12/2019		31/12/2018	
A) SHARE CAPITAL ISSUED AND NOT YET PAID				
I. SHARE CAPITAL ISSUED AND NOT YET PAID		-		-
B) FIXED ASSETS				
I. INTANGIBLE FIXED ASSETS				
1) Start-up and expansion costs	-		-	
2) Research costs	-		-	
3) Industrial patents and intellectual property rights	-		-	
4) Concessions, licenses, trademarks and similar rights	-		-	
5) Goodwill	-		-	
6) Assets in process and advance payments	6,750		4,478	
7) Other	18,295		22,420	
TOTAL INTANGIBLE ASSETS		**25,045**		**26,898**
II. TANGIBLE FIXED ASSETS				
1) Land and buildings	-		-	
2) Plants and machinery	238		365	
3) Industrial and commercial equipment	-		-	
4) Other assets	1,518		1,846	
5) Assets in process and advance payments	85		125	
TOTAL TANGIBLE ASSETS		**1,841**		**2,336**
III. FINANCIAL FIXED ASSETS				
1) EQUITY INVESTMENTS IN:				
a) Subsidiaries	468,472		378,198	
2) RECEIVABLES FROM:				
a) Subsidiaries				
- due within 12 months	4,279		1,219	
- due after 12 months	5,069		5,672	
b) Affiliates	-		-	
c) Parent companies				
- due within 12 months	1,000		-	
- due after 12 months	-		463	
d) Affiliated companies	-		-	
d-bis) Other	10,407		3,304	
3) OTHER SECURITIES	-		-	
4) DERIVATIVE ASSETS	-		228	
TOTAL FINANCIAL FIXED ASSETS		**489,227**		**389,084**
TOTAL FIXED ASSETS (B)		**516,113**		**418,318**

Continue BALANCE SHEET - ASSETS	31/12/2019		31/12/2018	
C) CURRENT ASSETS				
I. INVENTORIES				
1) Raw materials, secondary materials and consumables	-		-	
2) Work in progress and semi-finished goods	-		-	
3) Contracted work in progress	-		-	
4) Finished goods	23,042		47,659	
5) Advance payments	-		-	
TOTAL INVENTORIES		**23,042**		**47,659**
II. RECEIVABLES				
1) TRADE RECEIVABLES:				
a) due within 12 months	223,312		180,828	
2) SUBSIDIARIES				
a) due within 12 months	96,559		106,211	
3) AFFILIATES	-		-	
4) PARENT COMPANIES	-		-	
5) AFFILIATED COMPANIES	-		-	
5-bis) TAX RECEIVABLES				
a) due within 12 months	13,293		17,457	
b) due after 12 months	6		6	
5-ter) DEFERRED TAX ASSETS				
a) due within 12 months	40,726		54,370	
5-quater) FROM OTHERS				
a) due within 12 months	1,499		1,116	
TOTAL RECEIVABLES		**375,395**		**359,988**
III. SHORT - TERM INVESTMENTS				
1) Investments in subsidiaries	-		-	
2) Investments in affiliates	-		-	
3) Investments in parent companies	-		-	
3-bis) Investments in affiliated companies	-		-	
4) Other investments	-		-	
5) Derivative assets	2		2,076	
6) Other securities	-		-	
7) Financial assets for centralized treasury management	-		-	
TOTAL FINANCIAL ASSETS		**2**		**2,076**
IV. CASH AND CASH EQUIVALENTS				
1) Bank and postal deposits	108,795		141,303	
2) Cheques	-		-	
3) Cash and valuables on hand	3		2	
TOTAL CASH AND CASH EQUIVALENTS		**108,798**		**141,305**
TOTAL CURRENT ASSETS		**507,237**		**551,028**
D) ACCRUED INCOME AND PREPAID EXPENSES				
1) Accrued income	-		-	
2) Prepaid expenses	3,959		4,815	
TOTAL ACCRUED INCOME AND PREPAID EXPENSES		**3,959**		**4,815**
TOTAL ASSETS		**1,027,309**		**974,161**

EUR/000

LIABILITIES AND SHAREHOLDERS' EQUITY	31/12/2019	31/12/2018
A) SHAREHOLDERS' EQUITY		
I. Share capital	406,677	406,677
II. Share premium reserve	-	-
III. Revalutation reserves	-	-
IV. Legal reserve	1,816	1,816
V. Statutory reserves	-	-
VI. Other reserves	213	213
VII. Cash flow hedge reserve	(6,189)	1,909
VIII. Retained earnings (losses)	(98,280)	(116,647)
IX. NET INCOME (LOSS) FOR THE PERIOD	358	18,367
X. Treasury stock negative reserve	(804)	(804)
SHAREHOLDERS' EQUITY OF THE GROUP	**303,791**	**311,531**
B) PROVISION FOR RISKS AND CHARGES		
1) Retirement funds	1,914	1,573
2) Deferred taxes provisions	1,018	18,043
3) Derivative liabilities	3,274	414
4) Others	35,526	15,975
TOTAL PROVISION FOR RISKS AND LOSSES	**41,732**	**36,005**
C) STAFF LEAVING INDEMNITY	**560**	**492**
D) LIABILITIES		
1) Bonds	-	-
2) Convertible bonds		
a) due within 12 months	221,660	-
b) due after 12 months	-	161,101
3) Loans from shareholder's	-	-
4) Loans from banks		
a) due within 12 months	99,405	41,847
b) due after 12 months	-	89,519
5) Other financing creditors	-	-
6) Advance payments	-	-
7) Payables to suppliers		
a) due within 12 months	178,074	162,724
8) Bonded debts	-	-
9) Payables to sudsidiaries		
a) due within 12 months	164,430	156,494
b) due after 12 months	5,923	-
10) Payables to associates	-	-
11) Payables to parent companies	-	-
11-bis) Payables to affiliated companies	-	-
12) Tax payables		
a) due within 12 months	3,939	4,432
13) Social security payables	2,491	1,787
14) Other payables		
a) due within 12 months	5,300	4,079
TOTAL PAYABLES	**681,222**	**621,983**
E) ACCRUED EXPENSES AND DEFERRED INCOME		
1) Accrued expenses	-	-
2) Deferred income	2	4,150
TOTAL ACCRUED EXPENSES AND DEFERRED INCOME	**2**	**4,150**
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**1,027,309**	**974,161**

Income Statement

EUR/000

INCOME STATEMENT	31/12/2019		31/12/2018	
A) VALUE OF PRODUCTION				
1) Revenues from sales and services	1,700,015		1,677,337	
2) Changes in inventories of work in progress, semi-finished and finished goods	-		-	
3) Changes in contracted work in progress	-		-	
4) Own work capitalized	376		-	
5) Other revenues and income	47,357		66,826	
TOTAL VALUE OF PRODUCTION		**1,747,748**		**1,744,163**
B) COSTS OF PRODUCTION				
6) Raw materials, secondary materials, consumables and goods	1,182,007		1,286,099	
7) Services	493,742		432,953	
8) Cost of utilisation of third parties' assets	2,016		1,945	
9) Personnel costs				
a) Salaries and wages	22,852		15,158	
b) Social security contributions	6,945		4,100	
c) Severance indemnity	1,112		957	
e) Other costs	205		557	
10) Amortization, depreciation and write-downs:				
a) Amortization of intangible fixed assets	12,165		10,069	
b) Depreciation of tangible fixed assets	688		779	
c) Other write-downs of fixed assets	-		1,013	
d) Write-downs of receivables included in current assets and of cash adn cash equivalent	7,240		9,163	
11) Change in inventories of raw materials, secondary materials, consumables and goods	24,616		(39,551)	
12) Risk provisions	-		-	
13) Other provisions	-		-	
14) Miscellaneous operating costs	31,464		34,549	
TOTAL COSTS OF PRODUCTION		**1,785,052**		**1,757,791**
OPERATING INCOME (A-B)		**(37,304)**		**(13,628)**

Continue INCOME STATEMENT	31/12/2019		31/12/2018	
C) FINANCIAL INCOME AND EXPENSES				
15) Income from equity investments:				
a) Subsidiaries	22,000		26,000	
b) Affiliates	-		-	
d) affiliated companies	-		-	
e) parent companies	-		-	
f) Other	-		-	
Total income from equity investments		22,000		26,000
16) Other financial income:				
a) from receivables included in fixed assets				
b) from securities included in fixed assets	-		-	
c) from securities included in current assets	-		-	
d) income other than the above:				
- Subsidiaries	368		127	
- Parent companies	537		-	
- Other	243		617	
Total other financial income		1,148		744
17) Interest and other financial expenses:				
- Subsidiaries	75		1,795	
- Parent companies	-		537	
- Other	71,710		15,953	
Total interest and other financial expenses		71,785		18,285
17-bis) Foreign exchange gains (losses)		4		1
TOTAL FINANCIAL INCOME AND EXPENSES (C)		**(48,641)**		**8,458**
D) ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS				
18) Revaluation				
a) of equity investments	99,757		442	
d) of derivatives	-		2,644	
19) Write-downs				
a) of equity investments	9,303		811	
d) of derivatives	3,700		479	
TOTAL ADJUSTMENTS (18-19) (D)		**86,754**		**1,796**
INCOME (LOSS) BEFORE TAXES		**809**		**(3,374)**
22) Income taxes for the period		(451)		21,741
NET INCOME (LOSS) OF THE PERIOD		**358**		**18,367**

Statement of Cash Flows

EUR/000	31.12.2019	31.12.2018
A. Cash flows from operating activities		
Net income (loss) of the period	358	18,367
Income taxes	451	(21,741)
Interest expense (interest income)	70,637	17,542
(Dividends)	(22,000)	(26,000)
1. Profit (loss) before taxes, interest, dividends, gains/losses on disposal	**49,446**	**(11,832)**
Adjustments for non-cash items that had no contra-entry in net working capital		
Provisions	25,319	5,226
Depreciation and amortisation of tangible and intangible fixed assets	12,853	10,847
Writedown of intangible assets	-	1,013
Writedowns for impairment losses on financial assets	(88,369)	811
Decrease (increase) in derivative financial instruments	3,702	(2,180)
Other adjustments for non-cash items	(3,043)	(3,297)
2. Cash flow before changes in NWC	**(49,538)**	**12,420**
Change in net working capital		
Decrease (increase) in trade receivables	(42,484)	13,617
Increase (decrease) in trade payables	15,351	(2,838)
Decrease (increase) in accrued income and prepaid expenses	856	(1,395)
Increase (decrease) in accrued expenses and deferred income	(4,148)	4,150
Change in inventories	24,616	(39,551)
Changes in tax receivables and payables	3,672	48,599
Change in ICY receivables and payables	25,384	18,772
Other changes in working capital	1,610	3,371
3. Cash flow after changes in net working capital	**24,857**	**44,725**
Change in financial receivables	(9,237)	26,499
Change in financial payables	12,716	(3,995)
Tax paid for refund	(3,065)	-
Interest (paid)	(1,345)	(2,376)
Interest received	294	742
Dividends received	-	-
(Use of provisions)	(2,382)	(6,633)
4. Cash flow after other adjustments	**(3,019)**	**14,237**
CASH FLOWS FROM OPERATING INCOME (A)	**21,746**	**59,550**

Continue Cash Flow Statement

	31.12.2019	31.12.2018
B. Cash flows from investing activities		
Tangible assets		
(Investments)	(194)	(280)
Sale price of disposals	-	-
Intangible assets		
(Investments)	(10,312)	(9,154)
Sale price of disposals	-	-
Financial assets		
(Investments)	(1,905)	(10,062)
Sale price of disposals	-	637
CASH FLOWS GENERATED BY INVESTING ACTIVITIES (B)	**(12,411)**	**(18,859)**
C. Cash flows from financing activities		
Minority interests		
Increase (decrease) in short-term payables to banks	(41,842)	(23,176)
New loans	-	-
Reimbursement of amounts due to other lenders	-	
Own funds		
Cash increase in capital	-	-
Convertible Bond Loan	-	-
CASH FLOWS FROM FINANCING ACTIVITIES (C)	**(41,842)**	**(23,176)**
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS (A+B+C)	(32,507)	17,515
CASH AND CASH EQUIVALENTS - BEGINNING OF THE YEAR	**141,305**	**123,790**
CASH AND CASH EQUIVALENTS - END OF THE YEAR	**108,798**	**141,305**

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EXPLANATORY NOTES

THE GROUP

Pursuant to Article 2359 of the Italian Civil Code, Sorgenia SpA is a company 99.973% controlled by the company Nuova Sorgenia Holding SpA. It is also held for:

a) 0.026% by Monte dei Paschi di Siena;

b) 0.0002% by others.

The remaining part of 0.001% is made up of treasury shares.

All transactions with the Parent Company are detailed in these Explanatory Notes.

Financial debt restructuring agreement

The difficult economic and financial climate, together with a gradual worsening of the energy scenario had already, from 2013, created severe financial problems for the Sorgenia Group. This situation led to the Group undertaking a complex debt restructuring aimed at rebalancing the equity and financial position, culminating in the signing - between Sorgenia S.p.A., Sorgenia Power S.p.A. and Sorgenia Puglia S.p.A. (the "Companies") and the related Financial Creditors - of a Financial debt restructuring agreement pursuant to Article 182-bis of the Bankruptcy Law ("2015 Restructuring Agreement"), which became effective on March 16, 2015.
In 2015, however, the persistence of the difficult economic and financial situation due, among other things, to the performance of the energy market - which was worse than the assumptions made in the business and financial plan underlying the 2015 Restructuring Agreement - did not allow achievement of the objectives included in the original business plan, as a result forecasting non-compliance with certain obligations envisaged in the 2015 Restructuring Agreement. The Sorgenia Group has therefore undertaken a new process to restructure financial debt, culminating in the stipulation - between Sorgenia S.p.A. and Sorgenia Power S.p.A. and the related financial creditors - since Sorgenia Puglia, in the meantime, generated sufficient financial resources to extinguish its financial payables, by making a full early repayment, in July 2017, for a total of 167 million euro - of a debt restructuring agreement pursuant to and in accordance with Article 182-bis of the Bankruptcy Law (the "Financial Debt Restructuring Agreement"), which took effect on December 29, 2017.

The Restructuring Agreement, negotiated on a going concern basis, mainly concerned the terms and conditions of the existing debt, which improved in terms of:

- extension of the duration of financial debt;

- improvement in economic conditions and greater flexibility in repayment of debt;
- issue of a mandatory convertible bond to equity financial instruments for an amount of 180 million euro, which was subscribed and released by Sorgenia Power SpA's Financial Creditors by reclassifying a portion of the existing medium/long-term debt.

In particular, for Sorgenia SpA, the Financial Debt Restructuring Agreement envisaged:

- with reference to medium/long-term debt, the extension of the debt repayment date due to 2027;
- with reference to the mandatory convertible bond, the prolongation of the repayment terms due to 2027 and the improvement of the economic conditions, represented by the reduction of the PIK annual interest rate - payable at maturity - from 4% to 1%.

It should be noted that, as of December 31, 2019, the Group companies complied to a greater extent with the obligations envisaged by the Restructuring Agreement. In particular, the Parent Company Sorgenia SpA. repaid a total of approximately 100 million euro from 2017 to December 2019, of which 80 million euro thanks to the excess of financial resources generated *(cash sweep)* with respect to that envisaged in the Business Plan underlying the Debt Restructuring Agreement.

It should also be noted that, thanks to the excess of cash recognised as of December 31, 2019, the Company made a further repayment of the debt in January 2020, for an amount of 9,031 thousand euro, the latter also not envisaged in the Business Plan underlying the Restructuring Agreement.

The Directors are confident that Sorgenia SpA is able to fulfill its obligations under the financial debt Restructuring Agreement based on the expectation that it will be able to achieve the results expected in the Business Plan also for future years, although aware that the results expected in it materialize only when the hypotheses provided in it occur.

Name and registered office of the company that prepares the Consolidated Financial Statements for the largest set of companies to which it belongs

In accordance with Article 2427, paragraph 1, no. 22-quinquies and sexies of the Italian Civil Code, note that the Parent Company that drafts the Consolidated Financial Statements is Nuova Sorgenia Holding Spa, with registered office in Milan, Via Vittor Pisani 27, where a copy of these Consolidated Financial Statements is also maintained.

SIGNIFICANT EVENTS OF THE YEAR

At the end of 2018, in order to identify the opportunities for growth of the Sorgenia Group (hereinafter "the Group"), also through the change of the shareholding structure, Nuova Sorgenia Holding S.p.A. - Group controlling shareholder (whose shareholders are Banco BPM, Banca Intesa, Monte dei Paschi di Siena, Ubi and UniCredit) - gave an advisory mandate to independent professionals.

After assessing the offers received, on December 23, 2019 Nuova Sorgenia Holding S.p.A. announced that it accepted the binding purchase offer of the Group formulated jointly by F2i SGR S.p.A. (hereinafter "F2i"), independent Italian manager of infrastructural funds, and by Asterion Industrial Partners SGEIC SA (hereinafter "Asterion"), an independent Spanish company specialised in infrastructural investments in Europe.

Based on the binding purchase offer, the Group launched activities targeted at signing the preliminary purchase and sale agreement, which was expected to be finalised by the end of April 2020. As a result of some subsequent events that materialised, including the spread of CoViD-19 and the redefinition of some terms of the refinancing contract, the preliminary purchase and sale agreement of the Group was signed on June 3, 2020. Said agreement will be executed on unconditional obtainment of approval of the transaction by the Italian Authority for the protection of competition and the market and the Presidency of the Council of Ministers as part of the application of the "golden power" regulation. These authorities have a period equivalent to 30 calendar days and 45 working days respectively to express a judgment, except where there is a need for an in-depth investigation.

Following obtainment of the above authorisations, the sale agreement will be signed, at which time the purchase by the offerers (F2i and Asterion) of the entire capital of Sorgenia S.p.A. will be completed and at the same time the refinancing of the financial debt of the Sorgenia Group with regard to the banking system will be carried out, through the signing of a new bank loan obtained on the market, which will therefore entail the full repayment of the financial payables and therefore the termination of the 2017 Restructuring Agreement.

For additional significant events which occurred during the year, reference should be made to the Report on Operations.

SIGNIFICANT EVENTS WHICH OCCURRED AFTER THE YEAR-END CLOSING

With reference to the purchase and sale transaction of the Sorgenia Group, please refer to what is illustrated in the previous paragraph.

From the month of January 2020, the national and international scenario was characterised by the spread of CoViD-19 and the subsequent restrictions to contain it, implemented by the Government authorities of the countries concerned. These extraordinary circumstances, in terms of nature and scope, are having economic repercussions and have created a general climate of uncertainty, whose developments and associated effects are difficult to predict at present.

It should be noted that the Company, considering the sector in which it operates and the essentiality of the services provided, was not subject to the production limitations imposed by the Government and, therefore, the Sale of electricity and gas to end customers continued with the necessary attention on employee and plant safety.

In order to overcome this difficult situation, the Directors have implemented all the necessary measures to ensure the safe operation of production plants, maintain high standards of customer service and guarantee the performance of Sorgenia's operating activities.

The Company quickly reacted to the CoViD-19 emergency as regards the protection of employee health. In fact, an internal Crisis Committee was set up to manage in the most appropriate way the situation, composed of colleagues, which meets on a daily basis. In addition, given that Sorgenia has always focussed on the digitalisation of processes and on "smart working", remote working was authorised for employees, where possible.

With reference to the operating performance in the first few months of 2020, the following should be noted that in relation to the sale of energy and gas to end customers, any possible effects of this current situation are carefully and constantly monitored, such as a reduction in sales, the deferment of collections and an increase in unpaid amounts. As regards the drop in revenues, no critical situations were recorded in relation to profit margins. Furthermore, no particularly worrying signs materialised in the first quarter regarding an increase in unpaid amounts.

As a result of the restrictions on the movement of people imposed by the Government, the activities targeted at acquiring new corporate customers by the physical network suffered a decrease which, however, in the short-term involve a subsequent decline in costs directly related to these activities, thus with a positive impact from a financial perspective, counter-balanced, however, by a reduction in the churn rate, as a result of the reduced activities of the sales networks of competitors. In the residential segment, given that the Company has been active in the digital sales channel for some time, no decreases were recorded with respect to the acquisition levels forecast in the Budget and, at the same time, an increase was registered in consumption by residential customers, similar to what happened at national level.

Lastly, at the current state of play, there are no indicators of impairment as regards the items booked to the Company's statement of financial position.

As a result of all the circumstances reported above, the Company does not currently note any criticalities in terms of economic results in the first few months of 2020, nor from a financial tension perspective, due to the CoViD-19 emergency. As of today, the Directors do not believe there are any elements to suggest we may see significant decreases in the Company's results in the foreseeable future with respect to the Budget forecasts.

Looking forward, in light of the considerations reported previously, the Directors did not believe it was necessary to revise the 2020 Budget and the cash flows expected in the foreseeable future.

In view of the circumstances commented on in detail in the previous sections, regarding:

- the expected effects of the spread of CoViD-19;
- the positive trend in 2019, in the first few months of 2020 and the Group's ability to be able to attain the results expected in the provisional Plan underpinning the financial debt Restructuring Agreement.
- the expected completion of the acquisition of the Sorgenia Group and subsequent refinancing of bank payables;

the Directors - despite being fully aware that the results expected in the foreseeable future may only be achieved if certain events connected with the trends in the economic scenario and reference markets materialise, in addition to regulatory developments, subject owing to their very nature, to uncertainties in terms of how and when they will be realised - considered it reasonable to assume that the Company may continue to operate in the foreseeable future as an operating entity, by drafting these annual financial statements on the basis of the going concern basis.

On March 16, 2020, the extraordinary shareholders' meeting of the subsidiary Universal Sun Srl resolved to change the company name to Sorgenia Green Solutions Srl. This amendment was registered with the Register of Companies on March 25, 2020.

No other significant events occurred after the end of the financial year, except for those reported in the corresponding paragraph of the Report on Operations.

STRUCTURE AND CONTENT OF THE FINANCIAL STATEMENTS

The Financial Statements were drafted in compliance with Italian Civil Code regulations, interpreted and supplemented by accounting standards and criteria developed by the Italian Accounting Board (OIC), and finally, where necessary and not in contrast with Italian accounting standards and norms, standards issued by the International Accounting Standard Board (IASB).

The Financial Statements consist of the Balance Sheet, Income Statement, Statement of Cash Flows (prepared in accordance with the schedules contained in Articles 2424 and 2424-bis, Articles 2425 and 2425-bis, and Article 2425-ter, respectively of the Italian Civil Code) and these explanatory notes.

The explanatory notes have the objective of providing descriptions, analyses and, in some cases, supplementary information to financial statement figures, and contain the information required by Articles 2427 and 2427-bis of the Italian Civil Code, other provisions of the Italian Civil Code regarding financial statements, and other previous laws. Moreover, the notes provide all complementary information deemed necessary to provide a more transparent and complete representation, even if not required by specific legal provisions.

The Balance Sheet, the Income Statement, the Statement of Cash Flows and the Explanatory Notes were drawn up in thousands of euro, as are the information and comments on the individual items of the Balance Sheet and Income Statement in the Explanatory Notes.

For each item of the Balance Sheet and Income Statement, the corresponding values as of December 31, 2018 are provided. If the items are not comparable, the figures for the previous year were adjusted, with related comments on the significant events provided in the Explanatory Notes.

Lastly, to complete the Balance Sheet and Income Statement, a Statement of Cash Flows has been prepared setting out the changes in cash and cash equivalents during the year.

The Report on Operations describes the main events affecting the Company which took place during the year, with the main economic and financial effects highlighted in special reclassified statements.

These Financial Statements have been audited for legal purposes by Deloitte & Touche SpA.

