GROUP CONSOLIDATED FINANCIAL STATEMENTS AND SEPARATE FINANCIAL STATEMENTS FOR SARAS S.P.A. AS AT 31st DECEMBER 2019

SARAS

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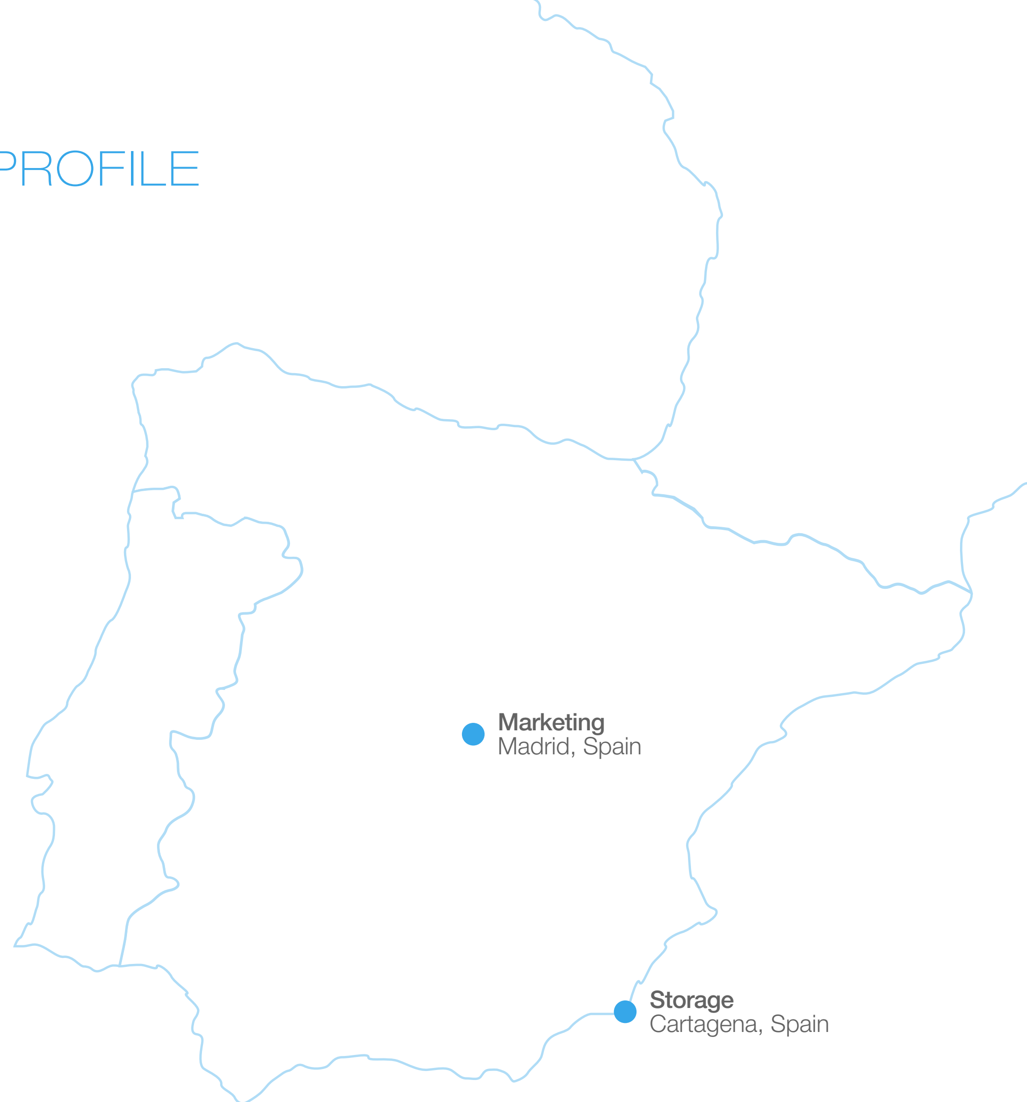
SARAS GROUP PROFILE



The Saras Group operates in the energy sector and is one of the leading independent oil refiners in Europe.

REFINING CAPACITY

300,000
barrels per day

The Sarroch refinery, on the coast south-west of Cagliari, is one of the biggest in the Mediterranean in terms of production capacity (15 million tonnes per year, equal to 300,000 barrels per day) and one of the most advanced plants in terms of complexity (11.7 on the Nelson Index). Located in a strategic position in the middle of the Mediterranean, the refinery is owned and managed by the subsidiary Sarlux Srl, and is a reference model in terms of efficiency and environmental sustainability, due to its technological know-how, expertise and human resources acquired over fifty years of activity.

To best exploit these resources, Saras has introduced a business model based on the integration of its supply chain through close coordination between refinery operations and commercial activities. This context also includes the subsidiary Saras Trading SA, incorporated in Geneva in September 2015, which acquires crude and other raw materials for the Group's refinery, sells its refined products, and also performs trading activities, acting in one of the main markets for trading oil commodities.

Trading
Geneva, Switzerland

Headquarters
Milan, Italy

Storage
Arcola, Italy

Wind Farm
Ulassai, Italy

Industrial services
Assemini, Italy

Industrial site
Sarroch, Italy

OIL AND CRUDE PRODUCTS SOLD IN ITALY AND SPAIN THROUGH RETAIL AND WHOLESALE NETWORKS

2.16
million barrels

The Group sells and distributes oil products directly and through its subsidiaries, such as diesel, gasoline, diesel fuel for heating, liquefied petroleum gas (LPG), virgin naphtha (fuel for aviation and bunkering), mainly on the Italian and Spanish markets, but also in various other European and non-European countries. In particular, in 2019 approximately 2.16 million tonnes of petroleum products were sold in Italy on the wholesale market, and a further 1.42 million tonnes were sold on the Spanish market.

IGCC (INTEGRATED GASIFICATION COMBINED CYCLE) PLANT INTEGRATED WITH THE REFINERY

4,000,000,000
kWh/year

In the early 2000s, the Saras Group also undertook the task of producing and selling electricity by means of an IGCC plant (Integrated Gasification Combined Cycle), which has an installed power of 575 MW and is also managed by the subsidiary Sarlux Srl. The feedstock used by the IGCC plant is the heavy products of the refinery, and the plant generates over 4 billion kWh of electricity each year, which corresponds to approximately 45% of the electricity requirements in Sardinia.

ULASSAI WIND FARM

126 MW
installed capacity

In addition, the Group manufactures and sells electricity from renewable sources in Sardinia, via the Ulassai wind farm. The park has been in operation since 2005 and is managed by the subsidiary Sardeolica Srl. Following the recent expansion with the installation of 9 new turbines, it now has an installed capacity of 126 MW.

Lastly, the Group provides industrial engineering and research services to the petroleum, energy and environment industries, via its subsidiary Sartec Srl.

MILESTONES

The 1960s

Launch of operations

1962
Saras is founded by Angelo Moratti.

1965
Sarroch refinery begins operations.

1968
Start-up of a new Crude Distillation unit (Topping) and of the Fluid Catalytic Cracking plant (FCC).

The 1970s

Upgrading of the plants

1970
Start-up of the Alkylation unit (ALKY) and of a wastewater treatment plant.

The 1980s

Increase in conversion capacity

1983
Start-up of the Visbreaking Unit (VSB) and of a Vacuum plant.

1984
Start-up of a new Reforming Catalytic unit (CCR).

End of the 1980s
Upgrading of the FCC Unit, with capacity increased up to 94,000 bl/day.

The 1990s

Environment, new technologies and expansion into the wholesale market

1992
Start-up of the first Mild Hydrocracking Unit (MHC1).

Mid 1990s
Saras begins to operate in the wholesale market in Spain (Saras Energia) and Italy (Arcola Petrolifera).

The 2000s

IPO, new investments in high technology and the environment

The 2010s

Focus on safety, environment, efficiency and improvements in profitability

2001
Start-up of the Integrated Gasification Combined Cycle plant (IGCC).

Start-up of a second Mild Hydrocracking Unit (MHC2).

Start-up of an Etherification Unit (TAME).

2005
The Ulassai wind farm starts operations, with an installed capacity of 72 MW.

2006
IPO to grow the business and explore new opportunities.

2007
Increase in conversion capacity, leading to significant improvements in the production of automotive diesel.

2008
Achievement of EMAS environmental registration (Eco Management Audit Scheme).

Start-up of the Tail Gas Treatment Unit and Sulphur recovery (TGTU).

Start-up of the gasoline desulphurisation unit (U800).

2009
Sales of gasoline and diesel with 10 ppm (parts per million) sulphur content begins. Significant reduction of indirect SO_2 emissions.

Saras is the first refinery in Italy to obtain the AIA authorisation (Integrated Environmental Authorisation), which represents part of a journey to improve the technical and structural characteristics of the plant, in order to minimise the environmental impact of the production activities.

Extension of the retail network in the southern areas of Spain, through the integration of 71 new service stations acquired from ERG.

During maintenance of plant MHC1, there was a tragic event resulting in the death of three workers.

Completion of an important cycle of maintenance and investments, critical for the future growth of the Company, on the following Units: Topping 1, FCC, ALKY, TAME, MHC1, MHC2 and VSB.

2010
Start of the “Project Focus”, the purpose of which is improving production efficiency, effectiveness of the operations and cutting costs.

Saras becomes a certified member of the OCIMF (Oil Companies International Marine Forum), and it is now allowed to perform “vetting” operations within the SIRE Programme managed by OCIMF.

Bond issue on the Luxembourg Stock Exchange, restricted to institutional investors, with a total nominal amount of EUR 250 million and a maturity of 5 years.

2011
“Project Focus” is successful and is also extended to “Planning” and “Supply & Trading”.

The Group relies on its commercial and operational flexibility to overcome the shortage of Libyan crude oils, as a consequence of the civil war devastating that country.

The ten-year shut-down for scheduled maintenance of the entire IGCC plant takes place.

The subsidiary “Sardeolica Srl” increases the installed capacity of the Ulassai wind farm from 72 to 96 MW.

2012
The Board of Directors of Saras approves the Group Business Plan for 2013-2017, which is focused on activities aimed at improving effectiveness and efficiency, as well as pursuing new commercial opportunities.

In the Refining segment, Mild Hydrocracking-2 (MHC2) is revamped.

In a competitive environment, which becomes increasingly harder due to the recession in the Eurozone, the Saras Group continues to aim to be a leading operator in terms of safety and efficiency within its sector.

2013
The industrial strategy of the Group remains focused on striving to achieve operating performance excellence.

A major corporate reorganisation is completed, transferring the business operations of the Refining segment of Saras SpA to the subsidiary Sarlux Srl.

At the end of April, Rosneft acquires 13.70% of the share capital of Saras SpA from majority shareholders Gian Marco and Massimo Moratti and, in mid-June, an additional 7.29% from the financial markets via a partial public offer on the open market.

2014
The Saras Group pursues asset management initiatives aimed at cost reduction, increased energy efficiency and the coordination of its refining business activities and operational management.

MILESTONES

The 2010s

Focus on safety, environment, efficiency and improvements in profitability

Bond issue on the Austrian multilateral trading system, with a total nominal amount of EUR 175 million and a maturity of 5 years.

Important five-year turnaround activities are successfully carried out at the Fluid Catalytic Cracking plant (FCC), and its two main ancillary units: Alkylation (Alky) and Etherification (TAME).

Arcola Petrolifera Srl was merged into Saras SpA, with effect for accounting and tax purposes as of 1st January 2014.

On 29th December 2014, Sarlux Srl purchases a business unit of Versalis SpA, including approximately 80% of the production units of the Versalis petrochemical complex in Sarroch, Sardinia to achieve considerable industrial and organisational synergies, and further strengthen the international competitive landscape.

2015

2015 marks a structural change for oil markets: more balanced crude prices; greater availability of non-standard types of crude; recovery in consumption of petroleum products; streamlining of the European refining system; reduction of spare capacity at global level; and the correction of some market distortions contribute to the recovery in refining margins, mostly benefiting complex refineries such as that of the Saras Group.

In order to take full advantage of the opportunities offered by the market, the Saras Group has adopted an innovative business model based on the integrated management of the supply chain (or of the raw materials supply chain). This model is based on the characteristics of flexibility and high conversion of the Sarroch refinery, in addition to the close coordination of planning activities, trading and operational management of plants.

On 15th October, the Capital Markets Day of the Saras Group was held at the Sarroch refinery, and the 2016-2019 Business Plan, which is based on the optimal execution of the integrated Supply Chain management model and on a series of improvement initiatives related to reliability, energy efficiency and developments of the site configuration, with moderate investments and short re-entry periods, was presented at the event.

