



## 2019 Financial Statements

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Our energy for your needs



Our energy for your needs

# More value to energy every day.

Centrex Italia S.p.A. is active in the import, sale and trading of natural gas.

The company, operative from October 2008, with sale volumes rising steeply, can rely on a diversified supply portfolio and relevant transport and storage capacity.

Financial Statements  
at 31 | 12 | 2019

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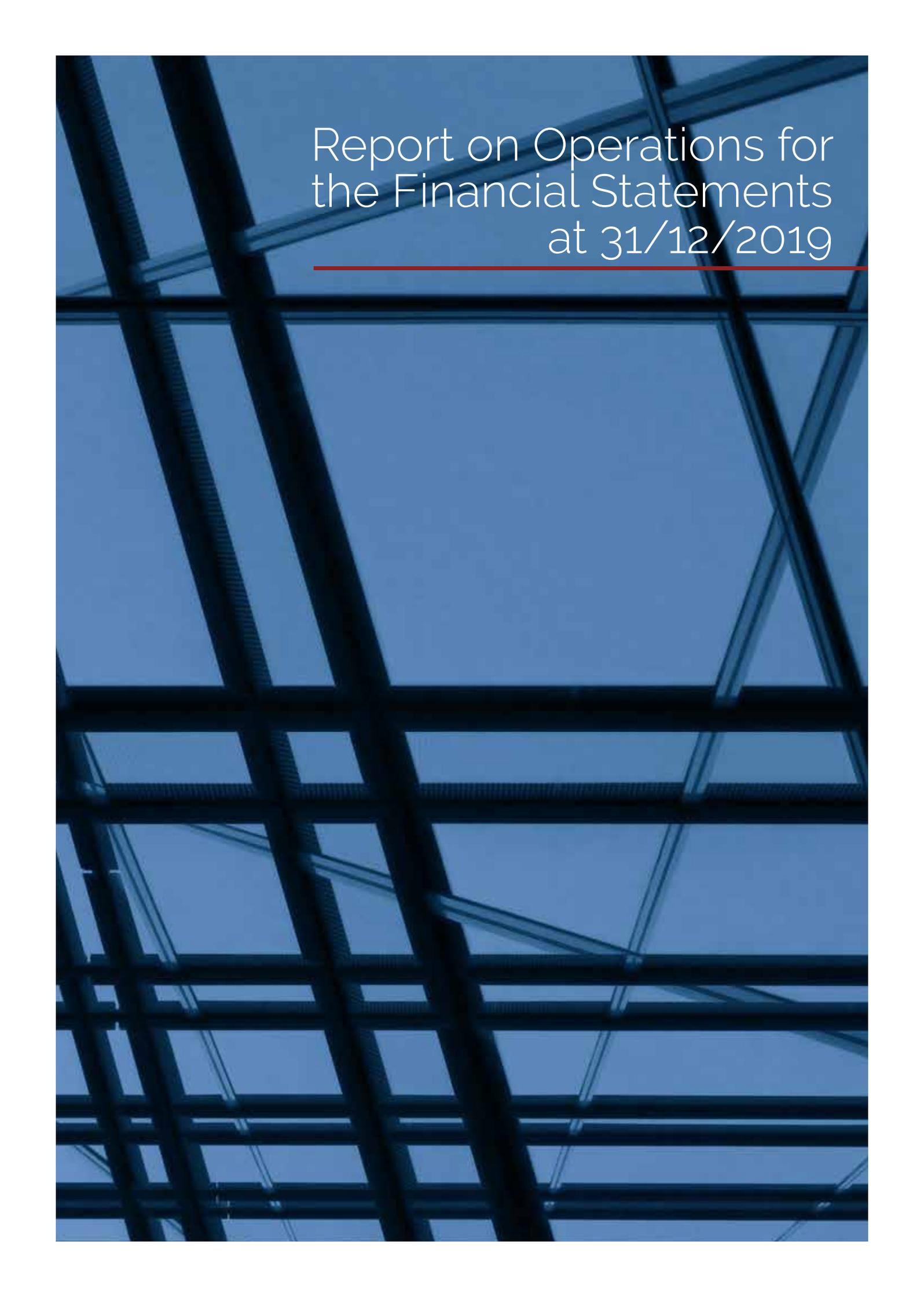
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### Explanation added for translation to English

This document is a courtesy translation into English from the original version of 2019 Centrex Italia S.p.A. Financial Statements in Italian. Centrex Italia Management decline any responsibility for any misuse of this document.

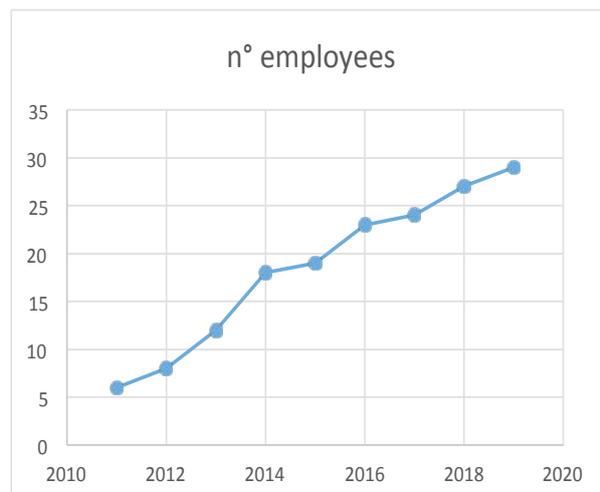
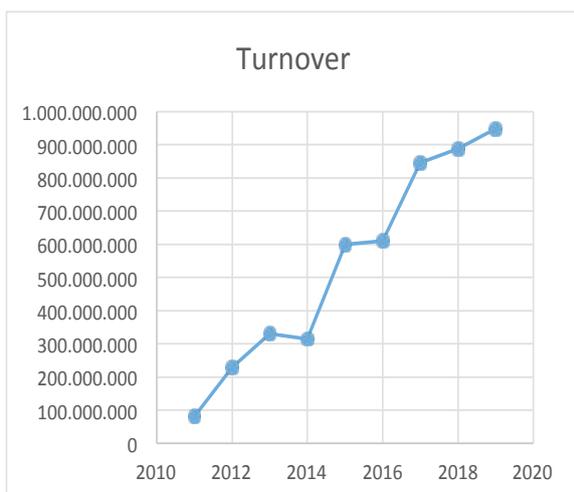
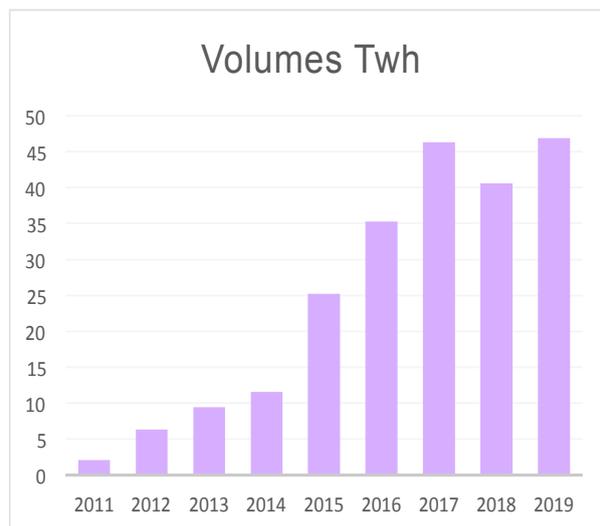
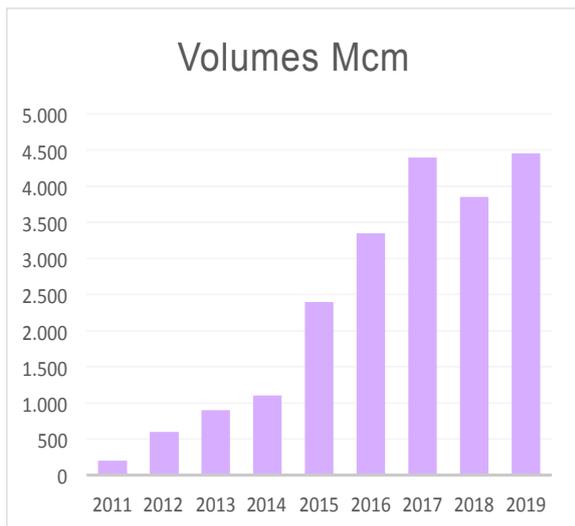
Centrex Italia financial statements have been prepared in accordance with the accounting principles established by the Italian law, which may not conform with generally accepted accounting principles in other countries.



Report on Operations for  
the Financial Statements  
at 31/12/2019

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1 SUMMARY DATA



## 2 REPORT ON OPERATIONS FOR THE FINANCIAL STATEMENTS AT 31 DECEMBER 2019

### 2.1 Introduction

Dear Shareholders,

To accompany the annual financial statements for the period ended 31/12/2019, we are providing the present Report on Operations, prepared under the terms of Art. 2428 of the Italian Civil Code, with the goal of giving accurate, balanced and exhaustive information on the company's situation, the business performance and results, and on the activities carried out by the company in the year. Information is also provided on the company's exposure risks.

In order to better represent the financial position, in the 2019 financial statements, the outstanding financial debt with the Sole Shareholder Centrex Europe Energy & Gas AG was classified in the liability item of the Statement of Financial Position "Payables for shareholder loans". At 31 December 2018, this loan had been classified in the item "Payables due to parent companies" and, therefore, for comparative purposes, the amount of euro 6,001,047 related to this loan was reclassified to the item "Payables for shareholder loans".

### 2.2 The company's Business

Founded in 2007, the company creates and uses energy and gas production plants, strategically structures energy and gas supply contracts, and also creates distribution structures, sells and distributes oil and natural gas products, and buys and sells energy and natural gas.

Under the terms of Art. 2428, the activity is carried out at the registered offices at 4 Via Lorenzini, Milan, Italy, and there are no secondary offices.

### 2.3 Analysis of the company's economic, equity and financial situation

Financial year 2019 ended with a profit of euro 2,552,301 (compared to a loss of euro 1,796,800 in the previous year).

The main equity and financial figures, together with a summary presentation of the economic performance of the company's business during the year, are shown in the tables below.

The company's reclassified balance sheet, compared with the one from the previous year, is shown below:

<i>Amounts in euro</i>	31/12/19	31/12/18	Var.
Net intangible fixed assets	315,184	278,083	37,101
Net tangible fixed assets	122,361	161,202	-38,841
Net financial fixed assets	2,017,566	2,017,566	-
<b>Fixed capital</b>	<b>2,455,111</b>	<b>2,456,851</b>	<b>-1,740</b>
Inventories	27,458,946	26,794,758	664,188
Receivable from customers	98,031,923	146,558,172	-48,526,249
Other receivables (intra-group and third parties)	8,980,263	6,631,669	2,348,594
Accrued income and deferred charges	177,063	197,686	-20,623
<b>Short-term current assets</b>	<b>134,648,195</b>	<b>180,182,285</b>	<b>-45,534,090</b>
Trade payables	81,644,094	109,745,983	-28,101,889
Tax and social security liabilities	272,885	172,852	100,033
Other payables (intra-group and third parties)	7,206,292	8,829,017	-1,622,725
Accrued expenses and deferred income	26,902	20,985	5,917
<b>Short-term current liabilities</b>	<b>89,150,173</b>	<b>118,768,837</b>	<b>-29,618,664</b>
<b>Net working capital</b>	<b>45,498,022</b>	<b>61,413,448</b>	<b>-15,915,426</b>
Severance indemnities	273,889	254,554	19,335
Other medium and long-term liabilities	709,224	221,527	487,697
<b>Medium/long-term liabilities</b>	<b>983,113</b>	<b>476,081</b>	<b>507,032</b>
<b>Invested capital</b>	<b>46,970,020</b>	<b>63,394,218</b>	<b>-16,424,198</b>
Shareholder's equity	-17,719,235	-14,759,512	-2,959,723
Net short-term financial position	-29,250,785	-48,634,706	19,383,921
<b>Equity and net financial debt</b>	<b>-46,970,020</b>	<b>-63,394,218</b>	<b>16,424,198</b>

The table shows the praiseworthy result obtained in 2019, with a significant reduction in financial indebtedness thanks to positive management of net working capital, evident from the significant reduction in trade receivables only in part offset by the reduction in trade payables. This evolution was possible also due to the downward trend in the price of natural gas.

The improvement in the net financial position is evident in the detail presented below:

<i>Amounts in euro</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var.</b>
Bank deposits	9,183,321	17,357,372	-8,174,051
Cash on hand and other cash equivalents	671	831	-160
<b>Liquid assets</b>	<b>9,183,992</b>	<b>17,358,203</b>	<b>-8,174,211</b>
Derivatives	704,139	89,406	614,733
<b>Financial assets other than fixed assets</b>	<b>704,139</b>	<b>89,406</b>	<b>614,733</b>
Payables to parent company (by 12 months)	11,025,158	6,001,047	5,024,111
Payables to banks (by 12 months)	28,086,506	59,529,112	-31,442,606
Other short-term liabilities	27,252	552,156	-524,904
<b>Short-term financial debts</b>	<b>39,138,916</b>	<b>66,082,315</b>	<b>-26,943,399</b>
<b>Net short-term financial position</b>	<b>-29,250,785</b>	<b>-48,634,706</b>	<b>19,383,921</b>
<b>Net financial position</b>	<b>-29,250,785</b>	<b>-48,634,706</b>	<b>19,383,921</b>

Also in 2019, despite the negative result achieved in 2018, and a general prudence of financial institutions in relation to the energy services segment, Centrex Italia confirmed the excellent level of relationships with the banking industry maintaining good levels of credit and pricing. The support of its financial partners allows Centrex Italia to support growth, benefiting from economic opportunities and appropriate leverage.