EXCEPTIONS

Note that, in both the valuation of individual items of the Balance Sheet and Income Statement, as well as the definition of its structure, no exceptions envisaged in governing regulations were applied.

VALUATION CRITERIA AND ACCOUNTING STANDARDS ADOPTED

The accounting standards discussed below were adjusted with the amendments, supplements, and new items introduced to the Italian Civil Code by Legislative Decree 139/2015, which implemented accounting Directive 34/2013/EU in Italy. In particular, the national accounting standards were reformulated by OIC, in the version issued on December 22, 2016 and subsequent updates up to January 28, 2019.

The financial statements were prepared on a going concern basis, whose assumptions are described in greater detail above.

Applying the principle of prudence means that each asset or liability item is measured individually, thus avoiding the possibility of offsetting losses which need to be recognised with unrealised gains which should not be recognised.
In compliance with the accrual principle, transactions and other movements were accounted for and were posted to the year to which they actually refer, regardless of when the payments (incoming and outgoing) actually took place.

The most important valuation criteria adopted to draft the Financial Statements as of December 31, 2019, in accordance with Article 2426 of the Italian Civil Code and the aforementioned accounting standards, are presented below.

ASSETS

B) FIXED ASSETS

B. I – Intangible fixed assets

In order to be classified under this category, items must have a lasting useful life. In particular, this item includes: fixed assets in progress and other intangible assets.

Intangible assets with multi-year useful life are recorded at historical acquisition cost and are shown net of amortisation calculated on a straight-line basis in relation to the residual useful life and posted directly to the individual items.

Software is amortised over three or five years depending on the type of investment made.

Leasehold improvements are capitalised and recognised in “Other intangible assets”, as they are not separable from the assets. They are amortised on a straight-line basis over the shorter of the period of expected future use and the residual lease period.

Intangible assets which, at the close of the year, had undergone a lasting loss in value compared with their carrying amount were written down to the lower amount; the original value is restored in the event the reasons which led to the adjustment cease to exist up to the value that the asset would have had if the impairment loss had never taken place.

B. II – Tangible fixed assets

These are recorded at purchase or production costs inclusive, where explicitly indicated, of any financial expense for the period of construction of the asset, in accordance with the provisions of Article 2426 of the Italian Civil Code and accounting standards, and adjusted for accumulated depreciation. The book value takes into account ancillary charges and direct and indirect costs for the portion reasonably attributable to the asset and until the asset enters into operation, i.e. from the moment when the asset can be used.
No revaluation allowed by law was applied to tangible assets, nor was there any discretionary or voluntary revaluation.

Accumulated depreciation, which is recognised to the Income Statement, is calculated on the basis of the expected use of the asset, its intended use, and its economic and technical useful life, based on the criterion of residual useful life, which we consider to be appropriately represented by the following rates:

CATEGORY	DESCRIPTION	% DEPRECIATION
2) Plants and machinery	Telephone equipment	25%
2) Plants and machinery	Other plants and machinery	20%
3) Industrial and commercial equipment	Equipment	10%
4) Other assets	Electronic equipment	20%
4) Other assets	Furniture	12%
4) Other assets	Mobile phones	25%

Depreciation begins from the month in which the asset is actually available and ready for use (*pro-rata temporis*) in the year of acquisition.

Fixed assets under construction are measured at acquisition or production cost, including financial expenses relating to the period of realisation of the asset, in compliance with the accounting standards and are not subject to amortisation as they are not yet available for use.

Tangible assets which, at the close of the year, had undergone a lasting loss in value compared with their carrying amount were written down to the lower amount; the original value is restored in the event the reasons which led to the adjustment cease to exist up to the value that the asset would have had if the impairment loss had never taken place.

Routine maintenance and repair costs are charged in full to the Income Statement. Maintenance costs that add value are allocated to the assets in question and depreciated over their residual useful life.
The costs incurred to expand, modernise or improve the structural elements of a tangible asset are capitalised if they produce a significant and measurable increase in its safety or useful life. If such costs do not produce these effects, they are treated as routine maintenance and expensed to the income statement.

B. III – Financial assets

Investments and debt securities are recognised under financial assets as they are intended to remain in the Company's assets for a considerable period of time.
Investments are valued at cost and may be written down to show any impairment loss. The cost method assumes that the initial book value of assets shown in the Balance Sheet is determined on the basis of purchase or subscription price, including ancillary costs.

If an impairment loss is detected, the value of the investment is reduced to the lower recoverable amount, which is determined based on the future benefits that are expected to flow to the investor.

The original value is written back in subsequent years, if the reasons for the write-down no longer apply until the cost is restored.

In the event that the Company is obliged to cover losses incurred by an investee, a provision is needed to meet the liability, for the portion pertaining to the Company, to cover the investee's capital deficit.

Investments included under fixed assets are long-term strategic investments made by the Company.

Debt securities are valued using the amortised cost method.
The amortised cost of a security is the value at which the security was measured upon initial recognition, net of capital repayments, increased or decreased for accumulated amortisation, using the effective interest criterion, on any difference between the initial value and the value at maturity, and excluding any reduction for impairment (recognised directly or through a provision). The book value at initial recognition is the acquisition or subscription price net of any commissions and fees.

Intercompany loans, with maturities of more than 12 months, which are non-interest-bearing or with rates that are considerably lower than the market rate, are initially recognised at the present value of future cash flows of the loan, discounted at the market rate.

Guarantee deposits for the lease and rental costs and for the supply of services are recognised according to the amortised cost criterion, taking into consideration the time factor and the presumed realisable value. The amortised cost criterion is not applied when the effects are irrelevant, or when the transaction costs and any other difference between the initial value and the value at maturity are negligible, or if the guarantee deposits are short term (or with maturity of less than 12 months).

C) CURRENT ASSETS

C. I - Inventories

Inventories are measured at the lower of the purchase cost determined according to the weighted average cost method on a continuous basis per change and the estimated realisable value taken from market trends (Article 2426, no. 9 of the Italian Civil Code). Purchase cost refers to the actual purchase price plus accessory charges, excluding financial expenses. In relation to their nature, inventories are written down using special provisions recorded in the Balance Sheet which reduce the amount of the asset entry. These provisions are released when the reasons that determined the allocation cease to apply.

C. II – Receivables

Receivables are recognised in the Balance Sheet according to the amortised cost criterion, taking into consideration the time factor and the presumed realisable value. The amortised cost criterion is not applied when the effects are immaterial, or when the transaction costs, commissions paid between the parties, and any other differences between the initial value and the value at maturity are negligible, or if the receivables are short term (with maturity of less than 12 months).

Receivables with maturities exceeding 12 months from initial recognition, which do not include the payment of interest, or with interest that is significantly different than market interest rates, and the relative revenues, are initially recorded at the value calculated by discounting the future cash flows at the market interest rate. The difference between the value at initial recognition of the receivable thus calculated and the value at maturity is charged to the Income Statement as financial income over the life of the receivable using the effective interest rate criterion.

In addition, the nominal value of receivables is adjusted to consider expected losses for uncollectability and other causes for lower realisation, through a specific provision for the write-down of receivables, which takes into account the receivable position, the general economic conditions of the sector, as well as loss projections for situations of credit risk that have already arisen or are considered probable, and for other non-collection events that have already arisen or that are still to occur but considered likely.

If the trade receivables are sold to an external factoring company, the Company derecognises the loan from the Financial Statements when:

a) the contractual rights to the cash flows deriving from the receivable are extinguished (partially or totally); or b) ownership of the contractual rights on the cash flows deriving from the receivable is transferred and with the same transfer substantially all the risks inherent in the receivable.

C. IV - Cash and cash equivalents

Cash and cash equivalents at the end of the year are valued at nominal value. Cash and cash equivalents in foreign currencies are valued at the year-end exchange rate.

D – ACCRUED INCOME AND PREPAID EXPENSES

These include items of cost and revenue that are common to two or more years, in compliance with the accrual accounting principle.
For accruals and deferrals over periods of several years, the conditions which determined their original recognition were verified and, where necessary, the appropriate adjustments were made.

LIABILITIES AND SHAREHOLDERS' EQUITY

B – PROVISIONS FOR RISKS AND LOSSES

Provisions for risks and losses are set aside to cover losses or payables that are certain or likely to arise, for which, however, the exact amount or the date of occurrence cannot be determined at the close of the year.
The provisions set aside reflect the best possible estimate based on the elements available. Allocations to provisions for risks and losses are recognised firstly as cost items in the income statement for the relevant classes (B, C, or D). Any time that a correlation cannot be made between the nature of the allocation and one of the items in these classes, the allocations for risks and losses are recognised in items B12 and B13 of the Income Statement.

C – EMPLOYEE LEAVING INDEMNITY (TFR)

Employee leaving indemnity is recognised for the amount that employees would have the right to receive, in the event of termination of the employment relationship, at the reporting date, in compliance with Article 2120 of the Italian Civil Code and governing employment contracts, considering continuous forms of pay. The seniority indemnities constituting the above item, i.e. the portion of the allocation for the year and the annual revaluation of the pre-existing provision, are determined in compliance with current regulations. The employee leaving indemnity is recognised in item C of liabilities and shareholders' equity and the relative allocation is charged to item B9 of the Income Statement.

Note that amendments made to the TFR regulations of Law no. 296 of December 27, 2006 (2007 Finance Law) and subsequently implemented Decrees and Regulations, modified the accounting criteria applied to the portions of the TFR accrued as of December 31, 2006 and those accruing from January 1, 2007. As such, with the establishment of the "Fund to disburse to employees in the private sector of employee leaving indemnities pursuant to Article 2120 of the Italian Civil Code" (Treasury Fund managed by INPS on behalf of the State), employers that have at least 50 employees are required to pay into this Treasury Fund the portions of TFR accrued in relation to those workers that have not chosen to transfer their portion to a complementary pension fund. Hence, the amount of the employee leaving indemnity shown in Financial Statements is net of the portion paid to said INPS Treasury Fund.

D - PAYABLES

Payables are recognised according to the amortised cost criterion, taking into consideration the time factor. The amortised cost criterion is not applied to payables if its effects are irrelevant. Effects are considered irrelevant for short-term payables (or with maturity less than 12 months).

Payables with maturities of more than 12 months from the initial recognition, which do not include the payment of interest, or with interest that is significantly different than market interest rates, and the relative costs, are initially recorded at the value calculated by discounting the future cash flows at the market interest rate. The difference between the value at initial recognition of the payable thus calculated and the value at maturity is charged to the Income Statement as financial expense over the life of the payable using the effective interest rate criterion.

The convertible bonds constitute hybrid contracts, for which the allocation of the value collected for the issue of the convertible bond between the primary contract (the bond) and the derivative contract (the conversion option) takes place first by determining the *fair value* of the primary contract (assuming the future cash flows of the obligation at the market interest rate of a bond without the conversion option) and assigning the residual value to the derivative contract. The bond is then valued using the amortised cost method.

The separate derivative instrument, or the option to convert the loan into an equity instrument, is recognised in a shareholders' equity reserve, without modifying its value in the future. Any transaction costs are divided proportionally between the payable and the reserve. The reserve is not subject to subsequent valuations.

DERIVATIVES

The Company pursues the objective of optimizing the management of the Group's *assets*, with particular reference to the objective of maximising the usage opportunities for the production capacity of the thermoelectric power plants owned by the subsidiaries Sorgenia Power and Sorgenia Puglia, and of the sale to end customers of electricity and gas. Therefore, it stipulates derivative trading contracts for the purchase/sale of energy and natural gas with various product and timing profiles (i) both directly with financial counterparties operating on OTC (*over-the-counter*) markets, as well as (ii) through the subsidiary Sorgenia Trading, through the institution of the mandate without agent, according to which the subsidiary, Sorgenia Trading, executes transactions with leading financial counterparties on regulated markets and OTC.

Derivatives, designated by the Company for hedging purposes, are accounted for on the basis of *hedge accounting* requirements, if demonstrated.

Derivatives are financial assets and liabilities recognised at *fair value when* the contractual rights and obligations envisaged by the instrument arise.

Derivatives are classified as *hedge accounting* only when, at the inception of the hedge, there is a close and documented correlation between the characteristics of the hedged item and those of the hedging instrument and this hedging relationship is formally documented and the effectiveness of the hedge, verified periodically, is high.

When hedging derivatives hedge the risk of changes in the *fair value* of the hedged instruments (*fair value hedge*), they are recognised at *fair value* and the effects are booked to the income statement; accordingly, the hedged items are adjusted to reflect the changes in *fair value* associated with the hedged risk.

When derivatives hedge the risk of changes in future cash flows of the hedged item (*cash flow hedge*), the effective portion of profits or losses on the derivative is suspended in equity. Gains and losses associated with the ineffective portion of a hedge are charged to the Income Statement. At the moment the relative transaction is realised, accumulated gains and losses, which until that moment were recognised in shareholders' equity, are recognised in the Income Statement (as an adjustment or supplement to the Income Statement items affected by the hedged cash flows).

For derivatives that are not classified as hedging instruments as they do not meet *hedge accounting* requirements, changes in *fair value* are recognised in the income statement.

Derivatives embedded in other financial instruments must also be measured at *fair value*. An embedded derivative is separated from the primary contract and recognised as a derivative if, and only if:

a) the economic characteristics and risks of the incorporated derivative are not strictly correlated to the economic characteristics and risks of the primary contract. There is a strict correlation in the cases in which the hybrid contract is stipulated according to market practices;
b) the definition of a derivative financial instrument, according to OIC 32.11, is satisfied.

INCOME STATEMENT

REVENUE RECOGNITION

Revenues from the sale of goods are recognised when ownership is substantially transferred, not only formally, assuming the transfer of risks and benefits as a reference parameter.

Revenues from the sale of products and goods, or from the supply of services relative to ordinary operations, are recognised net of returns, discounts, allowances, and bonuses, as well as taxes directly connected with the sale of products and services.

Sales of electricity and gas

Revenues from the sale of electricity and gas to customers refer to quantities supplied and delivered during the year, even where not yet invoiced, and are calculated by supplementing the consumption figures received from the distributors with appropriate estimates which are calculated internally. These revenues are based on contractual agreements with customers and, where applicable, on the tariffs and the related restrictions prescribed by the legal provisions and by the Regulatory Authority for Energy, Networks and Environment (“Autorità di Regolazione per Energia Reti e Ambiente” - ARERA), in force during the reference period.

COST RECOGNITION

Costs are recorded, according to the accrual principle, during the year, regardless of the payment date and, therefore, the transfer of ownership or of service provision also prevails for them, net of returns, discounts, rebates and premiums.

FINANCIAL INCOME AND EXPENSES

Financial income and expenses are recognised in application of accrual principle. Costs for transactions to divest receivables of any type (recourse and non-recourse) and of any nature (commercial, financial, other) are charged during the year in which they accrue.

DIVIDENDS

Dividends are recorded in the year in which they are resolved by the Shareholders' Meeting.
Dividends are recognised as financial income regardless of the nature of the reserves that are distributed.

INCOME TAXES

Taxes are posted on an accrual basis and represent a realistic estimate of the tax expenses to be paid according to current tax regulations.

Current income taxes are calculated based on an estimate of taxable income for the year and in accordance with current tax regulations.

On June 24, 2015, Sorgenia's Board of Directors decided to exercise, as consolidating entity, the three-year option for tax consolidation effective from the 2015 tax period. This option was renewed on May 31, 2018 for the next three-year period. Having expressed their intention to do so, the consolidating entity Sorgenia SpA and its subsidiaries adhered to said system. This compliance makes it possible to calculate current IRES on a tax base corresponding to the algebraic sum of the positive and negative taxable income of the participating companies. The financial relations, in addition to reciprocal responsibilities and obligations, are regulated by specific agreements between the parties, according to which, in the case of positive taxable amounts, the subsidiaries transfer to the Parent Company the financial resources corresponding to the higher tax amount owed by the subsidiaries by virtue of participation in national tax consolidation. In the case of negative taxable amounts, they receive compensation amounting to the corresponding tax savings gained by the Parent Company, if and in the amount in which there are expected earnings that enable the Group, in the presence of a national tax consolidation, to recognise deferred tax assets. The tax, net of payments made on account, of withholding tax applied and of any tax credits in general, is recorded in the item Payables/Receivables with the Parent Company.

Current IRAP tax is recorded based on the estimated taxable income in accordance with tax regulations in force, taking into account any exemptions or exclusions applicable.
Deferred tax liabilities and assets are calculated on the temporary differences between the values of the assets and liabilities determined according to statutory criteria and the corresponding values recognised for tax purposes. Their valuation is carried out considering the presumed tax rate that the Company is expected to incur in the year in which these differences will contribute to the formation of the tax profit or loss, given the rates in effect or already issued at the reporting date, and are recognised in the Provision for deferred taxes under the liability item Provision for risks and losses, or in the item Deferred tax assets under current assets.

Deferred tax assets are recognised for all deductible temporary differences, in accordance with the principle of prudence, if there is the reasonable certainty that a taxable income not less than the amount of the differences will be available in the years in which the differences will be reversed. Deferred tax assets may also result from carrying forward tax losses or non-deductible interest expense during the current year.

The Company records deferred tax assets on tax losses only if there is the reasonable certainty that they can be recovered through the existence of future taxable income. Similar considerations are made for recognising deferred tax assets on temporarily non-deductible interest.
Conversely, deferred tax liabilities are recognised on all taxable temporary differences.

CURRENCY CONVERSION CRITERIA FOR VALUES NOT EXPRESSED IN EURO

Non-monetary assets and liabilities denominated in foreign currency are recorded in the Balance Sheet at the exchange rate at the time of purchase, i.e. at the cost of initial recognition. In order to determine whether the cost (possibly reduced by depreciation and amortisation in the case of tangible and intangible assets) can be maintained in the Financial Statements, it must be compared with the recoverable amount (for fixed assets) or realisable value based on market trends (for non-monetary items in foreign currencies recorded in current assets). Any exchange differences (positive or negative) are included in the calculation of the recoverable amount. Therefore, when preparing the Financial Statements, the assessment of items in foreign currency is performed first, then the result is converted into euro.

Monetary assets and liabilities originally denominated in foreign currency are converted at the spot exchange rate on the financial year-end date. At the end of the year, assets and liabilities in foreign currency, with the exception of fixed assets, are recorded at the spot exchange rates in force at the reporting date, taking into account the related *forward* hedging contracts; the related exchange gains and losses are recorded in the income statement and any net profit is allocated to a specific non-distributable reserve until realisation.

USE OF ESTIMATES

It should be noted that the preparation of the Statutory Financial Statements requires the Board of Directors to make estimates and assumptions that affect the value of revenues, costs, assets and liabilities in the said Financial Statements. They also affect information regarding any potential assets and liabilities at the Balance Sheet date. If, in the future, these estimates and assumptions, which are based on the Board’s best valuation at the time, should differ from the actual circumstances, they would be modified accordingly in the period in which the circumstances change.

In this regard, it should be noted that the estimates drawn up as at December 31, 2019 do not reflect the consequences of the possible developments in the current national and international scenario characterised by the spread of CoViD-19 and the subsequent restrictions to contain it, implemented by the Government authorities of the countries concerned. These circumstances, which came to light in the first few months of 2020, despite representing a subsequent event which does not require a correction to the financial statements pursuant to OIC 29, are extraordinary in terms of their nature and scope and may have direct and indirect repercussions on economic activities, creating a general situation of uncertainty, whose developments and associated impacts cannot be predicted at the current state of play. The effects of this event will also depend on how quickly the Government institutions define monetary and fiscal measures to support the most exposed sectors and operators.

The use of estimates is particularly significant for the items described below.

REVENUE RECOGNITION

Revenues from sales of electricity and gas to end clients are recognised at the moment of supply and, apart from what is billed on the basis of quantitative data provided by the distributors and assignable to the period, they also include an estimate of the electricity and gas distributed in the year but not yet billed, represented by the difference between the total amount of electricity and gas injected into the grid and the amount actually billed in the year, calculated taking into account any leaks in the network. This estimate of revenues is based on estimates of the client’s consumption based on his or her historical profile, adjusted to take into account weather conditions or any other factors that could affect the consumption being estimated.

PROVISION FOR THE WRITE-DOWN OF RECEIVABLES

The provision for the write-down of receivables reflects the estimated losses on the Company’s portfolio of receivables. Provisions are made against expected credit losses, estimated both on the basis of past experience with reference to loans with similar credit risk and on the basis of the estimate of the expected future loss of open positions at the reporting date, as well as careful monitoring of the quality of the loan portfolio.

Although the provision set up is considered to be appropriate, the use of different assumptions or a change in economic conditions could result in variations to the provision for the write-down of receivables and thus have an impact on the result of the Company. The estimates and assumptions are revised periodically and the effects of each variation are reflected in the Income Statement in the appropriate year.

VERIFICATION OF THE RECOVERABLE VALUE OF FIXED ASSETS

Fixed assets include equity investments in subsidiaries, associates and other companies. The Directors periodically review, and in any case in the presence of impairment indicators, the book value of financial fixed assets. With reference to equity investments, the recoverable value is determined on the basis of the future benefits that are expected to flow to the investor's economy. If the book value of an investee is impaired, the Company would recognise a write-down for the value of the excess between the book value of the investee and its recoverable value. The original value is restored in subsequent years if the reasons for the write-down no longer apply until the cost is restored in the case of equity investments.

FUTURE RECOVERY OF DEFERRED TAX ASSETS

The preparation of the Financial Statements requires Directors to measure deferred tax assets relating to previous tax losses and the recognition of financial costs deductible in subsequent years, within the limits of the Sorgenia Group companies' ability to generate taxable income.

The evaluation of the aforementioned recoverability takes into account the estimates of future taxable income and is based on the multi-year plan approved by the Directors of the Sorgenia Group, and on forecasts extended to the period of operations of the assets held by Sorgenia Group companies as the result of complex assumptions; however, if at any time it were to become obvious that the Company was unable to recover all or part of these deferred tax assets in future periods, the resulting adjustment would be recognised to the Income Statement in the year in which such a circumstance came to pass.

LEGAL AND TAX DISPUTES

The Company makes provisions linked mainly to outstanding legal and tax disputes.

Given the nature of these disputes, it is not always objectively possible to foresee the final result of the proceedings, some of which could have an unfavourable outcome.

The estimate of the provisions on these subjects is the result of a complex process that involves the Company management making subjective judgements.

OTHER ITEMS IN THE FINANCIAL STATEMENTS

In addition to the items indicated above, the use of estimates also affected:

- the measurement of assets and liabilities, other than derivatives, with the amortised cost criterion; the determination of the useful life of tangible and intangible assets for the purposes of calculating the related amortisation/depreciation.