On 19th October, Rosneft sold about 8.99% of the share capital of Saras SpA to an expert group of institutional international investors, and reduced its shareholding to 12%.

On 10th December, Saras signed a EUR 265 million five-year bank loan agreement, to refinance existing debt.

2016

2016 was another positive year for the European refining industry, due to the continued abundance of crude oil, including non-conventional crudes processed preferably in complex, integrated and high conversion sites such as the Saras plant, and an increase in overall demand for refined products (+1.3 mbl/d compared to 2015).

In January, Saras Trading SA became fully operational in Geneva, one of the main global markets for trading oil commodities. This company is a key element in the implementation of the integrated management of the Supply Chain model. It purchases raw materials and sells refined products from the refinery, and performs independent crude oil and petroleum product trading activities.

On 22nd April, the Shareholders' Meeting voted to distribute a dividend of EUR 0.17 for each share (corresponding to a dividend yield of 10.8%), for a total of EUR 159.1 million. The return to the payment of a dividend after many years has been made possible by improved refining market conditions, and the excellent results in the year 2015.

The year 2016 saw the Saras Group engaged in a major process to reduce average debt costs, seizing the opportunities offered by the low interest rates resulting from the expansionary policies of the European Central Bank.

2017

In 2017, the refining industry continued to benefit from favourable conditions characterised by satisfactory margins on the main refined products. Crude oil was well supplied, despite the implementation of cuts in production by OPEC countries and other major producers, although there was some pressure on discounts of heavy crude products, which were most affected by such production cuts.

On 17th January, Rosneft placed all the shares in Saras SpA which it held, corresponding to 12% of the share capital of Saras, to a group of international investors.

On 20th April, the Shareholders' Meeting voted to distribute a dividend of EUR 0.10 for each share (corresponding to a dividend yield of 4.6%), for a total of EUR 93.6 million.

The #digitalSaras programme was launched during the year, for the purpose of defining and implementing the most appropriate technological innovations within the framework of Industry 4.0, with a view to further improving operating performance and efficiency.

On 22nd December, the Company completed the private placement of bonds with a nominal value of EUR 200 million, maturing on 28th December 2022 and bearing a fixed annual coupon rate of 1.70%. The operation is a continuation of the financial optimisation process that started in 2016. The proceeds were used to refinance part of the gross debt, even with a positive net financial position, in support of the investment plan.

2018

2018 was a year characterised by strong volatility in the price of crude oil, also influenced by geopolitical tensions.

On 26th February, the Chairman of the Board of Directors, Gian Marco Moratti, passed away. The son of Angelo Moratti, who founded the Company, Gian Marco was CEO until 1981 when he became Chairman.

On 12th March, the 2018-2021 Business Plan was presented, which aims to maintain a leading position in the refining sector over the next decade and focuses on operational excellence through investments of EUR 800 million focused on maintaining state-of-the-art facilities, also thanks to the contribution of technological innovation and digitalisation.

After the identification of the available technologies and the start of 10 pilot projects, the industrialisation phase of the digitalisation initiatives was undertaken.

On 27th April, the Shareholders' Meeting resolved to distribute a dividend of EUR 0.12 for each share (corresponding to a dividend yield of 6.2%), for a total of EUR 112 million, and appointed the new Board of Directors in office for a three-year period until the date of the shareholders' meeting called to approve the financial statements as at 31st December 2020.

On 3rd May, the new Board of Directors appointed Massimo Moratti as Chairman and Dario Scaffardi as Chief Executive Officer.

On 5th September, Massimo Moratti SApA of Massimo Moratti and MOBRO SpA jointly sold 10% of the capital to a group of institutional investors with the aim of increasing the liquidity of SARAS shares on the market.

2019

The year 2019 was dominated by international trade and geopolitical tensions that led to a global economic slowdown. The refining sector has been affected by high volatility, slowing demand for refined products and high sulphur heavy crude prices.

In the first months of 2019, one of the largest turnarounds on plants in the last 5 years was completed successfully and on schedule. The Topping "T2", Vacuum "V2", CCR and MHC1 plants were idle for about 60 days.

On 16th April, the Shareholders' Meeting voted to distribute a dividend of EUR 0.08 for each share (corresponding to a dividend yield of 5.9%), for a total of EUR 75.3 million.

On 24th June, the total non-proportional demerger of MOBRO in favour of Angel Capital Management SpA (ACM) and Stella Holding SpA (Stella) was concluded. As a result of the demerger, Saras SpA is controlled by Massimo Moratti SapA with 20.01%, Angel Capital Management SpA with 10.005% and Stella Holding SpA with 10.005% of the share capital and an aggregate 40.02%, by virtue of the signing of a supplementary agreement to the Saras Pact, aimed exclusively at taking over the effects of the MOBRO demerger and the consequent takeover by ACM and Stella of MOBRO's stake in Saras SpA. As a result of the second tacit renewal of the shareholders' agreement, the next expiry date will fall on 30th September 2022.

The direct marketing of marine fuels (bunkering) in the Sarroch and Cagliari area began in the second half of August. Refuelling is carried out through a modern ship (barge) equipped with the highest safety standards.

During the year under review, the Ulassai wind farm was expanded through the installation of 9 new turbines, adding 30 MW of capacity and bringing the total installed capacity to 126 MW. The work was completed on 27th September and the new wind turbines came into operation from that date.

On 14th October 2019, the Australian fund Platinum Investment Management Ltd stated that it held 3.055% of the capital.

LETTER TO THE SHAREHOLDERS

Dear Members and Shareholders,

"Saras aims to spearhead a process of transition to a sector dedicated to sustainability, which is a driver of development and not just an end in itself"

2019 was a year characterised by a progressively slowing international and domestic economic context due to, among other things, global trade tensions that destabilised all potentially exposed sectors, including crude oil and refining.

The world economy grew by about 3%, which is less than the pace of recent years. The United States and China continued to play a leading role, while growth in the Eurozone remained at a lower level. In this context, Italy has suffered the uncertainty of the political framework and the weakening of domestic demand. The weaker fiscal stimulus and external environment have led to a substantial stability of Gross Domestic Product.

The performance of the financial markets was dominated by two opposing elements: on the one hand, the more accommodating orientation of the main central banks supported share prices, and on the other, trade tensions between the US and China triggered fears of recession and created volatility.

Thanks to its unique business model based on integrated supply chain management, namely the perfect integration of its strong technical expertise with a widespread commercial presence and its flexibility to adapt to different market scenarios, Saras has been able to generate a positive economic result while operating in a more complex environment than expected.

2019 was marked by a series of initiatives aimed at the future development of the Group. In the first quarter of the year, an important multi-year scheduled maintenance cycle was conducted at the Sarroch refinery. The work has been carried out impeccably by the industrial facilities and, today, the plants are ready to take advantage of the opportunities arising from the introduction of IMO regulations on marine engine emissions, which are expected to create rewarding conditions for high conversion and integrated refineries such as those of the Saras Group.

The transition to a new and more sustainable energy scenario is accelerating. After a period of stagnation, investments are gradually starting again with a clear orientation towards sources and technologies that aim to achieve greater environmental sustainability. The Saras company is optimistic about this evolution: with the transformation process that has begun in recent years, the Group has further strengthened its fundamental skills, assets and technologies to meet the demand for sustainable energy.

The start of operations for the direct marketing of naval fuels (bunkering) in specific dedicated areas of the ports of Sarroch and Cagliari is part of these efforts. In addition to marine gas oil and traditional fuels, our Group is able to produce and supply the new fuel oil with very low sulphur content (max. 0.5% as per the latest IMO 2020 specifications). The service is configured to meet the needs of ships arriving and departing from Sardinian ports, and to offer additional supply possibilities to the many ships passing through the Strait of Sicily and the Tyrrhenian Sea. Refuelling is carried out using a very modern ship equipped with all the most advanced safety equipment and a specially trained crew, to ensure that operations fully respect the environment.

In addition, we have achieved important goals in the field of renewable energy. During 2019 the Ulassai Wind Farm was expanded, increasing its capacity by 30 MW with the installation of 9 new towers. The Ulassai plant is currently being re-bladed, meaning that all blades are being replaced, which will lead to an increase in production with installed capacity remaining unchanged. The work will be completed by the fourth quarter of 2020 and, under the new structure, production at full capacity is expected to be around 300 GWh/year.

In the future, government policies, new technologies and consumption trends will impact production times and methods, as well as energy use, which is difficult to predict. The changes taking place in our sector require flexibility and a strong capacity to adapt, in a scenario in which companies must innovate and renew themselves in the face of new challenges.

As a leading operator in the energy sector, the Saras Group is fully aware that it must face the challenge of the ongoing energy transition. We are thus looking toward existing and new technologies to reduce the Company's carbon footprint, while carefully assessing any opportunities for diversification that could create value.

Looking to the future, the Business Plan outlines a path that will allow Saras to continue to grow and create significant value for shareholders, seizing and anticipating market developments and contributing to the reduction of emissions and improvements in air and water quality, while carefully making the investments required to maintain a leading position in the refining sector and containing costs to maintain competitiveness.

In this scenario, Saras aims to spearhead a process of transition to a sector dedicated to sustainability, which is a driver of development and not just an end in itself, operating efficiently and continuing to generate value for its stakeholders and territories.

THE CHAIRMAN
Massimo Moratti

REPORT ON OPERATIONS SARAS GROUP

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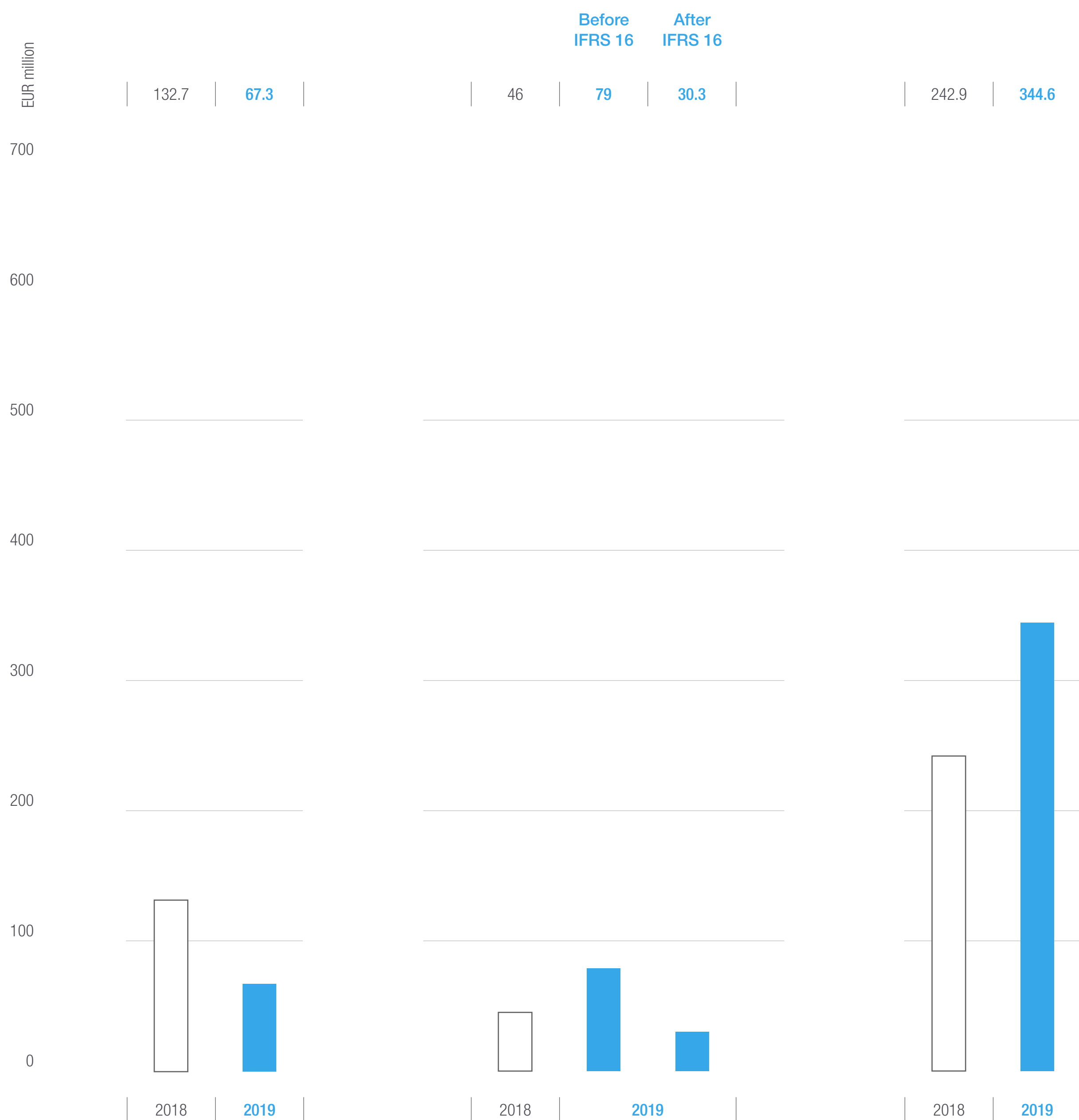
MAIN CONSOLIDATED FINANCIAL FIGURES


comparable NET RESULT
NET FINANCIAL POSITION
INVESTMENTS
Before IFRS 16
After IFRS 16
EUR million
132.7
67.3
46
79
30.3
242.9
344.6
700
600
500
400
300
200
100
0
2018
2019
2018
2019
2018
2019