The income statement reclassified for added value (or operational pertinence) is presented below.

<i>Amounts in euro/000</i>	2019	2018	Var. %
Sales and services revenues	948,613,548	889,262,972	6.7%
- purchase of raw materials, consumables and goods	912,274,906	858,203,559	6.3%
- variation of raw materials, consumables and goods	664,188	-1,184,673	-156.1%
- costs for services and third parties assets use	28,995,768	29,282,765	-1.0%
<b>Added value</b>	<b>8,007,062</b>	<b>591,975</b>	<b>1252.6%</b>
+ other income and proceeds	133,651	147,696	-9.5%
- cost of personnel	3,908,839	2,308,800	69.3%
- sundry operating expenses	467,915	421,312	11.1%
<b>Gross Operating Profit (GOP)</b>	<b>3,763,959</b>	<b>-1,990,441</b>	<b>-289.1%</b>
- amortizations and depreciations	635,334	133,970	374.2%
<b>Operating income</b>	<b>3,128,625</b>	<b>-2,124,411</b>	<b>-247.3%</b>
+ financial income	50,268	26,303	91.1%
- financial charge and gains/losses on foreign currency conversion	230,603	199,884	15.4%
- devaluation of interests	-620,169	57,006	100.0%
<b>Income (Loss) before tax</b>	<b>3,568,459</b>	<b>-2,354,998</b>	<b>-251.5%</b>
- income tax	-1,016,159	558,198	0.0%
<b>Net Income (Loss)</b>	<b>2,552,300</b>	<b>-1,796,800</b>	<b>-242.0%</b>

The Added Value came out at euro 8.0 million (compared to the result of euro 0.6 million in 2018) and clearly shows the excellent result obtained in 2019, which recorded a good increase in revenue (+6.7% compared to 2018), a result which is even more significant considering the downward trend of the natural gas price, which recorded a sharp drop mainly during the second half of the year.

The trend in the gas price, the excellent management of assets (storages and foreign interconnection capacity) by the trading unit and a better sales performance, enabled the consolidation of a much better result than in 2018.

The Gross Operating Profit came out at euro 3.8 million (compared to a negative result of euro 2 million in 2018).

Operating Profit came out at euro 3.1 million (compared to a negative result of euro 2.1 million in 2018). During the year, the company set aside provisions for bad debt of approximately euro 0.5 million, the result of the prudential estimate made by the management on the potential losses on receivables in being at 31 December 2019.

The result of financial operations benefited mainly from the recognition of financial income deriving from measurement at fair value of derivatives stipulated during proprietary trading activity.

The profit before tax came out at euro 3.6 million, compared to a loss before tax of euro 2.4 million in 2018. Current and deferred taxes had an impact on the result with a total cost of euro 1 million compared to an income of euro 0.6 million in 2018.

As stated above, therefore, the year ended with a net profit of euro 2.6 million, bringing the company back to profit, after the two years of losses, 2017 and 2018. In this regard, we can remind you that, the losses realised in the two previous years came to a total of euro 3.1 million (euro 1.8 million in 2018 and euro 1.3 million for 2017), and this deficit was promptly more than offset by the Shareholder through the injection of Shareholders' equity reserves of euro 5 million in 2018, consolidating, therefore, the company's equity and financial situation.

A number of financial result indicators are analysed below. These were chosen among those considered most significant in relation to the company's situation. They are divided into economic and financial indicators.

The key **economic indicators** identified to assess the company are ROE, ROI and ROS, which are standard indicators and, in the table below, clearly show the excellent result for the year:

Profit & Loss Indicators	2019	2018
<b>ROE (Return on Equity)</b> Net Income (Loss) / Net worth	14.40%	-12.17%
<b>Gross ROE</b> EBT / Net worth	20.14%	-15.96%
<b>ROI (Return on Investment)</b> Operating income / Total assets	5.25%	-4.34%
<b>ROS (Return on Sales)</b> Difference between value and cost of production / Sales	0.33%	-0.24%

The **financial indicators** identified are the following:

Equity indicators	2019	2018
<b>Primary liquidity</b> (Current assets - inventory) / current liabilities	91.3%	92.4%
<b>Secondary liquidity</b> Current assets / current liabilities	112.7%	106.9%
<b>Debt ratio</b> Third party funds / Shareholder's equity	7.30	12.56
<b>Cover Margin of Fixed Assets (euro/000)</b> Equity - Fixed Assets	15,264.124	12,302.661
<b>Cover Margin of Fixed Assets Ratio</b> Equity / Fixed Assets	721.73%	600.75%
<b>Equity + Long-Term Liabilities – Fixed Assets (euro/000)</b> Net worth + Consolidated liabilities – Fixed assets	16,274.489	13,330.898
<b>Equity + Long-Term Liabilities – Fixed Assets Ratio</b> (Net worth + Consolidated liabilities) / Fixed assets	762.88%	642.60%

The liquidity ratios remained substantially unchanged compared to the previous financial year.

The primary liquidity index shows the ratio of current assets net of inventories (short-term current assets and cash and cash equivalents and securities in current assets) to current liabilities (Short-term current liabilities and short-term financial payables).

The secondary liquidity index shows the ratio of current assets (including therefore also inventories) to current liabilities.

The indebtedness ratio is the quotient between third-party funding and shareholders' equity, and the decrease is explained by the trends of the natural gas price and reduction of financial indebtedness as explained above.

The fixed asset/equity margin shows the company's ability to cover investments in fixed assets with own funds. It is calculated as the difference between own capital (shareholders' equity) and fixed assets (fixed capital).

The fixed assets/liabilities and equity margin indicates how much of lasting investments is financed with long-term financing sources. It is calculated as the sum of own capital and long-term debt capital (Medium/long-term liabilities) net of fixed assets.

The indices and the reclassified balance sheet show that the company's capital solidity—i.e. its ability to maintain financial equilibrium in the medium/long-term—has substantially remained unchanged.

The business model adopted up to now does not need significant investments in fixed assets, given the commercial nature of the company. It follows, therefore, that the structure is extremely simplified and the critical business is concentrated at the level of management of working capital.

## 2.4 Analysis of the company's operations and performance

### Macroeconomic framework

In 2019, natural gas consumption in Italy resumed the growth interrupted the previous year (+2.3%), coming out at 73,760 million cubic metres (780.6 TWh). The increase was driven only by consumption in the thermoelectric segment which rose to the highest levels of the last eight years (+10% from 2018), in a context in which the costs of gas came down to almost record lows and electricity imports fell by 6%. The downward trend of consumption in the civil segment is, instead, continuing, (in part due to a mild autumn) as is that in the industrial segment (both -2%). On the supply side, the higher demand was sustained by an increase in imports through regasifiers (+61%), at record highs (13,949 million m<sup>3</sup>) and with a proportion of total procurement at 16% (+6 percent and absolute record). Imports through pipelines, however, declined (-4%). The rising trend of supplies from storage broke off (-12% from the record high of 2018), while injections, although down (-4%) remained around the highest-ever levels. National production was again at record lows (-12%).

Figure 1: transported gas balance. Year 2019.

Source: SRG data

	Mmc	TWh	Var.
<b>Imports</b>	<b>70,643</b>	<b>747.6</b>	<b>+4.8%</b>
Imports by entry points:			
- Mazara	10,206	108.0	-40.3%
- Tarvisio	29,706	314.4	+0.7%
- Passo Gries	11,065	117.1	+43.8%
- Gela	5,701	60.3	+27.6%
- Gorizia	15	0.2	-38.6%
- Panigaglia (GNL)	2,417	25.6	+173.7
- Cavarzere (GNL)	7,910	83.7	+18.0%
- Livorno (GNL)	3,622	38.3	+236.8
<b>National production</b>	<b>4,512</b>	<b>47.7</b>	<b>-11.9%</b>
<b>Supply from storages</b>	<b>10,149</b>	<b>107.4</b>	<b>-12.0%</b>
<b>Total injected</b>	<b>85,304</b>	<b>902.8</b>	<b>+1.4%</b>
<b>Redeliveries of the Snam Rete Gas network</b>	<b>71,320</b>	<b>754.8</b>	<b>+2.0%</b>
- industrial	13,957	147.7	-2.3%
- thermoelectric	25,714	272.1	+10.1%
- distribution networks	31,649	335.0	-2.1%
<b>Exports, third party income and system consumption</b>	<b>2,439</b>	<b>25.8</b>	<b>+11.8%</b>
<b>Total consumed</b>	<b>73,760</b>	<b>780.6</b>	<b>+2.3%</b>
- injections in storages	11,544	122	-3.5%
<b>Total withdrawn</b>	<b>85,304</b>	<b>902.8</b>	<b>+1.4%</b>

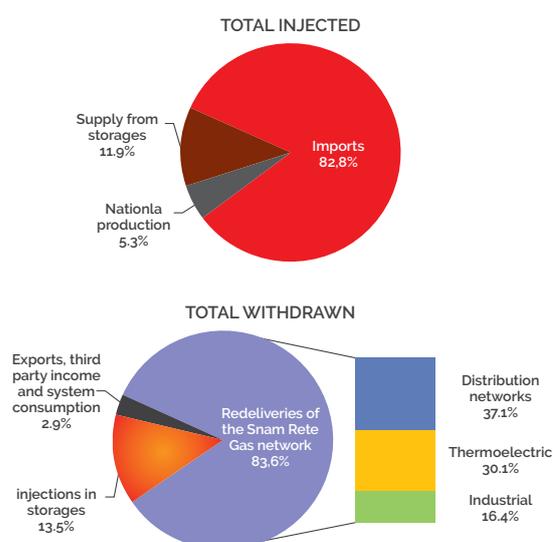
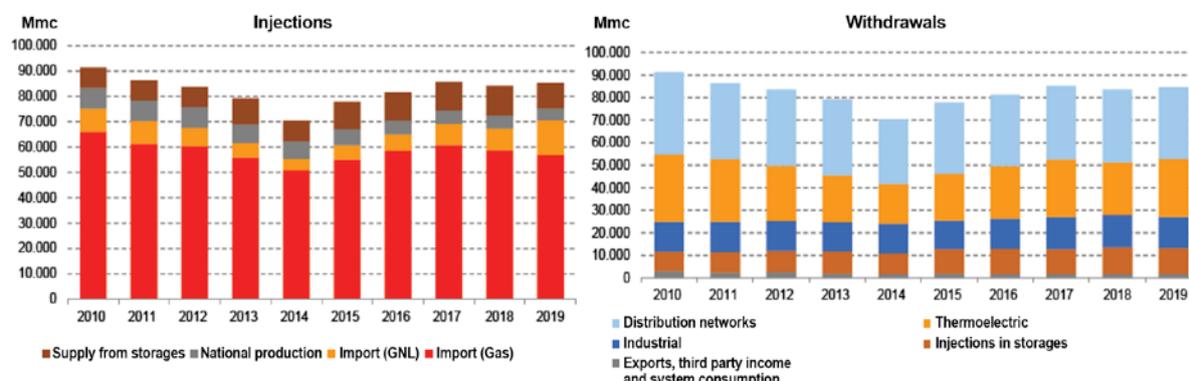


Figure 2: Evolution of transported gas.

Source: SRG data



In terms of prices, the quotations at the PSV inverted the trend of the two previous years and fell to € 16.28/MWh, down by more than € 8/MWh compared to 2018 and just above the record low of 2016 (€ 15.85 /MWh), in line with the trends recorded by the main European benchmarks.

The downward trend is confirmed also in an infra-annual analysis; the price at the PSV, which in January was € 24/MWh, fell in the first eight months of the year by more than € 12/MWh, coming out in August at the lowest-ever levels (€ 11.57/MWh). The prices rose slightly in the last four months of 2019, but only to still quite low levels.

Similar trends were also recorded for prices at the main European hubs, with the reference to the TTF which saw a new record low at € 13.58/MWh (€ -9.32/MWh, -41%), favouring the widening of the PSV-TTF spread to € 2.70/MWh, the highest since 2013 (it was € 1.65/MWh in 2018).

In the spot gas markets managed by the GME, total trades consolidated the growth that characterised them already in 2018 (+45%) and rose to record highs (79 TWh), representing more than 10% of total demand for gas. The increase in volumes traded on the two title markets was significant; their prices followed the developments of the price at the PSV, falling to record lows (€ 16/MWh). Trades on the MGS countered the trend (-1%), with prices of nearly € 17/MWh. As regards futures contracts, record levels were seen for trading on MT-Gas (3.2 TWh) with volumes of 0.4 TWh on the Royalties segment of P-GAS (0.4 TWh).

The above information is taken from GME Newsletter No. 133 of January 2020.

### Competitors' behaviour

Market businesses are naturally characterised by forms of competition and also in 2019 an intensification of competition between operators was confirmed.

The company, recognised as a qualified and reliable partner, operates in the context of the natural gas market in main European markets, and in Italy as regards supplies to industrial customers and to sales companies where it has a selected customer portfolio.