DESCRIPTION OF ASSET ITEMS

B – FIXED ASSETS

B. I – Intangible fixed assets

EUR/000	OPENING POSITION			CHANGES IN THE PERIOD						CLOSING POSITION		
	ORIGINAL COST	ACCRUED AMORTIZ.	31/12/2018	NVESTMEN	DECREM.	AMORTIZ.	OTHER CHANGES COST	OTHER CHANGES ACCRUED AMORTIZ.	RESTATE MENTS COST	ORIGINAL COST	ACCRUED AMORTIZ.	31/12/2019
1) START-UP AND EXPANSION COSTS	-	-	-	-	-	-	-	-	-	-	-	-
2) DEVELOPMENT COSTS	-	-	-	-	-	-	-	-	-	-	-	-
3) INDUSTRIAL PATENTS AND INTELLECTUAL PROPERTY RIGHTS	-	-	-	-	-	-	-	-	-	-	-	-
4) CONCESSIONS, LICENSES, TRADEMARKS AND SIMILAR RIGHTS	-	-	-	-	-	-	-	-	-	-	-	-
5) GOODWILL	-	-	-	-	-	-	-	-	-	-	-	-
6) INTANGIBLE ASSETS IN PROCESS AND ADVANCE PAYMENTS	**4,478**	**-**	**4,478**	**9,351**	**(3,064)**	**-**	**-**	**-**	**(4,015)**	**6,750**	**-**	**6,750**
Intangible assets in process and advance payments	4,478	-	4,478	9,351	(3,064)	-	-	-	(4,015)	6,750	-	6,750
7) OTHER INTANGIBLE FIXED ASSETS	**103,595**	**(81,175)**	**22,420**	**4,079**	**-**	**(12,165)**	**(68)**	**13**	**4,015**	**111,621**	**(93,327)**	**18,295**
Costs for improvements to leased or rented property	2,205	(187)	2,017	175		(191)	-	-	-	2,380	(378)	2,002
Other intangible fixed assets	101,390	(80,988)	20,403	3,904	-	(11,974)	(68)	13	4,015	109,242	(92,949)	16,293
TOTAL INTANGIBLE ASSETS	**108,073**	**(81,175)**	**26,898**	**13,431**	**(3,064)**	**(12,165)**	**(68)**	**13**	**-**	**118,372**	**(93,327)**	**25,045**

The table above shows the amounts of the changes in the individual items relating to intangible fixed assets.

The categories existing at year-end can be broken down as follows:

B. I. 6 - Assets in progress and advance payments

This item contains advance payments for intangible assets being acquired.

The increase recorded during the year, amounting to 9,351 thousand euro, is attributable mainly to the continuation of the constant improvement process of the Digital Strategy, the implementation phase of the Systems and Processes relating to Security and Privacy and the development of new components of the *Big Data* infrastructure.

The decreases column shows, in the amount of 3,064 thousand euro, the charge-back of costs directly attributable and related to the IT services and telecommunications activities incurred by the Company on behalf of the subsidiaries, as envisaged by the related cross-charge contracts.

This category also includes development costs, amounting to 445 thousand euro, relating to the *Your Next Experience* project, through which the customer relationship criteria were defined for the development of the new APP and the WEB Customer Area, which are not yet ready for use as of December 31, 2019.

The “Reclassifications” column shows the amounts relating to software projects for which advances were paid to suppliers in previous years and which became operational during the year.

B. I. 7 – Other intangible fixed assets

This item mainly includes the costs incurred for the purchase of IT systems required for the commercial and organisational development of the Company. During the year, the item recorded increases of 7,919 thousand euro (of which 4,015 thousand euro had already been recognised under assets in progress in the previous year), mainly attributable to software projects in progress for the implementation of the Digital Strategy for the acquisition and management of customers. Solutions are also being implemented that improve the level of security and privacy envisaged by both current regulations and the risks identified, the development of systems that allow greater knowledge and better relations with the customer through *Big Data, Business Analytics and Artificial Intelligence infrastructures.*

The ERP IT system implemented in 2016 is amortised over a period of five years, which corresponds to the economic-technical useful life of the system, valued in consideration of the financial and commercial benefits as part of expected sales growth. Other software is instead amortised over a period of three years.

This category also includes expenses incurred on third-party assets, amounting to 2,380 thousand euro, mainly regarding the works performed for the renovation of the company's registered office on Via Algardi 4. The increases in the year, amounting to 175 thousand euro, relate to expenses incurred for the redevelopment of the registered office during the year.

Costs relating to leasehold improvements are amortised over the duration of the lease agreement, in particular for the Milan registered office over 12 years.

B. II – Tangible fixed assets

EUR/000	OPENING POSITION			CHANGES IN THE PERIOD						CLOSING POSITION		
	ORIGINAL COST	ACCRUED AMORTIZ.	31/12/2018	NVESTMEN	ECREASE	AMORTIZ.	OTHER CHANGES COST	OTHER CHANGES ACCRUED AMORTIZ.	RESTATEMENTS	ORIGINAL COST	ACCRUED AMORTIZ.	31/12/2019
1) LANDS AND BUILDINGS	-	-	-	-	-	-	-	-	-	-	-	-
2) PLANT AND MACHINERY	**2,005**	**(1,639)**	**365**	-	-	**(127)**	-	-	-	**2,005**	**(1,767)**	**238**
Plant and machinery	2,005	(1,639)	365	-	-	(127)	-	-	-	2,005	(1,767)	238
3) INDUSTRIAL AND COMMERCIAL EQUIPMENT	-	-	-	-	-	-	-	-	-	-	-	-
Sundry equipment	-	-	-	-	-	-	-	-	-	-	-	-
4) OTHER GOODS	**14,720**	**(12,875)**	**1,846**	**230**	-	**(561)**	**(12)**	**1**	**14**	**14,952**	**(13,434)**	**1,518**
Mobile phones	256	(133)	124	19	-	(67)	13	(3)	-	288	(203)	85
Electric office equipment	68	(31)	37	0	-	(13)	-	-	-	68	(44)	24
Furniture and fittings	965	(162)	803	144	-	(104)	-	-	-	1,109	(265)	844
Electronic office equipment	13,431	(12,549)	882	67	-	(377)	(25)	4	14	13,487	(12,922)	565
5) ASSETS UNDER CONSTRUCTION AND SUNDRY ADVANCE PAYMENTS	**125**	-	**125**	**83**	**(109)**	-	-	-	**(14)**	**85**	-	**85**
Assets under construction and sundry advance payments	125	-	125	83	(109)	-	-	-	(14)	85	-	85
TOTAL TANGIBLE ASSETS	**16,850**	**(14,514)**	**2,336**	**313**	**(109)**	**(688)**	**(12)**	**1**	-	**17,042**	**(15,201)**	**1,841**

The above chart shows the changes in the individual items of tangible assets.

The categories present as of December 31 can be broken down as follows:

B. II. 2 - Plant and machinery

This item includes the costs incurred for the construction of connectivity infrastructure for the call centre data network, the Company's offices and the costs related to the installation of components for the *data centre*. The item also includes the costs incurred for the construction of four photovoltaic shelters and some charging stations for electric vehicles at the Company's registered office in Via Algardi 4.

B. II. 4 - Other assets

The item furniture and fittings changed during the period under review mainly as a result of the purchases of the furnishings necessary for the registered office in Via Algardi 4. This item also includes the purchases of furniture for the new offices in Milan, in Via Silva 36.

Electronic office equipment includes *hardware* equipment in the offices as well as server updates.

B. II. 5 - Assets under construction and advance payments

The balance of the item includes advances paid to suppliers for fixed assets not yet operational. The decreases column shows, in the amount of 109 thousand euro, the charge-back of costs directly attributable and related to the IT services and telecommunications activities incurred by the Company on behalf of the subsidiaries, as envisaged by the related cross-charge contracts.

B. III – Financial fixed assets

EUR/000	31/12/2018	Increase	Decrease	Other changes	Revaluation/ Depreciations	31/12/2019
1) EQUITY INVESTMENTS:						
a) Subsidiaries	**378,198**	**1,906**	**-**	**-**	**88,369**	**468,472**
Energia Italiana SpA	25,458	700	-	-	28,826	54,984
Sorgenia Puglia SpA	145,704	-	-	-	-	145,704
Sorgenia Power SpA	175,476	-	-	-	68,846	244,322
Sorgenia Sviluppo Srl	10,635	-	-	-	(8,502)	2,133
Sorgenia Trading SpA	20,000	-	-	-	-	20,000
Sorgenia International BV	21	-	-	-	-	21
Universal Sun Srl (now Sorgenia Green Solutions Srl)	905	996	-	-	(801)	1,099
Sorgenia Fiber Srl	-	210	-	-	-	210
TOTAL INVESTMENTS	**378,198**	**1,906**	**-**	**-**	**88,369**	**468,472**
2) RECEIVABLES FROM:						
a) Subsidiaries	**6,891**	**5,204**	**(2,613)**	**(134)**	**-**	**9,348**
Sorgenia Sviluppo Srl	200	2,700	-	-	-	2,900
Sorgenia Solar Srl - in liquidation	-	340	-	-	-	340
Sorgenia Power SpA	6,591	-	(919)	316	-	5,988
Sorgenia Hydro Power Srl	-	120	-	-	-	120
Sorgenia Le Cascinelle Srl	100	619	(719)	-	-	-
Sorgenia Renewables Srl	-	975	(975)	-	-	-
Universal Sun Srl (now Sorgenia Green Solutions Srl)	-	450	-	(450)	-	-
c) Parent Company	**463**	-	**-**	**537**	**-**	**1,000**
Nuova Sorgenia Holding SpA	463	-	-	537	-	1,000
d) Other	**3,304**	**19,434**	**(12,331)**	**-**	**-**	**10,407**
Security deposits	3,304	19,434	(12,331)	-	-	10,407
TOTAL RECEIVABLES	**10,658**	**24,638**	**(14,944)**	**403**	**-**	**20,755**
3) OTHER SECURITIES						
Other securities	-	-	-	-	-	-
4) FINANCIAL DERIVATIVE ASSETS						
Financial derivative assets	228	-	(226)	(2)	-	-
TOTAL	**389,084**	**26,543**	**(15,170)**	**401**	**88,369**	**489,227**

B. III. 1- Equity investments

The list of investments in subsidiaries and associates recorded under financial assets is provided on the basis of Article 2427, paragraph 1.5 of the Italian Civil Code, as can be inferred from the last set of financial statements approved by the same, by means of the following table:

EUR/000	REGISTERED OFFICE	SHARE CAPITAL 31/12/2019	NET EQUITY 31/12/2019	NET INCOME (LOSS) 31/12/2019	PERCENTAGE OF OWNERSHIP	PORTION OF SHAREHOLDERS' EQUITY (A)	CARRYING VALUE (IN THE BALANCE SHEET) (B)	DIFFERENCE (A-B)
Energia Italiana SpA	Milano	26,050	54,984	29,226	100%	54,984	54,984	-
Sorgenia Puglia SpA	Milano	11,151	251,963	22,055	100%	251,963	145,704	106,259
Sorgenia Power SpA	Milano	5,000	273,531	63,430	100%	273,531	244,322	29,209
Fingas Srl	Milano	10	11,820	(57)	50%	5,910	-	5,910
Sorgenia Trading SpA	Milano	20,000	25,164	279	100%	25,164	20,000	5,164
Sorgenia Solar Srl - in liquidation	Milano	100	(260)	1,313	100%	(260)	-	(260)
Sorgenia Sviluppo Srl	Milano	375	2,133	(6,225)	100%	2,133	2,133	-
Sorgenia International BV*	Aia (Holland)	64,000	15	(5)	100%	15	21	(6)
Universal Sun Srl (now Sorgenia Green Solutions Srl)	Bergamo	111	135	(801)	100%	135	1,099	(964)
Sorgenia Fiber Srl	Milano	10	41	(169)	100%	41	210	(169)

*Amounts at 31/12/2018

Equity investments represent long-term investments made for the establishment or acquisition of new companies.

Changes in the value of equity investments are detailed in the above statement of changes and outlined hereunder.

The increases refer to the following phenomena:

- the payment to other reserves made in May in favour of the subsidiary Energia Italiana SpA, in the amount of 700 thousand euro, as a result of financial requirements linked in part to the company's operations and in part to the repayments that the subsidiary carried out during the year in favour of Tirreno Power SpA (of which Energia Italiana SpA holds 50% of share capital) due to the regulation of the transparency and tax consolidation regimes relating to previous years;
- on September 5, following the amendment of the shareholders' agreements with the minority shareholder, the Company acquired from the same the residual portion of the share capital of the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl), equal to 33%, through the exercise of the purchase option for an amount of 446 thousand euro. As a result of this transaction, Sorgenia Spa became the sole shareholder of Universal Sun Srl (now Sorgenia Green Solutions Srl). Moreover, for the subsidiary's capital requirements, in December, the Company made a capital account payment in the amount of 550 thousand euro;
- on July 9, the Company established Sorgenia Fiber Srl, an intermediary company in telecommunications and data transmission services, by means of payment of 10 thousand euro as

Share Capital. On December 20, for the subsidiary's capital requirements, the Company made a capital account payment in the amount of 200 thousand euro.

With reference to the equity investment held in Sorgenia Solar Srl in liquidation, a company placed into liquidation on January 11, 2017, the Directors recorded a provision for risks in the Financial Statements of 260 thousand euro on December 31, 2019 (1,675 thousand euro on December 31, 2018). This provision was recognised to cover the expected future losses in light of the negative shareholders' equity of the company and the costs that should be incurred. At the end of the year, the provision was released for an amount of 1,415 thousand euro, by aligning it to the distribution plan which will be recognised to the Company at the close of the liquidation of the subsidiary, which took place in the first few months of 2020.

As of December 31, 2018, the book value of the equity investment was shown net of a write-down totalling 68,846 thousand euro. In the years 2013, 2014 and 2015, the verification of the recoverable value of the equity investment in Sorgenia Power S.p.A. led the Directors to align its carrying amount to the lower recoverable value determined on the basis of the present value of expected cash flows, estimated at 175,476 thousand euro. The results achieved in subsequent years were higher than those envisaged in the Business Plan underlying the Debt Restructuring Agreement (despite in 2016 the subsidiary recorded losses). Moreover, in 2018 and 2019, an extremely positive trend was recorded, mainly attributable to the Dispatching Services Market ("Mercato dei servizi di dispacciamento" - MSD) and to certain external circumstances that favoured greater operations of the plants owned by Sorgenia Power.
As of December 31, 2019, the subsidiary presents shareholders' equity of 273,531 thousand euro, with a profit of 63,430 thousand euro after having recorded the negative effect of the recognition of the financial expense due to the *change in estimate* of the amortised cost accounted for in application of OIC 19 (equal to 55,361 thousand euro, net of the tax effect). This expense was recorded in the income statement for 2019 following the revision of the estimate of the debt payment flows as a result of the expected full repayment of the financial debt in 2020 due to the sale transaction of the Sorgenia Group.
As of December 31, 2019, the Directors, following the positive results achieved by the subsidiary Sorgenia Power and the positive forecasts in the 2020 Budget which confirm the performances recorded, considered the reasons for the write-downs carried out to no longer apply and, therefore, restored the value, up the limits of the cost, of the equity investment in Sorgenia Power corresponding to the entire amount of the write-down, amounting to 68,846 thousand euro.

As of December 31, 2019, as a result of the positive results recorded by Tirreno Power – 50% shareholding held through the subsidiary Energia Italiana SpA – the book value of the equity investment in Energia Italiana was aligned to the value of the corresponding fraction of shareholders' equity at the closing date (net of the nominal value of the equity financial instruments) held in the subsidiary;

consequently, determining a partial restoration of the value of the equity investment in Energia Italiana amounting to 28,826 thousand euro.

The value of the equity investment in Energia Italiana as of December 31, 2018 amounted to 25 million euro, corresponding to the book value of the equity investment in Tirreno Power, the only asset held, in the financial statements of Energia Italiana. Specifically, following the Financial Debt Restructuring Agreement pursuant to and in accordance with Article 182-bis of the Bankruptcy Law, which involved Tirreno Power, for the purposes of the financial statements for the year ended December 31, 2015, also on the basis of the assessment made by an independent expert, which indicated that the value of the equity investment in Tirreno Power held by the subsidiary would amount to 25 million euro, the Directors of Energia Italiana SpA adjusted its value to 25 million euro This valuation was deemed representative of the recoverable value of the investee.

Therefore, for the purposes of the preparation of the financial statements as of December 31, 2019, the Directors of the subsidiary Energia Italiana SpA decided to carry out the partial restoration of the value of the equity investment in Tirreno Power, aligning it to the value of the corresponding portion of shareholders' equity, net of the nominal value of the junior equity instruments held amounting to 284,386 thousand euro.

The result of Tirreno Power came to 167,099 thousand euro, a significant improvement compared to the previous year (40,196 thousand euro).

As a result of the economic results achieved in previous years and in 2019, which confirmed the better performances than those expected in the Business and Financial Plan, the shareholders' equity as of December 31, 2019 stood at 393,426 thousand euro. This trend confirms the reasonableness of the assumptions used by Tirreno Power Directors in the preparation of the "Plan" and its update, making the latter aware of the company's ability to reach the results expected in the "Plan" also for future years, although it is aware that the results expected in the Plan may only occur when the assumptions provided for therein occur.

It should also be noted that the shareholders' equity of Tirreno Power, net of the equity financial instruments, amounted to 109,040 thousand euro, and was supported by the *impairment test* performed by the company, which concluded that the value of the fixed assets as of December 31, 2019 is fully recoverable.

The above considerations led the Directors of Energia Italiana SpA to determine that the reasons that had led to the write-down of the equity investment held in Tirreno Power had ceased to exist and, therefore, to proceed with the partial restoration of the cost of recording the investee company at the value of the shareholders' equity pertaining to the closing date of the financial statements. As a result of these considerations, the Directors of the Company partially restored the book value of the equity investment in

Energia Italiana SpA, aligning the book value of the equity investment to the shareholders' equity of the subsidiary in this case as well.

At the end of the year under review, after having carried out the comparison between the book value of the equity investment in the financial statements and the relevant portion of shareholders' equity, the company saw fit to write down the equity investment in Sorgenia Sviluppo Srl for 8,502 thousand euro. This write-down derives from the presence in the company of projects and initiatives in an embryonic phase, both in the geothermal and photovoltaic and bio-methane sectors.

Lastly, note the write-down of the equity investment in Universal Sun Srl (now Sorgenia Green Solutions Srl), amounting to 801 thousand euro, which reflects the loss recorded by the subsidiary in the year under review.

With regard to the other equity investments held during the year under review, the Directors did not identify any impairment indicators that would require a check of the recoverable value of the equity investments held by the Company.

B. III. 2 - Receivables

EUR/000

FINANCIAL RECEIVABLES	up to 12 months	over 12 months	over 5 years	31/12/2019	31/12/2018
a) Subsidiares	4,279	3,355	1,714	9,348	6,891
b) Associates	-	-	-	-	-
c) Parent Companies	1,000	-	-	1,000	463
d) Others	4,484	5,923	-	10,407	3,304
TOTAL	**9,763**	**9,278**	**1,714**	**20,755**	**10,658**

Sorgenia SpA has provided subsidiaries with part of the financial resources necessary to implement investment projects by means of intercompany loan agreements.

The receivables from subsidiaries are represented as follows:

- an interest-bearing loan granted to the subsidiary Sorgenia Sviluppo Srl of 2,900 thousand euro (200 thousand euro as of December 31, 2018), to ensure the financial resources necessary to incur the costs related to ordinary business;
- a multi-year loan granted to Sorgenia Power SpA. This loan was taken out in previous years to provide Racoon Srl (subsequently merged into Sorgenia Power SpA) with the resources necessary to incur the costs related to the implementation of the urbanisation works of the area where Sorgenia Power SpA's Turano Lodigiano plant is located. This loan, amounting to 5,988 thousand euro (6,591 thousand euro as of December 31, 2018), is interest free as a result of the implementation of the provisions set out in the Debt Restructuring Agreement that governed the repayment on the basis of

a repayment plan; in December 2019, Sorgenia Power SpA repaid the second instalment of 919 thousand euro. The receivable is measured at amortised cost and its nominal value is 7,352 thousand euro.

- an interest-bearing loan granted to the indirect subsidiary Sorgenia Hydro power Srl for an amount of 120 thousand euro, taken out during the year to finance the resources necessary to incur the costs related to ordinary operations;
- an interest-bearing loan granted to the subsidiary Sorgenia Solar Srl in liquidation in the amount of 340 thousand euro, taken out in previous years to finance the resources necessary to incur the costs associated with the liquidation, which was concluded in the first few months of 2020.

During the year, a new interest-bearing loan of 450 thousand euro was taken out to the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl) to provide it with the resources necessary to incur the costs related to ordinary operations. In December, following the acquisition of the minority interest, the Company waived the loan granted, transforming it into other capital reserves.
During the year, 619 thousand euro were disbursed to the indirect subsidiary Sorgenia Le Cascinelle Srl, which already had an unpaid loan of 100 thousand euro as of December 31, 2018. In December, the loan was fully repaid by the subsidiary, for an amount of 719 thousand euro, following capital account payments received from the direct parent company Sorgenia Sviluppo Srl.

During the year, the Company disbursed 950 thousand euro to the indirect subsidiary Sorgenia Renewables Srl as an interest-bearing loan. This loan was fully repaid by the subsidiary in December, following the capital account payments received from the direct parent company Sorgenia Sviluppo Srl.

All interest-bearing loan agreements are fixed rate with an adjustment at least annually.

Receivables due from parent companies, amounting to 1,000 thousand euro (463 thousand euro as of December 31, 2018), represent the multi-year non-interest bearing loan granted to the parent company Nuova Sorgenia Holding SpA and disbursed in the previous year; the change in the year derives from the revision of the estimate of the collection flows of the loan and, more specifically, the expected early repayment with respect to the original expiry, which will take place in the first few months of 2020, following the purchase and sale transaction of the Sorgenia Group.

The residual item Receivables - others includes long-term receivables designed for business operations, such as guarantee deposits for the lease and rental expenses, deposits paid to companies involved in electricity transportation and gas distribution, and to institutional counterparties with which the Company operates in the electricity and gas markets.

The net change with respect to the previous year, amounting to 7,103 thousand euro, relates mainly to the payments made in October and November, for an amount of 6,964 thousand euro, in favour of Terna SpA, detailed as follows:

- 495 thousand euro paid as a contribution to the guarantee fund for participation in 'Asta Madre' (Main Auction) for the procurement of foreign capacity with delivery in 2022 and 2023;
- 3,782 thousand euro paid pursuant to the Regulation governing the system of remuneration of the availability of electricity production capacity, on behalf of the subsidiary Sorgenia Power SpA, as contribution to the guarantee fund, in the form of an interest-bearing security deposit, for participation in 'Asta Madre' for the procurement of capacity with delivery in 2022 and 2023;
- 1,360 thousand euro paid pursuant to the Regulation governing the system of remuneration of the availability of electricity production capacity, on behalf of the subsidiary Sorgenia Power SpA, as non-interest-bearing security deposit, for the purposes of qualification, in an Asta Madre, of a unit of New Products not authorised for the procurement of capacity with delivery in 2023;
- 1,327 thousand euro paid pursuant to the Regulation governing the system of remuneration of the availability of electricity production capacity, on behalf of the subsidiary Sorgenia Puglia SpA, as contribution to the guarantee fund, in the form of an interest-bearing security deposit, for participation in 'Asta Madre' for the procurement of capacity with delivery in 2022 and 2023.

The deposits described above were made on behalf of Sorgenia Power SpA and Sorgenia Puglia SpA since Sorgenia Spa is the dispatching user on behalf of the subsidiaries. In respect of the deposits made, the Company collected the sums paid early, which it records under payables due to subsidiaries for an amount of 6,469 thousand euro, which must be repaid to the subsidiaries in the event in which the deposit is returned wholly or partially by Terna SpA.
A part of the security deposits of 1,040 thousand euro is due within the year as they were returned by Terna in January 2020.

C - CURRENT ASSETS

C. I - Inventories

EUR/000

INVENTORIES	31/12/2019	31/12/2018	CHANGE
Gas	22,830	47,658	(24,828)
CO2	213	1	211
TOTAL INVENTORIES	**23,042**	**47,659**	**(24,616)**

This item shows the value of inventories of natural gas, stored at Stogit SpA, which amounts to 22,830 thousand euro (47,658 thousand euro as at December 31, 2018). The decrease recorded during the year is the result of the lower awarding of auctions for the allocation of the storage capacity at Stogit SpA compared to the previous year. The storage transactions were implemented in order to guarantee flexibility in procurement and to manage the volatility of intra-day prices.