MAIN CONSOLIDATED FINANCIAL AND OPERATING FIGURES

EUR million		2019	2018
REVENUE		9,518	10,397
EBITDA		252.8	420.8
EBITDA comparable [1]		**313.8**	**385.9**
EBIT		54.1	241.9
EBIT comparable [1]		**115.1**	**207.0**
NET PROFIT		26.2	140.4
COMPARABLE NET RESULT [1]		**67.3**	**132.7**
Shares outstanding, '000,000 (average no)		940	936
Comparable NET RESULT [1] **per share (EUR)**		**0.07**	**0.14**
NET FINANCIAL POSITION BEFORE IFRS 16 EFFECT		**79**	**46**
NET FINANCIAL POSITION AFTER IFRS 16 EFFECT		**30**	**NA**
CAPEX		**344.6**	**242.9**
REFINERY RUNS	Thousand tonnes	13,172	13,512
	Million barrels	96.2	98.6
	Thousand barrels/day	263	270
FOREX	EUR/USD	1.119	1.181
EMC BENCHMARK MARGIN	USD/bl	1.1	2.0
SARAS REFINING MARGIN	USD/bl	4.5	4.3
IGCC ELECTRICITY PRODUCTION	MWh/1000	4,075	4,363
POWER TARIFF	EURcent/KWh	9.2	9.7
IGCC MARGIN	USD/bl	3.0	3.8
TOTAL MARKETING SALES	Thousand tonnes	3,574	3,682
of which in Italy	Thousand tonnes	2,155	2,119
of which in Spain	Thousand tonnes	1,418	1,564

1. To present the Group's operating performance in a way that best reflects the most recent market trends, in line with generally accepted practices in the oil sector, the operating profit and comparable net profit, non-accounting values processed in this report on operations have been stated with the measurement of stocks using the FIFO method, but excluding unrealised gains and losses on stocks resulting from scenario changes calculated by measuring opening stocks (including the related derivatives) at the same unit values as closing stocks (when quantities increase in the period), and closing stocks at the same unit values as opening stocks (when quantities decrease in the period). Items that are non-recurring in terms of their nature, materiality and frequency have been excluded from both the operating profit and the comparable net profit. The results thus calculated, which are referred to as "comparable", are not indicators defined by the International Financial Reporting Standards (IAS/IFRS) and are unaudited.

CORPORATE AND CONTROL BODIES

BOARD OF DIRECTORS

MASSIMO MORATTI	Chairman and Director
DARIO SCAFFARDI	Chief Executive Officer, General Manager and Director
ANGELO MORATTI	Director
ANGELOMARIO MORATTI	Chairman of Saras Energia and Director
GABRIELE MORATTI	Director
GIOVANNI EMANUELE MORATTI	Director
GILBERTO CALLERA	Lead Independent Director, Independent Director
ADRIANA CERRETELLI	Independent Director
LAURA FIDANZA	Independent Director
ISABELLE HARVIE-WATT	Independent Director
FRANCESCA LUCHI	Independent Director
LEONARDO SENNI	Independent Director

BOARD OF STATUTORY AUDITORS

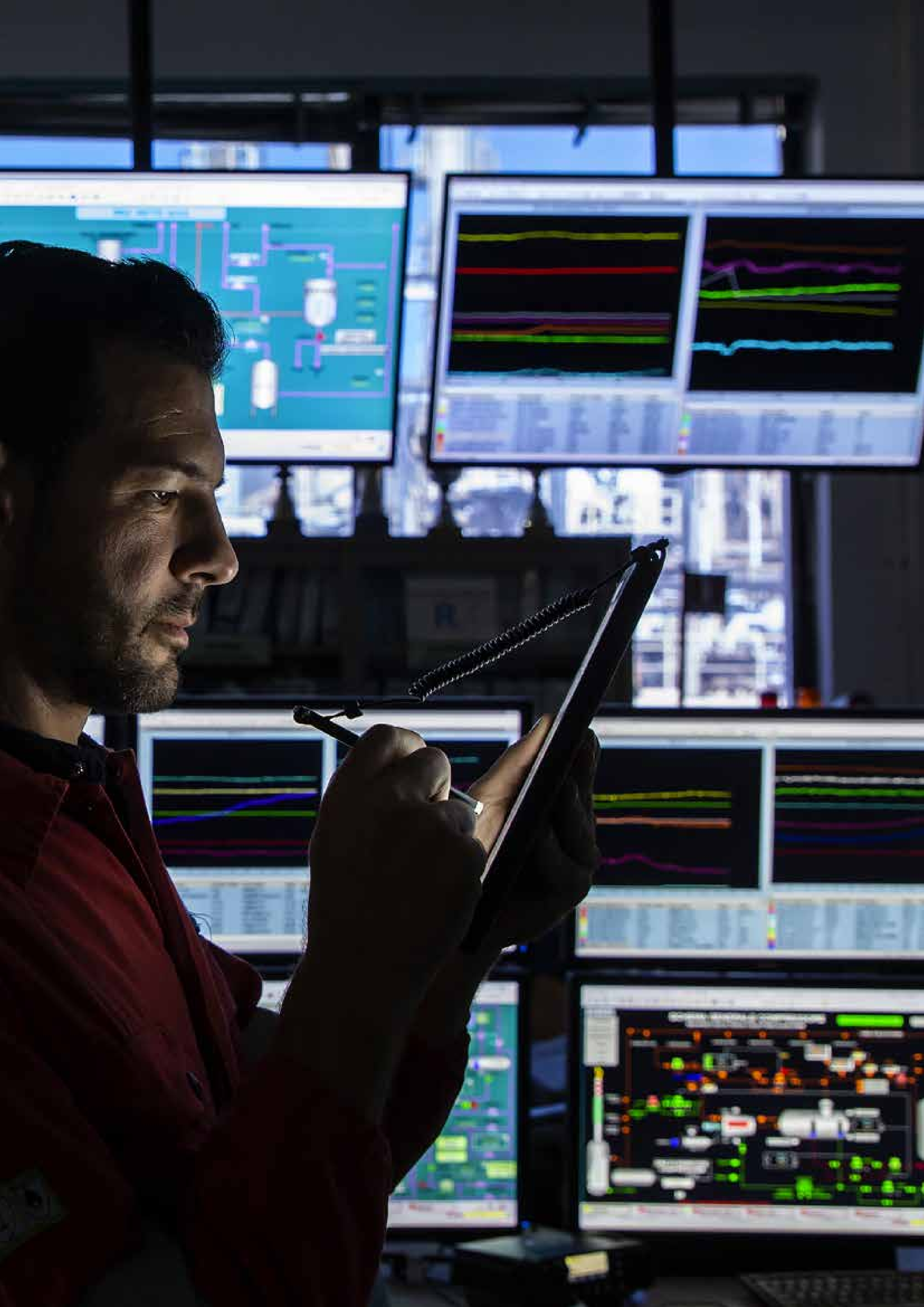
GIANCARLA BRANDA	Chairman
GIOVANNI LUIGI CAMERA	Auditor
PAOLA SIMONELLI	Auditor
PINUCCIA MAZZA	Alternate Auditor
ANDREA PERRONE	Alternate Auditor

MANAGER IN CHARGE OF FINANCIAL REPORTING

FRANCO BALSAMO	Chief Financial Officer

AUDIT FIRM

EY SpA



CORPORATE GOVERNANCE

The Company complies with the Corporate Governance Code prepared by the Corporate Governance Committee and published by Borsa Italiana SpA in March 2006, as amended (the **Corporate Governance Code**), as described in the annual report on Corporate Governance (the **Report**) approved by the Board of Directors (the **Board**) and published within 21 days after the Shareholders' Meeting (the **Meeting**) called for the approval of the 2019 financial statements.

In this Report, which is drawn up pursuant to Article 123-bis, paragraph 1of Legislative Decree No 58 of 24th February 1998 (the Consolidated Finance Act or **TUF**), as amended, the main features of the Saras corporate governance system are described, as well as how its various components function in practical terms, with a specific focus on compliance with the recommendations contained in the Corporate Governance Code.

The corporate organisation of Saras SpA complies with the Italian Civil Code and other laws on corporations, specifically those contained in the Consolidated Finance Act.

The Company is structured in accordance with the traditional model for administration and control, with a 12-member Board of Directors tasked with managing the Company. Within the Board, there is a Remuneration and Appointments Committee, an Audit, Risks and Sustainability Committee, whose functions also include those of the Committee for Related-Party Transactions, and a Steering and Strategies Committee, as well as a Board of Statutory Auditors (composed of three standing members and two alternate members), whose tasks include monitoring compliance with legislation and with the Articles of Association, and controlling the adequacy of the Company's organisational structure, internal audit system and administrative and accounting systems.

The composition of the current Board of Directors and the current Board of Statutory Auditors, in office for three years until the date of the Shareholders' Meeting called to approve the financial statements at 31st December 2020, was defined at the Shareholders' Meeting of 27th April 2018, which appointed its respective members.

On 3rd May 2018, the Board of Directors appointed and conferred the office of Chair to Massimo Moratti and of Chief Executive Officer to Dario Scaffardi.

The Company has entrusted the audit firm EY SpA with the task of auditing the separate and consolidated financial statements for the financial years 2015-2023, as well as the limited audit of the half-year reports for the same period (EY).

The Report provides details of the role and tasks of the Board of Directors, listing the functions that can and cannot be delegated, and providing up-to-date information on its composition and the meetings held in 2019 and in the first months of 2020.

The Board of Directors' meeting of 3rd May 2018, having assessed the existence of the independence requirements for Directors Gilberto Callera, Adriana Cerretelli, Laura Fidanza, Isabelle Harvie-Watt, Francesca Luchi, Lawyer, and Leonardo Senni, has also appointed the Lead Independent Director Gilberto Callera, the Remuneration and Appointments Committee (composed of Gilberto Callera, Laura Fidanza and Francesca Luchi), and the Audit and Risks Committee (composed of the non-executive independent directors Gilberto Callera, Adriana Cerretelli, Laura Fidanza, Isabelle Harvie-Watt and Leonardo Senni).

Both Committees have consultative and advisory functions, as provided for in the

Corporate Governance Code, and met regularly during 2019 and in the first few months of 2020, as illustrated in detail in the Report on Corporate Governance.

In the same meeting on 3rd May 2018, the Board of Directors established within the Board the Steering and Strategies Committee, with advisory and support functions to the Board for defining the strategic business guidelines, including finance, as well as guidelines on sustainability.

The Report also describes the Company's internal control system, for which the Board of Directors is responsible and which establishes the guidelines and periodically reviews the operational adequacy and effectiveness, using the Audit and Risks Committee and the Internal Audit Department.

The Board appointed the Chief Executive Officer Dario Scaffardi as the Executive Director responsible for overseeing the operations of the internal control system.

The Company has also appointed the Chief Financial Officer, Franco Balsamo, as the manager in charge of financial reporting, according to Article 154-bis of the Consolidated Finance Act.

The Company has had an "organisation, management and control model" in place since January 2006. It has been updated on many occasions, in implementation of the legislation relating to the "Rules governing the administrative liability of companies pursuant to Legislative Decree No 231/2001, which is overseen by a special supervisory body.

The Group's Code of Ethics (approved by the Board of Directors of Saras SpA on 1st August 2016 and subsequently updated and transposed by the Boards of Directors of other companies in the Group) is also part of the internal control system. It sets out, in a single document, the shared values and principles which underpin the action of the Saras Group and which must be observed by all employees, collaborators and all those who establish relationships with the Group.

In view of the growing importance that Saras assigns to non-economic aspects in terms of defining the Company's value, the Report briefly illustrates, including with references to the "Sustainability Report" that has been published by Saras since 2017, the Company's orientation towards sustainability (inspired by the main national and international standards such as the Corporate Governance Code and Legislative Decree No 254/2016, and the declaration of non-financial information ("Non-Financial Reporting" and diversity).