The natural gas market has developed, in the last ten years, significant competition among operators, which will become increasingly intense owing to the corporate concentration among wholesalers and resellers which produces a gradual reduction of the competitive market. It therefore seems plausible that the trend to redefine market shares in favour of stronger participants will be reinforced, accompanied by an overall reduction in the number of operators.

The main gas markets in which Centrex Italia works have been experiencing, in the last few years, a condition of excess supply. This has led to considerable pressure on sales margins, negatively conditioned also by high competitive pressure.

The prospects of the European gas sector remain weak owing to the excess supply, fed by the growing availability of LNG on a global scale, and the modest trend of demand, penalised by the competition from other energy sources, in particular by the development of renewables and the cheapness of coal, in context of institutional uncertainty at the European level on the subject of the role of gas in the overall energy mix. The weak trend of demand owing to the macroeconomic uncertainties and the continuation of abundant supply, will also bring, notable competitive pressure in the next few years.

In the next few years, the demand for gas in Italy and in Europe is expected to be substantially stable. The increase in consumption in the thermoelectric sector limited by the growth of renewables, will be offset by a reduction of consumption in the final sectors, owing to work on energy efficiency mainly concentrated in the civil segment.

Despite the slow recovery of the economic system and the prospects outlined above, Centrex Italia confirmed its positive growth trend, further strengthening its national and international position. Centrex Italia's business model is aimed at creating value within the strategic guidelines, for both the company and the stakeholders, through achieving the objectives of profitability and growth, efficiency, and the prevention of business risks. The commitment to increasing loyalty in its commercial portfolio continues.

The company, leveraging its current positioning on the markets, achieved in 2019 sales volumes of 4,452 million cubic metres compared to 3,855 million in the previous year, an increase of 15.5% mainly attributable to an increase in trading activity, subject to market opportunities.

The final inventories of gas stored at 31 December 2019 totalled approximately 125 million cubic metres compared to 116 million cubic metres in 2018.

As mentioned above, the year just ended recorded a return to a very positive level of profit margin, reversing the negative performance recorded in 2018.

The process of strengthening its organisational structure also continued, through addition of resources with high specific know-how to achieve greater operating efficiency and in order to explore new business opportunities. In particular, the project to expand sales also to the electric market is now at an advanced stage.

As regards systems the company is working on the design and implementation of the Portfolio, Risk and Trading systems in support of the new Power business activities together with the expansion of the functions and services in the GAS Settlement field.

For the company people play a fundamental role in achieving the corporate results, so human capital is enhanced, also and above all through the creation of a corporate climate of collaboration and participation.

The company has continued to invest in the field of the internal control and risk management system thanks also to the use of information technology in support of the various business activities and processes.

## 2.5 Investment policy

The investments made during the year are summarised below:

<i>Amounts in euro/000</i>	<b>Investments 2019</b>
Intangible fixed assets	
- investments in progress, advances	128,800
<b>Total intangible</b>	<b>128,800</b>
Tangible fixed assets	
- other assets	14,915
<b>Total tangible</b>	<b>14,915</b>
<b>Total investments</b>	<b>143,715</b>

Most of the investments are related to the new project in progress for the development of the Power business. The company in fact has already in being the first feasibility tests on this new business line with the objective of going into production during 2020.

## 2.6 Information on the environment

During the year no damage was caused to the environment for which the company was found guilty. Our company was not given fines or definitive sentences for environmental crimes or damage during the year.

The company currently has no civil or criminal disputes with third parties for damage caused to the environment or environmental crimes.

## 2.7 Information related to personnel

The company operates in all its environments in compliance with the provisions of Italian Legislative Decree 81/08 on the safety of workers.

The activity carried out in this field involves:

- training employees;
- carrying out regular medical check-ups;
- organising and training the action teams provided for in the law;
- continual corporate monitoring of the PPSM;
- preparing and distributing the documents of Italian Legislative Decree 81/08.

In particular, during the year the following initiatives were taken:

- updating of the corporate Risk Assessment Document;
- updating and preparation of procedures on the subject of health and safety in the workplace;
- training course for new recruits.

None of the following occurred or were recorded during the year:

- workplace mortalities of personnel listed in the company's employee register;
- serious workplace accidents that involved serious or very serious injuries to personnel listed in the company's employee register.

No charges were recorded during the year, regarding occupational illnesses, against employees or former employees and cases of mobbing, for which the company was held to be definitively liable.

The company is particularly attentive to enhancing human resources, improving aspects of internal communication and continually making the organisation more efficient.

No injuries to employees occurred during the year.

The company has no disputes with employees or former employees of any kind.

## 2.8 Description of the main risks and uncertainties to which the company is exposed

The company has developed a Risk Management model aimed at keeping in adequate consideration current and prospective risks, also in the medium and long term, in the context of a cohesive and overall view. The purpose is to strengthen the awareness, at all corporate levels, that adequate risk assessment and management has an effect on the achievement of the objectives and on the value of the company.

The company operates in the natural gas supply sector and, consequently, the main categories of risk are linked to:

- the trend in the price of commodities and the demand for natural gas influenced by consumer consumption and temperatures (market risk);
- non-fulfilment of contractual obligations (credit/counterparty risk);
- inability to manage unforeseen negative cash balances (liquidity risk);
- inability to manage errors (operational risk).

In order to prevent problems connected with inadequate management of risks, the company makes an effort to incorporate risk management adequately into business processes; it constantly monitors, very frequently, both its own global portfolio position and its cash flows over a long time horizon of at least twelve months.

### Market risk

The company is exposed to the risk of price oscillation.

The company has no exposure in foreign currencies.

The activities for managing and controlling this risk are governed by the Risk Policy, which provides for the adoption of specific risk limits in terms of economic capital and the use of hedging transactions in order to contain the exposure within the established limits.

Within the core business, proprietary trading activity is permitted observing the specific procedures and segregated in advance in a specific portfolio. This activity is monitored through stringent risk limits, observance of which is verified by the Risk Management Office, an office independent of the one that performs the operations.

The Risk Management Office has the objective of preventing or limiting the consequence of unforeseen results and of enabling the achievement of the strategic and operating targets.

In relation to climate risk, the company avails itself of temperature forecasting systems in order to improve its consumption estimates.

### **Credit risk**

The company maintains the level of attention to credit risk, through procedures and actions aimed at controlling and assessing the credit standing of its customers. To this end it bases its procedures on external analyses provided by leading companies in the credit rating sector and on continual monitoring of the positions of each counterparty, both in the stages of beginning a new commercial relationship and during supply. On the basis of the creditworthiness assigned to each counterparty, the corporate policies on credit risk management provide for the company requiring collateral guarantees from any customers that do not have an official credit rating, in the form of first-demand bank guarantees, stand-by letters of credit, patronage letters from the holding company.

Again in 2019, in support of its risk adverse approach, the company continued to make use also of a credit insurance contract, signed with a market leader, to protect itself against difficulties that could arise with its trade customers.

As regards credit risk, the Management analyses the Customer items and, considering any doubtful receivables, the concentrations of Customers, the creditworthiness of Customers and the current economic trend, makes an assessment of provisions for doubtful receivables. During the year, provisions were set aside for the impairment of doubtful receivables.

### **Liquidity risk**

Liquidity risk is related to the possibility that the financial resources available to the company will not be sufficient to cope with the financial and commercial obligations in the terms and deadlines set.

Management of the corporate treasury, as regards forecasts and final figures, pursues the purpose of managing immediate and short-term cash flows, in order to control and optimise the use of cash and cash equivalents.

The company has good credit capacity with an adequate pricing level which allows it to make best use of the available financial resources.

As a consequence of the type of business it conducts, the company has unfavourable collection times and has attempted, during the course of the year, to reduce this gap and improve current assets by decreasing the level of debt, whose peak is reached at the end of the year in conjunction with the end of the storage injection cycle.

The company, therefore, continues to implement a careful commercial policy and prudent treasury management, including for the medium-long term, for the purposes of containing exposure and absorption of capital. However, given the core business and the life cycle of natural gas trading, the financial exposure should still be considered as short term.

**Operational risk**

In order to limit the possibility of errors and to make company business efficient and effective, the company – during the year – continually updated the processes which coordinate the primary activities implemented within the company in order to make them increasingly consistent with the growth of operations and the increase in company size.

**Policies related to the various hedging activities**

In order to reduce to a minimum any possible exposure deriving from fluctuation in commodity prices, the company takes a cautious approach to hedging its portfolio.

Transactions are carried out for the exclusive purpose of hedging with a neutral impact on the income statement result since the effects of hedging are the opposite of the results of the underlying physical contract.

**2.9 Research & Development**

Pursuant to Art. 2428, paragraph 2, point 1 of the Italian Civil Code, in the financial year in question, your company did not perform research and development activities.

**2.10 Relations with subsidiaries, associates, parent companies and sister companies**

It should be noted that the sole shareholder Centrex Europe Energy & Gas AG does not exercise management and coordination activities given that the company has full decision-making, management and operational autonomy.

The summary data for the last two approved financial reports are presented below:

**Centrex Europe Energy & Gas AG**

Description (amounts in euro/000)	2018	2017
Total assets	156,603	150,115
Net equity	141,223	138,949
Total liabilities	15,380	11,166
Revenues	90,438	72,579
Operating result	-1,201	2,804
Profit (Loss) of the period	2,274	-1,879

The company carried out the following transactions during the year with subsidiaries, associates, parent companies and sister companies.

The company carried out the following transactions with Group companies, all of a strictly commercial nature. These transactions, which do not include atypical and/or unusual ones, are regulated by normal market conditions, i.e. conditions which would be applied between independent parties.

The table below provides a summary picture of transactions carried out during the year:

Amounts in euro	Payables		Receivables		Costs		Revenues	
	Trade	Financial	Trade	Financial	Trade	Financial	Trade	Financial
Centrex Europe	5,565,945	11,025,158	238,547		55,257,730	163,673	324,072	
Gestione Marcheting & Trading Ltd	14,939,618		8,607,005		110,641,760		74,397,885	
SMG			1,085,697				3,556,553	
Società Gas Rimini	41,208						2,222,631	
Weedoo		331,959	379,885	208,082			685,871	4,080
<b>Total</b>	<b>20,546,771</b>	<b>11,357,117</b>	<b>10,311,134</b>	<b>208,082</b>	<b>165,899,490</b>	<b>163,673</b>	<b>81,187,012</b>	<b>4,080</b>

The table also shows the transactions carried out with Società Gas Rimini S.p.A., considered a related party, as it holds 49% of the share capital of Weedoo.

## 2.11 Treasury shares and parent company shares/quotas

Complying with the provisions of points 3 and 4, paragraph 2, Art. 2428 of the Italian Civil Code, during the financial year, the company did not hold treasury shares or shares of the parent company.

## 2.12 Business outlook

Centrex Italia, in keeping with the strategic plan approved by the shareholder, is continuing a vertical integration action on all segments of the sale of natural gas and electricity. In this sense, the organic growth of the SME and domestic customer segment is continuing through the subsidiaries Weedoo and SMG, as is the growth along external lines through a constant search for strategic acquisitions of sales companies.

As regards the diversification of the activities, the implementation of the "power" product/service is proceeding according to plan. As regards Small Scale LNG, the company is engaged in several initiatives and collaborations aimed at overseeing the activities of production/importation and sale, and the creation of road transport service stations.

As regards systems the company is working on the design and implementation of the CRM, Billing and Connection Services systems in support of the new Power business activities together with the expansion of the functions and services in the ETRM field.

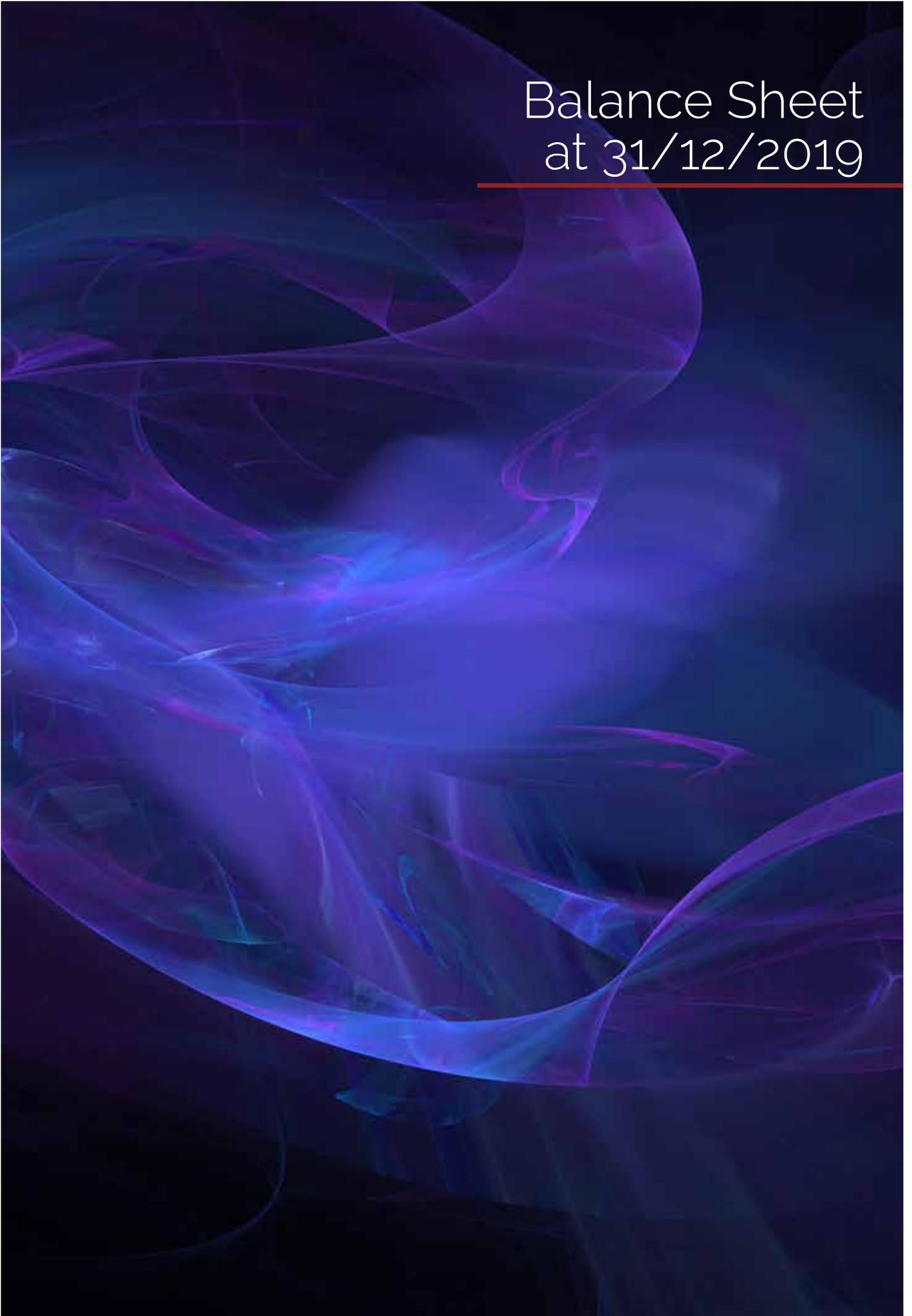
We thank you for your trust and that you approve the Financial Statements as presented.