As regards the item Sorgenia SpA CO_2 quotas, it operates on the relative markets in favour of Group companies, mainly Sorgenia Power and Sorgenia Puglia. The item includes the inventories of CO_2 quotas for an amount of 213 thousand euro (1 thousand euro as of December 31, 2018).

Inventories are recorded at the weighted average cost on a continuous basis due to changes during the period.

C. II – Receivables

EUR/000

RECEIVABLES	Up to 12 months	Over 12 months	31/12/2019	31/12/2018
1) Trade receivables	223,312	-	223,312	180,828
2) Subsidiares	96,559	-	96,559	106,211
3) Associates	-	-	-	-
4) Parent Companies	-	-	-	-
5) Affiliated companies	-	-	-	-
5-bis) Tax receivables	13,293	6	13,299	17,463
5-ter) Deferred tax assets	40,726	-	40,726	54,370
5- quater) Others	1,499	-	1,499	1,116
TOTAL	**375,389**	**6**	**375,395**	**359,988**

The breakdown of receivables by geographical area is as follows:

EUR/000

AREA	31/12/2019	31/12/2018
ITALY	374,981	359,478
EU	413	502
EXTRA EU	1	9
TOTAL	**375,395**	**359,988**

C. II. 1 – Trade receivables

The amount refers to trade receivables deriving from the supply of electricity and from the sale of natural gas. The adjustment of the nominal value of the receivables to their presumed realisable value was obtained through a provision for the write-down of receivables amounting to 30,910 thousand euro as of December 31, 2019 (35,729 thousand euro as of December 31, 2018). The provision for the write-down of receivables represents the best estimate of the risk that customers will not meet their obligations. The

Company identifies two homogeneous classes of customers: “Mass market customers” attributable to micro-enterprises and domestic customers and “Corporate”, attributable to small, medium and large enterprises. Overdue receivables are managed by class and type of recovery action and written down on the basis of the expected outcome of the recovery action taken. The change in the item compared to December 31, 2018 is attributable to the increase in the residential customer base characterised by a lower risk of non-fulfilment of obligations undertaken (345 thousand customers at the end of December 2019 compared to 275 thousand customers on December 31, 2018).

On April 11, 2019, the Company sold a portfolio of trade receivables deriving from electricity and gas supply contracts to a third party. The nominal value of the portfolio amounted to 4,925 thousand euro (fully recognised as a loss in previous years), for a price of 165 thousand euro. This consideration was collected in April.

The item “Miscellaneous operating costs” includes the net effect of losses on receivables, deriving from the recognition of losses on receivables amounting to 12,022 thousand euro (14,337 thousand euro in the previous year), fully covered by the use of the provision for the write-down of receivables. During the year under review, the amount of 7,240 thousand euro (8,834 thousand euro in the previous year) was allocated to the provision for the write-down of receivables, which is reflected in the Income Statement under the item Write-down of receivables included in current assets and cash and cash equivalents.

C. II. 2 - Receivables - subsidiaries

The breakdown of this item is provided in the following table:

EUR/000

RECEIVABLES - SUBSIDIARIES	31/12/2019	31/12/2018
Energia Italiana SpA	4	-
Sorgenia Puglia SpA	21,303	17,580
Sorgenia Power SpA	42,717	56,889
Sorgenia Solar Srl	1	-
Fin Gas Srl	5	-
Sorgenia Fiber Srl	3,947	-
Sorgenia Hydro Power Srl	-	2
Sorgenia Le Cascinelle Srl	1	5
Sorgenia Renewables Srl	1	5
Sorgenia Trading SpA	28,285	31,729
Sorgenia Sviluppo Srl	12	1
Universal Sun Srl (now Sorgenia Green Solutions Srl)	283	-
TOTAL	**96,559**	**106,211**

The amount relates to both financial and trade receivables with a maturity of less than 12 months, as analysed below.

The breakdown of financial receivables is shown in the following table:

EUR/000

FINANCIAL RECEIVABLES FROM SUBSIDIARIES	31/12/2019	31/12/2018
Sorgenia Solar Srl	1	-
Sorgenia Hydro Power Srl	-	2
Sorgenia Le Cascinelle Srl	1	5
Sorgenia Renewables Srl	1	5
Sorgenia Trading SpA	20	22
Sorgenia Sviluppo Srl	2	1
Universal Sun Srl (now Sorgenia Green Solutions Srl)	2	-
TOTAL	**27**	**35**

Financial receivables include the amount disbursed to subsidiaries for reciprocal loan contracts signed to optimise liquidity management and the current financial needs of Group companies. The balances as of December 31, 2019 are represented solely by interest income accrued in the last quarter of the year and not yet collected, the loans of which are recorded under fixed assets.

The breakdown of trade receivables is shown in the following table:

EUR/000

TRADE RECEIVABLES FROM SUBSIDIARIES	31/12/2019	31/12/2018
Energia Italiana SpA	4	-
Sorgenia Puglia SpA	19,552	15,556
Sorgenia Power SpA	42,717	56,889
Fin Gas Srl	5	-
Sorgenia Fiber Srl	3,947	-
Sorgenia Trading SpA	28,214	31,650
Universal Sun Srl (now Sorgenia Green Solutions Srl)	281	-
TOTAL	**94,720**	**104,095**

As regards trade receivables, this item mainly includes:

- receivables from Sorgenia Power and Sorgenia Puglia for the sale of electricity as part of the management of IPEX markets and related services on the Dispatching and Imbalances market;
- receivables from Sorgenia Power and Sorgenia Puglia for the sale of the natural gas needed for the operation of power plants;
- receivables from Sorgenia Trading for *service* activities related to the sale of electricity and natural

gas in foreign and wholesale markets, managed on the basis of market logics carried out by the parent company on behalf of the subsidiary;

- the receivables from Universal Sun Srl (now Sorgenia Green Solutions Srl) for services provided by the Company's sales network for the promotion of the subsidiary's products and services, as well as for the charge-back of costs directly attributable to and connected with the activities of IT and telecommunications services, employees, human resources and general services, incurred by the Company on behalf of the subsidiary as envisaged by the related cross-charge contract;
- receivables from Sorgenia Fiber Srl relating mainly to the charge-back of development costs and software purchase costs incurred by the Company on behalf of the subsidiary as owner of all the Group's ICT contracts as well as the charge-back of costs relating to intra-group services that include administrative, management and financial services provided by the parent company.

Receivables due from minor companies refer almost exclusively to receivables related to the administrative, financial, tax and legal services provided by the Parent Company.

The item "Receivables - subsidiaries" also includes VAT consolidation receivables of 10 thousand euro (57 thousand euro as of December 31, 2018), sold by Group companies to the Parent Company under the Group VAT agreement.

The breakdown is as follows:

EUR/000

RECEIVABLES FROM SUBSIDIARIES FOR IVA CONSOLIDATION	31/12/2019	31/12/2018
Sorgenia Trading SpA	-	57
Sorgenia Sviluppo Srl	10	-
TOTAL	**10**	**57**

The receivable from Sorgenia Sviluppo, amounting to 10 thousand euro, was collected by the Company in January 2020.

The item "Receivables - subsidiaries" for tax consolidation included, as of December 31, 2018, 2,024 thousand euro, sold by Sorgenia Puglia to the Parent Company under the tax consolidation contract renewed on May 31, 2018. As at December 31, 2019, the Company only had tax consolidation receivables.

EUR/000

RECEIVABLES FROM SUBSIDIARIES FOR TAX CONSOLIDATION	31/12/2019	31/12/2018
Sorgenia Puglia SpA	1,802	2,024
TOTAL	**1,802**	**2,024**

C. II. 5/bis – Tax receivables

EUR/000

TAX CREDIT	31/12/2019	31/12/2018
Up to 12 months		
VAT credits	9,435	11,917
Other tax credits	3,858	5,540
Over 12 months		
Other tax credits	6	6
TOTAL	**13,299**	**17,463**

VAT receivables, amounting to 9,435 thousand euro, represent the tax receivable from the Tax Authorities mainly generated, for 9,284 thousand euro (11,709 thousand euro as of December 31, 2018), by the Group VAT agreement in place also for 2019.

During the year, the Company requested reimbursement:

- of the VAT credit as per the Annual VAT Return for the year 2018 for an amount of 5,000 thousand euro; this credit was collected in October and November;
- the VAT credit accrued in the second quarter of the year, amounting to 2,404 thousand euro and collected in October.

The item Other tax credits, amounting to 3,858 thousand euro (5,540 thousand euro as of December 31, 2019), is mainly composed of:

- for 3,112 thousand euro (4,108 thousand euro as of December 31, 2018) relating to the amounts concerning the receivables with individual UTF offices (Ufficio Tecnico di Finanza - Technical Department of Finance) for excise duties on electricity and gas;

- for 732 thousand euro (1,431 thousand euro as of December 31, 2018), to tax receivables from the Tax Authorities for higher IRES advances paid in previous years, as well as IRAP advances paid in 2012, net of any uses. In January, receivables at the end of the previous year were offset by 700 thousand euro for the payment of IRPEF withholding taxes for employees.

C. II. 5/ter – Deferred tax assets

Deferred tax assets amount to 40,726 thousand euro (54,370 thousand euro as of December 31, 2018) and include the deferred tax assets relating to the temporary differences between the values of the assets and liabilities recorded in the financial statements and the corresponding values recognised for tax purposes, as well as the deferred tax assets recorded on the previous tax losses considered recoverable. The value consists primarily of deferred tax assets recognised on the provision for the write-down of receivables (7,000 thousand euro), taxes recorded on the various risk provisions (10,194 thousand euro), the credit for the deferred tax assets relating to the application of the cash flow hedge reserve on commodity derivatives (1,954 thousand euro), the credit for deferred tax assets on previous own tax losses (689 thousand euro) and on tax losses and previous ACE ("Aiuto per la crescita economica" - Aid for economic growth) deriving from the participation in tax consolidation (20,259 thousand euro).

The change compared to December 31, 2018, negative for 13,644 thousand euro, is mainly due to the net effect of:

- to the write-down, for 20,554 thousand euro, of deferred tax assets on the portion of non-deductible interest expense prior to participation in tax consolidation, already allocated on December 31, 2018, which were not deemed recoverable on December 31, 2019 on the basis of the analyses carried out by the Directors, reported below;
- the use of the portion of non-deductible interest expense in previous years, recovered following the ROL (gross operating profit) capacity generated by the Group as part of the tax consolidation, which led to the release of deferred tax assets amounting to 971 thousand euro;
- the recognition of the deferred tax assets recorded on the derivative liabilities mentioned above, amounting to 1,954 thousand euro (as of December 31, 2018, deferred tax liabilities were recognised);
- the additional recognition of deferred tax assets on the part deemed recoverable of tax losses and ACE, generated after the Company's participation in the tax consolidation regime, totalling 794 thousand euro;
- the net effects arising from changes in deferred tax assets relating to the risk provisions, the provision for the write-down of receivables and other minor temporary differences, totalling 5,133 thousand euro.

The recoverability of deferred tax assets as of December 31, 2019 is subject to the achievement of sufficient future taxable profits for the use of deferred tax benefits.

In relation to tax losses and ACE recognised (84,412 thousand euro), which corresponds to a tax credit of 20,259 thousand euro the Directors considered the tax recoverability over a time horizon until 2023 to be reasonably certain, the year in which the current Capacity Market regulation will expire and owing to the limited visibility on the subsequent regulatory regime. The recoverability of the above-mentioned tax losses was estimated on the basis of the future taxable income of tax consolidation resulting from the 2016-2027 Business Plan, suitably updated to reflect the final data as of December 31, 2019, the forecasts relating to the 2020 budget and the new regulations on the Capacity Market in 2022 and 2023. The Directors deemed that the aforementioned plan represents convincing evidence to support the recoverability of deferred tax assets, however, given the long time horizon of the aforementioned forecast plan, the estimates made could differ even significantly with respect to the actual circumstances, determining a consequent impact on the recoverability of deferred tax assets.

As regards the measurement of the recoverability of deferred tax assets on temporarily non-deductible interest recognised (89,687 thousand euro, which corresponds to a tax credit of 21,525 thousand euro), the Directors judged that there is no reasonable certainty regarding the recoverability of the associated deferred tax assets, in consideration of a different time horizon for recovery of said temporary difference, as well as the expected effects of the Group's sale transaction; in particular, the expected refinancing of the Group will involve the incurring of higher financial expenses than the current nominal expenses, hence not allowing the deductibility of previous financial expenses.

The recoverability assessment is mainly derived from the analysis of the time profile of taxable profits, both at individual Company and Group level, for the period 2020-2023 as envisaged in the above-mentioned Business Plan.

As regards to the portion of the tax losses contributed by the Group (77,533 thousand euro) and the portion of non-deductible interest expense prior to participating in the tax consolidation (85,642 thousand euro) not recognised, the Directors assessed that there is no reasonable certainty of recovering the related deferred tax assets amounting to 39,162 thousand euro.

For more details, please refer to the table of temporary differences and deferred taxes in the paragraph “Temporary Differences and Deferred Taxes”.

C. II. 5/quater - Receivables - others

EUR/000

RECEIVABLES - OTHERS	31/12/2019	31/12/2018
Suppliers	1,075	600
Others receivables	424	516
TOTAL	**1,499**	**1,116**

The balance of the Suppliers item is represented by advances on supply provided for in the contract and mainly consists of advances for legal and tax advisory services amounting to 288 thousand euro. The item also includes advances to agents of 780 thousand euro, stated net of a provision for the write-down of receivables of 312 thousand euro allocated during the year in view of any non-recoverability of the receivable.

The item Other receivables mainly includes the receivable, equal to 400 thousand euro (500 thousand euro on December 31, 2018), attributable to the sale of the equity investment of Volterra in January 2017 for 3,000 thousand euro, which at the end of the year was not fully collected. In January 2020, the Company collected this receivable for 300 thousand euro.

On December 19, the Company acquired the receivable due to the subsidiary Sorgenia Solar Srl in liquidation from a company active in the production and sale of photovoltaic modules. The receivable is shown in this item net of a provision for credit risks and amounts to 10 thousand euro.

It should be noted that, in November, the company collected a receivable due from the company Renvico Holding Srl, for an amount of 1,328 thousand euro, generated by:

- an advance payment linked to a tax dispute of the subsidiary San Gregorio Magno Srl, transferred in March 2015 for an amount of 658 thousand euro;
- a capital gain of 670 thousand euro, generated by the recognition of a receivable for an incorrect financial offset with the earn-out recognised in 2017 to the company Renvico Holding Srl, following the fulfilment of the conditions envisaged in the sale contract of Sorgenia Green Srl in March 2015.

C. III – Short-term investments

EUR/000

SHORT - TERM INVESTMENTS	31/12/2019	31/12/2018	CHANGE
1) Investments in subsidiaries	-	-	-
2) Investments in affiliates	-	-	-
3) Investments in parent companies	-	-	-
3-bis) Investments in affiliated companies	-	-	-
4) Other investments	-	-	-
5) Derivative assets	2	2,076	(2,074)
6) Other securities	-	-	-
7) Financial assets for centralized treasury management	-	-	-
TOTAL	**2**	**2,076**	**(2,074)**

C. III. 5 – Derivative assets

This item includes 2 thousand euro for the *fair value* as of December 31, 2019 of the *Interest Rate Cap* derivative subscribed by Sorgenia SpA in 2017 to hedge the risk of interest rate fluctuations on the outstanding loan, paying a total premium of 875 thousand euro.

The item included, as of December 31, 2018:

- for 210 thousand euro, the *fair value* of the *Interest Rate Swap* derivative entered by Sorgenia SpA on behalf of Sorgenia Power to hedge the risk of interest rate fluctuations, which expired on June 30, 2019;
- for 202 thousand euro, the *fair value* deriving from the valuation of instruments hedging against the risk of volatility of the consideration for transfer capacity assignment (CCC) to market operators that own dispatching points for generation and import units. At the end of the year, the Company recorded a negative *fair value* and disclosed it under Liabilities in the Balance Sheet;
- the positive *fair value* of derivatives hedging against the risk of commodity price fluctuations, totalling 1,664 thousand euro.

C. IV – Cash and cash equivalents

EUR/000

CASH AND CASH EQUIVALENTS	31/12/2019	31/12/2018
Bank and post office deposits	108,795	141,303
Cheques	-	-
Cash and valuables on hand	3	2
TOTAL	**108,798**	**141,305**

The item Bank and postal deposits includes the balances as of December 31, 2019 relating to bank current accounts, current accounts in foreign currency, bank deposits, and reflects the changes in the cash flows for the year as represented in the cash flow statement to which reference is made.

In particular, the decrease in cash and cash equivalents is mainly due to the partial repayment of the financial debt (approximately 42 million euro), carried out in January 2019, equal to the excess cash recognised as of December 31, 2018 compared to the minimum cash defined in the Debt Restructuring Agreement.

Any balance in foreign currencies has been reported at the local currency based on the year-end exchange rate, recording any exchange gains or losses directly in the Income Statement.

Cash and cash equivalents represent the amount of cash, in euro and in foreign currency, deposited in the Company's accounts on December 31, 2019. Amounts in foreign currency were adjusted to the year-end exchange rate.

D – ACCRUED INCOME AND PREPAID EXPENSES

EUR/000

ACCRUED INCOME AND PREPAID EXPENSES	31/12/2019	31/12/2018
Accrued income	-	-
Prepaid Expenses	3,959	4,815
TOTAL	**3,959**	**4,815**

The breakdown of Prepaid expenses is as follows:

EUR/000

PREPAID EXPENSES	31/12/2019	31/12/2018
Commissions on guarantees	694	669
Other prepaid expenses	3,265	4,146
TOTAL	**3,959**	**4,815**

The item “Prepaid expenses” includes:

- expenses related to commission on guarantees in favour of the Company's suppliers;
- trade expenses, such as insurance, advertising, rental and maintenance contracts and software.

As of December 31, 2019, there were no accrued income and prepaid expenses with a duration of beyond five years.

DESCRIPTION OF LIABILITIES AND SHAREHOLDERS' EQUITY ITEMS

A – SHAREHOLDERS' EQUITY

The following tables provide a detailed breakdown of the Company's shareholders' equity and the reasons for the changes that have taken place over the last two years.

EUR/000

SHAREHOLDERS' EQUITY	I. Share Capital	IV. Legal Reserve	VI. Tresury stock Reserve	VII. Cash flow hedge reserve	VIII. Retained earnings (loss)	IX. Net Income (loss)	X. Negative reserve for treasury shares in portfolio	TOTAL
Balance at 31/12/2017	**406,677**	**1,816**	**213**	**4,216**	**(98,207)**	**(18,440)**	**(804)**	**295,470**
Decrease	-	-	-	(2,307)	-	-	-	(2,307)
Allocation of Net Loss at 31/12/2017	-	-	-	-	(18,440)	18,440	-	-
Net Income (loss) for the year	-	-	-	-	-	18,367	-	18,367
Balance at 31/12/2018	**406,677**	**1,816**	**213**	**1,909**	**(116,647)**	**18,367**	**(804)**	**311,531**
Decrease	-	-	-	(8,098)	-	-	-	(8,098)
Allocation of Net Income at 31/12/2018	-	-	-	-	18,367	(18,367)	-	-
Net Income (loss) for the yearperiod	-	-	-	-	-	358	-	358
Balance at 31/12/2019	**406,677**	**1,816**	**213**	**(6,189)**	**(98,280)**	**358**	**(804)**	**303,791**

AVAILABLE RESERVES

				RECAP OF USES OVER THE LAST 3 FINANCIAL YEARS	
EUR/000	**AMOUNT**	**ESTIMATED USEFUL LIFE**	**AVAILABLE AMOUNT**	**Cover of losses**	**Others**
Share Capital	406,677		-	-	-
CAPITAL RESERVES					
Share-premium reserve	-		-	657,126	-
EARNINGS RESERVES					
Legal reserve	1,816	B	-	-	-
Other reserve	213	ABC	213	-	-
TOTAL	**408,706**		**213**	**657,126**	**-**
Net distributable amount **			213		
Remaining distributable amount			-		

Key: A Capital increase; B Cover of losses; C Distribution to Shareholders
**Not distributable portion 213 K Euros

I - Share capital

The Company's share capital on December 31, 2019, fully subscribed and paid-in, amounts to 406,677 thousand euro and is represented by 39,746,225,100 ordinary shares with no nominal value and 921,435,281 shares with a nominal value of 0.01 euro each, for a total of 40,667,660,381 shares, as detailed below:

HOLDER	N.° SHARES HELD/000	VALUE REPRESENTED IN EURO/000	%
Nuova Sorgenia Holding SpA	40,656,531	406,565	99.973%
Others	75	1	0.000%
Monte Paschi Siena	10,639	106	0.026%
Sorgenia SpA (own shares)	416	4	0.001%
TOTAL	**40,667,661**	**406,677**	**100%**

There were no changes compared to the previous year.

IV – Legal reserve

This item includes the amount that the Company's Shareholders' Meeting resolved to allocate to it on the approval of the previous Financial Statements.

This item has not changed during the year.

VI – Other reserves

The item relates to the surplus generated as a result of the merger of Sorgenia Progetti Srl in Sorgenia SpA on October 2009 for 213 thousand euro.

This item has not changed during the year.

VII - Reserve for hedging transactions on expected cash flows

The balance as of December 31, 2019 of the cash flow reserve, amounting to a negative 6,189 thousand euro, includes the net *fair value* liability for financial instruments stipulated, through Sorgenia Trading, as part of the already mentioned mandate without representation agreement, net of related tax effect. The derivative has the objective of hedging risks of fluctuations in commodity prices in future cash flows, in accordance with requirements for hedge accounting.

Changes during the year are shown below:

EUR/000	Cash flow hedge reserve
Start Balance	**1,909**
Variation during the period	
Increase for Fair Value variation	
Decrease for Fair Value variation	(8,144)
Release in Income Statement	(2,511)
Release at rectification of asset/liability	
Defferred tax effetc	2,557
Final Balance	**(6,189)**

For these contracts, the Company verified the effectiveness of the hedge by checking the existence of a close and documented correlation between the characteristics of the underlying and those of the hedging instrument.

VIII – Retained earnings (losses)

The item includes the sum of all earnings retained by the Company following the allocation of the profit in the previous year, as detailed in the statement of changes in equity.

IX - Net income (loss) for the year

This item includes the Company's results for the year.

B – PROVISIONS FOR RISKS AND LOSSES

EUR/000

PROVISIONS FOR RISK AND LOSSES	31/12/2018	Provision	Decreases	Other movements	31/12/2019
B.1) Retirement funds and similar obbligations	1,573	409	(67)	-	1,914
B.2) Provision for deferred taxes	18,043	-	(17,025)	-	1,018
B.3) Provisions for other derivative liabilities	414	3,274	(414)	-	3,274
B.4) Other provision for risks and losses	15,975	24,910	(2,315)	(3,044)	35,526
TOTAL	**36,005**	**28,592**	**(19,820)**	**(3,044)**	**41,732**

B. 1 - Retirement provision

The provision for retirement benefits, amounting to 1,914 thousand euro (1,573 thousand euro on December 31, 2018) includes provisions similar to employee leaving indemnity that are set aside pursuant to collective labour agreements or supplementary company agreements. In this case, the amounts relate to agents' leaving indemnity to which the commercial agents working for the Group are entitled.

B. 2 - Provision for deferred tax

The value includes the provision for deferred tax liabilities linked to the application of OIC 19 in relation to the application of the amortised cost method on bank and bond payables. The decrease compared to the previous year is mainly due to the use of deferred taxes recognised in previous years on the measurement at amortised cost of the financial payables of the company, as a result of the revision of the estimate of the flows of repayments of bank and bond payables carried out during the current year to reflect the effect of the Group’s purchase and sale transaction. As of December 31, 2018, the item also included the provision for deferred tax liabilities of the *cash flow hedge* reserve on commodity derivatives (603 thousand euro). For further details, please refer to the “Table showing temporary differences and deferred taxes”.