In addition, at its meeting of 6th February 2020, the Board, without prejudice to the powers conferred on the Steering and Strategies Committee for the definition of the Group's guidelines and strategic guidelines on sustainability policies, assigned and integrated the functions of the Audit and Risks Committee with supervisory, evaluation and monitoring functions with regard to the sustainability profiles related to the business activity, and the aforesaid Committee took on the new name of "Audit, Risks and Sustainability Committee".

Lastly, the Report describes the contents of the "*Compliance Guideline – internal rules for managing inside information and the creation of a list of persons with access to such information*", as well as the Procedure to be followed for internal dealing, procedures for related-party transactions, and the Code of Conduct for Saras Group Directors, as adopted by the Company's Board of Directors.

REGULATORY FRAMEWORK

The most important regulations in 2019 relating to the energy, environment and health and safety at work sectors are as follows:

- Legislative Decree No 162 of 30th December 2019, also known as the "thousand-extension decree" 2019 on "*Provisions regarding the environment, energy, the community and the reorganisation of the Manager of Energy Services (GSE)*";
- Law No 157 of 19th December 2019 , converted into law, with amendments, by Decree-Law No 124/2019 containing urgent provisions on tax matters and for non-deferrable requirements, the Tari extension, the Tefa amendment, Combating excise duty fraud, Energy account, and Marine platforms;
- Law No 141 of 12th December 2019, converted into law by Decree-Law No 111/2019 - Urgent measures to comply with air quality Directive 2008/50/EC (the "Air Quality Directive");
- Legislative Decree No 163 of 5th December 2019 laying down "*rules on penalties for infringement of the provisions of Regulation (EU) No 517/2014 on fluorinated greenhouse gases and repealing Regulation (EC) No 842/2006*";
- Commission Implementing Decision (EU) 2019/2005 of 29th November 2019 on greenhouse gas emissions covered by Decision No 406/2009/EC of the European Parliament and of the Council for the year 2017 for each Member State;
- Commission Implementing Decision (EU) 2019/1993 of 28th November 2019 on recognition of the Trade Assurance Scheme for Combinable Crops for demonstrating compliance with the sustainability criteria under Directives 98/70/EC and 2009/28/EC of the European Parliament and of the Council;
- Decree of the Ministry of Finance of 18th November 2019 relating to annual fees for cultivation and storage concessions on the mainland and the Italian continental shelf;
- Commission Delegated Regulation (EU) 2019/7 of 30th October 2018 "amending Regulation (EU) No 1031/2010 as regards the auctioning of 50 million unallocated allowances from the market stability reserve for the innovation fund and to list an auction platform to be appointed by Germany";
- Commission Delegated Regulation (EU) 2020/11 of 29th October 2019 amending Regulation (EC) No 1272/2008 of the European Parliament and of the Council on classification, labelling and packaging of substances and mixtures as regards information relating to emergency health response;
- Decree-Law No 124 of 26th October 2019 on "*Urgent provisions on tax matters and for non-deferrable needs*";
- Commission Regulation (EU) 2019/1691 of 9th October 2019 "amending Annex V to Regulation (EC) No 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH)";
- Commission Implementing Regulation (EU) 2019/1692 of 9th October 2019 on the application of certain registration and data-sharing provisions of Regulation (EC) No 1907/2006 of the European Parliament and of the Council after the expiry of the final registration deadline for phase-in substances;
- Law No 117 of 4th October 2019 concerning the delegation to the Government for the transposition of European Directives and the implementation of other acts of the European Union;
- Law No 110 of 1st October 2019 on 'Provisions for the adjustment of the State budget for the financial year 2019';
- Commission Implementing Decision (EU) 2019/1741 establishing the "format and frequency of data to be made available by the Member States for the purposes of reporting

under Regulation (EC) No 166/2006 of the European Parliament and of the Council concerning the establishment of a European Pollutant Release and Transfer Register;

- Legislative Decree No 83 of 25th July 2019, concerning the monitoring, reporting and verification of carbon dioxide emissions generated by maritime transport;
- Decree of the Minister of Economic Development 4th July 2019 on "*methods for calculating stockholding obligations for oil stocks - amendments to Legislative Decree 249/2012 implementing Directive 2018/1581/EU*";
- Decree of the Minister of Economic Development 4th July 2019 on the "*Regulations governing incentives for electric power generated by onshore wind farms, photovoltaic solar power plants, hydroelectric power plants and gas-fired wastewater treatment plants*";
- Commission Delegated Regulation (EU) 2019/1124 of 2nd July 2019 amending Delegated Regulation (EU) 2019/1122 as regards the functioning of the Union Registry under Regulation (EU) 2018/842 of the European Parliament and of the Council on binding annual greenhouse gas emission reductions for Member States from 2021 to 2030;
- Law No 58 of 28th June 2019, converted into law by Decree-Law No 34/2019 containing urgent measures for economic growth, incentives for the reuse of packaging, the purchase of goods produced with recycled materials, provisions on energy efficiency and white certificates;
- Decree of the Minister of Transport of 25th June 2019 on Authorisation for the embarkation and maritime transport of dangerous goods and amendment to the Ministerial Decree of 7th April 2014;
- Regulation (EU) 2019/943 of 14th June 2019 "*on the internal market for electricity*";
- Directive (EU) 2019/944 of 14th June 2019 on common rules for the internal market for electricity;
- Regulation (EU) 2019/941 of 14th June 2019 "*on risk-preparedness in the electricity sector*";
- European Commission Notice 2019/C154/06 of 6th May 2019 to undertakings intending to place hydrofluorocarbons in bulk on the market in the European Union in 2020;
- Decree of the Ministry of the Environment No 95 of 15th April 2019, concerning plants subject to integrated environmental authorisation (AIA) and the procedures for drawing up the reference report referred to in Article 5, paragraph 1, letter v-bis of Legislative Decree No 152/2006;
- Regulation (EU) 2019/521 of the Commission of 27th March 2019 "amending, for the purposes of its adaptation to technical and scientific progress Regulation (EC) No 1272/2008 of the European Parliament and of the Council on classification, labelling and packaging of substances and mixtures';
- Communication from the European Commission of 1st March 2019 on "*guidelines for the development of national air pollution control programmes*";
- Law No 12 of 11th February 2019, converted into law, with amendments, by Decree-Law No 135 of 14th December 2018, containing "*urgent provisions on support and simplification for businesses and public administration*", published in the Official Gazette No 36 of 12th February 2019;
- Presidential Decree No 146 of 16th November 2018, transposing Regulation (EU) No 517/2014 on fluorinated greenhouse gases and repealing Regulation (EC) No 842/2006and the previous Presidential Decree No 43 of 27th January 2012, published in the Official Gazette on 9th January 2019.

EQUITY MARKET PERFORMANCE

2019 was positive in terms of the financial markets, with positive performances by the main stock indices.

In particular, the Athens Stock Exchange recorded its best performance with the "ASE Large Cap" index up 42.9%, followed by the US Stock Exchange with the "Standard & Poor 500" index up 28.9%. The FTSE MIB rose by almost 30% despite international and domestic tensions linked to Italian political uncertainty, which temporarily increased the BTP/Bund spread.

The French "CAC 40" index closed the year up 26.4%, the Frankfurt "Dax" index representing the German Stock Exchange closed the year up 25.5%, while the composite index comprising the 300 largest European companies ranked by market capitalisation ("FTSE EuroFirst 300") closed the year up 22%.

Finally, the Japanese "Nikkei 225" index, the reference index of the London Stock Exchange "FTSE 100 UK" and the Spanish index "IBEX 35" all closed the year on higher values than the previous year by 18.2%, 12.1% and 11.8% respectively.

The following graphs provide a visual representation of the fluctuations in the share prices commented on above, using the prices of 1st January 2019 as the “base 100” reference.

Market performance in 2019 was supported by the Fed's expansionary monetary policy, which changed course from the restrictive policy implemented at the end of 2018 and involved three rate cuts between July and October and put an end to quantitative tightening. The global outlook has been affected by trade tensions between the US and China, which have dominated the debate, triggering fears of recession and creating volatility in financial markets.

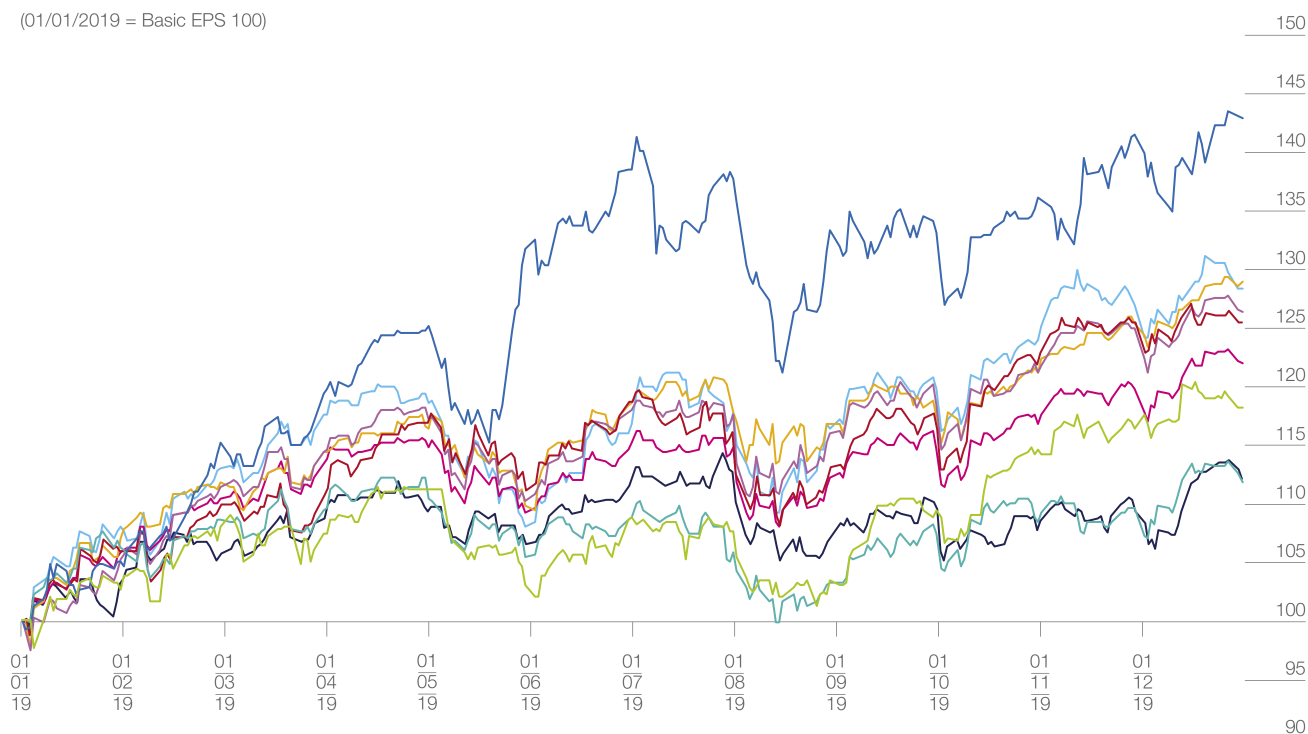
The more accommodative stance of the main central banks had a positive effect on the share prices of the major advanced and emerging economies which, in the first months of 2019, recovered the losses of the fourth quarter of the previous year. This increase was particularly significant in the United States and China, where markets reacted positively to signs of a potential trade agreement between the two countries, albeit under still uncertain conditions. The recovery in share prices was boosted by the Chinese Central Bank's decisions to support credit and the Fed’s expectations of stable reference rates throughout 2019. In the euro area, the ECB’s expansionary measures strengthened share prices.

Rising trade tensions and deteriorating growth prospects were reflected in higher share price volatility between April and May. The expansion of the global economy has been weak: in the US and Japan, GDP growth was driven by falling imports and stockpiling in a context of weak domestic demand. The indices of the main advanced countries fluctuated widely and then recovered their losses from June onwards.

Signs of economic slowdown continued in the United States and Japan. In the euro area, there was a marked contraction in German industry, which is particularly affected by global trade, but the weakening also spread to other countries, including Italy’s manufacturing sector in particular. In the UK, Gross Domestic Product declined as a result of the disposal of accumulated stocks for precautionary reasons close to the original Brexit expiry date at the end of March. Major central banks have signalled their intention to maintain an expansionary stance to support the economy for longer, which has resulted in a sharp decline in long-term yields. Global equity prices fell sharply during August, affected by the introduction of new protectionist measures by the US and China, and then rose again later, though in an atmosphere of increased volatility which reflected the expectation of more accommodating monetary conditions.