**Milan, 20 March 2020**

**Chief Executive Officer  
Libutti Michele**

Balance Sheet  
at 31/12/2019

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## 3 FINANCIAL STATEMENTS FOR THE YEAR 2019

## B) Fixed assets

<i>I - Intangible fixed assets</i>		
4) concessions, licenses, trademarks and similar rights	104,386	180,419
6) investments in progress and advances	128,800	-
7) others	81,998	97,664
<b>Total intangible fixed assets</b>	<b>315,184</b>	<b>278,083</b>
<i>II - Tangible assets</i>		
4) other assets	122,361	161,202
<b>Total tangible assets</b>	<b>122,361</b>	<b>161,202</b>
<i>III - Financial fixed assets</i>		
1) equity investments in:		
a) subsidiaries	2,017,566	2,017,566
<b>Total financial fixed assets</b>	<b>2,017,566</b>	<b>2,017,566</b>
<b>Total fixed assets (B)</b>	<b>2,455,111</b>	<b>2,456,851</b>

## C) Current assets

<i>I - Inventories</i>		
4) finished products and goods	27,458,946	26,794,758
<b>Total inventories</b>	<b>27,458,946</b>	<b>26,794,758</b>
<i>II - Receivables</i>		
1) from customers		
due by the end of the next financial year	98,031,923	146,558,172
2) from subsidiaries		
due by the end of the next financial year	1,673,663	1,760,023
4) from parent companies		
due by the end of the next financial year	238,547	241,008
5-bis) tax credits	4,828,098	2,562,553
5-ter) deferred tax assets	546,668	1,054,565
5-quater) from others		
due by the end of the next financial year	1,693,287	1,013,520
<b>Total receivables</b>	<b>107,012,186</b>	<b>153,189,841</b>

## BALANCE SHEET ASSETS

31/12/2019

31/12/2018

*III - Financial assets not classified as fixed assets*

5) derivatives

704,139

89,406

**Total financial assets not classified as fixed assets****704,139****89,406***IV - Cash and cash equivalents*

1) bank and postal deposits

9,183,321

17,357,372

3) cash on hand and cash equivalents

671

831

**Total cash and cash equivalents****9,183,992****17,358,203****Total current assets (C)****144,359,263****197,432,208****D) Accruals and deferrals**

177,063

197,687

**Total assets (A + B + C + D)****146,991,437****200,086,746**

## BALANCE SHEET LIABILITIES

31/12/2019

31/12/2018

## A) Shareholders' equity

I. Share Capital	5,000,000	5,000,000
IV. Legal reserve	374,171	374,171
VI. Other reserves	5,422,001	5,422,001
VII. Reserve for hedging of expected financial flows	354,816	-52,605
VIII. Retained earnings (losses)	4,015,947	5,812,746
IX. Profit (loss) of the year	2,552,300	-1,796,800

<b>Total Shareholders' equity (A)</b>	<b>17,719,235</b>	<b>14,759,512</b>
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## B) Provisions for risks and charges

2) for taxes, including deferred	117,857	200
3) derivatives	27,252	552,156
4) others	591,367	221,327

<b>Total provisions for risks and charges (B)</b>	<b>736,476</b>	<b>773,683</b>
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## C) Employees severance indemnity

	273,889	254,554
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## D) Payables

3) debts towards shareholders for loans due by the end of the next financial year	11,025,158	6,001,047
<b>Total debts towards shareholders for loans</b>	<b>11,025,158</b>	<b>6,001,047</b>

4) payables to banks due by the end of the next financial year	28,086,506	59,529,112
<b>Total payables to banks</b>	<b>28,086,506</b>	<b>59,529,112</b>

6) advances due by the end of the next financial year	-	273,000
<b>Total advances</b>	<b>-</b>	<b>273,000</b>

7) Trade payables due by the end of the next financial year	81,644,094	109,745,983
<b>Total trade payables</b>	<b>81,644,094</b>	<b>109,745,983</b>

## BALANCE SHEET LIABILITIES

31/12/2019

31/12/2018

9) Payables to subsidiaries due by the end of the next financial year	331,959	-
<b>Total payables to subsidiaries</b>	<b>331,959</b>	<b>-</b>
11) payables to parent companies esigibili entro l'esercizio successivo	5,565,945	7,288,724
<b>Total payables to parent companies</b>	<b>5,565,945</b>	<b>7,288,724</b>
12) tax payables due by the end of the next financial year	171,619	74,307
<b>Total tax payables</b>	<b>171,619</b>	<b>74,307</b>
13) Payables to pension and social-security institutions due by the end of the next financial year	101,266	98,545
<b>Total payables to pension and social-security institutions</b>	<b>101,266</b>	<b>98,545</b>
14) Others payables due by the end of the next financial year	1,308,388	1,267,294
due after the end of the next financial year	-	-
<b>Total other payables</b>	<b>1,308,388</b>	<b>1,267,294</b>
<b>Total payables (D)</b>	<b>128,234,935</b>	<b>184,278,012</b>

## E) Accruals and deferrals

	26,902	20,985
<b>Total liabilities (A + B + C + D + E)</b>	<b>146,991,437</b>	<b>200,086,746</b>

**A) Value of production**

1) revenue from sales and services	948,613,548	889,262,972
5) other revenues and income	133,651	147,694

<b>Total value of production (A)</b>	<b>948,747,199</b>	<b>889,410,666</b>
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**B) Costs of production**

6) raw materials, accessories, consumables and goods	912,274,906	858,203,558
7) services	28,601,378	28,900,843
8) use of third party assets	394,390	381,922
9) personnel	3,908,839	2,308,800
a) wages and salaries	3,258,921	1,655,903
b) social security contributions	464,802	473,920
c) severance Indemnity	53,771	46,984
d) pensioning and similar	89,152	91,493
e) other costs	42,193	40,500
10) amortization, depreciations and write-downs:	635,334	133,970
a) intangible fixed assets amortization	91,699	91,472
b) tangible fixed assets depreciation	53,756	42,498
d) write-downs of receivables falling in the current assets and liquid assets	489,879	-
11) changes in inventories of raw materials, accessories, consumables and goods	-664,188	1,184,673
14) other operating expenses	467,915	421,312

<b>Total costs of production (B)</b>	<b>945,618,574</b>	<b>891,535,078</b>
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<b>Difference between the value and costs of production (A - B)</b>	<b>3,128,625</b>	<b>-2,124,412</b>
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**C) Financial income and expense**

16) other Financial Income:		
d) income other than the above:	50,268	26,303
d.5) from others	50,268	26,303
17) Interest and other financial charges:	229,024	197,837
17.3) from controlling companies	53,511	1,047
17.5) from others	175,513	196,790
17 – Bis) exchange gains (losses)	1,579	2,047

<b>Total financial income and expense (16 - 17)</b>	<b>-180,335</b>	<b>-173,581</b>
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**D) Value adjustments of financial assets and liabilities**

18) revaluations		
d) of financial derivatives instruments	620,169	46,359
19) write-downs:		
d) of financial derivatives instruments	-	103,365
<b>Total of the adjustments (18 - 19)</b>	<b>620,169</b>	<b>-57,006</b>

<b>Profit (loss) before taxes (A - B + / - C + / - D)</b>	<b>3,568,459</b>	<b>-2,354,998</b>
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<b>20) Income taxes for the year: current, deferred and prepaid</b>	<b>-1,016,159</b>	<b>558,198</b>
a) current	-502,652	-
b) accrued	-507,897	558,400
c) deferred	-5,610	-200

<b>21) Profit (loss) for the year</b>	<b>2,552,300</b>	<b>-1,796,800</b>
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## Cash Flow Statement

## A) Cash flow to/from operating activities

Profit (Loss) for the year	2,552,300	-1,796,800
Adjustments for:		
Interest expense / (income)	178,756	171,534
Income taxes	1,016,159	-558,198

## 1) Profit (Loss) before income tax, interest, dividends,

capital gains/losses from disposals	3,747,215	-2,183,464
Tangible assets depreciation	53,756	42,498
Intangible assets amortization	91,699	91,472
Value adjustments for derivative assets and liabilities not involving monetary movements	-620,169	57,006
Other adjustments increasing/(decreasing) non-monetary elements	879,254	138,476

## 2) Cash flow before changes in net working capital

(Increase) decrease in inventories	-664,188	1,184,673
Decrease/(Increase) in receivables from customers	48,036,370	-32,862,490
Increase/(Decrease) in trade payables	-28,101,889	25,749,762
Decrease/(Increase) in accrued income and prepaid expenses	20,624	-24,308
Increase/(Decrease) in accrued expenses and deferred income	5,917	-22,532
Other decreases/(increases) in net working capital	-4,881,834	-1,323,672

<b>Total changes in net working capital</b>	<b>14,415,000</b>	<b>-7,298,567</b>
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## 3) Cash flow from operating activities (A)

Interest received/(paid)	-178,756	-175,288
(Income tax paid)	-	-16
Other collections/(payments)	-	-102,180
<b>Total other adjustments</b>	<b>-178,756</b>	<b>-277,484</b>

<b>Cash flow from operating activities (A)</b>	<b>18,387,999</b>	<b>-9,430,063</b>
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## CASH FLOW STATEMENT

31/12/2019

31/12/2018

*B) Cash flow from investments*

Tangible assets acquisition	-14,915	-52,199
Intangible assets acquisition	-128,800	-9,600
<b>Cash flow from investments (B)</b>	<b>-143,715</b>	<b>-61,799</b>

**Free cash flow (A + B)**

<b>18,244,284</b>	<b>-9,491,862</b>
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*C) Cash flow from financing activity*

Increase/(Decrease) in short-term payables due to banks	-31,442,606	10,255,323
Opening of intra-group loans payable	5,024,111	6,001,047
Payments deriving from capital increase and reserves	-	5,000,000
<b>Cash flow from financing activity (C)</b>	<b>-26,418,495</b>	<b>21,256,370</b>

**Increase (decrease) of net cash and cash equivalents (A + B + C)**

<b>-8,174,211</b>	<b>11,764,508</b>
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Net cash and equivalent at the beginning of the year	17,358,203	5,593,695
Net cash and equivalent at the closing of the year	9,183,992	17,358,203

**Increase (decrease) of net cash and equivalent for the year**

<b>-8,174,211</b>	<b>11,764,508</b>
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Milan, 20 March 2019

For the Board of Directors  
The Chief Executive Officer  
Libutti Michele

The background of the page is an abstract, artistic composition. It features a dark red to black gradient. Overlaid on this are several glowing, ethereal lines and shapes in shades of orange and yellow. These elements resemble smoke, light trails, or perhaps stylized representations of data or energy. A prominent, bright yellow-orange line curves from the bottom left towards the center, where it meets a more complex, multi-colored structure. Other fainter, circular and linear patterns are scattered throughout the scene, creating a sense of depth and movement.

Notes to the  
Financial Statements  
at 31/12/2019

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## 4 NOTES TO THE STATEMENTS, FIRST PART

### 4.1 Introduction

The financial statements, subject to your review and approval, reported a profit for the year of euro 2,552,301 (compared to a loss for financial year 2018 of euro 1,796,800).

The company is not subject to management and coordination by the Sole Shareholder pursuant to Art. 2497 of the Italian Civil Code.

### 4.2 Business activities

The company's purpose is the creation and use of energy and gas production plants, the strategic structuring of energy and gas supply contracts, as well the creation of distribution structures, the sale and distribution of oil and natural gas products, and the purchase and sale of energy and natural gas.