B. 3 - Provisions for derivative liabilities

The item includes the fair value, amounting to 3,274 thousand euro, deriving from the valuation of hedging instruments, entered into with Terna for the year 2019, against the volatility risk of the consideration for transfer capacity assignment (CCC) to the market operators who are holders of dispatching points for generation and import units. At the end of the previous year, the Company recorded a positive *fair value* for the CCC contracts and it was therefore shown under balance sheet assets.

Last year, the item included:

- the negative *fair value* of derivatives hedging the risk of fluctuations in the price of commodities for an amount of 204 thousand euro; they matured during the period;

- the negative *fair value*, amounting to 209 thousand euro, relating to the IRS derivative entered into by Sorgenia SpA on behalf of Sorgenia Power to hedge the risk of interest rate fluctuations, which expired on June 30, 2019.

B. 3 - Other provisions for risks and losses

The item other provisions includes:

- the provision for tax risks, equal to 123 thousand euro (unchanged compared to December 31, 2018), relates, for the entire amount, to disputes for excise duties pending with the Customs Agency;
- the provision for customer disputes and teleseller, agency and miscellaneous disputes, for an amount of 3,385 thousand euro (4,040 thousand euro as of December 31, 2018), which includes the estimated costs of legal proceedings brought by customers, as well as other outstanding legal disputes. During the period under review, provisions of 517 thousand euro, releases of 865 thousand euro and uses of 307 thousand euro were recorded;
- the volume bonus provision, amounting to 359 thousand euro (574 thousand euro last year), related to allocations for premiums relating to electricity and natural gas. During the year under review, the provision saw the following changes:
  - a use of the provision set aside as of December 31, 2018 following the acknowledgement to end customers of electricity and gas bonuses for 1,074 thousand euro which therefore led to a total utilisation of the provision set aside (574 thousand euro) and the recognition of a contingent liability for the difference (500 thousand euro);
  - a provision for the year of 359 thousand euro.

  The volume bonus provision is linked to the Company's signing of annual supply contracts with its customers that provide for the payment of bonuses if certain targets are reached in terms of volumes of electricity and gas withdrawn. At the reporting date, these bonuses, which are specific in nature and are likely to exist, are uncertain in terms of their amount and timing. The amount present in the financial statements at the end of the period refers exclusively to the premiums to be paid to customers on consumption during the year;
- the provision for risks on equity investments of 260 thousand euro (1,675 thousand euro on December 31, 2018) refers to the allocations made in previous years for the subsidiary Sorgenia Solar Srl, placed into liquidation on January 11, 2017. This provision was recognised to cover the expected future losses in light of the negative shareholders' equity of the company and the costs that should be incurred. At the end of the year, the provision was released for an amount of 1,415 thousand euro, by aligning it to the distribution plan which will be recognised to the Company at the

moment of the subsidiary's liquidation termination, which took place in the first few months of 2020;

- the provision for future charges for commercial activities for 2,986 thousand euro (3,299 thousand euro as of December 31, 2018), is attributable to the best estimate at the date of preparation of these Financial Statements that includes:
  - costs linked to "collector" activities for trade receivable recovery actions;
  - costs relating to the payment of fees for the execution of injunctions orders toward defaulting customers;
  - costs for probable repurchase of receivables sold to a factoring company in previous years following the suspension of the contract.

  This provision was used during the year for 528 thousand euro, allocated for 515 thousand euro and released for 300 thousand euro;
- risk provision for Settlement by the gas Transport Operator. Following the issuing by the Authority of resolutions 670/2017/R/gas and 782/2017/R/gas, the gas Transport Operator recalculated the economic and physical items from the 2015 period. The above resolutions have designed a model for the calculation of the positions accrued by the operators following adjustments of the measurements of the points underlying the distribution networks (the so-called "Settlement"). Based on the information available on the new Settlement model introduced by the Authority, the estimate of the probable charge to be paid to the Transport Operator for the period 2015-2018 was quantified as at 1,931 thousand euro (1,933 thousand euro as of December 31, 2018). This estimate was made based on the measurement adjustments communicated to Sorgenia by the distributors and on the comparison of these updated measures with the values considered at the time by the Operator, in line with the indications contained in resolutions 670/2017/R/gas and 782/2017/R/gas. During the year, a use of 2 thousand euro was made.
- the risk provision associated with the ARERA (Regulatory Authority for Energy, Networks and Environment) investigation and AGCM (Italian Competition Authority) investigation into the dispatching services prices. The Company estimated a total amount of 2,000 thousand euro as at December 31, 2017 as a likely outlay for the Order to Comply no. 461/2017/E/EEL and the penalty proceeding DSAI/96/2017/EEL. The amount corresponds to the best estimate of the probable charge that the Company must incur for the penalty proceeding which is still in progress and amounts to 1,297 thousand euro at the end of the year. This provision did not change during the year;
- provision for risks related to the allocation of a medium/long-term variable incentive in favour of Company Directors and employees, partly linked to a Group sale transaction for an amount of 25,185 thousand euro (1,833 thousand euro as of December 31, 2018). During the year, an allocation of 23,519 thousand euro was made and an amount of 167 thousand euro was released.

On December 31, 2018, the Company reported a risk provision for a total amount of 1,201 thousand euro, related to charges on payment instruments and charges related to the sending of invoices recorded following the AGCM and ARERA measures, which disputed with Sorgenia the charging of expenses to

customers for the receipt of invoices and for the completion of payments using different methods such as RID (direct debit) or credit card.
The provision was used during the year for an amount of 903 thousand euro following the repayment of these charges to end customers; repayment was completed in the first half of 2019 and the residual amount of 298 thousand euro was released as a contingent liability.

In compliance with the matters laid down by OIC 31, the allocations to risk provisions are recorded under the ordinary operations to which the transaction refers, with the classification of costs "by nature" as the prevailing principle.

C – EMPLOYEE LEAVING INDEMNITY

EUR/000	**31/12/2018**	**Decreases**	**Provision**	**31/12/2019**
TFR	492	(1,043)	1,112	560

The employee leaving indemnity set aside represents the actual amount payable by the Company at the end of the reporting period to employees on the books as of that date, net of any advances paid.

Uses include portions of employee leaving indemnity, accrued before the reform of 2007 and therefore still held by the Company, and paid during the year to employees who terminated their employment relationship with Sorgenia.

The uses also include the amounts transferred to the INPS treasury fund or to supplementary pension funds, the advances paid, the use for the excess of the employee leaving indemnity bonus pertaining to the previous year disbursed during the year.

The Company's workforce at the reporting date is shown in the following table.

	31/12/2018	**HIRES**	**DEPARTURES**	**31/12/2019**	**AVERAGE FOR THE YEAR**
Directors	18	2	2	18	18
Managers	64	10	5	69	66
Office staff	150	38	19	169	161
TOTAL EMPLOYEES	**232**	**50**	**26**	**256**	**244**

D - PAYABLES

The breakdown of payables by due date is provided below:

EUR/000

PAYABLES	Up to 12 months	over 12 months	over 5 years	31/12/2019	31/12/2018
1) Bonds	-	-	-	-	-
2) Convertible Bonds	221,660	-	-	221,660	161,101
3) Shareholder loans	-	-	-	-	-
4) Bank borrowings	99,405	-	-	99,405	131,366
5) Other financing creditors	-	-	-	-	-
6) Advance Payments	-	-	-	-	-
7) Payables to suppliers	178,074	-	-	178,074	162,724
8) Payables in the form of notes	-	-	-	-	-
9) Payables to subsidiaries	164,430	5,923	-	170,353	156,494
10) Payables to Associates	-	-	-	-	-
11) Payables to Parent Companies	-	-	-	-	-
12) Tax Payables	3,939	-	-	3,939	4,432
13) Social security payables	2,491	-	-	2,491	1,787
14) Other payables	5,300			5,300	4,079
TOTAL	**675,301**	**5,923**	**-**	**681,222**	**621,983**

The breakdown of payables by geographical area is as follows:

EUR/000

PAYABLES BY GEOGRAPHICAL AREA	31/12/2019	31/12/2018
ITALY	671,992	619,461
EU	9,000	2,248
EXTRA EU	230	274
TOTAL	**681,222**	**621,983**

D. 2 - Convertible bonds

Bonds recognised in the financial statements at the reporting date amount to 221,660 thousand euro (161,101 thousand euro as of December 31, 2018) and include the amortised cost of the convertible bond (which Management considers a financial liability pursuant to OIC 32). The convertible bond was issued on March 27, 2015, in execution of the 2015 Restructuring Agreement and subsequently amended in 2017 as a result of the Financial Debt Restructuring Agreement. The nominal value of the bond issue, including accrued interest, is equal to 225,035 thousand euro.

The book value of the payable was determined based on an interest rate deemed representative of market interest rates, adjusted to reflect the Company's credit rating at the subscription date of the mandatory convertible bond.

The 2015 Restructuring Agreement made provision for the issuing of a mandatory convertible bond for a nominal total amount of 198,731 thousand euro, through the issuing of bonds intended for subscription and discharge at par by the creditor banks, through offsetting the financial receivables due from the Company.

As a result of the changes made to the Financial Debt Restructuring Agreement, the mandatory convertible bond is interest-bearing, regulated at a nominal fixed rate of 1% and maturing on December 31, 2027.

The Mandatory Convertible Bond Regulation sets out that, at any point during the term of the loan, both bonds can be converted at par to category “A” and “B” shares of the Company when the conditions set forth in the aforementioned regulation are verified. By way of a non-exhaustive example, the regulations of the mandatory convertible bond set out that if the Company's net financial debt to shareholders' equity ratio is higher than 2, the Board of Directors, at its own discretion, may resolve to convert at par the receivables held by creditor banks in principal and interest deriving from the loan, for an amount equal to or greater than 25,000 thousand euro or multiples of it.

On the loan's maturity date, the Company will, in any case, be required to repay the principal amount, and interest accrued at said date. It should be noted that the Financial Debt Restructuring Agreement envisages that, once the medium/long-term financial debt is fully repaid, the Company will begin to repay the bond issue by converting it through available cash at the date of early repayment, intended as cash exceeding the minimum cash defined by the Financial Debt Restructuring Agreement of 100,000 thousand euro.

The residual change in debt compared to December 31, 2018 is attributable:

- for 7,012 thousand euro to the recognition of the expense pertaining to 2019 in application of the amortised cost in the presence of discounting;
- for 51,532 thousand euro to the revision of the estimate of the flows of repayment of the bond loan in the measurement at amortised cost carried out during the year to reflect the effect of the purchase and sale transaction of the Sorgenia Group;
- for 2,015 thousand euro to the recognition of interest pertaining to the year accrued at the nominal interest rate.

The change in the estimate of the debt payment flows used to measure the bond loan at amortised cost was made during the year to reflect the effect of the Group's purchase and sale transaction by the offerers (F2i and Asterion) described in the paragraph “Significant events of the year”. In particular, this transaction will lead to the refinancing of Sorgenia Group's financial debt with the banking system, through the taking out of a new loan obtained on the market and will entail the full repayment of existing financial payables and the termination of the Debt Restructuring Agreement.

In view of this binding offer and the new repayment forecast, the convertible bonds are shown with maturity within the following year.

D. 4 – Bank borrowings

Amounts due to banks comprise:

EUR/000

LOANS FROM BANKS	31/12/2019	31/12/2018
Overdraft facilities and advances	1	-
Loans	99,404	131,366
TOTAL	**99,405**	**131,366**

Payables to banks for loans include, as of December 31, 2019, the value of the amortised cost of the debt outstanding at said date for 99,405 thousand euro (131,366 thousand euro as of December 31, 2018), corresponding to a nominal value of 100,266 thousand euro (142,113 thousand euro as of December 31, 2018).

The book value of the payable was determined based on an interest rate deemed representative of market interest rates, adjusted to reflect the Company's credit rating at the subscription date of effectiveness of the 2015 Restructuring Agreement.

The change with respect to the previous year, amounting to 31,962 thousand euro, is attributable primarily:

- to the repayment of the security in the form of *cash sweep*, equal to 41,847 thousand euro, which took place in January 2019, set forth in the Financial Debt Restructuring Agreement for the excess cash existing as of December 31, 2018;
- to the recognition of the expense pertaining to the year in application of the amortised cost for an amount of 2,542 thousand euro;
- to the revision of the estimate of the flows of repayment of the bank borrowings in the measurement at amortised cost carried out during the year to reflect the effect of the purchase and sale transaction of the Sorgenia Group for 7,339 thousand euro.

As envisaged in the Financial Debt Restructuring Agreement, the debt due in 2027 is to be repaid in a single solution at the maturity date, without prejudice to the mandatory early repayment plan which envisages the payment, in the following month, of available cash (i.e. the cash exceeding the minimum cash defined by the Financial Debt Restructuring Agreement equating to 100,000 thousand euro) existing on December 31 of each year. The debt accrues interest at a nominal rate equal to the 1, 3 or 6 month Euribor plus a spread.

The change in the estimate of the payment flows of the debt used for the measurement at amortised cost was made during the year to reflect the effect of the Group's purchase and sale transaction by the offerers (F2i and Asterion) described in the paragraph "Significant events of the year". In particular, this transaction will lead to the refinancing of Sorgenia Group's financial debt with the banking system, through the taking out of a new loan obtained on the market, which will entail the full repayment of existing financial payables and the termination of the Debt Restructuring Agreement. In view of this binding offer, amounts due to banks are shown with maturity within the next financial year.

D. 7 - Trade payables

Trade payables, which shows a balance of 178,074 thousand euro (162,724 thousand euro on December 31, 2018) are recorded net of any trade discounts; cash discounts are instead recognised on payment. The balance includes the amount due for the provision of services, purchases and invoices to be received for the purchase of electricity and natural gas and transportation costs for electricity and gas, as well as the invoices to be received for ancillary services related to trading in electricity and gas.

D. 9 - Payables - subsidiaries

Amounts due to subsidiaries are made up as follows:

EUR/000

PAYABLES - SUBSIDIARIES	31/12/2019	31/12/2018
Energia Italiana SpA	13	29
Sorgenia Puglia SpA	52,356	43,685
Sorgenia Power SpA	74,537	71,844
Sorgenia Solar Srl	-	9
Sorgenia Bio Power Srl	2	-
Sorgenia Fiber Srl	200	-
Sorgenia Hydro Power Srl	52	6
Sorgenia Le Cascinelle Srl	19	-
Sorgenia Renewables Srl	1,109	-
Sorgenia Trading SpA	42,015	40,890
Sorgenia Geothermal Srl	37	29
Sorgenia Sviluppo Srl	-	2
Universal Sun Srl (now Sorgenia Green Solutions Srl)	13	-
TOTAL	**170,353**	**156,494**

Financial payables are summarised below:

EUR/000

FINANCIAL PAYABLES TO SUBSIDIARIES	31/12/2019	31/12/2018
Sorgenia Puglia SpA	11,502	22,005
Sorgenia Fiber Srl	200	-
Sorgenia Renewables Srl	1,025	-
Sorgenia Geothermal Srl	-	6
TOTAL	**12,727**	**22,011**

The company has financial payables due to subsidiaries:

- Sorgenia Puglia SpA, for the mutual loan agreement, at a fixed rate, with an adjustment at least once a year, disbursed at the end of December 2019 for 11,500 thousand euro. Interest expense accrued during the year amounted to 2 thousand euro, against which the Company reported a payable of the same amount. On April 16, 2019 the subsidiary resolved to distribute dividends for the amount of 22,000 thousand euro in favour of the Company, agreeing the offsetting with the financial payables for the same amount and thus paying off the debt on December 31, 2018;
- Sorgenia Renewables Srl, amounting to 1,025 thousand euro, disbursed in December in respect of the mutual loan agreement, at a fixed rate, with an adjustment at least once a year.

During the year, the new interest-bearing mutual loan was taken out with the subsidiary Sorgenia Fiber Srl. In December, the subsidiary disbursed 200 thousand euro to the Company.

Trade payables are detailed below:

EUR/000

TRADE PAYABLES TO SUBSIDIARIES	31/12/2019	31/12/2018
Sorgenia Puglia SpA	37,775	19,749
Sorgenia Power SpA	65,909	65,640
Sorgenia Trading SpA	41,977	35,751
Universal Sun Srl (now Sorgenia Green Solutions Srl)	13	-
TOTAL	**145,674**	**121,140**

The balance is mainly made up of:

- trade payables for invoices received and to be received from Sorgenia Puglia and Sorgenia Power for the purchase of electricity;
- trade payables for invoices received and to be received from Sorgenia Trading, which are attributable to purchases of electricity and natural gas within the scope of the service for the wholesale purchase of electricity and natural gas assigned to the subsidiary, as part of the mandate without representation agreement.

The change is mainly linked to payables relating to the subsidiary Sorgenia Puglia as a result of the higher volumes produced during the year due to the admission of the plant to the cost recovery regime, which took place on July 2, 2019 by means of Resolution 222/2019 for the period July 15, 2019 - December 31, 2019, subsequently extended until December 31, 2020 with Resolution 290/2019.

The item "Payables - subsidiaries" also includes 6,017 thousand euro that the Company owes to Group companies following their application of Group VAT consolidation also for 2019. The breakdown is as follows:

EUR/000

PAYABLES TO SUBSIDIARIES FOR VAT CONSOLIDATION	31/12/2019	31/12/2018
Sorgenia Puglia SpA	1,753	1,930
Sorgenia Power SpA	4,032	5,426
Sorgenia Solar Srl in liquidation	-	9
Sorgenia Bio Power Srl	2	-
Sorgenia Hydro Power Srl	52	6
Sorgenia Le Cascinelle Srl	19	-
Sorgenia Renewables Srl	84	-
Sorgenia Trading SpA	38	-
Sorgenia Geothermal Srl	37	23
Sorgenia Sviluppo Srl	-	2
TOTAL	**6,017**	**7,396**

This item also includes payables for tax consolidation, for an amount of 13 thousand euro, vis-à-vis Energia Italiana linked to the disposal of ROL and tax losses used in the tax consolidation, as shown below:

EUR/000

PAYABLES TO SUBSIDIARIES FOR TAX CONSOLIDATION	31/12/2019	31/12/2018
Energia Italiana SpA	13	29
Sorgenia Power SpA	-	778
Sorgenia Trading SpA	-	141
TOTAL	**13**	**948**

D. 12 – Tax payables

EUR/000

TAX PAYABLES	31/12/2019	31/12/2018
Withholding tax deducted - to be paid in	913	754
Due to inland revenue - electricity and gas duties	3,026	3,493
Inland revenue and other payables	-	185
TOTAL	**3,939**	**4,432**

The amounts recorded under withholding tax deducted and to be paid regard withholding taxes relating to professionals and IRPEF (personal income tax) for employees of 106 thousand euro (113 thousand on December 31, 2018) and 805 thousand euro (641 thousand euro on December 31, 2018) respectively, related to December 2019 and duly paid the following month.

Amounts due to Tax Authorities for excise duties, totalling 3,026 thousand euro (3,493 thousand as of December 31, 2018), will be cancelled as part of the adjustment that will be recognised in March 2020.

The item Tax and other payables included, as of December 31, 2018, the substitute tax on prize competitions accrued in 2018 for an amount of 185 thousand euro; this tax was paid in March 2019.

D. 13 – Social security payables

The item "Social security payables" includes payables for social security contributions payable by the Company and withholdings deducted from employees according to current law and under the collective labour agreement for 2,491 thousand euro (1,787 thousand euro as of December 31, 2018). The payables in question are due within one year. Social security payables also include the amounts of contributions on bonuses or on holidays accrued at year-end for 1,200 thousand euro (852 thousand euro on December 31, 2018).

D. 14 – Other payables

EUR/000

PAYABLES OTHERS	31/12/2019	31/12/2018
Due to employees	5,180	3,886
Due to others	121	193
TOTAL	**5,301**	**4,079**

The item "Payables due to employees", amounting to 5,180 thousand euro (3,886 thousand euro as of December 31, 2018), mainly includes the expense for holidays accrued and not taken for which totals 1,676 thousand euro and the payable for the productivity bonus accrued for employees amounting to 3,493 thousand euro.

The item "Payables - others" mainly relates, for 120 thousand euro, to the Company's payable to the government for the RAI licence fee (186 thousand euro on December 31, 2018). The payable for RAI licence fee arose following Italian Legislative Decree no. 94 of May 13, 2016, which delegates to electricity companies the burden of collecting this tax. The balance consists of charges made by the Company to customers.

E - ACCRUED EXPENSES AND DEFERRED INCOME

EUR/000

ACCRUED EXPENSES AND DEFERRED INCOME	31/12/2019	31/12/2018
Accrued expenses	-	-
Deferred income	2	4,150
TOTAL	**2**	**4,150**

The balance of the item as of December 31, 2018 included, for 4,148 thousand euro, deferred income relating to income realised on derivatives on CO_2 emission quotas with physical delivery envisaged in 2019 by the subsidiary Sorgenia Trading SpA. This income was charged back to the Company by virtue of the mandate without representation agreement signed by the parties and was settled with physical delivery in the first half of 2019.

There are no accrued expenses and deferred income with a duration of beyond five years on December 31, 2019.

COMMITMENTS, GUARANTEES AND CONTINGENT LIABILITIES NOT REPORTED IN THE BALANCE SHEET

Commitments not reported in the Balance Sheet are broken down as follows:

EUR/000	**31/12/2019**	**31/12/2018**
1. Guarantees issued	117,430	118,354
2. Bank guarantees	237,772	223,506
3. Commitments	-	-
TOTAL	**355,203**	**341,860**

1. Guarantees issued

The guarantees include:

- the securities representing the share capital of the subsidiary Sorgenia Power SpA, provided as pledges to lending banks for loans obtained from the same, for 5,000 thousand euro (for the same amount on December 31, 2018);
- guarantees provided by the consolidating company Sorgenia SpA for VAT credits transferred by the subsidiaries for the years 2014, 2015, 2017 and the first quarter of 2018 for 48,930 thousand euro (72,854 thousand euro on December 31, 2018);
- guarantees provided, on behalf of Sorgenia Trading, by the Parent Company Sorgenia SpA, totalling 63,500 thousand euro (40,500 thousand euro as of December 31, 2018), to electricity and gas suppliers, in order to guarantee any default by the subsidiary.

2. Bank guarantees

Bank guarantees, issued by banks to guarantee third parties, mainly regard:

- electricity and gas transport and transmission contracts for 108,692 thousand euro (106,748 thousand euro as of December 31, 2018);
- electricity and gas purchase contracts, as well as balancing contracts, dispatching and guarantees given to participate in interconnection auctions for 87,869 thousand euro (77,129 thousand euro as of December 31, 2018);
- office and land lease contracts for 2,320 thousand euro (3,583 thousand euro as of December 31, 2018);

- guarantees issued to the Italian Revenue Agency and Italian Customs Agency for payments related to excise and custom duties for 566 thousand euro (for the same amount as of December 31, 2018);
- contracts for input and output dispatch signed with Terna by the Group for 32,945 thousand euro (for the same amount as of December 31, 2018);
- guarantee issued in the period under review to Airplus International Srl, for an amount of 70 thousand euro (for the same amount as of December 31, 2018), relating to the use of the Credit Card provided for the payment of services relating to company travel expenses.