The strengthening of expectations for a trade agreement between China and the United States and the accommodative stance of central banks encouraged a shift in investor interest away from bonds to equities, pushing equity prices up in the fourth quarter, while volatility declined.

MAIN WORLD MARKET INDICES (SOURCE: BLOOMBERG)



FTSE MIB Index: index of 40 stocks most representative of the Italian market
CAC 40 Index: index of 40 stocks most representative of the French market
ASE Large Cap Index: index of 25 stocks most representative of the Greek market
FTSE 100 UK Index: index of 100 stocks most representative of the UK market
DAX Index: index of 100 stocks most representative of the German market
NIKKEI 225 Index: index of 225 stocks most representative of the Japanese market
FTSE Euro First 300 Index: representative index of 300 European companies with the highest capitalisation
IBEX 35 Index: index of 35 stocks most representative of the Spanish market
Standard & Poor's 500 Index: index of 500 stocks most representative of the USA market chosen from all sectors of the economy

SARAS STOCK PERFORMANCE

The following data relate to Saras' share prices and the daily volumes, traded during the period from 2nd January 2019 to 30st December 2019.

SHARE PRICE (EUR)	2019
Minimum price (17/06/2019) *	1.242
Maximum price (11/01/2019) *	1.890
Average price	1.560
Closing price on 30/12/2019	1.434

* Minimum and maximum prices refer to official reference prices on the closing of each trading day.

DAILY TRADING VOLUMES	2019
Minimum traded volume in EUR million (21/01/2019)	1.7
Minimum traded volume in number of shares (million) (21/01/2019)	1.0
Maximum traded volume in EUR million (15/10/2019)	19.6
Maximum traded volume in number of shares (million) (14/05/2019)	11.8
Average traded volume in EUR million	6.6
Average traded volume in number of shares (million)	4.3

At 30st December 2019, the market capitalisation was EUR 1,364 million and, on the same date, there were approximately 942 million shares outstanding. At year-end 2019, Saras SpA holds in treasury 9,220,216 own shares, corresponding to 0.970% of share capital. For details on own shares held in treasury and on the share movements during the year, reference should be made to the Report on Operations to the separate financial statements of Saras SpA.

The following graph shows a comparison between the daily price of Saras shares and the FTSE Italia Mid Cap Index of the Italian Stock Exchange in Milan.

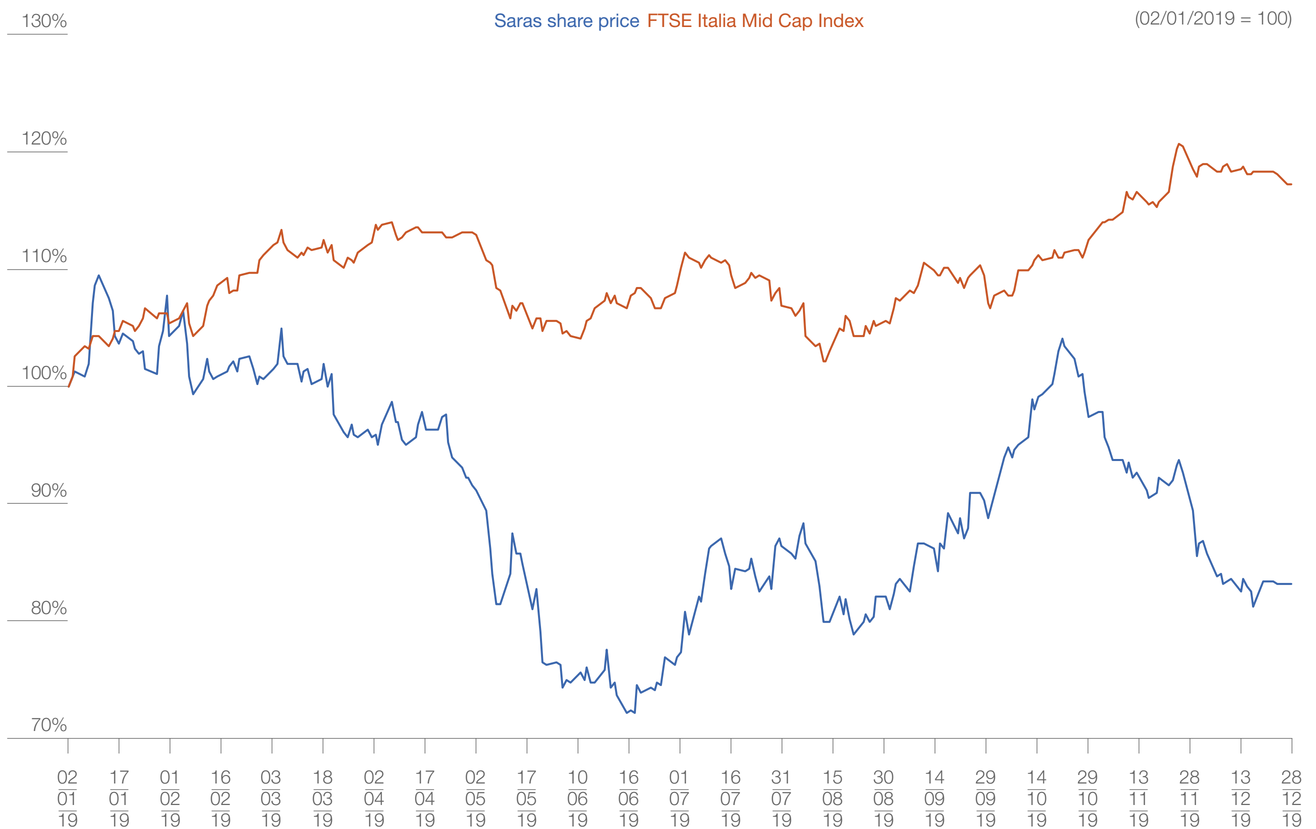
Saras shares opened 2019 with a price of EUR 1.728 per share on 2nd January. Until March, the share price remained stable within a range of between EUR 1.7 and EUR 1.9 per share.

Rising trade tensions and deteriorating growth prospects were reflected in higher share price volatility between April and May. In addition, starting in April, Brent started a bullish phase reaching 75 USD/bl following the geopolitical tensions between the US and Iran, resulting in the US administration's decision not to renew the waivers on Iranian crude oil imports. This decision, together with tensions in Venezuela and the blocking of Ural flows from Russia to Central Europe due to chloride contamination of the Druzhba pipeline, pushed up Brent prices, reduced discounts on heavy crude oils with a high sulphur content and penalised refining margins for complex refineries. These macroeconomic and market factors had an impact on Saras share prices.

The publication of quarterly results that were favourably received by the market in May and the gradual rise of the EMC Benchmark margin in the summer months, coinciding with the period of high seasonal demand for gasoline in the wake of certain supply-side factors such as the closure of the Philadelphia refinery, have driven the recovery of the share price. This upward phase continued and strengthened until mid-October, also thanks to the strength of refining margins, particularly with regard to the crack spread on diesel. This reached its peak during the year in conjunction with the autumn maintenance period.

Starting in November, the benchmark margin weakened until it went negative due to several concomitant factors: the weakening of diesel's crack spread, the high price of Urals compared to Brent due to the production cuts implemented by Russia as part of the competition with

SARAS VS FTSE ITALIA MID CAP



OPEC, and the sharp drop of the crack spread of high sulphur fuel oil, which was de-stocked in anticipation of the imminent entry into force of the IMO-Marpol VI regulation on marine engine emissions.

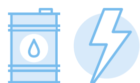
This led to an under-performance of Saras stock compared to the reference index.

The Saras stock ended the year down 17% compared to the beginning of the period, and compares with a 17% rise in the FTSE Italia Mid Cap index in the same period.

STRUCTURE OF THE SARAS GROUP

SARAS SpA

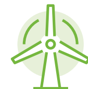
- 100% Sarlux Srl
- 100% Saras Trading SA
- 100% Deposito di Arcola Srl
  - 0.01% Sarint SA
  - 0.1% Reasar SA
- 99.99% Sarint SA
  - 100% Saras Energia SAU
    - 100% Terminal Logistica de Cartagena SLU
  - 99.9% Reasar SA
- 100% Sartec Srl
- 100% Sardeolica Srl



REFINING
AND GENERATION
ELECTRICITY
SARAS TRADING

MARKETING

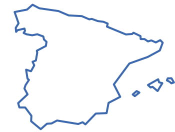
OTHER



WIND

The picture illustrates the structure of the Saras Group and the main companies involved in each business segment, as of 31st December 2019.

REGISTERED OFFICES OF THE CONSOLIDATED COMPANIES



Saras SpA
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09018 Sarroch – Cagliari

Sarlux Srl
SS. Sulcitana 195, Km 19
09018 Sarroch - Cagliari

Deposito di Arcola Srl
Via XXV Aprile 18
19021 Arcola - La Spezia

Sartec Srl
Località Grogastu
Traversa 2^ Strada Est
09032 Assemini - Cagliari

Consorzio la Spezia Utilities
Via Giovanni Minzoni, 2
19121 La Spezia

Sardeolica Srl
Strada Ovest – Zona Industriale Macchiareddu
09010 Uta – Cagliari

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1201 Geneve (Switzerland)
Svizzera

Sarint SA
12 Avenue de la Porte Neuve
2227 Luxembourg
Lussemburgo

Reasar SA
4, Rue du Fort Wallis
L-2714 (Luxembourg)
Lussemburgo

Saras Enegia SAU
Sta. María Magdalena 14
Planta 4°
28020 Madrid
Spagna

Terminal Logistica de Cartagena SLU
Sta. María Magdalena 14
Planta 4°
28020 Madrid
Spagna

COMMENT ON SARAS GROUP RESULTS

GAAP and Non-GAAP measures (alternative performance indicators)

In 2019, the Saras Group continued to improve the methodologies used to measure its operating performance and financial results, which are reported in both GAAP and non-GAAP indicators. With this in mind, from Q4 2019, the Group decided to update its accounting policy regarding the rules for classifying derivative instruments in the Reported results, classifying the actual realised results rather than the results of derivative instruments for hedging commodities and C02 charges under Reported EBITDA, consistent with the recognition of transactions for the purchase and sale of crude oil and products, against which they are realised and with which they are directly correlated, despite the fact that their current value continues to be recognised as a counter-entry in the income statement.

To present the Group's operating performance in a way that best reflects the most recent market trends, in line with generally accepted practices in the oil sector, the operating profit and comparable net profit, non-accounting values processed in this report on operations have been stated with the measurement of stocks using the FIFO method, but excluding unrealised gains and losses on stocks calculated by measuring opening stocks (including the related derivatives) at the same unit values as closing stocks (when quantities increase in the period), and closing stocks at the same unit values as opening stocks (when quantities decrease in the period). Items that are non-recurring in terms of their nature, materiality and frequency have been excluded from both the operating profit and the comparable net profit.

The results thus calculated, which are referred to as "comparable", are not indicators defined by the International Financial Reporting Standards (IAS/IFRS) and are unaudited. Non-GAAP financial measures should be read together with information determined by applying the International Accounting Standards (IAS/IFRS) and do not stand in for them.

The 2018 results (comparable and reported) have been restated for comparability.

EUR million	2018
Previously published reported EBITDA	**323.7**
Oil hedging derivatives	43.5
CO_2 derivatives	53.6
Restated reported EBITDA	**420.8**
Gains/(losses) on inventories and inventory hedging	(77.7)
Exchange rate derivatives	(17.7)
Non-recurring items	60.5
Comparable restated EBITDA	**385.9**
Previously published comparable EBITDA	**364.8**

EUR million	2018
Previously published reported net result	**140.4**
Reported net result, restated	**140.4**
Gains/(losses) on inventories and inventory hedging	(56.7)
Non-recurring items	49.1
Comparable net result, restated	**132.7**
Previously published comparable net result	**132.6**

KEY GROUP FINANCIAL AND OPERATING RESULTS:

EUR million	2019	2018
REVENUE	**9,518**	**10,397**
EBITDA	252.8	420.8
Comparable EBITDA	**313.8**	**385.9**
EBIT	54.1	241.9
Comparable EBIT	**115.1**	**207.0**
NET INCOME	26.2	140.4
Comparable NET RESULT	**67.3**	**132.7**
NET FINANCIAL POSITION BEFORE IFRS 16 EFFECT	**79**	**46**
NET FINANCIAL POSITION AFTER IFRS 16 EFFECT	**30**	**NA**
CAPEX	**345**	**243**

Comment on group results 2019

Group revenue for 2019 totalled EUR 9,518 million, compared to EUR 10,397 million in the previous year. Average oil prices slipped in the year: the average price of gasoline in 2019 was USD 595/tonne (compared to the average of USD 662/tonne in 2018), while the average price of diesel was USD 586/tonne (compared to USD 638/tonne in 2018). The Refining segment generated nearly EUR 840 million less in revenue, while the Marketing segment suffered a roughly EUR 140 million drop in revenue. Revenues in the Electricity Generation segment were approximately EUR 80 million lower than in 2018 due, among other things, to the lower value of the CIP6 tariff and the lower contribution of linearisation.