### 4.3 Significant events during the year

In 2019, the company recorded an exceptionally positive result thanks to an improvement in volumes and consolidation of a profit margin sharply improved compared to 2018.

2018 had been strongly penalised by contingent events, including, in particular, a mild winter during the 1st quarter of 2018 which reduced consumption, with an unforeseen peak in consumption with the arrival of the Burian, the icy north-easterly wind, which forced the company to purchase on the market further quantities at a higher price than that of sale in order to cover the peak demand of its customers.

The positive effect on the 2019 margins was explained by the trend in the gas price, optimal management of assets (storages and foreign interconnection capacity) by the trading unit and a better sales performance.

For more information, please see the paragraph "Operating performance" in the Report on Operations.

### 4.4 Structure and content of the Annual Financial Statements

The financial statements for the year ending 31/12/2019, consisting of the Balance Sheet, Income Statement, Statement of Cash Flows and Explanatory Notes, correspond with the entries in the accounting records kept regularly and were prepared in compliance with the rules provided for in Arts. 2423 and 2423-bis of the Italian Civil Code, as well as the accounting standards and recommendations prepared by the Italian Accounting Board (OIC).

The financial statements were prepared on a going concern basis.

Their structure is compliant with that outlined by the Italian Civil Code in arts 2424 and 2425, on the basis of the premises laid down in art. 2423-ter, while the Explanatory Notes are compliant with the content provided for in arts 2427 and 2427-bis, and in all the other provisions that make reference to them.

The entire document, in its constituent parts, was prepared to offer a true and accurate picture of the company's equity and financial situation, as well as its economic results during the year, providing additional information complementary to this goal when necessary.

Pursuant to article 2423-ter, the amount for the previous financial year is indicated for each item. With regard to information on the company's economic and financial performance and relationships and transactions occurring with related parties, please refer to the Report on Operations.

#### 4.5 Accounting standards

In compliance with the provisions of article 2423-bis of the Italian Civil Code, the following standards were observed when preparing the Financial Statements:

- the valuation of individual items was performed in compliance with the general principles of prudence and on a going concern basis, as well as bearing in mind the substance of the transaction or contract;
- only profits effectively realised during the year were recognised;
- income and expenses accruing during the year were indicated, regardless of their actual date of payment;
- risks and losses accruing during the year were taken into account, even if only discovered after the end of the year;
- heterogeneous elements included in the various items of the financial statements were measured distinctly.

The measurement criteria provided for in art. 2426 of the Italian Civil Code were kept unaltered with respect to those adopted in the previous financial year.

The Annual Financial Statements, as well as these Notes, were prepared in euro units.

#### 4.6 Measurement criteria adopted

In preparing these Financial Statements, the measurement criteria envisaged in article 2426 of the Italian Civil Code were applied.

The accounting items were measured on the basis of general criteria of prudence and accrual, in the prospect of the company continuing as a going concern.

The application of the principle of prudence gave rise to the individual valuation of the elements making up the individual entries or items of the assets or liabilities in order to avoid offsets between losses to be acknowledged and profits not to be acknowledged given that they were not achieved.

In compliance with the accruals concept, the effect of transactions and other events was booked and attributed to the financial year in which such transactions and events took place and not that in which the relevant accounting entries are made (collections and payments).

In application of the principle of significance the obligations on the subject of recognition, measurement, presentation and disclosure were not observed when their observance had insignificant effects in giving a true and correct picture.

Significance is assessed by the directors with reference to the reasonable possibility that a certain item of information will influence the decisions that potential users of the financial statements take on the basis of this information.

The measurement, therefore, considers each time both quantitative factors (namely the value of the item) and qualitative factors (associated with specific factors of the company).

Some of the main declinations of the principle of significance in preparing the company's financial statements are the following:

The amortised cost was not applied in the following items:

- 1) Amounts due from subsidiaries and parent companies, because, in relation to the amount of these receivables, the contractual rates do not differ significantly from the market rates at the moment of signing;
- 2) Financial payables, because they were all entered into at market rates and without significant transaction costs;
- 3) Trade receivables of Current Assets and Trade payables, because they mature within twelve months and the effects would be insignificant.

The continuity in the application of the valuation criteria over time represents a necessary element for the purposes of comparability of the company's financial statements in the various financial years.

The accounting items were recognised and presented taking into account the substance of the operation or contract.

### **Intangible fixed assets**

Intangible fixed assets were recognised at the cost of acquisition, including directly attributable ancillary expenses. The related amounts were recognised net of amortisation, systematically calculated on the basis of the rates indicated below, taking their residual possibilities of use into account.

Industrial patent and intellectual property rights, licences, concessions and trademarks are amortised with an annual rate differentiated according to the estimated useful life:

- 33% in relation to assets with an estimated useful life of three financial years;
- 20% in relation to assets with an estimated useful life of five financial years.

Start-up and expansion costs, with long-term benefits were recognised under assets with the consent of the Board of Statutory Auditors and were amortised over a period of 5 years.

No changes were made to amortisation rates with respect to the previous financial year.

Improvements to third-party assets are amortised according to rates that depend on the duration of the contract.

Under the terms of point 5) of art. 2426, we note that no dividends were distributed that exceeded available reserves able to cover the amount of the said non-amortised costs.

Fixed assets for which the value as of the reporting date was found to be permanently lower with respect to the value as determined above were recognised at this lower value. If the reasons for the write-down cease to exist in future years, it is not maintained.

### Tangible Asset

Property, plant and equipment items are recognised in the Financial Statements at the purchase cost. This cost includes ancillary expenses and directly attributable costs.

The related amounts are recognised net of depreciation, systematically calculated on the basis of the rates indicated below, in relation to their residual possibility of use, taking into consideration the use, destination and economic/technical duration of the assets.

Description	Rates applied
Plant and machinery	20%
Other tangible assets:	
- furnitures	20%
- electronic office machines	20%
- mobile equipment	33%

No changes were made to depreciation rates with respect to the previous financial year.

Fixed assets for which the value as of the reporting date was found to be permanently lower with respect to the value as determined above were recognised at this lower value. If the reasons for the write-down cease to exist in future years, it is not maintained.

### Financial fixed assets

Financial fixed assets consisting of equity investments in subsidiaries and associates were measured using the cost method, including ancillary charges. The book value is determined on the basis of the purchase or subscription price or the value attributed to the assets transferred.

The cost as determined above is reduced when lasting losses in value are determined. If the reasons for the adjustment made cease to exist, the value of the equity investment is restored up to the purchase cost.

The value determined in this way is not higher than the value that would be determined applying the criteria envisaged in art. 2426, point 4, of the Italian Civil Code.

### Inventories

Inventories of "Finished products and goods" made up of quantities of stored gas, are recognised at the lower of the purchase cost, including directly attributable ancillary expenses, and the estimated realisable value taken from market trends.

Finished products were recognised applying the weighted average cost method.

### Receivables

The amortised cost criterion and the discounting process, as already highlighted in the measurement criteria, were not applied because the effects are insignificant for the purpose of giving a true and correct picture. Receivables are therefore stated at their estimated realisable value. The measurement of receivables takes into account the estimated realisable value, through the allocation of a specific provision for impairment, to which an amount corresponding to the risk of not collecting the receivables recognised in the financial statements is allocated annually, in relation to general economic conditions and the related sector, as well as the origins of the debtor.

### Cash and cash equivalents

This item includes cash and cash equivalents and monetary deposits in accounts the company holds with credit institutions, all expressed at their nominal value, duly converted into the national currency in the case of accounts in other currencies.

### Accruals and deferrals

Accruals and deferrals are determined following the accruals concept.

In relation to multi-year accruals and deferrals, the amount original recognised was verified and when necessary appropriate adjustments were made.

### Provisions for risks and charges

Provisions are allocated to cover losses or liabilities of a determinate nature, which are certain or likely to exist, but for which at the end of the financial year the amount or date of payment cannot be determined. In measuring these provisions, the general criteria of prudence and accrual were observed, and no generic provisions for risks were established without an economic justification.

### Employee severance indemnity

The provisions for TFR (employee severance indemnity) corresponds to the company's effective commitment related to each employee, determined in compliance with current legislation and, in particular, with the provisions of Art. 2120 of the Italian Civil Code and the collective employment and supplementary company contracts.

This liability is subject to revaluation based on indices.

### Payables

The amortised cost criterion and the discounting process, as already highlighted in the measurement criteria, were not applied because the effects are insignificant for the purpose of giving a true and correct picture.

Payables are therefore shown at their nominal value, possibly modified, for trade payables, on the occasion of invoicing adjustments.

## Derivatives

Derivatives are activated in order to guarantee the hedging of risks underlying the oscillation of selling prices.

A derivative financial instrument hedging the cash flows or the fair value of an asset follows the classification, in current or fixed assets, of the asset hedged; a derivative financial instrument hedging the cash flows and the fair value of a liability, an irrevocable commitment or a highly probable planned transaction is classified in current assets, as is a derivative financial instrument not for hedging. In the case of negative fair value, such instruments are recognised as liabilities among provisions for risks.

Fair value changes in derivatives are recognised in the income statement in section D) "Value adjustments of financial assets and liabilities", while fair value changes in the effective component of derivatives hedging financial flows recognised in shareholders' equity are recognised under the item *Reserves for hedging of expected financial flows*.

## Recognition of revenues and costs

Revenues and income are recognised net of returns, discounts and rebates, as well as of taxes directly associated with the sale of products and provision of services.

Specifically:

- revenues for the provision of services are recognised on the basis of the actual provision and in accordance with the related contracts. revenues related to contract work in progress are recognised in proportion to the progress of the work;
- revenues from the sale of products are recognised at the time ownership is transferred, which normally corresponds with the delivery or shipping of the product;
- costs are recognised based on the accruals concept;
- allocations to provisions for risks and expenses are recognised based on their nature, when possible, in the appropriate class within the income statement;
- financial income and expenses are recognised on an accrual basis.

## Income tax

Income tax for the year is recognised in application of the accruals concept, determined by applying the current provisions under the law and based on an estimate of taxable income. The payable is recognised in the Balance Sheet under the item "tax payables", and the receivable under the item "tax credits".

With reference to the recognition of tax effects deriving from temporal differences between the recognition of economic components in the financial statements and the moment the same become fiscally relevant we note the following.

Deferred tax liabilities are calculated on the basis of temporary taxable differences, applying the

tax rate that it is believed will be in effect at the moment these temporary differences generate increases in the taxable base.

Following the principle of prudence, deferred tax assets are calculated on temporary deductible differences, applying the tax rate that it is believed will be in effect at the moment these differences generate a decrease in the taxable amount, based on the principle of reasonable certainty that future taxable income will exist in an amount sufficient to reabsorb said changes.

The amount of deferred tax assets is reviewed every year to verify that the reasonable certainty of achieving future taxable income still exists in order to be able to recover the entire amount of deferred tax assets.

The amount of deferred tax liabilities and assets is also subject to redetermination in the case of a change in the tax rates originally used.

For corporate tax (IRES) purposes, the company subscribed in 2015 to the "national tax consolidation regimen" pursuant to Arts. 117 to 129 of the Income Tax Consolidation Act (TUIR), together with the company Weedoo S.p.A., a company 51% controlled, entailing the calculation of a single taxable base for the group of companies subscribing to this regimen, and only the consolidating company is allocated the requirements relating to the calculation and payment of the Group's corporate income tax, as well as settling the balances and advance payments due for the said tax. This option was renewed tacitly, following the introduction of art. 7-*quater* of Italian Law Decree 193/2016.

The economic relations, together with the reciprocal responsibilities and obligations between the company and the consolidated company, are set out in the tax consolidation contract for the Group's companies.

Based on the above, current corporate income tax is calculated according to the accruals concept, based on the company's year-end result, not taking into account that it belongs to the tax consolidation regimen, and charged to the its income statement. Regional business tax (IRAP) does not fall within the scope of the tax consolidation, and the effects of this tax have therefore only been stated in the company's income statement according to the regulations that were originally in effect.

### **Use of estimates**

Preparation of the annual financial statements and the related Notes to the Statements requires the Management to make estimates and assumptions that have an effect on the values of the balance sheet assets and liabilities and on the disclosure related to contingent assets and liabilities at the reporting date. The estimates and assumptions used are based on experience and on other factors considered significant. The final results that will emerge could therefore differ from these estimates. The estimates and assumptions are reviewed periodically, and the effects of all changes made to them are reflected in the income statement in the period in which the estimate is revised, if the revision has effects only on this period, or also in subsequent periods, if the revision has effects both on the current year and on future ones. The main accounting items that require estimates and assumptions are chiefly provisions for bad debt and provisions for risks.

## 5 NOTES TO THE STATEMENTS – COMMENT ON THE ACCOUNTING ITEMS

## Balance Sheet Assets

## Subscribed capital, unpaid

As of 31 December 2019, the capital was fully subscribed and paid up.