DESCRIPTION OF INCOME STATEMENT ITEMS

A – VALUE OF PRODUCTION

EUR/000

VALUE OF PRODUCTION	31/12/2019	31/12/2018	CHANGE
1) Revenue from sales and services	1,700,015	1,677,337	22,678
2) Changes in work in progress, semi-finished and finished products	-	-	-
3) Changes in contracted work in progress	-	-	-
4) Increase in fixed assetsfor internal work	376	-	376
5) Other income	47,357	66,826	(19,470)
TOTAL	**1,747,748**	**1,744,163**	**3,208**

A. 1 – Revenue from sales and services

During the year, the Company recorded revenues for sales of a total amount of 1,700,015 thousand euro.

This item mainly refers to (i) revenues from end customers for the sale of electricity and natural gas for 641,740 thousand euro, (ii) revenues from Energy Management activities, carried out on wholesale markets, for 404,066 thousand euro and (iii) revenues from related parties of 654,209 thousand euro for the sale of electricity, natural gas and CO_2 certificates.

Revenues from sales recorded a change of 22,678 thousand euro compared to the previous year (1,700,015 thousand euro in 2019 compared to 1,677,337 thousand euro in 2018), attributable primarily to: i) higher revenues from sales of electricity and natural gas to end customers, which rose from 607,927 thousand euro in 2018 to 641,736 thousand euro in 2019, marking a variation of 33,809 thousand euro; this increase is due to higher volumes of sales to higher value added customer segments - Small and Medium Enterprises, "Professional" and "Residential" - which have a higher sale price than large and medium enterprises. It should also be noted that the customer portfolio rose from around 275 thousand in 2018 to roughly 345 thousand in 2019, marking growth of over 25% with respect to the previous year; (ii) higher revenues of 27,263 thousand euro linked to the sale of CO_2 emission rights to Group companies that own generation plants, attributable to both an increase in the unit price of the emission right and higher emissions resulting from a rise in plant production; (ii) lower revenues for 25,775 thousand euro due to the sale of natural gas to Group companies that own generation plants due to the decrease in the commodity price which more than offset the rise in volumes sold; (iv) lower revenues for 11,845 thousand euro for the sale of electricity and gas on wholesale markets, also through the subsidiary Sorgenia Trading.

The details of revenue by business sector and geographical area are provided below:

EUR/000

REVENUES BY BUSINESS SECTOR	31/12/2019	31/12/2018	CHANGE
Sales of goods	1,700,015	1,677,337	22,678
TOTAL	**1,700,015**	**1,677,337**	**22,678**

EUR/000

REVENUES BY GEOGRAPHICAL AREA	31/12/2019	31/12/2018	CHANGE
Domestic	1,700,015	1,677,337	22,678
TOTAL	**1,700,015**	**1,677,337**	**22,678**

Revenue from sales and services resulting from transactions with related parties are reported below:

EUR/000

REVENUES FROM SALES AND SERVICES - RELATED PARTIES	31/12/2019	31/12/2018	CHANGE
Sorgenia Puglia SpA	74,512	60,495	14,017
Sorgenia Power SpA	329,081	343,102	(14,021)
Universal Sun Srl (now Sorgenia Green Solutions Srl)	2	-	2
Sorgenia Trading SpA	250,614	287,321	(36,707)
TOTAL	**654,209**	**690,918**	**(36,709)**

The amounts mainly regard the sale of:

- the electricity produced by Sorgenia Power and Sorgenia Puglia on behalf of the subsidiaries, on the Day-Ahead Market (MGP – “Mercato del giorno prima”);
- of the electricity produced by Sorgenia Power and Sorgenia Puglia on behalf of the same subsidiaries, on the Dispatching Services Market (MSD – “Mercato dei servizi di dispacciamento”) and on the Intra-Day Market (MI – “Mercato Infragiornaliero”); these revenues are shown net of the related costs as described below;
- natural gas to Sorgenia Power and Sorgenia Puglia;
- electricity to Sorgenia Power and Sorgenia Puglia for auxiliary plant services;
- electricity and natural gas to Sorgenia Trading for the wholesale purchase/sale and on forward markets by the latter.

In order to explain relations between related parties, note that the electricity produced by Sorgenia Power and Sorgenia Puglia is purchased entirely by Sorgenia SpA, which is the dispatching user for all Group plants.

The purchase costs of electricity produced by Sorgenia Power and Sorgenia Puglia and placed on the Day-Ahead Market (MGP) are regulated by a specific bilateral contract between the parties and are shown separately under purchase costs for raw materials from related parties.

Sorgenia SpA sells on the electricity exchange the entire quantity of energy underlying the bilateral contract and repurchases (on the same exchange) the energy necessary to meet the demand of end customers.

Sorgenia SpA also carries out energy purchase and sale transactions on behalf of Sorgenia Power and Sorgenia Puglia, on the Dispatching Services Market (MSD) and on the Intra-Day Market (MI), aimed at optimising the production profile and offering balancing services for the electricity system. These transactions on the MSD and MI assume the nature of a pass-through charge for the Parent Company, since they have no effect on its income statement. In order to avoid double reporting of revenue and costs for the same quantities, the net effects are presented by reporting the costs for the purchase of energy from related parties associated with an adjustment in the item Revenues for the sale of energy which amount to 492.326 thousand euro at the end of the year.

Regarding comments of an industrial character, we recommend reading the Report on Operations which analyses the value of the revenue from sales and services shown above, by single business lines.

A. 4 – Own work capitalised

The item, amounting to 376 thousand euro as of December 31, 2019, refers to the capitalisation of personnel costs incurred for the development and implementation of software projects.

A. 5 - Other revenues and income

EUR/000

OTHER REVENUES	31/12/2019	31/12/2018	CHANGE
Other Revenues	29,902	51,142	(21,240)
Revenues from charge-back of costs	17,455	15,684	1,771
TOTAL	**47,357**	**66,826**	**(19,469)**

The item Other revenues mainly contains the items specified below:

- contingent assets for an amount of 25,777 thousand euro, to be considered together with the contingent liabilities included under the item Miscellaneous operating costs, which primarily consists of:
  - o 16,858 thousand euro relating to the fees paid by Terna attributable to the 2018 basic and

additional “consideration for the availability of production capacity pursuant to Resolution 48/04”, for Sorgenia Power and Sorgenia Puglia’s plants;

- o 2,288 thousand euro relating to the contingent asset linked to the full reimbursement of the penalty issued by Snam and paid by the company in 2017; with the settlement process relating to the years 2013-2017, in fact, Snam adjusted the incorrect measurement of the gas capacity used by the Aprilia plant of the subsidiary Sorgenia Power SpA;
- o 1,583 thousand euro related to higher revenues for electricity and natural gas pertaining to previous years and not allocated or insufficiently allocated;
- o 1,373 thousand euro due to the lack of costs allocated in previous years;
- o tax credits for research and development activities relating to 2018 amounting to 889 thousand euro, pursuant to Article 3 of Italian Law Decree no. 145 of 23/12/13 and subsequent amendments;
- o 825 thousand euro relating to the definition of a settlement agreement with a customer, the agreement led to the reversal of the existing receivable of 1,286 thousand euro, which generated a contingent liability, and the re-issue of a new invoice of 825 thousand euro;
- o 658 thousand euro relating to the collection of a receivable from Renvico Holding Srl, generated by the payment of an advance related to a tax dispute of the company San Gregorio Magno Srl, sold to Renvico Holding Srl in March 2015;
- o 604 thousand euro relating to the reimbursement of costs incurred by the Company for guarantees issued in favour of the Tax Authority for the reimbursement of VAT credits for the years 2002 and 2003;
- o 266 thousand euro relating to VAT amending notes on receivables written down and reimbursements to customers in addition to adjustments to losses on receivables recognised in previous years;
- o 165 thousand euro relating to the sale of NPLs - non-performing loans - (written down in full) for a nominal amount of 4,925 thousand euro;
- o 89 thousand euro relating to the flat-rate contribution recognised by the Authority for the collection of the RAI fee for 2017;

- income associated with financial derivative contracts realised during the year to hedge the risk of fluctuations in the prices of energy commodities for 1,382 thousand euro;
- contingent assets relating to the release of risk provisions, amounting to 1,637 thousand euro, mainly due to the elimination of risks connected with legal proceedings for 858 thousand euro, receivables transferred for 300 thousand euro and, for 298 thousand euro, expenses on payment instruments and expenses linked to the sending of invoices.

The item “Revenues from the charge-back of costs” mainly refers to charge-backs to related parties and in particular:

- 13,690 thousand euro for services (technical-operational, administrative, management, financial and others) rendered to Group companies and regulated by specific agreements;
- 514 thousand euro for the charge-back of costs for guarantees on behalf of the subsidiaries Sorgenia Power and Sorgenia Puglia;
- 1,102 thousand euro for the charge-back of guarantee commission vis-à-vis the subsidiaries Sorgenia Power, Sorgenia Puglia and Sorgenia Trading for the guarantees issued in their favour by the Company;
- 961 thousand euro for the charge-back to contracted Sorgenia Fiber of advisory and ICT development costs incurred by the Company on behalf of the subsidiary;
- 567 thousand euro for the costs incurred by the Company to carry out due diligence activities for the valuation of the Sorgenia Group for the purposes of sale. These costs were re-invoiced to the subsidiaries on the basis of the work carried out for each of them;
- 161 thousand euro relating to tax advisory services incurred by the Company on behalf of the subsidiaries Sorgenia Power, Sorgenia Puglia and Sorgenia Trading;
- 154 thousand euro, mainly related to costs re-invoiced to the subsidiary Universal Sun Srl (now Sorgenia Green Solutions Srl) relating to commercial services carried out by the Company on behalf of the subsidiary, as envisaged by a specific service agreement.

The item also includes 243 thousand euro for the charge-back of legal expenses, registered letter costs and suspension to end customers.

Other revenues and income from transactions with related parties are shown in the table below:

EUR/000

OTHER REVENUES AND INCOME - RELATED PARTIES	31/12/2019	31/12/2018	CHANGE
Sorgenia Holding SpA	3	-	3
Energia Italiana SpA	114	109	5
Sorgenia Puglia SpA	3,331	3,041	290
Sorgenia Power SpA	10,095	9,553	542
Fin Gas Srl	15	15	-
LNG MedgasTerminal Srl	31	29	2
Sorgenia Bio Power Srl	51	75	(24)
Sorgenia Open Fiber Srl	976	-	976
Sorgenia Hydro Power Srl	74	220	(146)
Sorgenia Le Cascinelle Srl	160	149	11
Sorgenia Renewables Srl	585	303	282
Sorgenia Trading SpA	1,594	1,354	240
Sorgenia Geothermal Srl	182	179	3
Sorgenia Sviluppo Srl	16	23	(7)
Universal Sun Srl (now Sorgenia Green Solutions Srl)	170	-	170
TOTAL	**17,397**	**15,050**	**2,347**

B) COSTS OF PRODUCTION

EUR/000

COSTS OF PRODUCTION	31/12/2019	31/12/2018	CHANGE
6) Raw materials , secondary materials, consumables and goods	1,182,007	1,286,099	(104,093)
7) Services	493,742	432,953	60,788
8) Lease and rental costs	2,016	1,945	71
9) Personnel costs	31,114	20,772	10,343
10) Amortization, depreciation and write-downs	20,093	21,024	(930)
11) Changes in inventories of raw materials, secondary materials, cosumables and goods	24,616	(39,551)	64,167
12) Risk provisions	-	-	-
13) Other provisions	-	-	-
14) Miscellaneous operating costs	31,464	34,549	(3,085)
TOTAL	**1,785,052**	**1,757,791**	**27,261**

B. 6 – Raw materials, secondary materials, consumables and goods

This item includes all the costs, certain or estimated, regarding the purchase of raw materials.

These are mainly costs incurred by the Company for (i) the purchase of electricity and natural gas and CO_2 certificates from related parties for an amount of 747,322 thousand euro, as detailed below, (ii) the purchase of electricity and natural gas on wholesale markets for 434,540 thousand euro.

The change is mainly linked to: (i) higher purchase costs of emission rights both due to the higher quantities purchased and to the higher unit price compared to the previous year, offset by (ii) lower gas purchase costs due to the higher volumes handled whose increase was more than offset by the reduction in the price of the commodity (iii) lower purchase costs of electricity on the wholesale markets due to the reduction in the price compared to 2018.

The table below shows details on costs for raw materials, secondary materials, consumables and goods pertaining to transactions with related parties:

EUR/000

RAW MATERIALS, SECONDARY MATERIALS, CONSUMABLES AND GOODS - RELATED PARTIES	31/12/2019	31/12/2018	CHANGE
Sorgenia Puglia SpA	50,157	39,440	10,717
Sorgenia Power SpA	304,831	289,670	15,161
Sorgenia Trading SpA	392,271	372,856	19,415
Tirreno Power SpA	50	87	(37)
Universal Sun Srl (now Sorgenia Green Solutions Srl)	13		13
TOTAL	**747,322**	**702,053**	**45,269**

The amounts are mainly related to:

- purchases by the subsidiaries Sorgenia Puglia and Sorgenia Power of electricity for an amount of 354,987 thousand euro, as already described in paragraph "A.1 – Revenues from sales and services";
- purchases by the subsidiary Sorgenia Trading of electricity for 20,956 thousand euro, natural gas for 322,292 thousand euro and CO_2 certificates for 49,023 thousand euro.

B. 7 – Services

EUR/000

SERVICES	31/12/2019	31/12/2018	CHANGE
Consulting	14,874	12,697	2,177
Directors' fees	16,483	2,037	14,446
Statutory auditors' fees	206	206	-
Auditors' fees	230	221	9
Personnel related services	1,436	926	510
Agent commission	20,578	18,302	2,276
Maintenance and repairs	182	177	5
Advertising and marketing	8,798	8,527	271
Insurance	928	371	557
Energy and gas transport costs	403,342	365,787	37,555
Client services	15,854	13,929	1,925
Other costs for services	10,831	9,773	1,058
TOTAL	**493,742**	**432,953**	**60,789**

This item includes all costs deriving from the purchase of services in the conduct of ordinary business operations.

Details on such costs are provided below:

- consultancy mainly refers to legal, tax and administrative advisory services, in addition to IT consulting services necessary to adapt the company's systems to changes to current regulations on electricity and gas, as well as to meet the needs of users who need systems that are increasingly able to support them in managing customer-related issues; this item also includes consultancy relating to the Sorgenia Group's valuation process for the purposes of sale;
- the remuneration accrued by the Company's directors as per the resolution of the Shareholders' Meeting held on April 26, 2018, in addition to the allocation of a medium/long-term variable incentive linked partly to the Group's purchase and sale transaction;
- fees accrued by members of the Board of Statutory Auditors and the Independent Auditors;
- costs for personnel-related services include meal vouchers and costs for contract staff;
- costs for commissions include fees due to agents, brokers and telesellers. The increase recorded during the year is mainly due to the development of the sales network in the *digital* residential

segment;

- costs for maintenance and repairs include expenses incurred for office maintenance;
- advertising and *direct marketing* costs;
- insurance costs;
- costs for transport and dispatch of electricity and costs for transport and distribution of natural gas. The change recorded in the reference period is to be read together with the change in sales revenues;
- costs for customer-related services mainly relate to services provided by *outsourcers* in customer management. These costs include:
  - customer analysis during pre-activation, as a check from a financial point of view to support the credit check;
  - verification and activation of end customers;
  - customer assistance service linked to *call centre* costs;
  - credit management activities;
  - expenses for payments from end users by direct debit on current account;
  - activities carried out through various channels to promote customer loyalty;
- other costs for services mainly consist of:
  - the costs relating to *fees* paid to the subsidiary Sorgenia Trading for the activities carried out on behalf of the parent company on the wholesale market;
  - costs for bank fees, expenses for guarantees, and non-use fees, in addition to expenses for outsourced management of payments received by postal slips that were not pre-compiled;
  - costs for electricity and gas utilities;
  - costs for landline telephony and telecommunications;
  - costs relating to employee accommodation and travel expenses.

The table below shows details on costs for services deriving from transactions with related parties:

EUR/000

SERVICES - RELATED PARTIES	31/12/2019	31/12/2018	CHANGE
Nuova Sorgenia Holding SpA	391	-	391
Sorgenia Trading SpA	4,173	3,750	423
Universal Sun Srl (now Sorgenia Green Solutions Srl)	3	-	3
TOTAL	**4,567**	**3,750**	**817**

The balance towards Sorgenia Trading mainly concerns the costs relating to *fees* paid to the latter for the activities carried out on behalf of the parent company on the wholesale market as part of an intercompany mandate without representation agreement. The change compared to the previous year is attributable to higher volumes traded on wholesale markets.

B. 8 – Lease and rental expenses

The item “Lease and rental expenses” refers mainly to the following:

EUR/000

LEASE AND RENTAL EXPENSES	31/12/2019	31/12/2018	CHANGE
Rent	1,162	1,054	108
Lease / hire of the company car fleet	481	412	69
Other lease and rental expenses	373	479	(106)
TOTAL	**2,016**	**1,945**	**71**

The item, amounting to 2,016 thousand euro as of December 31, 2019, mainly includes:

- 1,162 thousand euro for the costs incurred mainly for the leasing of offices located in Milan;
- 481 thousand euro for lease payments for the company car fleet;
- 314 thousand euro for fees for the use of web “domains”.

The table below shows details on Lease and rental expenses deriving from transactions with related parties:

EUR/000

LEASE AND RENTAL EXPENSES - RELATED PARTIES	31/12/2019	31/12/2018	CHANGE
Tirreno Power SpA	77	76	1
TOTAL	**77**	**76**	**1**

The balance towards Tirreno Power relates to the sub-letting contract of the offices that the Company occupies in via Barberini, 47 in Rome.

B. 9 - Personnel

This item includes all of the expense for employed staff, merit pay increases, promotions, automatic cost-of-living increases, the cost of holidays not taken and provisions as per the law and national labour agreements. The increase is mainly linked to the increase in the average amount of personnel as well as to the allocation of a medium/long-term variable incentive, partly linked to the Group’s purchase and sale transaction.

See the changes in employee leaving indemnities for information on average number of employees for the year.

The applicable national labour agreement is that of the electricity segment.

B. 10 – Amortisation, depreciation and write-downs

B. 10. a – Amortisation of intangible fixed assets

Amortisation was calculated according to the useful life of the asset and its use during the production phase.

For the related analysis, please refer to the details on intangible fixed assets.

B. 10. b – Depreciation of tangible fixed assets

As is the case for the amortisation of intangible assets, the depreciation of tangible assets is calculated on the basis of the useful life of the asset and its use during the production phase.

For the related analysis, please refer to the details on tangible fixed assets.

B. 10. c – Other write-downs of fixed assets

The other write-downs of fixed assets included, as of December 31, 2018, the write-down of intangible fixed assets relating to software considered no longer used in company processes.

B. 10. d – Write-down of receivables included in current assets and cash and cash equivalents

The item “Write-down of receivables included in current assets” refers to the allocation made to adjust the nominal value of trade receivables to their presumed realisable value. For further details, please refer to the comment on trade receivables.

B. 11 – Change in inventories of raw materials, secondary materials, consumables and goods

This item reflects the net change in purchases and sales of natural gas at the date of these Financial Statements. For further details, please refer to the description of Inventories.

B. 14 – Miscellaneous operating costs

EUR/000

MISCELLANEUOS OPERATING COSTS	31/12/2019	31/12/2018	CHANGE
Indirect taxes, local taxes and other	530	388	142
Contingent liabilities	30,439	33,798	(3,359)
Losses on receivables	-	23	(23)
Other operating costs	495	340	155
TOTAL	**31,464**	**34,549**	**(3,085)**

The item “Miscellaneous operating costs” includes ordinary operating costs not attributable to the other items of aggregate B) and ancillary operating costs (other than financial expense) which are not classified as extraordinary costs.

The item “Indirect taxes, local taxes and other” includes the fees paid to the Chamber of Commerce, stamp duty and registration tax.

The various contingent liabilities mainly include costs relating to prior years, to be considered in conjunction with contingent assets included in other revenues and income, for a total of 30,439 thousand euro, regarding among other things:

- o 16,858 thousand euro for the charge-back of the “consideration for the availability of productive capacity pursuant to Resolution no. 48/04 2018” recognised to the thermoelectric plants that must be viewed together with contingent assets for the same amount;
- o 6,067 thousand euro, related to the release of higher allocations of invoices to be issued;
- o 561 thousand euro for transport of electricity and natural gas in previous years;
- o 262 thousand euro for write-offs of non-recoverable receivables for excise duties on electricity and gas;
- o 3,019 thousand euro for costs related to previous years;
- o 2,273 thousand euro relating to the full reimbursement of the penalty issued by Snam in 2017, already commented in paragraph "A.5 - Other revenues and income" under contingent assets, which was recognised to the subsidiary Sorgenia Power SpA;
- o 1,286 thousand euro relating to the definition of a settlement agreement with a watchlist customer, already commented on in paragraph "A.5 - Other revenues and income" under contingent assets.

As already pointed out in receivables due from customers under Balance Sheet assets, the item Losses on receivables was zero, and represents the net effect deriving from the recognition of losses on receivables amounting to 12,022 thousand euro, covered by the use of the provision for the write-down of receivables for the same amount; losses recognised and detailed below include:

- 1,440 thousand euro for the write-off of receivables, subject to repayment plans (with a negative outcome);

- 6,555 thousand euro for receivables referring to customers for which the recovery procedures carried out had a negative outcome;
- 4,027 thousand euro for the receivables to be written off as it was not deemed worthwhile to undertake collection activities.

Other operating expenses mainly include the following items:

- contributions to trade associations for 215 thousand euro;
- penalties and fines, amounting to 201 thousand euro;
- gifts for 38 thousand euro.

C – FINANCIAL INCOME AND EXPENSE

EUR/000

FINANCIAL INCOME AND EXPENSES	31/12/2019	31/12/2018	CHANGE
15) Income for equity investments	22,000	26,000	(4,000)
16) Other financial income	1,148	742	405
17) Interest and other financial expense	(71,785)	(18,285)	(53,501)
17 bis) Foreign exchange gains and losses	(4)	(1)	(4)
TOTAL	**(48,641)**	**8,456**	**(57,100)**

C. 15 – Income from equity investments

C. 15. a - from subsidiaries

This item includes the dividends resolved by the subsidiary Sorgenia Puglia on April 16, 2019, amounting to 22,000 thousand euro, used to offset financial payables as of December 31, 2018 for the same amount.

C. 16 – Other financial income

EUR/000

OTHER FINANCIAL INCOME	31/12/2019	31/12/2018	CHANGE
a) from receivables included in fixed assets	-	-	-
b) from securities included in fixed assets	-	-	-
c) from securities included in current assets	-	-	-
d) income other than the above	1,148	744	404
TOTAL	**1,148**	**744**	**404**

C. 16. d – other than above

EUR/000

INCOME OTHER THAN ABOVE	31/12/2019	31/12/2018	CHANGE
Subsidiaries	368	127	241
Affiliates	-	-	-
Parent company	537	-	537
Other companies	243	617	(374)
TOTAL	**1,148**	**744**	**404**

From subsidiaries

The summary table is provided below:

EUR/000

FINANCIAL INCOME AND EXPENSES FROM SUBSIDIARIES	31/12/2019	31/12/2018	CHANGE
Energia Italiana SpA	-	1	(1)
Sorgenia Power SpA	316	-	316
Sorgenia Solar Srl	2	-	2
Sorgenia Hydro Power Srl	-	8	(8)
Sorgenia Le Cascinelle Srl	3	11	(8)
Sorgenia Renewables Srl	1	10	(9)
Sorgenia Trading SpA	40	91	(51)
Sorgenia Geothermal Srl	-	1	(1)
Sorgenia Sviluppo Srl	4	5	(1)
Universal Sun Srl (now Sorgenia Green Solutions Srl)	2	-	2
TOTAL	**368**	**127**	**241**

Financial income from subsidiaries mainly refers to financial income of 316 thousand euro, relating to the application of the amortised cost method on the financial receivable from the subsidiary Sorgenia Power SpA.