The Group's reported EBITDA for 2019 amounted to EUR 252.8 million, down on the EUR 420.8 million of 2018. The difference is mostly attributable to the Refining segment, also in relation to the fact that in 2019, the scenario effect on the difference between opening and closing stocks (including the related derivatives) was negative while it had been positive in the previous year. In addition, the Generation segment reported declining results due to a less favourable scenario. It should be noted that non-recurring items of over EUR 60 million penalised results for 2018.

The Group's reported Net Profit was EUR 26.2 million, compared to EUR 140.4 million in 2018, substantially due to the factors described above for EBITDA, net of the tax effect. Amortisation and depreciation increased on the previous year (EUR 198.7 million, compared to EUR 178.8 million in 2018) due to the application of IFRS 16 and new investments placed in service. Financial charges totalled EUR 18.2 million (compared to EUR 16.5 million in the previous year). Other financial items (which comprise realised and unrealised differentials on speculative derivative instruments, net exchange rate differences and other financial income and charges) showed a net negative balance of approximately EUR 0.5 million in 2019 compared to a net negative balance of about EUR 40 million in the previous year.

The Group's comparable EBITDA came to EUR 313.8 million in 2019, down from EUR 385.9 million in 2018. This result is mainly attributable to the Electricity Generation segment, which operated in a less favourable market environment and achieved a less satisfactory industrial performance. The Refining segment maintained stable results, even though it operated in a context of lower refining margins and achieved a significant turnaround on plants in the first quarter, thanks to the good industrial performance and the positive contribution of planning activities. The **Group's comparable Net Profit for 2019 was EUR 67.3 million**, compared to EUR 132.7 million in the previous year.

The aforementioned plant turnaround penalised EBITDA by an estimated EUR 60 million.

Investments in 2019 totalled EUR 344.6 million and were mainly allocated to the Refining segment (EUR 291.9 million).

EUR 70 million of these investments refers to the capitalisation of costs, primarily for the aforementioned long-term turnaround.
The tables below present the details of the calculation of comparable EBITDA and comparable Net Result for 2018 and 2019.

DETAILS ON THE CALCULATION OF THE COMPARABLE EBITDA:

EUR million	2019	2018
Reported EBITDA	**252.8**	**420.8**
Gains/(losses) on inventories and inventory hedging	53.9	(77.8)
Exchange rate derivatives	(1.9)	(17.7)
Non-recurring items	8.9	60.5
Comparable EBITDA	**313.8**	**385.9**

In 2018, non-recurring items essentially referred to provisions (for around EUR 22 million) relating to the free allocation of CO2 due to the Northern Plants for the 2015-17 period, for which a formal request was resubmitted October 2018 following the dispute concerning the process previously followed, following the acquisition of the business unit from Versalis.

Furthermore, in Q4 2018, impairment (of EUR 29 million) was recognised on receivables for refunds claimed from the GSE for green certificates purchased in 2011-13 in connection with the non-recognition of the IGCC plant as a cogeneration plant. This followed the Council of State's decision in November 2018 definitively dismissing Sarlux's appeal for 2012 and with respect to AEEG Resolution 42/02.

In 2019, the subsidiary Sarlux Srl received confirmation of insurance compensation totalling roughly EUR 21 million for the claim at the Sarroch refinery in 2018 due to atmospheric events. This claim partly affected the operations of some of the refinery's production processes in 2019 as well. Accordingly, the income resulting from the insurance compensation was considered recurring and therefore included in the determination of the comparable results (as well as, obviously, the reported results) for the year, though it is not possible to quantify the portion that can be directly correlated with the industrial operations.

Non-recurring items in 2019 relate to the write-down of some assets recorded under current assets of approximately EUR 3 million, in addition to a reclassification of costs related to financial management (approximately EUR 6 million). In 2018 this reclassification would have totalled EUR 6 million.

DETAILS ON THE CALCULATION OF THE COMPARABLE NET RESULT:

EUR million	2019	2018
Reported NET RESULT	**26.2**	**140.4**
Gains/(losses) on inventories and inventory hedging, net of taxes	38.9	(56.7)
Non-recurring items after tax	2.3	49.1
Comparable NET RESULT	67.3	132.7
Reported NET RESULT	**26.2**	**140.4**

In 2018, non-recurring items essentially referred to the aforementioned allowances and write-downs, net of taxes and default interest following the settlement of a dispute over prior port taxes.

In 2019, non-recurring items referred to the aforementioned write-downs and restatements, net of the tax effect.

For further details, please refer to the Notes.

NET FINANCIAL POSITION

The Net Financial Position at 31st December 2019, before the effects of applying IFRS 16, was EUR 79.0 million, compared to a reported net financial position of EUR 46.0 million at 31st December 2018. The cash flows generated by operating and commercial activities were partly absorbed by investments in the year, the payment of taxes and the dividend distribution in May.

The Net Financial Position at 31st December 2019, including the effects of IFRS16 (negative impact of EUR 48.7 million) was EUR 30.3 million.

KEY GROUP OPERATING AND FINANCIAL RESULTS:

EUR million	2019	2018
Medium- and long-term bank loans	-	(49)
Medium- and long-term bonds	(199)	(199)
Other medium- and long-term financial liabilities	(7)	(8)
Other medium- and long-term financial assets	7	4
Net medium-/long term financial position	**(200)**	**(252)**
Current bank loans	(70)	0
Payables to banks for bank overdrafts	(8)	(17)
Other short-term financial liabilities	(91)	(63)
Fair value on derivatives and realised net differentials	(15)	66
Other financial assets	31	39
Cash and cash equivalents	432	273
Net short-term financial position	**279**	**298**
Total Net Financial Position before lease liability pursuant to IFRS 16	**79**	**46**
Financial payables for leased assets pursuant to IFRS 16	(49)	
Total Net Financial Position after lease liability pursuant to IFRS 16	**30**	**NA**

SEGMENT REVIEW

With the purpose of providing a consistent disclosure of the results for each business of the Saras Group, the financial information of the individual companies within the Group have been calculated and reported according to the same business segments adopted in all previous Financial Reports, also including the intercompany services which ceased to exist as a consequence of some corporate reorganisations, at the same economic conditions applied in the previously existing contracts.

REFINING

The Saras Group is active in the Refining sector through its Sarroch refinery, which is one of the biggest in the Mediterranean in terms of production capacity (15 million tonnes/year), and also in terms of the complexity of plants, and it is ranked among the best in Europe (11.7 on the Nelson Index). Located on the coast south-west of Cagliari, it enjoys a strategic position in the middle of the Mediterranean Basin, close to the various crude supplier countries and the main markets for refined products.

Reference market

In 2019, average dated Brent prices were significantly lower than those of the previous year, reaching an annual average of over USD 64/bl, corresponding to a drop of over USD 7/bl (-10%) compared to the average of 2018, in a more volatile market.

After reaching about USD 50/bl at the end of 2018, Brent prices gradually rose to almost USD 75/bl at the end of May, mainly due to the lower supply of crude oil on the market, the result of the sanctions imposed by the US administration on Iran and Venezuela, and the production cuts implemented by OPEC producers and Russia. However, since the second half of May, fears of a slowdown in the world economy have prevailed in a context of international trade tensions (particularly between the United States and China) and Brent prices have dropped to around USD 65/bl. Average Brent prices remained at this level, although they were volatile due to the enduring geopolitical instability, especially the drone attacks against two of Saudi Arabia's most important oil infrastructures on 14th September. After a brief surge in the price of Brent crude following the attacks, the downward trend prevailed in view of the large US production and the slowing macroeconomic environment. The 'heavy-light' price differential has narrowed further due to the reduced availability of other sulphur-heavy crude oils on the market.

World oil demand in 2019 was up by about +0.9 mbl/g compared to the previous year, with the critical contribution of Asian countries.

Financial year 2019 was less favourable in terms of refining margins compared to the previous year, despite lower average crude oil prices. Concerning product crack spreads, middle distillates were in line with the previous year's average, petrol weakened (especially in the first part of the year) and showed great volatility, and so did high-sulphur fuel oil, which fell sharply in the final months of the year in anticipation of the entry into force of the new IMO-Marpol VI regulation.

Average annual values [1]	2019	2018
Crude Oil (USD/bl)		
Price of Dated Brent (FOB Med)	64.2	71.3
Price of Urals (CIF Med)	63.8	70.2
Heavy-Light price differential	-0.4	-1.1
Refined Products (USD/tonne)		
ULSD	585.6	637.8
Gasoline 10ppm	594.6	662.1
HSFO	324.0	393.8
Crack spreads (USD/bl)		
ULSD crack spread	14.3	14.2
Gasoline crack spread	7.0	8.0
crack spread HSFO	-12.8	-8.8
Other indicators of profitability		
EMC Benchmark margin (USD/bl)	+1.1	+2.0
USD/EUR forex	1.195	1.181

1. Source: Platts for prices and crack spreads, and **EMC** for the "EMC Benchmark" refining margin.

N.B. **"Dated Brent"** is the light sweet reference crude oil (Platts' FOB Med prices), while **"Ural"** is the heavy sour reference crude oil (Platts' CIF Med prices)

Below is a detailed analysis on the performance of crude oil prices, petroleum products and the refining margin of reference for the European market (the EMC Benchmark), which is the main geographical context in which the Saras Group Refining segment conducts its operations.

Crude oil prices (Source: Platts)

After reaching around USD 50/bl at the end of 2018, Brent prices rose gradually in Q1 2019 to around USD 68/bl at the end of March. The main reason for this increase was the reduction in the supply of crude oil on the market, due to the sanctions imposed by the US administration on Iran and Venezuela and to the production cuts implemented by OPEC producers and Russia (-1.2 m/bl/g compared to the level of October 2018). Consumption also slowed down in the first quarter of the year amidst international trade tensions (particularly between the United States and China) and a reduction in global economic growth. **The quarter closed at USD 68.0/bl and the average was USD 63.1/bl.**

Throughout April and until mid-May there was a bullish trend that brought Brent up to USD 75/bl. Among the main reasons for this dynamic is the decision of the US administration not to renew waivers on Iranian crude imports and the blocking of Ural flows from Russia to Central Europe due to chloride contamination of the Druzhba pipeline. From the second half of May, fears of a slowdown in the world economy and Brent prices have dropped to around USD 65/bl. **The quarter closed at USD 66.1/bl and the average was USD 68.9/bl.**

Average Brent prices dropped in the period (on average to USD 62 /bl in the quarter) compared to the previous quarter and they are characterised by extreme volatility, including on an intra-day basis due to the enduring geopolitical instability, especially the drone attacks against two of Saudi Arabia's most important oil infrastructures on 14th September. After a brief surge in the price of Brent crude following the attacks, the downward trend prevailed in view of the large US production and the slowing macroeconomic environment. **The quarter closed at USD 60.9/bl and the average was USD 62.0/bl.**

Brent showed a bullish trend in the fourth quarter mainly due to political instability, the lack of Iranian and Venezuelan crude and OPEC+ cuts. **The quarter closed at USD 66.8/bl and the average was USD 63.1/bl.**

Price differential between heavy and light crude oils (Urals vs Brent):

The first quarter of 2019 was affected by the implementation of production cuts by OPEC+ manufacturers. Added to this were the US sanctions against Iran and Venezuela, which are among the leading producers of heavy-sour crude oils on a global scale. This has in fact limited the availability of crude oils of this type, significantly reducing the discount compared to Brent. In this particular market environment, Ural increased its premium over Brent by an average of USD 0.3/bl in the first quarter.

In mid-April, the Ural went to a significant premium over Brent (about USD +1/bl) in conjunction with the aforementioned contamination of the Druzhba pipeline, which temporarily blocked the export of this raw material to Central Europe. Since the end of May, the resolution of these problems has rapidly normalised prices (USD -2.5/bl). In the second quarter, the Ural traded at an average discount of USD 0.7/bl compared to Brent in a highly volatile environment. In the second quarter, high-sulphur crude oils were again generally affected by the US sanctions against Iran and Venezuela, production cuts by OPEC+ and a reduction in the production of Canadian crude oils.

In the third quarter, the price of Ural fluctuated between USD +1/bl and USD -1/bl compared to Brent. In August, availability was affected by the contamination problems mentioned above, while from September the situation normalised, bringing the differential to higher values (up to about USD -2/bl).