## Fixed assets

*I. Intangible fixed assets*

The breakdown of intangible fixed assets is as follows:

<i>Amounts in euro/000</i>	31/12/19	31/12/18	Var	Var %
4) Concessions, licenses, trademarks and similar rights	104,386	180,419	-76,033	-42.1%
6) Investments in progress and advances	128,800	-	128,800	100.0%
7) Others	81,998	97,664	-15,666	-16.0%
<b>Total intangible assets</b>	<b>315,184</b>	<b>278,083</b>	<b>37,101</b>	<b>13.3%</b>

The changes which occurred during the year (Art. 2427, point 2, of the Italian Civil Code.) are shown in the statement below:

<i>Amounts in euro/000</i>	Gross Value			Accumulated amortization			Net Value
	31/12/18	Increase	31/12/19	31/12/18	Increase	31/12/19	
Start-up and expansion costs	8,727		8,727	8,727		8,727	-
Concessions, licenses	527,602		527,602	347,183	76,033	423,216	104,386
Improvements on third party assets	120,895		120,895	31,732	10,000	41,732	79,163
Other intangible assets	132,395		132,395	123,894	5,666	129,560	2,835
Investments in progress, advances	-	128,800	128,800	-		-	128,800
<b>Total intangible assets</b>	<b>789,619</b>	<b>128,800</b>	<b>918,419</b>	<b>511,536</b>	<b>91,699</b>	<b>603,235</b>	<b>315,184</b>

Intangible fixed assets at 31/12/2019 amounted to euro 315,184 (euro 278,083 at the end of the previous financial year) net of amortisation, with an increase explained mainly by the investments in progress on the new management software which will be used starting from 2020 on new electricity business being launched (please see what was written in the Report on Operations on the development prospects in 2020).

Intangible fixed assets include start-up and expansion costs as well as licenses for software and management applications related to the creation of the ETRM (Energy Trading Risk Management) system, the invoicing system and Customer Relationship Management (CRM), as well as expenses to improve third-party assets.

## II. Tangible assets

The breakdown of tangible assets is as follows:

<i>Amounts in euro/000</i>	31/12/19	31/12/18	Var	Var %
4) Others	122,361	161,202	-38,841	-24.1%
<b>Total tangible assets</b>	<b>122,361</b>	<b>161,202</b>	<b>-38,841</b>	<b>-24.1%</b>

The changes that occurred during the year (Art. 2427, point 2, of the Italian Civil Code.) in the item "Other assets" are shown in the statement below:

<i>Amounts in euro/000</i>	Gross Value			Accumulated depreciation			Net Value
	31/12/18	Increase	31/12/19	31/12/18	Increase	31/12/19	
Plant and machinery	1,700		1,700	1,700	-	1,700	-
Furnitures	26,448		26,448	18,466	5,115	23,581	2,867
Electronic office machines	280,862	3,584	284,446	138,082	40,004	178,086	106,360
Mobile equipment	18,969	6,660	25,629	11,561	5,634	17,195	8,434
Other electronic equipments	27,940	4,671	32,611	24,908	3,003	27,911	4,700
<b>Total tangible assets</b>	<b>355,919</b>	<b>14,915</b>	<b>370,834</b>	<b>194,717</b>	<b>53,756</b>	<b>248,473</b>	<b>122,361</b>

Property, plant and equipment, net of depreciation, came to euro 122,361 (euro 161,202 at the end of the previous year), with a decrease explained mainly by depreciation for the year, only in part offset by the investments made.

**III. Financial fixed assets**

The item "financial fixed assets" consists of an equity investment in a subsidiary, as shown in the table below:

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
Interests in controlled companies	2,017,566	2,017,566	-	0.0%
<b>Total interests</b>	<b>2,017,566</b>	<b>2,017,566</b>	-	<b>0.0%</b>
<b>Total financial fixed assets</b>	<b>2,017,566</b>	<b>2,017,566</b>	-	<b>0.0%</b>

The item Equity investments refers to the equity investment held in Weedoo S.p.A., with registered office in Milan, and represents a long-term and strategic investment by the company. The total value at 31/12/2019 was euro 2,017,566 (and remained unchanged compared to the end of the previous year). The equity investment in question is measured at the purchase cost.

Pursuant to Art. 2427, point 5, of the Italian Civil Code, the information related to this, the only equity investment in subsidiaries, is described below:

**WeeDoo S.p.A. - VAT nr. 8961560961**

<i>Description (amounts in euro)</i>	<b>31/12/18</b>
Share Capital	1,000,000
Retained earnings / reserves	1,345,811
Net Profit (Loss)	-486,201
<b>Total equity Weedoo</b>	<b>1,859,610</b>
Owned share	51%
Owned share in euro	510,000
Interest amount	2,017,566

The company decided that it did not have to write down the value of the equity investment in Weedoo S.p.A., even though it is recognised in the accounts at a value higher than the related portion of shareholders' equity, as it represents a strategic and lasting investment for the company, while waiting for it to reach the break-even point foreseen in the coming years. The company also carried out an impairment test on the equity investment in the subsidiary Weedoo, discounting to the present the expected cash flows (DCF Method) which will be generated by the subsidiary as defined in the 2020-2023 development plan. No risk of impairment emerged from this test.

The subsidiary Weedoo holds an equity investment of 75% in the share capital of SMG S.r.l., a gas and electricity retail sales company with registered office in Arese, Italy, VAT no. 03761580962. SMG S.r.l. had shareholders' equity at 31 December 2018 of euro 683,027, while the value at which the equity investment is recognised in the financial statements of Weedoo is euro 2,361,565. Also in this case, Weedoo carried out an impairment test, discounting to the present the expected cash flows (DCF Method) which will be generated by the subsidiary as defined in the 2020-2023 development plan. From this measurement there emerges a positive difference between the percentage pertaining of the value of SMG determined with the DCF Method, and the book value of the equity investment in the accounts.

**Current assets*****I. Inventories***

Pursuant to Art. 2427, paragraph 4 of the Italian Civil Code, below we provide a breakdown of the item in question:

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
Inventories	27,458,946	26,794,758	664,188	2.5%
<b>Total inventories</b>	<b>27,458,946</b>	<b>26,794,758</b>	<b>664,188</b>	<b>2.5%</b>

The criterion adopted in the measurement of the natural gas in storage at the end of 2019, net of impairment of approximately euro 420,000 recorded at the end of the year, led to the recognition of values not significantly different with respect to the current cost of the assets recognisable at the reporting date (Art. 2426, point 10, of the Italian Civil Code).

***II. Receivables***

Below, we note the breakdown of and changes in receivables recognised in current assets (Article 2427, no. 4 of the Italian Civil Code):

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
From customers	98,031,923	146,558,172	-48,526,249	-33.1%
From subsidiaries	1,673,663	1,760,023	-86,360	-4.9%
From parent company	238,547	241,008	-2,461	-1.0%
Tax credits	4,828,098	2,562,553	2,265,545	88.4%
Deferred tax assets	546,668	1,054,565	-507,897	-48.2%
From Others	1,693,287	1,013,520	679,767	67.1%
<b>Total receivables</b>	<b>107,012,186</b>	<b>153,189,841</b>	<b>-46,177,655</b>	<b>-30.1%</b>

Under the terms of Art. 2427, no. 6 of the Italian Civil Code, we can note that all receivables pursuant to the present item are to be considered enforceable within the year.

The adjustment of receivables to their estimated realisable value is obtained by using the appropriate provisions for impairment of receivables - determined through a valuation of the specific risk of collectability and taking into consideration the general economic conditions and those of the industry. The change in receivables from customers was due mainly to the price effect because sales in December 2019 were, on average, approximately 17% lower compared to December 2018 and, to a lesser extent, to lower volumes in December 2019, approximately 2% down on those of December 2018.

The amount of receivables recognised in current assets takes account both of credit notes to be issued and of provisions for bad debt of euro 503,673. Details of the item and related changes in provisions for bad debt are shown below:

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
Receivables from customers	98,535,596	146,571,966	-48,036,370	-32.8%
Reserve for bad debts	-503,673	-13,794	-489,879	3,551.4%
<b>Tot. receivables from customers</b>	<b>98,031,923</b>	<b>146,558,172</b>	<b>-48,526,249</b>	<b>-33.1%</b>

<i>Amounts in euro/000</i>	
Balance as of 31 December 2018	-13,794
Accrual	-489,879
<b>Balance as of 31 December 2019</b>	<b>-503,673</b>

As at 31/12/2019, no receivables had a duration of more than five years.

The item Receivables from subsidiaries is made up as follows:

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
Receivables from Weedoo SpA	587,967	456,439	131,528	28.8%
Receivables from SMG Srl	1,085,696	1,303,584	-217,888	-16.7%
<b>Tot. receivables from subsidiaries</b>	<b>1,673,663</b>	<b>1,760,023</b>	<b>-86,360</b>	<b>-4.9%</b>

We must specify that the item from Weedoo S.p.A. also includes an interest-bearing loan of euro 204,000 repaid at a fixed rate of 2%.

The item "Receivables from parent companies" consists only of trade receivables, in line with the figure at 31 December 2018.

The item Tax Credits is made up as follows:

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
VAT receivables	892,367	1,698,813	-806,445	-47.5%
VAT asked for refund	994,715	-	994,715	100.0%
VAT credit in compensation	998,813	-	998,813	100.0%
Irap advances	-	75,985	-75,985	-100.0%
Ires advances	169,808	169,808	-	0.0%
Excise credits	1,494,962	561,847	933,115	166.1%
Advances on regional withholding taxes	277,162	55,830	221,333	396.4%
Withholding on interest received	271	271	-	0.0%
<b>Total tax credits</b>	<b>4,828,098</b>	<b>2,562,553</b>	<b>2,265,545</b>	<b>88.4%</b>

The item "receivables from others" of euro 1,693,287 (euro 1,013,520 at 31 December 2018) consists of guarantee deposits strictly linked to operations related to the business.

Receivables in current assets break down as follows based on the geographic area in which the debtor has its registered office (Article 2427, point 6 of the Italian Civil Code):

<b>Geographical area</b>	<b>Italy</b>	<b>EU</b>	<b>Non-EU</b>	<b>Total</b>
From customers	60,425,379	24,733,238	12,873,306	98,031,923
From subsidiaries	1,673,663			1,673,663
From parent company		238,547		238,547
Tax credits	4,828,098			4,828,098
Deferred tax assets	546,668			546,668
From Others	1,693,287			1,693,287
<b>Total receivables</b>	<b>69,167,095</b>	<b>24,971,785</b>	<b>12,873,306</b>	<b>107,012,186</b>

**III. Financial assets not classified as fixed assets**

Below is a table indicating the structure and changes in financial assets not classified as fixed assets (Article 2427, point 4 of the Italian Civil Code):

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
Derivates	704,139	89,406	614,733	687,6%
<b>Financial assets not classified as fixed assets</b>	<b>704,139</b>	<b>89,406</b>	<b>614,733</b>	<b>687,6%</b>

For more information, please see paragraph 5 "Other Information", in the specific point on "Information on derivatives, pursuant to Art. 2427-bis of the Italian Civil Code".

**IV. Cash and cash equivalents**

The balance, as detailed below, indicates the amount of and changes in cash and cash equivalents existing at the end of the year (Article 2427, point 4 of the Italian Civil Code):

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
Bank and postal deposits	9,183,321	17,357,372	-8,174,051	-47,1%
Cash and cash values	671	831	-160	-19,3%
<b>Total cash and cash equivalents</b>	<b>9,183,992</b>	<b>17,358,203</b>	<b>-8,174,211</b>	<b>-47,1%</b>

The change in cash and cash equivalents is analysed in the statement of cash flows annexed to the financial statements on the basis of the nature of the components that determined it.

**Accrued income and prepaid expenses**

The structure and changes to the item in question are shown below (article 2427, paragraph 7, Italian Civil Code):

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
Deferred charges of financial expenses	74,730	71,045	3,685	5.2%
Other deferred charges	102,334	126,642	-24,308	-19.2%
<b>Total</b>	<b>177,064</b>	<b>197,687</b>	<b>-20,623</b>	<b>-10.4%</b>

As at 31/12/2019, no accruals or deferrals had a duration of more than five years, nor were there any significant amounts with duration beyond the subsequent financial year.

The item "Prepaid expenses" is made up of expenses for sureties, discounted for each surety on the basis of the related duration, and for the remainder, mainly of prepayments on car hire fees, rents paid and fees to access to databanks.

## BALANCE SHEET LIABILITIES

## Shareholders' equity

<i>Amounts in euro/000</i>	31/12/19	31/12/18	Var	Var %
Share Capital	5,000,000	5,000,000	-	0.0%
Legal reserve	374,171	374,171	-	0.0%
- other reserves - capital payments	925	925	-	0.0%
- other reserves - payments from shareholders	5,000,000	5,000,000	-	0.0%
- other reserves - extraordinary	421,076	421,076	-	0.0%
<b>Subtotal other reserves</b>	<b>5,422,001</b>	<b>5,422,001</b>	-	<b>0.0%</b>
Reserve, hedging of expected cash flows	354,816	-52,605	407,421	-774.5%
Profits (Losses) carried forward	4,015,947	5,812,746	-1,796,799	-30.9%
Operating Profit (Loss)	2,552,300	-1,796,800	4,349,100	-242.0%
<b>Total shareholders' equity</b>	<b>17,719,235</b>	<b>14,759,512</b>	<b>2,959,722</b>	<b>20.1%</b>

Shareholders' equity, at the end of the year, amounted to euro 18,005,291, showing the following changes in the last three years (Article 2427, point 4 of the Italian Civil Code).