This item also includes financial income from subsidiaries relating to interest income accrued up to December 31, 2019 on intercompany loans.

From parent companies

This item includes financial income of 537 thousand euro, relating to the application of the amortised cost method on the financial receivable from the parent company Nuova Sorgenia Holding SpA. The income from amortised cost derives from the revision of the estimate of the credit collection flows and, specifically, from the expected early repayment with respect to the original maturity, which will take place in the first few months of 2020, as a result of the Sorgenia Group's purchase and sale transaction.

From other companies

Income from other companies, amounting to 243 thousand euro, relates mainly to the reversal to the subsidiary Sorgenia Power of the entire amount, amounting to 213 thousand euro, of differentials paid in relation to derivative financial instruments to hedge the risk of interest rate fluctuations, as they assume the nature of a pass-through charge for the company. These charges are shown under interest and other financial expense.

C.17 - Interest expense and other financial expenses

EUR/000

INTEREST AND OTHER FINANCIAL EXPENSES	31/12/2019	31/12/2018	CHANGE
Subsidiaries	75	1,795	(1,720)
Affiliates	-	-	-
Parent company	-	537	(537)
Other companies	71,710	15,951	55,759
TOTAL	**71,785**	**18,283**	**53,502**

To subsidiaries

As of December 31, 2019, the item includes 75 thousand euro for financial expenses accrued on the loan disbursed during the year by the subsidiary Sorgenia Puglia SpA. Last year there were charges relating to the application of the amortised cost method on the financial receivable from the subsidiary Sorgenia Power SpA, transferred through the merger of the subsidiary Racoon Srl on October 12, 2018. The loan, which is contractually non-interest bearing, was discounted at a market rate deemed consistent with the Company's condition.

To parent companies

As of December 31, 2018, this item included financial expenses, amounting to 537 thousand euro, relating to the application of the amortised cost method on the financial receivable outstanding with the parent company Nuova Sorgenia Holding SpA. The loan, which is contractually non-interest bearing, was discounted at a market rate deemed consistent with the Company's condition. As of December 31, 2019, the application of the amortised cost method led to the recognition of a financial income.

To other companies

Interest and other financial expenses include costs related to financial management.

The item mainly comprises:

- interest expense on the bond totalling 60,559 thousand euro accounted for at effective interest rate and market rates (2,015 thousand euro relating to the nominal interest rate, for 7,012 thousand euro deriving from the recognition of figurative financial expense pertaining to 2019 in application of the amortised cost method and, for 51,532 thousand euro, the figurative financial expense deriving from the update of the valuation – *change in estimate* – of the expected payment flows of the bond at amortised cost, carried out to reflect the forecast full reimbursement of the loan following the expected completion of the Group purchase and sale transaction);
- interest expense on the bond totalling 10,934 thousand euro accounted for at effective interest rate and market rates (1,053 thousand euro relating to the nominal interest rate, for 2,542 thousand euro deriving from the recognition of figurative financial expense pertaining to 2019 in application of the amortised cost method and, for 7,339 thousand euro, the figurative financial expense deriving from the update of the valuation – *change in estimate* – of the expected payment flows of the debt at amortised cost, carried out to reflect the forecast full reimbursement of the debt following the expected completion of the Group purchase and sale transaction);
- interest differentials paid in relation to derivatives entered into by the Company to hedge the interest rate fluctuation risk for 213 thousand euro.

The change compared to the previous year is due to the recognition of the charge for 2019 in application of the amortised cost in the presence of discounting of the bond loan and the loan for which a change in cash flows following the sale of the Group was expected. On December 23, 2019, the Group received a binding purchase offer from F2i SGR S.p.A and Asterion Industrial Partners SGEIC SA. In particular, this transaction will lead to the refinancing of Sorgenia Group’s financial debt with the banking system, through the opening of a new loan obtained on the market which will entail the full repayment of existing financial payables and the termination of the 2017 Restructuring Agreement (for further details, please refer to the paragraph “Financial Debt Restructuring Agreement” and the paragraph "Significant events in the year" in the Report on Operations).

C. 17 bis – Foreign exchange gains and losses

The item Exchange gains and losses has a negative balance of 4 thousand euro (loss of 1 thousand euro in the previous year) and includes exchange gains and losses realised at the reporting date. These items include the differences recognised on translation of the amounts held in current accounts in dollars and cash in foreign currency at the exchange rate as of December 31.

D – ADJUSTMENTS TO THE VALUE OF FINANCIAL ASSETS AND LIABILITIES

D. 18 – Revaluations

EUR/000

Revaluations	31/12/2019	31/12/2018	CHANGE
Revaluation of equity investments	99,757	442	99,315
Revaluation of financial fixed assets	-	-	-
Revaluation of securities included in current assets	-	-	-
Revaluation of derivatives	-	2,644	(2,644)
TOTAL	**99,757**	**3,086**	**96,671**

D. 18.a – of equity investments

The item, amounting to 99,757 thousand euro, includes:

- the revaluation of the equity investment of the subsidiary Sorgenia Solar Srl in liquidation for an amount of 1,415 thousand euro, carried out in order to align the value of the provision for risks with the distribution plan which will be recognised to the Company at the subsidiary's liquidation termination, which took place in the first few months of 2020.
- the revaluation of the equity investment of the subsidiary Energia Italiana SpA for the amount of 28,826 thousand euro, carried out in order to align the value of the equity investment with the portion of shareholders' equity pertaining to the subsidiary Tirreno Power SpA;
- the write-back of the value of the equity investment of the subsidiary Sorgenia Power SpA for the amount of 68,846 thousand euro, as better described in the paragraph "Financial fixed assets" in the Balance Sheet;
- the capital gain of 670 thousand euro, generated by the recognition of a receivable for the financial compensation on the *earn-out* recognised in 2017 to the company Renvico Holding Srl, following the fulfilment of the conditions envisaged in the sale contract of Sorgenia Green Srl in March 2015.

For further details, please refer to the paragraph “Financial fixed assets” in the Balance Sheet.

D. 18.d - Revaluations of derivatives

The item included, as of December 31, 2018:

- the *fair value* change of derivatives, in particular the income deriving from the valuation of instruments hedging against the risk of volatility of the consideration for transport capacity assignment (CCC) to the market operators who are holders of dispatching points for generation and import units amounting to 2,628 thousand euro; as of December 31, 2019, the company reports financial expenses;

- the change in the fair value of derivatives on commodities of 16 thousand euro.

D. 19 – Write-downs

EUR/000

WRITE-DOWN OF EQUITY INVESTMENTS	31/12/2019	31/12/2018	CHANGE
Write-down of equity investments to cover losses of previous year	9,303	500	8,803
Write-down of financial fixed assets	-	-	-
Write-down of securities included in current assets	-	-	-
Write-down of derivatives	3,700	478	3,222
TOTAL	**13,003**	**978**	**12,025**

D. 19.a – of equity investments

The item, amounting to 9,303 thousand euro, includes the write-down of the equity investments, as detailed below, in order to adjust the amount of the equity investment to the year-end shareholders' equity of the subsidiaries:

EUR/000

WRITE-DOWN OF EQUITY INVESTMENTS	31/12/2019	31/12/2018	CHANGE
Sorgenia Sviluppo Srl	8,502	-	8,502
Universal Sun Srl (now Sorgenia Green Solutions Srl)	801	-	801
Fin Gas Srl	-	500	(500)
Sorgenia Geothermal Srl	-	311	(311)
TOTAL	**9,303**	**811**	**8,492**

For further details, please refer to the paragraph “Financial fixed assets” in the Balance Sheet.

D. 19.d - of derivatives

The item includes:

- the *fair value* change of derivatives, in particular the income deriving from the valuation of instruments hedging against the risk of volatility of the consideration for transport capacity assignment (CCC) to the market operators who are holders of dispatching points for generation and import units amounting to 3,476 thousand euro; as of December 31, 2018, the company reported financial income;
- the change in the *fair value* of the *Interest Rate Cap* derivative purchased by the Company, to hedge

the risk of interest rate fluctuations on the existing loan of 2 thousand euro, which on December 31, 2019 did not meet the conditions to be classified as a hedging instrument as it is related to the flows of the original loan.

22 – INCOME TAXES FOR THE YEAR

EUR/000

INCOME TAXES FOR THE YEAR	31/12/2019	31/12/2018	CHANGE
Current Ires taxes for year	1,790	1,954	(164)
Current Irap taxes for year	-	-	-
Deferred Ires and Irap taxes	824	19,214	(18,390)
Deferred Ires and Irap taxes	(3,065)	573	(3,638)
TOTAL	**(451)**	**21,741**	**(22,192)**

The Company recognises net income for current taxes of 1,790 thousand euro, equivalent to the benefit recognised as a result of participation in the tax consolidation.

The item also includes net income of 824 thousand euro relating to deferred tax assets and liabilities, details of which can be found in the items Deferred tax assets and liabilities in the Balance Sheet and in the "Table showing temporary differences and deferred taxes” below.

The Company recognised taxes relating to previous years for a net expense of 3,065 thousand euro, relating mainly to the case described below.

During the year, the subsidiaries Sorgenia Puglia and Sorgenia Power redetermined the taxable income for 2013, together with the tax consolidating company at the time, CIR S.p.A., following the receipt in the first half of the year of a positive opinion by the Tax Authorities on the 'interpello' (request for a tax ruling) presented on the criteria for deductibility of the write-down of the plants carried out in 2013.

As a result of the above, taxable income was also restated for the 2015, 2016 and 2017 tax periods, which had a negative impact on Sorgenia S.p.A., tax consolidator since 2015, due to a different remuneration from tax consolidation.

TABLE SHOWING TEMPORARY DIFFERENCES AND DEFERRED TAXES

The table below shows the breakdown of deferred tax assets and deferred tax liabilities at the reporting date and at the end of the previous year, with indications of the temporary differences between the values of assets and liabilities recorded in the Financial Statements and the corresponding values recognised for tax purposes. Please refer to the notes on deferred tax assets and deferred tax liabilities of the Balance Sheet for the relevant analysis.

EUR/000	Year 2018			Year 2019		
ADVANCE AND DEFERRED TAXES FOR PERIOD	**Amount of temporary difference**	**Tax rate**	**Amount of tax**	**Amount of termporary difference**	**Tax rate**	**Amount of tax**
Directors' fees	1,362	24.00%	327	1,344	24.00%	323
Unpaid taxes (transactions at a premium)	178	24.00%	43	-	24.00%	-
Supplementary Customer Indemnity and Merit Provision	260	24.00%	62	251	24.00%	60
Provision for sundry risks	13,726	27.90%	3,830	36,537	27.90%	10,194
Auditors' fees for checking Financial Statements	-	24.00%	-	-	24.00%	-
Write-down fund Credits to other (agents)	329	24.00%	79	329	24.00%	79
Provision to taxed reserve for write-down receivables	34,126	24.00%	8,190	29,165	24.00%	7,000
Provision for electricity premiums	574	27.90%	160	359	27.90%	100
Late payment penalties for the year not paid	-	24.00%	-	-	24.00%	-
Previous years fiscal losses	2,869	24.00%	689	2,869	24.00%	689
Losses tax group	67,197	24.00%	16,127	66,275	24.00%	15,906
ACE	13,909	24.00%	3,338	18,137	24.00%	4,353
Write-down of equity investments	-	24.00%	-	-	24.00%	-
Interest expenses (ROL)	89,687	24.00%	21,525	-	24.00%	-
Derivatives	-	24.00%	-	8,144	24.00%	1,954
DEFERRED TAX ASSETS FOR THE YEAR	**224,218**		**54,370**	**165,301**		**40,726**
Amortized cost Term loan	(10,747)	24.00%	(2,579)	(867)	24.00%	(208)
Amortized cost term convertendo	(61,920)	24.00%	(14,861)	(3,375)	24.00%	(810)
Derivatives	(2,511)	24.00%	(603)	-	24.00%	-
DEFERRED TAX PAYABLE FOR THE YEAR	**(75,178)**		**(18,043)**	**(4,241)**		**(1,018)**
TOTAL DEFERRED TAXES FOR THE YEAR			**36,327**			**39,708**
NET EFFECT ON INCOME STATEMENT						**(824)**
NET EFFECT ON BALANCE SHEET						**(2,557)**

DISCLOSURE ON DERIVATIVES

OPERATIONS OF THE COMPANY

Commodity price risk

As better described in the paragraph above "Derivative contracts", which thoroughly describes the measurement and accounting criteria adopted, the Company - in order to pursue the objective of optimising the management of the Group's assets, with particular reference to the aim of maximising the opportunities for the use of the production capacity of the thermoelectric plants held by the subsidiaries Sorgenia Power and Sorgenia Puglia, and the sale to end customers of electricity and gas - enters into trading derivative contracts with regard to the purchase/sale of energy and natural gas with different product and time profiles (i) both directly with financial counterparties operating on OTC ("*Over the counter*") markets, and (ii) through the subsidiary Sorgenia Trading, through the institution of the mandate without agent, according to which the subsidiary, Sorgenia Trading, executes transactions with leading financial counterparties on regulated markets and OTC.

Interest rate risk

The Company, in the ordinary performance of its operating activities, is exposed to interest rate risk. Exposure to interest rate risk in terms of variability of the interest flows is essentially tied to the existence of loans negotiated at floating rates. This risk is manifested in the possibility that a rise of the market rates leads to a higher outlay in terms of interest expense.

The goal of these hedges is to minimise the change in interest flows generated by loans payable at floating rates. Exposure to interest rate risk is calculated on the basis of the amortisation plan of the loan payable and of the benchmark used to determine the interest.

Derivative financial instruments, designated by the Company for hedging purposes, are recognised based on hedge accounting requirements, where applicable.

Within this context, the scope of this disclosure is exclusively derivative financial instruments subscribed directly by Sorgenia SpA.

INFORMATION ON THE *FAIR VALUE* OF DERIVATIVES

Appendix B of OIC 32 requires a classification of derivatives at *fair value*, maximising the use of significant observable parameters and minimising the use of non-observable parameters according to the *fair value* hierarchy described in Article 2426, paragraph 4 of the Italian Civil Code.

The above-mentioned "*fair value*" hierarchy is divided into three levels that give priority, as part of the *fair value* measurement, to the use of objective market information with respect to specific information and establish three levels for the measurement of *fair value*, based on the nature of the inputs used in the measurement of an asset or liability at the measurement date.

The *fair value* measurement hierarchy is defined as follows:

level 1: determination of *fair value* based on market value, for derivatives for which it is possible to easily identify an active market. This category includes the instruments with which the company operates directly in active markets or *Over-the-Counter* markets that represent identical *assets* compared to the corresponding organised markets (e.g., *futures* traded on the stock exchange).

level 2: if the market value cannot be easily identified for an instrument, but can be identified for its components or for a similar instrument, the market value may be derived from that of the components or the similar instrument.

This category includes the instruments with which the company operates in *Over-the-Counter* markets, not characterised by a sufficient level of liquidity or which do not continuously express a market price (e.g. derivatives with physical delivery subscribed on OTC markets);

level 3: determination of *fair value* based on generally accepted valuation models and techniques, whose inputs are not based on observable market data either directly or indirectly (unobservable *inputs*) in any active market.

Based on the above considerations, it should be noted that inclusion in level 1 of the *fair value* hierarchy is only possible for *fair value* measurements deriving from the market price of an identical instrument; it is not possible to include in this level a *fair value* measurement based on a valuation technique, although the only inputs used are derived directly from indices or market rates. For this reason, if the measurement techniques do not respect the conditions stated above, the derivative financial instruments must be classified in Level 2 even though they are measured on the basis of variables directly observable in the market.

On the basis of the above-mentioned transactions carried out directly by Sorgenia SpA, which are settled solely with physical delivery of energy commodities, they can be classified as Level 2. In particular, in relation to the above-mentioned transactions, the *fair value* was calculated using the *forward* curve of the prices of energy *commodities* as at December 31, 2019. Also classifiable as Level 2 is the Interest Rate CAP derivative negotiated by Sorgenia SpA to hedge the interest rate risk on the loan.

As regards hedging instruments against the risk of volatility in the transportation capacity allocation price (CCC), considering that the relative *fair value* is determined on the basis of valuation models and techniques whose inputs are not based on observable market data, either directly or indirectly in any active market, they can be classified as Level 3. In particular, the fair value was calculated using the PUN curve inferred from the market and the zone price curve determined using internal estimation models.

Based on the above, the portfolio of financial instruments of the Company is classified as follows:

TYPE OF INSTRUMENT	FAIR VALUE HIERARCHY
Interest Rate Derivatives (IRS, Collar, Cap, Basis Swap)	Level 2
CCC Hedges	Level 3

The following schedules provide information required by Article 2427-bis of the Italian Civil Code in table format.

The tables refer to derivative contracts acquired for hedging purposes but not designated in *hedge accounting* and derivative contracts managed for hedging purposes designated in *hedge accounting*.

EUR/000	2019			2018		
	Notional Value	**Positive Fair Value**	**Negative Fair Value**	**Notional Value**	**Positive Fair Value**	**Negative Fair Value**
Cash Flow Hedge						
Commodity price risk						
IB Formulas				12,358	1,664	(204)
Interest rate risk						
Interest rate CAP				105,022	228	
Total Cash Flow Hedge	**-**	**-**		**117,379**	**1,893**	**(204)**
Trading Derivatives						
Commodity price risk						
IB Formulas						
CCC	1,109		(3,274)	3,201	202	
Interest rate CAP	88,022	2				
Interest rate risk						
IRS ISPMI Power 2 (SorgeniaPower)				16,000	210	
IRS ISPMI Power 2 (Banca IMI)				16,000		(210)
Total Trading Derivatives	**89,130**	**2**	**(3,274)**	**35,201**	**412**	**(210)**
Total Financial Instrument - Asset (Liability)	**89,130**	**2**	**(3,274)**	**152,580**	**2,305**	**(414)**

The *fair value* of derivative contracts consists of:

- a positive component of 2 thousand euro relating to the *Interest Rate Cap*, which corresponds to short-term investments;
- a negative component of 3,274 thousand euro for CCC, which corresponds to provisions for derivative liabilities.

Derivatives for trading (or for hedging purposes but not designated in hedge accounting)

This includes commodity derivatives – "CCC" – entered into with Terna SpA to mitigate the risk of fluctuations in the transportation capacity consideration (CCT).

At the end of last year, this item included the *Interest Rate Swap* derivative entered into in 2011 with Intesa SanPaolo SpA on behalf of Sorgenia Power to hedge the risk of interest rate fluctuations on the loan that it has in place, for a notional amount of 16 million euro. On the same date, an intercompany derivative contract was signed between the two companies (Mirror derivative), through which Sorgenia SpA charged back all the economic effects of the derivative towards Intesa SanPaolo SpA to Sorgenia Power. This derivative contract expired on June 30, 2019.

It should be noted that the Interest Rate Cap (Forward) derivative entered on October 19, 2017 with Intesa SanPaolo SpA to hedge the volatility of the interest rate applied to financial payables for the 2018-2022 period, whose notional value is 88,022 thousand euro, was classified, as of December 31, 2019, under "Short-term investments". As of December 31, 2019, this derivative does not meet the conditions to be classified as a hedging instrument as it is related to the flows of the original loan. Specifically, the Company verified the effectiveness of the hedge by verifying the existence of a close and documented correlation between the characteristics of the hedged instrument and those of the hedging instrument, which was ineffective, following the expected repayment of the loan in 2020 as part of the Group's purchase and sale and refinancing transaction.

Changes in the *fair value* of derivatives with separate indication of the changes booked directly to the income statement, as well as those recognised to shareholders' equity reserves:

EUR/000	Financial Instruments in Cash flow Hedge asset side (Interest rate risk)	Financial Instruments in Cash flow Hedge asset side (Interest rate risk)	Financial Instruments in Cash flow Hedge asset side (Interest rate risk)	Trading Financial Instruments asset side	Trading Financial Instruments liability side
Start Balance	**228**	**1,664**	**(204)**	**412**	**(210)**
Variation during the period					
Premium paid					
Increase for Fair Value variation recording in an Equity Reserve			204		
Decrease for Fair Value variation recording in an Equity Reserve		(1,664)			
Increase for Fair Value variation recording in Income Statement				(202)	(3,274)
Decrease for Fair Value variation recording in Income Statements				(210)	210
Ineffectiveness of hedge accounting recording in Income Statements					
Time value variation recording in Income Statements	(228)			2	
Valuation of Mirror Sorgenia Power Derivatives					
Final Balance	**-**	**-**	**-**	**2**	**(3,274)**

Therefore, the item 18 d) Revaluations of derivatives comprises the following elements:

EUR/000	2019	2018
Positive Fair Value variation of derivatives not in hedging accounting		2,644
Positive effect of ineffectiveness of cash flow hedge recording in Income Statement		
Positive effect of option/forward contract time value in hedge accounting recording in Income Statement		
Release in Income Statement of "Cash Flow Hedge Reserve" if the future transactionss are not considered still highly probable		
Other impact		
Balance at December 31, 2019	**-**	**2,644**

The item 19 d) Write-downs of derivatives comprises the following elements:

EUR/000	2019	2018
Negative Fair Value variation of derivatives not in hedging accounting	(3,274)	(79)
Negative effect of ineffectiveness of cash flow hedge recording in Income Statement		
Negative effect of option/forward contract time value in hedge accounting recording in Income Statement		(400)
Release in Income Statement of "Cash Flow Hedge Reserve" if the future transactionss are not considered still highly probable		
Release in Income Statement of "Cash Flow Hedge Reserve" if the future transactionss are not considered recoverableR		
Other impact	(427)	
Balance at December 31, 2019	**(3,700)**	**(479)**

OTHER INFORMATION

INFORMATION PURSUANT TO ITALIAN LAW NO. 124 OF AUGUST 4, 2017

For further information regarding the obligations deriving from Italian Law no. 124 of August 4, 2017, on "Transparency in the public disbursement system", please refer to the website of the State Aid Register, which can be accessed through the following link https://www.rna.gov.it/sites/PortaleRNA/it_IT/home.

INDEPENDENT AUDITORS

As regards the requirements of paragraph 16-bis of Article 2427 of the Italian Civil Code, information is hereby provided on fees for services supplied by the Company holding the audit mandate:

Description	Fees
Audit services	184
Other attestation services	46

ITEMS OF EXCEPTIONAL SIZE OR IMPACT

There are no elements of exceptional size or impact to report.

FEES TO AUDITORS

For details on fees paid to Auditors, refer to the detail contained in Table B.7 of the Income Statement.

RELATED PARTY TRANSACTIONS

An analysis of credit and debit balances, and costs and revenues deriving from transactions with related parties is provided under the corresponding items listed in these Explanatory Notes.

All of the transactions were carried out in the interest of the Company as part of ordinary operations and were regulated under market conditions, i.e. under the conditions and terms that would be applied to transactions between two independent parties.

EMPLOYMENT FIGURES

As of December 31, 2019, the company had employees as shown under liabilities in the Balance Sheet under item “C - EMPLOYEE LEAVING INDEMNITY”.

ALLOCATION OF PROFIT FOR THE YEAR

As illustrated to you, the financial statements for the year ended on December 31, 2019 that we submit for your approval, posts a profit of 358,033 euro.

Pursuant to Article 2427, paragraph 1, number 22-septies of the Italian Civil Code, we propose that you:

- allocate the amount of 17,902 euro to the Legal Reserve;
- carry forward 340,131 euro to the next year.