In the fourth quarter, the Urals-Brent differential fluctuated between USD +0.5/bl and USD -2.5/bl due to alternating market effects. In support of the Ural prices, it is worth noting the production cut implemented by Russia within the framework of what was agreed with the OPEC. Conversely, it is also worth noting the unplanned shutdown of the Total refinery in Gonfreville, which processes 60 kbl/g of Ural, in addition to the decrease in high-sulphur fuel oil in view of the transition to the new very low-sulphur marine fuel required by the IMO-Marpol VI regulations.

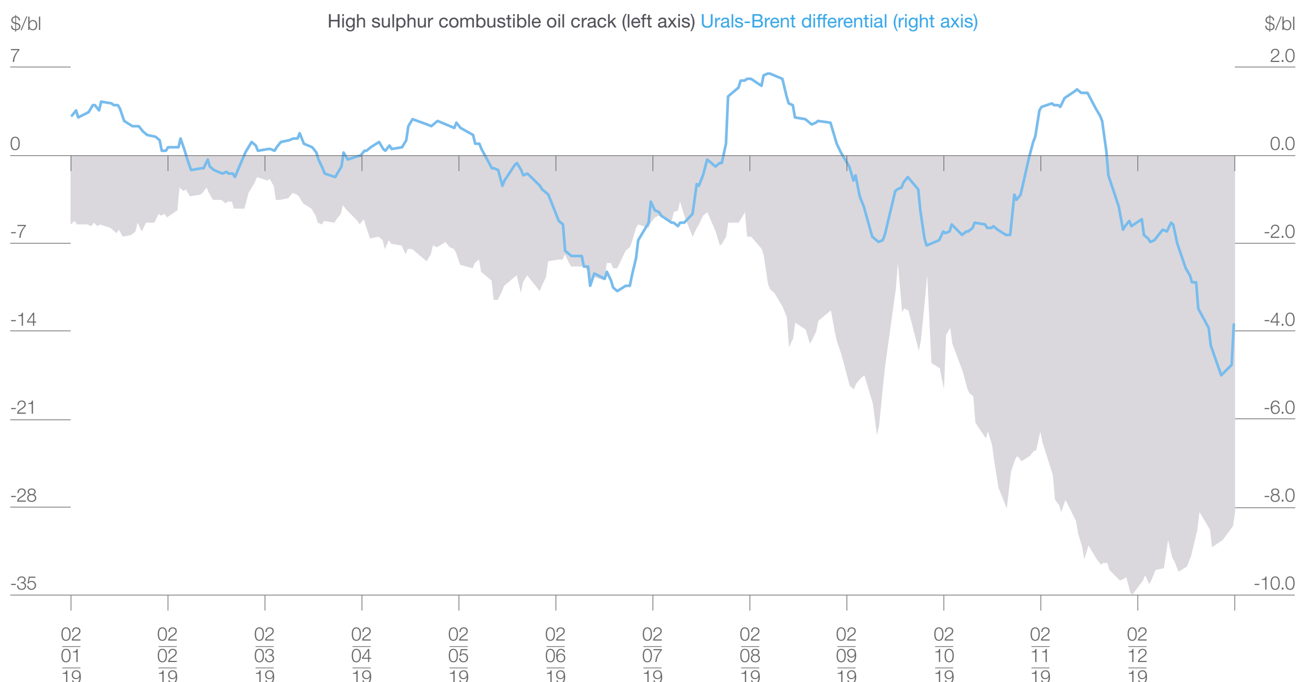
Crack spreads of the main refined products (i.e. the difference between the value of the product and the cost of crude oil)

The first quarter was characterised by increased refinery processing globally that generated large supplies of gasoline, in a context of seasonally low consumption in Europe and the United States. Stocks have risen significantly, and gasoline cracks have been in negative territory since mid-January. A gradual recovery began in February, thanks to various out of service (planned and unplanned) Asian, European and American refineries, and a recovery in consumption in Indonesia and India. Finally, gasoline improved further in March, coinciding with the start of the traditional spring maintenance of refineries and the transition to summer specifications. The average crack spread of gasoline was USD 2.6/bl in the first quarter of 2019.

In the second quarter, the gasoline crack spread remained at lower levels than the seasonal averages but was significantly higher than in the first quarter. The significant stocks accumulated in previous months have been progressively disposed of. April was the best performing month, including due to the traditional maintenance of European and American refineries and some processing reductions in Central Europe as a result of the unavailability of crude oil imports through the Druzhba pipeline. Finally, we note the fire on 21st June at the PES (Philadelphia Energy Solutions) refinery, one of the largest refineries on the east coast of the United States. It declared its definitive closure, with probable repercussions on the supply of light distillates to the US market and Latin America in the third quarter. The average crack spread of gasoline in Q2 2019 was USD 8.3/bl.

The gasoline crack spread made a clear recovery in July, coinciding with the period of high seasonal demand. There were also some supply-side factors such as the closure of the above-mentioned refinery in Philadelphia and some production stoppages in Louisiana following Hurricane Barry. Demand from West Africa has been particularly strong. In the following months, the production increases of the American and European refineries compensated for the imbalance and the crack spread of gasoline decreased. It averaged USD 10.4/bl in the third quarter.

PRICE DIFFERENTIAL OF "URALS-BRENT" CRUDE OIL, AND THE CRACK SPREAD OF FUEL OIL (SOURCE: PLATTS)



In October and November, the gasoline crack spread was supported by exports to West Africa and Latin America. In December, the reduction in consumption in Europe and the USA led to a decline in the crack spread to levels below the seasonal levels of previous years. The average crack spread of gasoline in Q4 2019 was USD 6.6/bl.

Finally, moving on to middle distillates, the diesel crack spread recorded the highest values in the last four years in the first quarter of 2019, thanks to the strong demand for transport on road and diesel for industrial and heating uses, and at the same time less supply from refineries (out of service for maintenance). This was partially offset by an increase in Russian, Chinese and Middle Eastern exports. In March, the crack spread of middle distillates was slightly down due to the marked increase in crude oil prices, which was not entirely passed on to products, and also due to a milder climate that reduced consumption for heating. The average crack spread of diesel was USD 15.2/bl in the first quarter of 2019.

The crack spread of diesel was down by more than USD 3/bl compared to the first quarter, affected both by seasonal factors such as a drop in agricultural consumption (due to heavy rainfall) and lower consumption for heating (due to rather mild winter temperatures), and due to economic factors such as the slowdown in transportation consumption. At the same time, exports from China to Europe have increased, also due to the increase in 'export quotas' granted by the Government to local refiners. Finally, it should be noted that the new STAR refinery in Turkey is fully operational and has increased the supply in the Mediterranean area. The average crack spread of diesel was USD 12.0/bl in Q2 2019.

The diesel crack spread gradually strengthened in the third quarter, reaching the seasonal highs of recent years. This trend originates from the first effects of the introduction of the IMO - Marpol VI regulation, and in part from the lower Russian and to an even greater extent Saudi Arabian exports (which typically account for about 20% of European imports). In fact, drone attacks on Saudi crude oil pre-treatment plants have led to a reduction in processing at domestic refineries, including in order to maximise the quantities of crude available for export. On the other hand, European consumption contracted due to the economic slowdown and the drop in diesel car sales. Exports of middle distillates from China to Europe increased during the period as a result of the higher "export-quotas" granted by the government to local refiners.

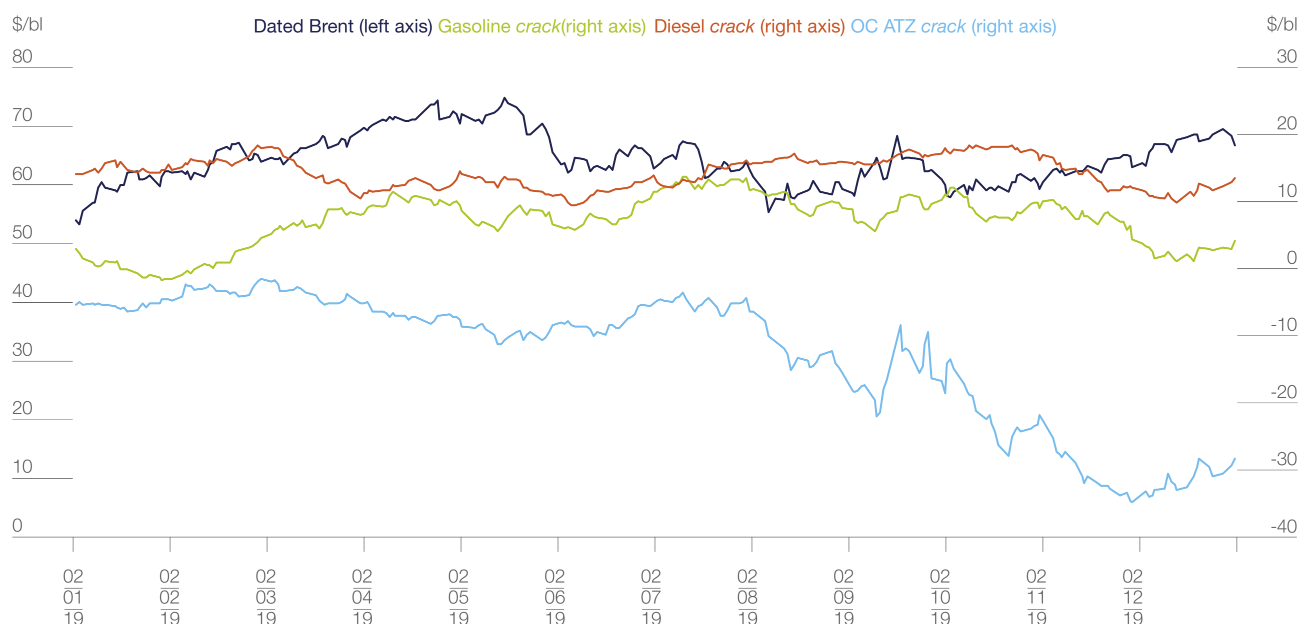
In October, the diesel crack spread reached the maximum values of the year (18 USD/bl), concurrently with the autumn maintenance shutdowns of some refineries. With the return to normal processing in November and December, the crack spread of diesel also decreased following a drop in European consumption for both transport and heating (temperatures were milder than seasonal averages). In addition, volumes of diesel began to arrive from Asian countries that put pressure on the crack spread in the Med area. The average crack spread of diesel was USD 14.4/bl in Q4 2019.

Reference refining margin

As regards the analysis of the profitability of the refining sector, Saras uses the refinery margin calculated by EMC (Energy Market Consultants) as a reference for a medium complexity coastal refinery, located in the Mediterranean and which processes a feedstock made up of 50% Brent and 50% Urals crude oils.

This reference margin (the "EMC Benchmark") averaged USD 2.0/bl in 2018. The benchmark margin

DATED BRENT AND GASOLINE, DIESEL AND FUEL OIL CRACK SPREADS (SOURCE: PLATTS)



Crack spread: difference between the price of a finished product (e.g. gasoline or diesel) and the price of the reference crude oil (e.g. Dated Brent)

averaged USD 1.1/bl in the first quarter of 2019. It was positively affected by the strength of middle distillates, which was more than offset by the weakness of light distillates and the high Ural prices. In the second quarter, the benchmark margin was USD 0.2/bl and was adversely affected by a weakening of middle distillates, higher Brent prices and lower fuel oil prices. In the third quarter, there was a marked strengthening of the EMC benchmark margin, which averaged USD 3.0/bl thanks to a progressive increase in the diesel crack spread and a seasonal improvement in the gasoline crack spread. In the fourth quarter, the margin was progressively decreasing due to the sharp deterioration of the crack spread of high sulphur fuel oil, which was de-stocked in anticipation of the imminent entry into force of IMO-Marpol VI regulations on marine engine emissions and the contraction of the crack spread of diesel due to increasing volumes coming from Asia. On average, the EMC margin in the fourth quarter was zero.

Thanks to the flexibility and complexity of its plants, the Saras Group refinery achieved a higher refinery margin than the EMC Benchmark reference margin. However, the size of the Saras premium above the EMC Benchmark is variable and mainly depends on the specific market conditions, as well as the performance of industrial and commercial operations in each quarter.