<i>Amounts in euro</i>	Share capital	Legal reserve	Other reserves	Reserve hedging of expected cash flows	Losses carried forward	Result of the year	Total net worth
<b>Balance as of January 1, 2017</b>	<b>5,000,000</b>	<b>278,200</b>	<b>35,572</b>	<b>457,142</b>	<b>5,285,798</b>	<b>1,919,414</b>	<b>12,976,126</b>
Previous year profit allocation		95,971			1,823,443	-1,919,414	-
Other movements (includ. tax effects)			386,429	-399,875			-13,446
Loss for the year						-1,296,495	-1,296,495
<b>Balance as of December 31, 2017</b>	<b>5,000,000</b>	<b>374,171</b>	<b>422,001</b>	<b>57,267</b>	<b>7,109,241</b>	<b>-1,296,495</b>	<b>11,666,185</b>
Previous year loss allocation					-1,296,495	1,296,495	-
Increase in reserves			5,000,000				5,000,000
Other movements (includ. tax effects)				-109,872			-109,872
Loss for the year						-1,796,800	-1,796,800
<b>Balance as of December 31, 2018</b>	<b>5,000,000</b>	<b>374,171</b>	<b>5,422,001</b>	<b>-52,605</b>	<b>5,812,746</b>	<b>-1,796,800</b>	<b>14,759,512</b>
Previous year loss allocation					-1,796,800	1,796,800	0
Other movements (includ. tax effects)				407,421			407,421
Profit for the year						2,552,300	2,552,300
<b>Balance as of December 31, 2019</b>	<b>5,000,000</b>	<b>374,171</b>	<b>5,422,001</b>	<b>354,816</b>	<b>4,015,947</b>	<b>2,552,300</b>	<b>17,719,235</b>

You are reminded that, on 20/09/2018, the company received a capital payment of euro 5,000,000 from the Shareholder.

We provide details on the reserves which make up Shareholders' Equity, specifying their origins and nature, possibility of use and limits on distribution (Article 2427, point 7-bis of the Italian Civil Code):

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>Origin/ Nature</b>	<b>Type of availability</b>	<b>Available amount</b>
Share Capital	5,000,000		-	-
Legal reserve	374,171	U	A, B	374,171
- other reserves - capital payments	925	C	A, B	925
- other reserves - payments from shareholders	5,000,000	C	A, B, C	5,000,000
- other reserves - extraordinary	421,076	C	A, B, C	421,076
Reserve, hedging of expected cash flows	354,816	U	-	-
Profits (Losses) carried forward	4,015,947	U	A, B, C	4,015,947
Operating Profit	2,552,300			
<b>Total shareholders' equity</b>	<b>17,719,235</b>			<b>9,812,119</b>
<i>Amount non-distributable</i>				<b>5,729,912</b>

**Key Origin/nature column:** C = Capital reserve; U = profit reserve.

**Key:** A: for capital increase, B: to cover losses, C: for distribution to Shareholders.

At 31/12/2019, the share capital was fully subscribed and paid up and is represented by 5,000,000 shares with a value of 1 euro.

## Provisions for risks and charges

The breakdown of and changes in the individual items are shown in the table below (Article 2427, point 4, of the Italian Civil Code):

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
For taxes, including deferred	117,857	200	117,657	58828.5%
Derivatives	27,252	552,156	-524,904	-95.1%
Others	591,367	221,327	370,041	167.2%
<b>Total provision for risks and charges</b>	<b>736,476</b>	<b>773,682</b>	<b>-37,206</b>	<b>-4.8%</b>

Provisions for taxes include liabilities for deferred taxes of euro 117,857.

Details on provisions for deferred taxes can be found in the section within these Notes on exposure to the effects of deferred taxes.

The present table provides details on the item related to other provisions for risks and charges, as well as the changes occurring with respect to the previous financial year (Article 2427, point 7, of the Italian Civil Code).

<i>Amounts in euro/000</i>	<b>31/12/18</b>	<b>Increase</b>	<b>Decrease</b>	<b>31/12/19</b>
For taxes, including deferred	200	117,657		117,857
Derivatives	552,156		-524,903	27,252
Others	221,327	370,041		591,367
<b>Total provision for risks and charges</b>	<b>773,682</b>	<b>487,698</b>	<b>-524,903</b>	<b>736,476</b>

The balance of "Other" provisions for risks and charges represents the prudential allocation, against the business risks identified or potential future outlays, made by the Directors on the basis of their best knowledge and supported, where appropriate, by the opinion of the lawyers with reference to existing or potential disputes.

With reference to the considerations presented in paragraph 4.6 on the use of estimates, or on the estimation procedures adopted in the assessment of the risk of losing in disputes, we can note that the Management is not aware of any significant risks which could derive from existing disputes against which no provisions for risks have been set aside at the end of the financial year in question. The Management, therefore, considers the provisions set aside as appropriate.

**Employee severance indemnity**

The provisions allocated represent the actual amount owed by the company, as at 31/12/2019, to employees in the workforce at this date, net of advances paid.

The breakdown and use are detailed in the table below (Article 2427, point 4 of the Italian Civil Code).

<i>Amounts in euro/000</i>	<b>31/12/18</b>	<b>Increase</b>	<b>Decrease</b>	<b>31/12/19</b>
Employees severance indemnity fund	254.554	53.771	-34.436	273.889
<b>Total severance indemnity fund</b>	<b>254.554</b>	<b>53.771</b>	<b>-34.436</b>	<b>273.889</b>

## Payables

The breakdown of payables, changes in individual items and division by maturity are shown in the table below (Article 2427, point 4 of the Italian Civil Code).

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
Loans from parent companies	11,025,158	6,001,047	5,024,111	83,7%
Payables to banks	28,086,506	59,529,112	-31,442,606	-52,8%
Advanced payments	-	273,000	-273,000	-100,0%
Trade payables	81,644,094	109,745,983	-28,101,889	-25,6%
Payables to subsidiaries	331,959	-	331,959	100,0%
Payables to parent companies	5,565,945	7,288,724	-1,722,779	-23,6%
Tax payables	171,619	74,307	97,312	131,0%
Payables to social security institutions	101,266	98,545	2,721	2,8%
Other payables	1,308,388	1,267,294	41,094	3,2%
<b>Total payables</b>	<b>128,234,935</b>	<b>184,278,012</b>	<b>-56,043,077</b>	<b>-30,4%</b>

The item "Debts towards shareholders for loans" refers to two interest-bearing loans—at market conditions—the first for a nominal amount of euro 5,000,000 disbursed on 18 January 2019 with a duration of one year, and the second for a nominal amount of euro 6,000,000 running from 18 December 2019, also with a duration of one year. The item also includes interest accruing up to 31 December 2019.

The company benefits from a loan facility with the Sole Shareholder for a total amount of euro 20 million, of which euro 11 million used at 31 December 2019, as noted above.

The balance of Payables to banks at 31 December 2019, of euro 28.1 million shows a significant decrease compared to the previous financial statements owing both to the effect of the reduction of the natural gas price which entailed lower exposure in relation to suppliers, and to a more virtuous management of net working capital which enabled less use of the facilities available at the end of the year (at 31 December 2019 facilities of euro 56 million remained available). Owing to the nature of the company's business, all existing loans have a duration of less than 12 months. The details of the payable by type are as follows:

<i>Amounts in euro/000</i>	<b>31/12/19</b>	<b>31/12/18</b>	<b>Var</b>	<b>Var %</b>
Customer invoices financing	13,127,134	9,641,895	3,485,240	36.1%
Import financing	8,001,702	35,106,217	-27,104,515	-77.2%
Customer contracts financing	6,948,785	14,771,861	-7,823,075	-53.0%
Overdrafts	8,884	9,139	255	-2.8%
<b>Debts towards banks</b>	<b>28,086,506</b>	<b>59,529,112</b>	<b>-31,442,606</b>	<b>-52.8%</b>

The item Trade payables of euro 81.6 million is recognised net of credit notes to be received. This item also shows a sharp drop compared to the previous year, owing mainly to the effect of the lower natural gas price recorded during the second half of 2019.

The item Payables to subsidiaries is related to the payable to the subsidiary Weedoo, owing to the recognition of expenses deriving from tax consolidation.

The item Payables to parent companies amounted to a total of euro 5.5 million, payable in relation to Centrex Energy & Gas AG. This is a trade payable.

The item "tax payables" is made up of payables for taxes withheld on income of self-employed workers and employees.

The item "Other Payables" consists mainly of payables to personnel.

There were no payables backed by real guarantees.

We also provide an informative table on the breakdown of payables based on where the creditor counterparty has its registered office:

Geographical area	Italy	EU	Non-EU	Total
Loans from parent companies		11,025,158		11,025,158
Payables to banks	28,086,506			28,086,506
Trade payables	36,770,706	32,399,517	12,473,871	81,644,094
Payables to subsidiaries	331,959			331,959
Payables to parent companies		5,565,945		5,565,945
Tax payables	171,619			171,619
Payables to social security institutions	101,266			101,266
Other payables	1,308,388			1,308,388
<b>Total payables</b>	<b>66,770,444</b>	<b>48,990,620</b>	<b>12,473,871</b>	<b>128,234,935</b>

### Accruals and deferrals

<i>Amounts in euro/000</i>	31/12/19	31/12/18	Var	Var %
Accrued expenses	26,902	20,985	5,917	28.2%
<b>Total accruals and deferrals</b>	<b>26,902</b>	<b>20,985</b>	<b>5,917</b>	<b>28.2%</b>

As at 31/12/2019, no accruals or deferrals had a duration of more than five years, nor were there any significant amounts with duration beyond the subsequent financial year.

### INCOME STATEMENT

#### Value of production

Below we provide a breakdown of the value of production, as well as the changes seen in the individual items with respect to the previous year:

<i>Amounts in euro/000</i>	2019	2018	Var	Var %
Revenue from sales and services	948,613,548	889,262,972	59,350,576	6.7%
Other revenue and income	133,651	147,694	-14,043	-9.5%
<b>Total value of production</b>	<b>948,747,199</b>	<b>889,410,666</b>	<b>59,336,533</b>	<b>6.7%</b>

The breakdown of revenues by geographic area of sale, identified on the basis of where the customer has its registered office, is the following:

<b>Geographical area</b>	<b>Italy</b>	<b>EU</b>	<b>Non-EU</b>	<b>Total</b>
Revenue from sales and services	526,869,887	264,058,347	157,685,314	948,613,548
Other revenue and income	133,651			133,651
<b>Total value of production</b>	<b>527,003,538</b>	<b>264,058,347</b>	<b>157,685,314</b>	<b>948,747,199</b>

## Costs of production

The table below provides information on the structure and changes in the item "Costs of production".

<i>Amounts in euro/000</i>	2019	2018	Var	Var%
Consumables and goods	912,274,906	858,203,558	54,071,348	6.3%
Services	28,601,378	28,900,843	-299,465	-1.0%
Use of third party assets	394,390	381,922	12,468	3.3%
- wages and salaries	3,258,921	1,655,903	1,603,018	96.8%
- social Charges	464,802	473,920	-9,118	-1.9%
- severance Indemnity	53,771	46,984	6,787	14.4%
- pensioning and similar	89,152	91,493	-2,341	-2.6%
- other costs	42,193	40,500	1,693	4.2%
<b>Cost of personnel</b>	<b>3,908,839</b>	<b>2,308,800</b>	<b>1,600,039</b>	<b>69.3%</b>
- intangible fixed assets amortization	91,699	91,472	227	0.2%
- tangible fixed assets depreciation	53,756	42,498	11,258	26.5%
- write-off of receivables	489,879	-	489,879	100.0%
<b>Depreciations and devaluations</b>	<b>635,334</b>	<b>133,970</b>	<b>501,364</b>	<b>374.2%</b>
Changes in inventories	-664,188	1,184,673	-1,848,861	-156.1%
Other operating expenses	467,915	421,312	46,603	11.1%
<b>Total cost of production</b>	<b>945,618,574</b>	<b>891,535,078</b>	<b>54,083,496</b>	<b>6.1%</b>

The increase in costs for consumables and goods, as explained also in the Report on Operations, is closely correlated to the increase in revenue from the sale of natural gas.

Costs for services are mainly related to transport and natural gas storage services and are in line with the figures of the previous year.

Costs for use of third-party assets refer mainly to costs incurred for rental of offices and for vehicle hire and do not show significant changes in the year.

The item "personnel costs" includes all expenses for personnel, including merit pay increases, promotions, automatic cost-of-living increases, the cost of holidays accrued but not taken and

provisions according to law and collective contracts. 2019 also includes the allocation of the variable associated with achieving the personal and corporate objectives. This allocation, very limited in its amount in 2018, explains to a great extent the increase recorded in the year in this cost item.

As regards depreciation and amortisation, we note that these were calculated on the basis of the useful life of the asset and its use in the manufacturing stage. Please refer to the information found in the relevant section in these Notes to the Statements for more details.

During the year the company increased its provisions for risks on receivables by an amount of euro 490,000.

Other operating expenses include, among other things, contributions paid to the Regulatory Authority for Energy, Networks and the Environment (ARERA) of euro 186,000, costs for the use of databanks of euro 59,000, the contribution paid to the Competition and Market Authority (AGCM) of euro 47,000 and premiums for insurance on receivables of euro 51,000.

## Financial income and expense

In accordance with the provisions of point 12 of Art. 2427 of the Italian Civil Code, we provide details on the amount of interest and other financial expenses related to payables due to banks and others, as well as details of other financial income.