These Financial Statements, comprising the Balance Sheet, Income Statement, Statement of Cash Flows, and the Explanatory Notes, give a true and fair view of the financial and equity position of the Company and of its results for the year.

Milan, March 27, 2020

for The Board of Directors

Deloitte & Touche S.p.A.
Via Tortona, 25
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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Sorgenia S.p.A.

REPORT ON THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Opinion

We have audited the consolidated financial statements of Sorgenia S.p.A. ("the Company") and its subsidiaries ("Sorgenia Group" or "the Group"), which comprise the consolidated statement of financial position as at December 31, 2019, and the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2019, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Sorgenia S.p.A. in accordance with the ethical requirements applicable under Italian law to the audit of the financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

In preparing the consolidated financial statements, the Directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Group's financial reporting process.

Deloitte.

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

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

Deloitte.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14 paragraph 2 (e) of Legislative Decree 39/10

The Directors of Sorgenia S.p.A. are responsible for the preparation of the report on operations of Sorgenia Group as at December 31, 2019, including its consistency with the related consolidated financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations, with the consolidated financial statements of Sorgenia Group as at December 31, 2019 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the above-mentioned report on operations is consistent with the consolidated financial statements of Sorgenia Group as at December 31, 2019 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the Group and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Paola Mariateresa Rolli
Partner

Milan, Italy
June 11, 2020

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

Deloitte.

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INDEPENDENT AUDITOR'S REPORT
PURSUANT TO ARTICLE 14 OF LEGISLATIVE DECREE No. 39 OF JANUARY 27, 2010

To the Shareholders of
Sorgenia S.p.A.

REPORT ON THE AUDIT OF THE FINANCIAL STATEMENTS

Opinion

We have audited the financial statements of Sorgenia S.p.A. (the Company), which comprise the balance sheet as at December 31, 2019, the statement of income and statement of cash flows for the year then ended and the explanatory notes.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Company as at December 31, 2019, and of its financial performance and its cash flows for the year then ended in accordance with the Italian law governing financial statements.

Basis for Opinion

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

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

The Directors are responsible for the preparation of financial statements that give a true and fair view in accordance with the Italian law governing financial statements, and, within the terms established by law, for such internal control as the Directors determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Directors are responsible for assessing the Company's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they have identified the existence of the conditions for the liquidation of the Company or the termination of the business or have no realistic alternatives to such choices.

The Board of Statutory Auditors is responsible for overseeing, within the terms established by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

As part of an audit in accordance with International Standards on Auditing (ISA Italia), we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

Opinion pursuant to art. 14, paragraph 2 (e) of Legislative Decree 39/10

The Directors of Sorgenia S.p.A. are responsible for the preparation of the report on operations of Sorgenia S.p.A. as at December 31, 2019, including its consistency with the related financial statements and its compliance with the law.

We have carried out the procedures set forth in the Auditing Standard (SA Italia) n. 720B in order to express an opinion on the consistency of the report on operations with the financial statements of Sorgenia S.p.A. as at December 31, 2019 and on its compliance with the law, as well as to make a statement about any material misstatement.

In our opinion, the report on operations is consistent with the financial statements of Sorgenia S.p.A. as at December 31, 2019 and is prepared in accordance with the law.

With reference to the statement referred to in art. 14, paragraph 2 (e), of Legislative Decree 39/10, made on the basis of the knowledge and understanding of the entity and of the related context acquired during the audit, we have nothing to report.

DELOITTE & TOUCHE S.p.A.

Signed by
Paola Mariateresa Rolli
Partner

Milan, Italy
June 11, 2020

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

Sorgenia S.p.A.

Registered office in Milan – Via Alessandro Algardi 4

Share capital Euro 406,676,603.81

Register of Companies of Milan and Tax Code 07756640012

FINANCIAL STATEMENTS FOR YEAR ENDED AS AT DECEMBER ,31 2019

REPORT OF THE BOARD OF STATUTORY AUDITORS AT THE SHAREHOLDERS' MEETING OF SORGENIA S.P.A.

PURSUANT TO ART. 153 OF LEGISLATIVE DECREE 58/1998 AND ART. 2429 OF THE ITALIAN CIVILCODE

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Dear Shareholders,

the Board of Statutory Auditors, pursuant to art. 153 of Legislative Decree 58/1998 and art. 2429, paragraph 2 of the Italian Civil Code, is called to report, at the Shareholders' Meeting called to approve the financial statements for the year ended as at December 31, 2019, on the monitoring activity carried out and may also make observations and proposals regarding the financial statements, their approval or matters within its competence.

The activity is based on the Legal provisions and on the Rules of conduct of the Board of Statutory Auditors issued by the Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili (National Institute of Chartered Accountants).

The audit engagement pursuant to art. 2409 bis of the Italian Civil Code and art. 14 of Legislative Decree no. 58 of February 24, 1998, is assigned by means of resolution of the Shareholders' Meeting of July 26, 2018, for the years 2018/20, to the Independent Auditors Deloitte & Touche S.p.A., with registered office in Milan, Via Tortona, 25 – Tax Code and registration number in the Register of Companies of Milan 03049560166, REA (economic and administrative index) Milan no. 1720239, VAT no. 03049560166, enrolled in the special register of Consob at no. 14182 of July 29, 2003.

Performance of activities by the Board of Statutory Auditors

The Board of Statutory Auditors, appointed by means of resolution of the Shareholders' Meeting held on April 26, 2018, three-year engagement (until the Shareholders' Meeting called to approve the financial statements for the year ended as at December 31, 2020), duly held 6 meetings during the year, pursuant to art. 2404 of the Italian Civil Code, and the appropriate minutes were drafted for said meetings, duly signed by the statutory auditors for unanimous approval.

For the performance of the activities within the competence of the Board, it is acknowledged that:

- The Board monitored the observance of the Law and the Articles of Association and respect for the principles of correct administration and has no observations to make in this regard;
- The Board took part in the meetings of the Board of Directors and the Shareholders' Meetings, in relation to which and based on the information available, it did not note any violations of the Law and the Articles of Association, nor transactions that were manifestly imprudent, hazardous, potentially involved in a conflict of interests or were as such to compromise the integrity of company assets;
- The Board acquired information from management during the meetings held regarding the trend in company transactions, on which it has no particular remarks to make;
- During the meetings of the Board of Directors, the Board acquired adequate information on the activities carried out, on the general operating performance and on its business outlook, as well as on the most

significant economic, financial and equity transactions performed by the Company and its subsidiaries, in particular, on the process of reorganisation of the New Restructuring Agreement and on the Company valuation process; this information is detailed comprehensively in the Report on Operations to which reference should be made;

- The information required by art. 2381, paragraph 5 of the Italian Civil Code on the most significant transactions, in terms of their size or characteristics, has been provided with the necessary frequency based on the dimensions and problems of the business;
- The Board engaged in a reciprocal exchange of information with the statutory auditors of the subsidiaries Sorgenia Puglia S.p.A. and Sorgenia Power S.p.A. and no relevant facts and information came to light that need to be mentioned in this report;
- The Board engaged in a reciprocal exchange of information with the statutory auditors of the parent company Nuova Sorgenia Holding S.p.A.;
- The Board met representatives of Deloitte & Touche S.p.A., the company appointed to conduct the independent audit, and no significant facts and/or information emerged which need to be highlighted in this report;
- The Board acquired knowledge and monitored, for matters within its competence, the adequacy and functioning of the organisational structure and the administrative-accounting system of the Company and the latter's reliability in correctly representing operating events, by obtaining information from Department managers, from the independent auditors and by examining the company documents; there are no particular observations to make in this regard;
- The Board monitored the adequacy and effectiveness of the internal control and risk management system, with meetings with the head of the Audit department and by acquiring the documentation provided to it. Based on the information acquired and in the absence of any significant criticalities, it considers the internal control and risk management system to be adequate, effective and properly functioning;
- The Board monitored, for matters within its competence, the adequacy of the organisational structure of the Company, and more generally speaking, of the Group as a whole, also by acquiring information from the managers of the company departments;
- The Board monitored the effectiveness, observance and updating of the Organisation, Management and Control Model set forth in Legislative Decree 231/2001; no criticalities emerged with respect to the correct implementation of the organisational model which need to be mentioned in this report;
- The Board engaged in a reciprocal exchange of information with the Data Protection Officer (DPO). There are no observations to report in this regard;
- The Board did not note any atypical and/or unusual transactions;
- The Board did not have to intervene due to omissions on the part of Directors in accordance with art. 2406 of the Italian Civil Code;
- The Board did not receive any complaints pursuant to art. 2408 of the Italian Civil Code, nor pursuant to art. 2409, paragraph 1 of the Italian Civil Code;
- The Board did not adopt any provisions in accordance with art. 2409 of the Italian Civil Code, as indicated in paragraph 7 of the article itself.

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The Board points out that, at the date of this report, there is an ongoing global health emergency (which started in China), due to the CoViD-19 epidemic. In order to contain the effects of the virus, as early as the start of March 2020, the Italian authorities adopted a number of containment measures aimed at restricting the free movement of people within the country, arranging for bans on mass gatherings, restrictions that were eased on June 3, giving people the possibility to move from one region to another in the absence of any restrictions.

In relation to the CoViD-19 -health emergency, the Board reports that the Company has:

- quickly taken steps to implement all the necessary measures to safeguard the health of its employees and guarantee the business continuity of its plants and the continuation of customer assistance and service. In particular, (i) from March 3, 2020 it set up an internal Crisis Committee to effectively manage the

emergency situation; (ii) it put in place Smart Working for all employees in the Milan, Grassobbio and Rome offices, (iii) reduced the presence of people at its power plants, by minimising non-essential activities by Sorgenia personnel and all dispatching activities of the plants are carried out remotely; (iv) guaranteed additional insurance coverage for all employees until December 31, 2020.
- taken part in some digital solidarity projects to provide a tangible contribution to the most vulnerable sections of the community, helping them to cope at such a difficult time; in particular, hundreds of elderly people were provided with an innovative and easy-to-use video-communication device called "Nonny", designed to allow them to stay in contact with their loved ones, in a simple and intuitive way, despite the isolation due to the health emergency.

The Board acknowledges that (i) it was constantly informed of the economic-financial performance, including forward-looking, and on the actions implemented by the Company following CoViD-19, also through its participation in the meetings of the Boards of Directors that were held over the last few months; (ii) in the Company's Report on Operations and the consolidated financial statements of the Sorgenia Group, as well as in the Explanatory Notes to the financial statements, the Directors have provided adequate information on the CoViD-19 health emergency, documents to which reference should be made for more details in this regard.

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As regards the conditions of the going concern assumption, as regards the short-term (the prevailing doctrine indicates the period of 12 months as adequate for the analysis in question), there does not appear to be any elements of uncertainty, also in light of the information detailed in the Report on Operations and in the Explanatory Notes to the financial statements, in which the Directors note that "*at present, the Company does not identify any particular criticalities in terms of either the economic results of the first few months of 2020, and the financial tension resulting from the* CoViD-19 *emergency. As of today, the Directors do not believe that there are elements to suggest that, in the foreseeable future, significant decreases in the Company's profits will be registered with respect to the Budget forecasts"*.

As reported in the Explanatory Notes, the Directors, with regards to: (i) the expected effects of the spread of CoViD-19; (ii) the positive performance of 2019, in the first few months of 2020 and the Company's ability to be able to achieve the expected results of the Provisional plan underpinning the Financial Debt Restructuring Agreement; (iii) the expected completion of the acquisition transaction of the Sorgenia Group and subsequent refinancing of bank payables; "*considered it reasonable to assume that the Company will continue to operate as a going concern"*.

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The Board acknowledges that:

- In 2019, Model 231 was updated to adjust it into line with the new organisational structure and the new offences introduced by the reference decrees;
- On July 9, 2019, the company Sorgenia Fiber S.r.l. was incorporated, whose corporate purpose is the creation, development and installation of telecommunications and electronic communication networks and systems, as well as telecommunications and electronic communication services, both fixed and mobile. The entire share capital of Sorgenia Fiber S.r.l., amounting to Euro 10,000, is held by Sorgenia S.p.A. which also exercises management and coordination activities;
- On September 5, 2019, the Company acquired the residual stake of 33% in the share capital of Universal Sun (now Sorgenia Green Solutions Srl, name changed by means of resolution of the shareholders' meeting on March 16, 2020), still owned by minority shareholders, thus completing the acquisition process started in December 2018 with the purchase of 67% of the share capital. Following the purchase of the residual shares, Sorgenia S.p.A. became the sole shareholder of Universal Sun S.r.l. over which it exercises management and coordination activities;

In relation to the most significant economic, financial and equity transactions carried out by the Company, in particular, in relation to the company valuation process, the following information is provided:

- At the end of 2018, Nuova Sorgenia Holding (NSH), the parent company of the Group whose shareholders are Banco BPM, Banca Intesa, Monte dei Paschi di Siena, Ubi and UniCredit, conferred an exploratory mandate to the advisors Lazard e Colombo & Associati with the objective of examining the best opportunities to accelerate the Group's growth in relation to themes of strategic relevance for the Company, also by modifying the shareholding structure;
- On December 23, 2019, NSH, after having evaluated the offers received during the year, accepted the binding purchase offer of the Group presented jointly by F2i SGR S.p.A. ("F2i"), independent Italian manager of infrastructural funds, and Asterion Industrial Partners SGEIC SA ("Asterion"), an independent Spanish company specialised in infrastructural investments in Europe, the contents of which were deemed better both in terms of price and the industrial elements. In addition, the offer presents financial conditions that will allow the full repayment of the debt and simultaneous refinancing. In particular, Asterion will acquire its equity investment in cash while F2i will make contributions in kind of its equity investments held in the wind and biomass sectors, intended for integration with the Sorgenia Group, in order to bolster its economic-financial structure, exploit synergies and achieve optimisations.
- The Sale and Purchase Agreement (SPA) was signed on June 3, 2020, initially expected at the end of April 2020, which was postponed due to some events including the spread of CoViD-19 and the redefinition of some terms of the refinancing agreement;
- The acquisition transaction of Sorgenia will be finalised with the unconditional obtainment of approval of the transaction by the Italian Competition Authority and the Presidency of the Council of Ministers, with Decree Law no. 23 of April 28, 2010 ("Liquidity Decree") having broadened the scope of application of the "golden power" regulation to energy sector transactions;
  Following the obtainment of the authorisations, the purchase and sale agreement will be signed, the moment in which the purchase by the offerors (F2i and Asterion) of the entire share capital of Sorgenia S.p.A. will be completed and, at the same time, the financial debt of the Sorgenia Group will be refinanced towards the banking system, through the signing of a new bank loan obtained on the market, which will involve the full repayment of the financial payables and, therefore, the termination of the 2017 Restructuring Agreement.

The transaction and the events outlined above are adequately detailed in the Report on Operations and in the Explanatory Notes to the financial statements, documents to which reference should be made for more details in this regard.
In relation to additional significant events verified during the year, please read the Company's Report on Operations and the consolidated financial statements of the Sorgenia Group.

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The Board points out that (i) the new Debt Restructuring Agreement was signed by all Financial Creditors in August 2017, pursuant to art. 182-bis of the Bankruptcy Law, with Sorgenia S.p.A. and Sorgenia Power S.p.A.; (ii) on November 30, 2017, the Court of Milan, Bankruptcy Section, issued the endorsement decree, which took effect on December 29, 2017; (iii) the new Debt Restructuring Agreement mainly concerned the terms and conditions of the existing debt; in particular for Sorgenia, the Debt Restructuring Agreement made provision for an extension of the deadline until 2027 for repayment of the medium/long-term debt and, with reference to the mandatory convertible bond, the extension of the repayment terms until 2027 and improved economic conditions, represented by a reduction in the annual PIK interest rate – payable at maturity – from 4% to 1%.
In this regard, it should be noted that, on December 31, 2019, the Group companies exceeded in complying with the obligations set out in the Restructuring Agreement. In particular, the parent company Sorgenia repaid, from 2017 until December 2019, a total of approximately Euro 100 million, of which Euro 80 million thanks to the excess financial resources (cash sweep) generated with respect to the estimate of the Business Plan underpinning the Debt Restructuring Agreement.

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The Board also points out that: (i) with reference to Risk management, the Group has adopted a Group Risk Policy, which aims to monitor and manage the risks that may undermine the attainment of the strategic and operating objectives, as well as respect for the regulations in force. In this regard, in the Report on Operations to which reference should be made, the Directors outline the main risks monitored and managed by the Group; (ii) in their report, and in the Explanatory Notes, the Directors have detailed the most significant events concerning the Group, i.e. Sorgenia Spa and its subsidiaries.

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Between the date of year-end and the date of drafting of this report, as far as the Board is aware, no significant events occurred aside from those already described in this report, that need to be mentioned at this stage.

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Separate and consolidated financial statements for the year ended as at December, 31 2019

The draft statutory financial statements and consolidated financial statements for the year ended as at December 31, 2019 were approved by the Board of Directors on March 27, 2020 and will be presented at the next Shareholders' Meeting called on June 26, 2020.

Sorgenia's draft financial statements are composed of the Balance Sheet, the Income Statement, the Cash Flow Statement, and the Explanatory Notes, accompanied by the Report on Operations prepared by the administrative body in accordance with art. 2428 of the Italian Civil Code.

The 2019 financial statements were drafted in compliance with the regulations of the Italian Civil Code, interpreted and supplemented by the accounting standards and criteria drawn up by the OIC (Italian Accounting Standards Setter) and, finally, where lacking and given not in contrast with the Italian regulations and accounting standards, by those issued by the IASB (International Accounting Standards Board).

The Financial Statements conform to the mandatory layouts as indicated by the current, specific provisions and show the elements that make it possible to carry out a comparative analysis between each item and the corresponding item of the previous year.

The Explanatory Notes were drafted in full observance of both the contents set out in art. 2427 of the Italian Civil Code, and the measurement criteria laid down in art. 2426 of the Italian Civil Code. The Explanatory Notes indicate the accounting standards and the measurement criteria adopted, as well as the supplementary information deemed necessary to give the most transparent and comprehensive view possible, even if not required by specific legal provisions.

Given the Board is not responsible for conducting the independent audit of the financial statements, it monitored their general approach, compliance with the Law, as regards their formation and structure and, in this regard, has no particular observations to make.

The Board verified observance of the legal regulations relating to the preparation of the Report on Operations, which comments on and comprehensively and exhaustively details the Company's economic, equity and financial position, the operating performance as a whole, the main risks to which it is exposed and provides adequate information on the data, transactions and processes that involved Sorgenia and the Group. In this respect, it has no particular comments to make.

The Company specified that, in measuring the individual items of the balance sheet and the income statement, and in defining its structure it did not apply any exemptions set forth in the provisions in force.

In the Explanatory Notes, the Directors specify that *"the Directors – albeit aware that the expected results in the foreseeable future may only be achieved upon verification of events connected with the trend in the economic scenario and the reference markets, in addition to regulatory developments, subject, due to their very nature, to uncertainties as to how and when they materialise – considered it reasonable to assume that the Company will continue to operate in the foreseeable future, by drafting these annual financial statements in the assumption of the company as a going concern".*

The Board highlights that the statutory financial statements for the year ended as at December 31, 2019 reported a profit of Euro 358,033.

With reference to the transactions with "related parties", the Board considers that the Board of Directors, in the Report on Operations and in the Explanatory Notes, provided adequate details of the transactions entered into with subsidiaries and other related parties, explaining their economic, financial and equity effects and, in this regard, the aspects recorded by the Directors are outlined hereunder: "*the transactions completed by Sorgenia SpA with related parties primarily concern the exchange of goods, the provision of services, funding and the use of financial resources with the parent companies, subsidiaries, associates and jointly controlled companies. All transactions were carried out in the Company's interest, are part of ordinary operations and are completed on an arm's length basis, i.e. under conditions that would be applied between two independent parties".*
"The analysis of the credit and debt balances, of costs and revenues deriving from transactions with related parties is included in the comments to the corresponding items outlined in these Explanatory Notes. All transactions were carried out in the Company's interest, are part of ordinary operations and are completed on an arm's length basis, i.e. under conditions that would be applied between two independent parties".
Also, in the Explanatory Notes, the Directors highlight that (i) on May 31, 2018, the national tax consolidation contract was renewed for the three-year period 2018-2021. The subsidiaries Sorgenia Power SpA, Sorgenia Puglia Spa, Sorgenia Trading SpA and Energia Italiana SpA adhere to said regime along with the consolidating entity Sorgenia SpA; (ii) Sorgenia SpA stated that it wished to avail itself of the VAT regime provided for parent companies and subsidiaries, to which the companies that meet the requirements provided by the tax regulations adhere (art. 73, final paragraph of Presidential Decree 633/72 – Art. 3 of Ministerial Decree 13.12.79). In this respect, all debt and credit positions vis-à-vis the Italian Revenue Agency are transferred to the parent company Sorgenia SpA on a monthly basis, which will arrange for the Group VAT payment and, in the event of a debt balance, the associated tax payment.

The Board also monitored observance of the procedural regulations regarding the drafting of the consolidated financial statements of the Sorgenia Group as at December 31, 2019, prepared: (i) in compliance with the valuation and measurement criteria established by the IASB (International Accounting Standards Board) and IFRS (International Financial Reporting Standards) (ii) in the assumption of the operation and business continuity whose conditions remain connected with the implementation of the Business Plan, the obligation of the Restructuring Agreement and the purchase and sale transaction of the Sorgenia Group.

The consolidated financial statements are drafted by the parent company Nuova Sorgenia Holding SpA.

The Board, in pointing out that the independent audit engagement is assigned to Deloitte & Touche S.p.A., reports that the aforementioned independent auditors issued their judgment relating to the separate financial statements of Sorgenia Spa for the year ended as at December 31, 2019 as well as the consolidated financial statements.

In relation to the audit of Sorgenia's financial statements, the report of the auditors states: *"In our opinion, the financial statements provide a true and fair view of the Company's financial position as at December 31, 2019, the economic result and the cash flows for the year ended as at said date in compliance with the Italian regulations that govern their drafting criteria".*

Deloitte & Touche S.p.A., later in its report, in the section entitled *"Judgment pursuant to art. 14, paragraph 2, letter e) of Legislative Decree 39/10",* writes: *"We have carried out the procedures indicated in audit standard (SA Italia) no. 720B in order to express a judgment on the consistency of the Report on Operations with the separate financial statements of Sorgenia S.p.A. as at December 31, 2019 and on said report's compliance with the legal regulations, as well as to issue a statement on any material errors.*
In our opinion, the Report on Operations is consistent with the separate financial statements of Sorgenia S.p.A. as at December 31, 2019 and was drafted in accordance with the legal requirements.

With reference to the declaration pursuant to art. 14, paragraph 2, letter e) of Legislative Decree 39/10, issued on the basis of the knowledge and understanding of the company and the relevant context acquired during the course of our audit, we have nothing to report".

The judgment issued by Deloitte on both the separate financial statements and on the consolidated financial statements contains no remarks and no requests for information.

Conclusions

The Board of Statutory Auditors (i) also considering the results of the activity carried out by the independent auditors contained in the audit report of the financial statements, (ii) in drawing Shareholders' attention to the aspects reported relating to business continuity, for matters within its competence, does not note any reasons not to approve the financial statements for the year ended as at December 31, 2019, nor has any objections to raise regarding the proposal, presented by the Board of Directors, to (i) allocate Euro 17,902 to the Legal Reserve and (ii) to carry forward Euro 340,131 to the next year.

Milan, June 11, 2020

The Board

Mr. Fabio Cassi	Chairman
Mr. Daniele Discepolo	Standing Auditor
Mr. Vincenzo Nicastro	Standing Auditor

Signed
On behalf of the Board of Statutory Auditors
The Chairman
Mr. Fabio Cassi