<i>Amounts in euro/000</i>	2019	2018	Var	Var%
Financial Income	50,268	26,303	23,966	91.1%
Financial Charges	-229,024	-197,837	-31,187	15.8%
Exchange gains and losses	-1,579	-2,047	468	-22.9%
<b>Total financial income and charges</b>	<b>-180,335</b>	<b>-173,581</b>	<b>-6,753</b>	<b>3.9%</b>

Financial income refers for euro 27,000 to default interest income invoiced to customers for delayed payment, for euro 4,000 to interest income paid by Weedoo S.p.A. for the loan and for the remainder to bank interest and for euro 18,000 to interest on guarantee deposits and VAT rebates.

Financial expenses amounted to euro 229,000, up compared to 2018, owing mainly to financial expenses on the loan of the Sole Shareholder which accrued in 2019 for approximately euro 53,000. The result of financial management in the strict sense confirms, again for the most recent financial year, careful credit management and the use of flexible financing appropriate for the business and always negotiated at the best possible market conditions.

Besides the aforementioned interest on the loan of the Sole Shareholder, we can note also interest on loans related to advances on invoices, documentary advances and financing for imports.

**Value adjustments of financial assets and liabilities**

The table below provides information on the structure and changes in the item "Value adjustments of financial assets and liabilities":

<i>Amounts in euro/000</i>	2019	2018	Var	Var%
Revaluations of derivatives	620,169	46,359	573,810	1237.8%
Write-downs of derivatives	-	103,365	-103,365	-100.0%
<b>Adjustments of financial assets and liabilities</b>	<b>620,169</b>	<b>-57,006</b>	<b>677,175</b>	<b>-1187.9%</b>

Derivatives entered into in relation to proprietary trading activity are measured at fair value - that is the price that would be received if an asset were sold or that would be paid to dispose of a liability in a regular transaction between market operators on the measurement date.

Pursuant to article 2426, paragraph 4 of the Italian Civil Code, fair value is determined with reference to the market value, for financial instruments for which an active market can easily be identified. For prices of raw materials, there are observable market prices.

The observable market price is determined by referring to the bulletins published by recognised providers that provide information services to wholesale market participants.

The recognition in the financial statements reflects the typical (monthly) invoicing of sales and purchases on the hubs. The mark to market is then recognised using the net-settlement method on a monthly basis.

**Income taxes for the year: current, deferred and prepaid**

The breakdown of the financial statements item "Income taxes for the year" is provided in the table below:

<i>Amounts in euro/000</i>	2019	2018	Var	Var%
Current taxes	-502,652	-	-502,652	-100.0%
Deferred tax liabilities	-5,610	-200	-5,410	2705.0%
Deferred tax assets	-507,897	558,400	-1,066,297	-191.0%
<b>Total income taxes for the year</b>	<b>-1,016,159</b>	<b>558,200</b>	<b>-1,574,359</b>	<b>-282.0%</b>

In particular, these are the details of the breakdown of current taxes:

<i>Amounts in euro/000</i>	2019	2018	Var	Var%
IRES	-895,522	-	-895,522	-100.0%
IRAP	-170,694	-	-170,694	-100.0%
Income from tax consolidation	563,564	-	563,564	100.0%
<b>Current taxes</b>	<b>-502,652</b>	<b>-</b>	<b>-502,652</b>	<b>-100.0%</b>

## Tax reconciliation - IRES

Below is a table with the information required under OIC 25 on reconciliation of the tax burden found in the financial statements and the theoretical tax burden.

Description ( <i>amounts in euro/000</i> )	Value	Taxes
<b>Pre-tax result</b>	<b>3,568,459</b>	
Theoretical tax burden %	24%	856,430
- default interest income not received	-23,373	-5,610
<b>Temporary differences taxable in subsequent years:</b>	<b>-23,373</b>	<b>-5,610</b>
- non-deductible depreciation and amortisation	2003	481
<b>Temporary differences deductible in subsequent years:</b>	<b>2003</b>	<b>481</b>
- contingent liabilities	57,816	13,876
- fines and penalties	560	134
- other increases	663,375	159,210
<b>Differences not carried forward into subsequent financial years:</b>	<b>721,751</b>	<b>173,220</b>
Aid for economic growth ('ACE')	-537,491	-128,998
<b>IRES</b>	<b>3,731,349</b>	<b>895,522</b>

## Tax reconciliation - IRAP

Below is a table with the information required under OIC 25 on reconciliation of the tax burden found in the financial statements and the theoretical tax burden.

Description	Value	Taxes
<b>IRAP taxable base ( A - B + b9 + b10 lett. c) and d) + b12 + b13)</b>	<b>7,527,343</b>	
Theoretical tax burden %	3.9%	293,566
Deductions:		
- INAIL	-7,807	-304
- social security contributions	-667,355	-26,027
- other deductions	-2,775,952	-108,262
<b>Total deductions</b>	<b>-3,451,114</b>	<b>-134,593</b>
- other increases	300,541	11,721
<b>Total other increases</b>	<b>300,541</b>	<b>11,721</b>
<b>IRAP</b>	<b>4,376,770</b>	<b>170,694</b>

For information on the differences which resulted in the booking of deferred tax assets, and for the reconciliation of the values reported in the balance sheet, the following should be noted:

- deferred tax liabilities were calculated on the basis of the global allocation criterion, by taking into account the cumulative amount of all timing differences and on the basis of the rates expected to be in force at the time when these timing differences occur;
- deferred tax assets were booked given that there is a reasonable certainty of the existence – in the years in which the deductible timing differences occur, and against which the deferred tax assets were booked – of taxable income that is not less than the differences which will be cancelled;

There are no temporary differences for which the related deferred tax liabilities and assets were not recognised.

**6 OTHER INFORMATION****Employment figures**

In accordance with the provisions of point 15 of Art. 2427 of the Italian Civil Code, below we provide information on the breakdown of employees at 31/12/2019.

Staff	Average 2019	Average 2018	Var.
Managers	5	5	-
Employees	24	22	2
<b>Total</b>	<b>29</b>	<b>27</b>	<b>2</b>

**Fees of directors and statutory auditors**

As required by point 16 of Art. 2427 of the Italian Civil Code, we can note that the fees to members of the Board of Statutory Auditors were in line with those of the previous year and amounted to euro 20,280. No advances or credits were granted to them.

No fees are envisaged for the Board of Directors, nor were advances or credits granted to them.

**Exceptional costs and revenues**

As required by point 13 of Art. 2427 of the Italian Civil Code, we can note that there were no exceptional costs and revenues.

**Fees to the independent auditor or auditing firm**

Under the terms of Art. 2427 point 16-bis, we can note that the fees due to the independent auditor (the auditing firm) for services rendered, that is the independent auditing of the annual accounts, equalled euro 44,000, in line with the figure for the previous year.

**Commitments, guarantees and contingent liabilities not found in the balance sheet**

Under the terms of Art. 2427 no. 9 of the Italian Civil Code, we can report that the total amount of guarantees, all of a commercial nature, given by the company (or given by the Sole Shareholder on behalf of the company) is euro 61,619,558 in relation to other transporters, distributors and market operators. Of this amount, euro 7,591,494 has a maturity at more than 12 months.

We can also note that the amount indicated above:

- includes the guarantee of euro 365,975 issued in favour of 2i Rete Gas S.p.A. in the interest of the subsidiary SMG;
- includes euro 12,050,000 issued on behalf of the company by the Sole Shareholder;

In addition, we can inform you that the Sole Shareholder issued patronage letters to guarantee the company's commitments in relation to a number of financial institutions and suppliers for a total amount of euro 212.9 million and that the company benefits from guarantees in its favour of euro 0.5 million in the form of bank guarantees and of 4.5 million in the form of patronage letters.

**Information on equity and loans destined for specific business**

The company does not have assets allocated to a specific area of business pursuant to Art. 2447-bis, first paragraph, lett. a of the Italian Civil Code.

**Information on transactions with related parties**

Pursuant to article 2427, paragraph 22-bis, we note that during the year the company had business relationships with:

- the subsidiary Centrex Europe Energy & Gas AG;
- the subsidiary Weedoo S.p.A.;
- the subsidiary SMG S.r.l.;
- the related party Gazprom Marketing & Trading Ltd;
- the related party Gruppo Società Gas Rimini S.p.A..

These are commercial relationships in the context of normal core business activities, relating to the purchase of raw materials and services, and regulated by normal market conditions.

**Information on significant events after the reporting date**

With this paragraph, pursuant to art. 2427 no. 22c) of the Italian Civil Code, the following information are provided below on the actions taken by the company to mitigate any potential negative effects on the financial and economic situation of Centrex Italia and its subsidiaries Weedoo and SMG, deriving from the rapid spread in Italy - from the second half of February 2020 - and in the rest of Europe - from the beginning of March 2020 - of the Covid-19 virus, a spread that immediately generated a national emergency situation with consequent orders issued by the Italian Authorities in order to contain the diffusion of the virus.

The actions put in place by the company can be divided into three macro categories:

- **Governance and personnel management:** the company has set itself the objective of managing the crisis with responsiveness, security and forecasting capacity, allowing all company areas to be able to regularly carry out their work in continuity. To this end, having to protect the employees, in compliance with law regulation and in agreement with the safety manager, a clear timely and coherent communication was given to the employees, from time to time, with the orders issued by the national authorities, aimed at *i)* provide knowledge of the virus and the necessary prevention measures to be respected in order to avoid its infection; *ii)* in a first phase to encourage smart working and, subsequently, following the restrictive ordinances, to impose smart working on all staff, with any exceptions from time to time authorized where strictly necessary to ensure the proper performance of the activities.
- **Actions taken in the finance area:** the company, as already reported in the Management Report, has maintained excellent relationships with financial institutions that continue to fully support the company's business and the same has appropriate financial levers, as well as the financial support of the Shareholder, to manage the company in business continuity, always allowing punctuality in payments, and to face the exogenous contingencies of the moment. Thanks also to the Risk Policy adopted by the company, based on which its customers all have high credit ratings and / or appropriate insurance coverage, the risk of credit losses deriving from the contingent situation or significant impacts in terms of volume reduction is considered limited. The company is monitoring the evolution of the overall situation and is ready to start reforecasting should situations (currently not still occurred) arise which could generate potential negative economic impacts, monitoring at the same time the impairment test.
- **Commercial/operational actions:** the company immediately put in place all the necessary actions to ensure the continuity of business and governance operations. The company has equipped all employees with laptops and VPN licenses in order to allow each employee to be able to work in smart working from their home, guaranteeing remote access to corporate data in maximum security and reliability.

In light of the foregoing, with the limitations connected with the uncertainties inherent with future events, considering the following uncertainties *i)* the evolution and the duration of the state of emergency linked to Covid-19 and *ii)* the impact that the same may have on the national economic scenario and internationally, and consequently *iii)* on the operations of the company and its subsidiaries and on the ability to achieve corporate objectives, at the date of approval of this document, based on what is currently known to management and the analyses made, the level of existing capitalization and the risk mitigation actions implemented by management as better described above, the risk of potential significant negative impacts on the equity, financial and economic situation of Centrex Italia and its subsidiaries Weedoo and SMG is considered mitigated.

### Information on derivatives, pursuant to Article 2427-bis of the Italian Civil Code

Below is the detailed information requested in article 2427-bis, paragraph 1, no. 1 of the Italian Civil Code.

For each category of derivatives indicated in the table, we provide information about the significant terms and conditions which may influence the amount, maturities and certainty of future cash flows, and fundamental assumptions behind measurement models and techniques used when fair value is not determined on the basis of market evidence. Changes in fair value reserves occurring during the year are found in the table in the Shareholders' equity section.

The derivatives indicated below fall within proprietary trading activities begun during 2015. The underlying contracts are standard contracts to purchase and sell natural gas.

Portfolio of Proprietary Trading Contracts	Change in S.E. year	Positive/(negative) FV	Changes in P&L year
Hedging derivatives	52,605	466,863	
Financial Instruments not for hedging - provisions		-5,205	-
Financial Instruments not for hedging - financial assets		215,228	620,169
Financial instruments for hedging - year 2018	-407,421		
<b>Total</b>	<b>-354,816</b>	<b>676,886</b>	<b>620,169</b>

### Information on the obligation to prepare Consolidated Financial Statements

We must specify that the company does not prepare consolidated financial statements because it fulfils the conditions for exoneration provided for in art. 27 of Italian Legislative Decree 127/1991 paragraph 1.

The parent company that prepares the consolidated financial statements of the larger set of companies to which the company belongs is Centrex Europe Energy & Gas AG based in Austria.

### Information pursuant to art. 1 paragraph 125, of Italian Law no. 124 of 4 August 2017

With reference to art. 1 paragraph 125 of Italian Law 124/2017, the company did not receive any subsidies.

### **Proposal for allocation of profits**

Under the terms of Art. 2427 no. 22-*septies*, it is proposed to carry forward the profit for the year of euro 2,726,309, shown in the Financial Statements.

These financial statements, made up of the Balance Sheet, the Income Statement and the Notes to the Statements, represent a true and fair view of the equity and financial situation as well as the economic result for the financial year to 31 December 2019 and correspond to the results of the accounting entries.

**Milan, 20 March 2020**

**For the Board of Directors  
The Chief Executive Officer  
Michele Libutti**



CENTREX ITALIA SPA  
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Share Capital Euro 5.000.000,00 fully paid  
VAT - Tax ID 05630590965 - Rea 1835547