Main operating results

REFINERY RUNS	2019	2018	%
CRUDE			
Thousand tonnes	13,172	13,512	-3%
Million barrels	96.2	98.6	-3%
Thousand barrels/day	263	270	-3%
COMPLEMENTARY FEEDSTOCKS			
Thousand tonnes	1.278	1,319	-3%

Crude refinery runs during in 2019 stood at 13.17 million tonnes (96.2 million barrels, corresponding with 263,000 barrels/day), slightly down compared to 2018. Complementary feedstock amounted to 1.28 million tonnes compared to 1.32 million tonnes in 2018. It should be noted that one of the most important turnarounds of the last five years took place in the initial months of 2019. This involved the Topping "T2" and Vacuum "V2", JRC and MHC1 plants, which were idle for about 60 days. Operational performance exceeded expectations and maintenance activities were carried out regularly and in line with the programme.

RAW MATERIALS BY TYPE		2019	2018
Light extra sweet		38%	37%
Light sweet		11%	12%
Medium sweet/extra sweet		1%	0%
Medium sour		34%	34%
Heavy sour/sweet		16%	17%
Average Density	°API	34.4	33.7

The mix of crudes that the Sarroch refinery processed in 2019 had an average density of 34.4°API, i.e. lighter than the average density processed in 2018. After analysing the classes of crudes used in greater detail, there was some degree of stability in the processing percentage of light sweet and light extra sweet. The decrease in both low and high sulphur heavy crude oils (Heavy sour/sweet) was offset by the percentage of medium low and very low sulphur crude oils ('medium sweet/extra sweet'). This processing mix was due to contingent plant set-up situations (arising from significant planned maintenance carried out in the first quarter) and to economic and commercial decisions in view of market supply conditions.

RAW MATERIALS BY ORIGIN	2019	2018
North Africa	25%	26%
North Sea	6%	4%
Middle East	29%	34%
Russia and Caspian region	26%	23%
West Africa	14%	13%
Other	0%	0%

Turning to the analysis of finished product yields, we note that in 2019, the yield of the light distillates (27.9%) was in line with 2018. The yield of middle distillates (52.1%) was instead higher than the previous year. Finally, a low yield of fuel oil (4.2%) was offset by a substantially stable yield in TAR (7.5%). These changes are mainly due to the maintenance activity carried out in the period and commercial decisions taken.

PRODUCTION		2019	2018
LPG	thousand tons	292	291
	yield	2.0%	2.0%
NAPHTHA + BENZINE	thousand tons	4,026	4,132
	yield	27.9%	27.9%
MIDDLE DISTILLATES	thousand tons	7,530	7,558
	yield	52.1%	51.0%
FUEL OIL AND OTHERS	thousand tons	603	755
	yield	4.2%	5.1%
TAR	thousand tons	1,091	1,141
	yield	7.5%	7.7%

Note: The balance to 100% of production comprises “Consumption & Losses”

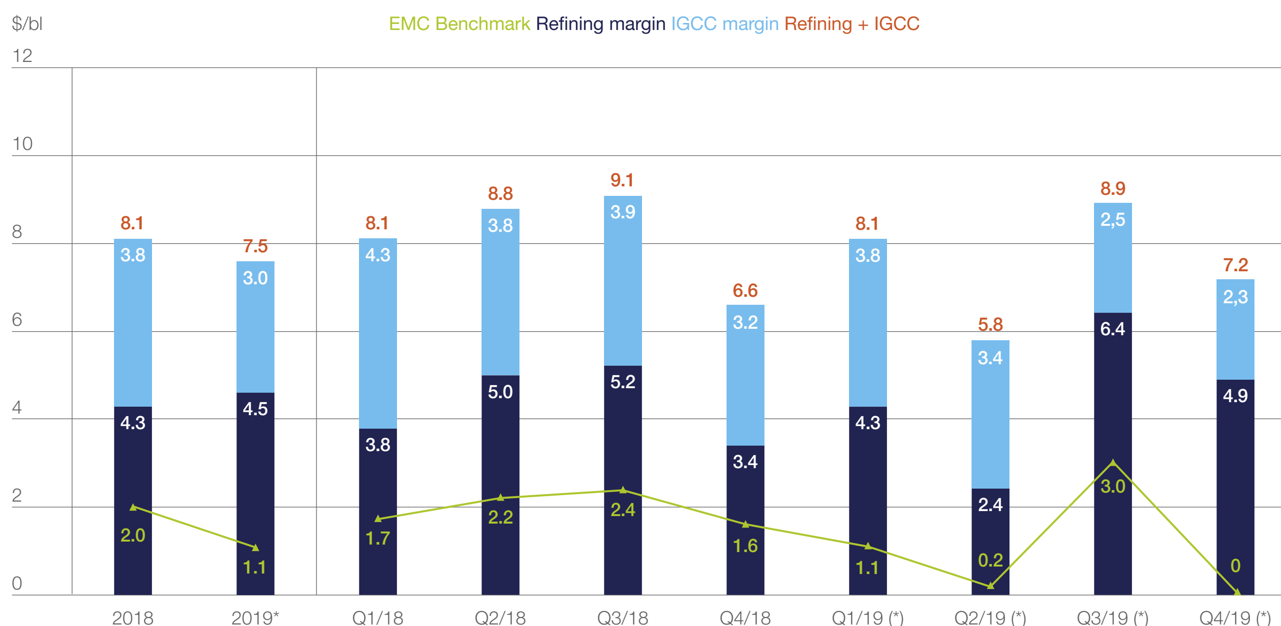
Main financial results

	2019	2018	%
EBITDA	66.0	193.5	-66%
EBITDA comparable	**124.3**	**125.6**	**-1%**
EBIT	(68.5)	77.5	-188%
EBIT comparable	**(10.2)**	**9.6**	**-205%**
CAPEX	**291.9**	**213.4**	

Comparable EBITDA amounted to EUR 124.3 million in 2019, with a Saras refining margin of USD +4.5/bl (as is usual, net of the impact from the maintenance activities conducted during the period). This compares with a comparable EBITDA of EUR 125.6 million and a Saras refinery margin of USD +4.6/bl in 2018. As always, the comparison must take into account market conditions and the specific operating performance and commercial management of the Saras Group.

Market conditions were less favourable, especially on account of less favourable crude oil premiums and discounts influenced by the low availability of heavy crude oils due to sanctions against Iran and Venezuela and OPEC+ cuts. On the product side, however, the weakening of the gasoline crack spread was only partially offset by the strengthening of the diesel crack spread . The effect of the EUR/USD exchange rate (EUR 1 was worth USD 1.119 in 2019 and 1.181 in 2018) increased the value of production by approximately EUR 20 million.

SARAS GROUP: INTEGRATED MARGINS 2018 – 2019



Refining margin: comparable EBITDA (of the Refining sector + Fixed Costs) / Refinery runs in the period.
IGCC Margin: (EBITDA IGCC plant + Fixed Costs) / Refinery runs in the period
EMC Benchmark Margin: refining margin calculated by EMC (Energy Market Consultants), with crude slate 50% Urals and 50% Brent

The refining margins for 2019 were recalculated on the basis of the new method for determining comparable (and reported) results introduced in the fourth quarter of 2019. 2018 data have not been changed however.

With regard to operational performance, in 2019 production planning (which involves optimising the mix of the crude oils for processing, the management of semi-finished products, and the production of finished products, including those with special formulations) resulted in an EBITDA that was higher by approximately EUR 15 million compared to 2018, due to the supply chain optimisations.

The execution of production activities (which takes account of losses in connection with scheduled and unscheduled maintenance, and increased consumption with respect to the technical limits of certain utilities such as fuel oil, steam, electricity and fuel gas) resulted in a lower EBITDA by about EUR 10 million compared to the previous year. The much more expensive turnaround maintenance plan was largely offset by a positive operating and production performance.

Commercial operations (involving the supply of crude and additional raw materials, the sale of finished products, the rental costs of oil tankers, and inventory management, including mandatory stocks) resulted in an EBITDA that was substantially in line with the previous year.

The results of the refining operations in Q4 2019 were positively affected following the confirmation of insurance compensation totalling roughly EUR 21 million for the claim at the Sarroch refinery in 2018 due to atmospheric events. This accident partially affected the operation of some of the refinery's production processes in 2019 as well, and was therefore included in the results.

Investments made in 2019 totalled EUR 291.9 million, in line with the investment plan and maintenance programme, the latter mainly relating to the aforementioned turnaround.

The graph below shows in detail the changes to the margins achieved by the Saras Group refinery during 2018 and 2019, both on an annual and a quarterly basis. It may be noted that, thanks to the flexibility and high conversion of its plants, the Saras Group refinery achieved a higher refining margin than the EMC Benchmark reference margin. However, the size of the Saras premium above the EMC Benchmark is variable and mainly depends on the specific market conditions, as well as the performance of industrial and commercial operations in each quarter.

APC MASTER CONTROLLER CV

POWER GENERATION

The Saras Group operates in the power generation sector, through an IGCC plant (Integrated Gasification Combined Cycle) at the Sarroch industrial site and perfectly integrated with the Group refinery.

The IGCC plant, owned and managed by the subsidiary Sarlux Srl, is one of the biggest of its kind in the world. It has an installed capacity of 575 MW and produces more than 4 billion kWh/year of electricity, contributing to about 45% of Sardinia's energy needs. Moreover, the IGCC plant is one of the fundamental units of the refinery for the conversion of heavy products and, at the same time, it is the most important utility of our industrial site, because it provides high volumes of hydrogen to the "hydrocracking" and "hydrotreating" units of the refinery, and also produces high quantities of steam, which are needed in several other units in the refinery.

Reference market

Average values per year		2019 [1]	2018
Electricity demand in Italy	GWh	319,597	321,431
Import	GWh	38,163	43,899
Internal Production [2]	GWh	283,846	279,845
of which: *Thermoelectric*	GWh	186,811	184,338
Single national price (PUN) [3]	EUR/MWh	52.32	61.31

1.Terna estimated data (www.terna.it), subject to correction

2. Production net of consumption for auxiliary services

3. Source: GME SpA (www.mercatoelettrico.org)

Domestic electricity demand in 2019 (including network losses and net of electricity intended for consumption for auxiliary services) was 319,597 GWh, down 0.6% compared to 2018.

The change in electricity demand compared to the previous year showed a different trend in the various observation areas. In particular, in the Northwest grouping that includes Piedmont, Liguria and Valle d'Aosta, demand fell by 3.2%, in Lombardy it fell by 2%, and in the Triveneto area and in the Tuscany and Emilia-Romagna grouping it fell by 0.8%. Sicily and Sardinia suffered reductions of 0.7% and 1.1% respectively. Demand for electricity grew by 1.5% and 2.1% respectively in the grouping of the Central area consisting of Abruzzo, Marche, Lazio, Umbria and Molise and in the grouping of Campania, Basilicata, Calabria and Apulia.

The coverage of the national energy demand in 2018 (net of electricity destined for consumption for auxiliary services) was guaranteed for 58% with thermoelectric production, 15% with hydroelectric production, 16% with production from other renewable sources (geothermal, wind and photovoltaic), and the remaining 12% with net imports from abroad. Net domestic electricity production amounted to 283,846 GWh, up 1.4% compared to 2018, meeting 89% of domestic electricity demand.

Lastly, it should be noted that the average value of the PUN (Single National Price) in 2019 was 52.32 EUR/MWh, down slightly from the previous year (61.31 EUR/MWh). This trend is mainly related to the reduction in generation costs, including in particular the cost of gas due to the wide availability on the market.

Main operating and financial results

		2019	2018	Change %
ELECTRICITY PRODUCTION	GWh	4,075	4,363	(7%)
POWER TARIFF	EURcent/KWh	9.2	9.7	(5%)
SERVICE FACTOR	%	84.4%	90.4%	
TAR FEEDSTOCK AT THE PLANT	thousand tons	1,091	1,141	(4%)

In 2019, the Power Generation segment conducted the maintenance work on three "Gasifier – combined cycle Turbine" trains and on one washing line. Power production was 4.075 TWh, down 7% compared to 2018, due to a more onerous maintenance plan and lower operating performance.

EUR million	2019	2018	Change %
EBITDA	151.6	192.7	-21%
Comparable EBITDA	**151.8**	**220.2**	**-31%**
EBIT	96.7	140.4	-31%
Comparable EBIT	**96.6**	**168.0**	**-42%**
EBITDA ITALIAN GAAP	**98.3**	**67.7**	**-31%**
EBIT ITALIAN GAAP	**77.3**	**49.1**	**-39%**
CAPEX	**24.8**	**20.7**	

Comparable EBITDA stood at EUR 151.8 million, compared to EUR 220.2 million achieved in 2018. The scenario was less favourable than in the previous year, due in particular to the 5% decrease in the CIP6/92 tariff. At the same time, volumes produced fell by 7% while fixed costs rose slightly due to increased maintenance. The linearization effect was lower than last year. It should be noted that CO2 hedging derivatives have been restated within the reported EBITDA and that the difference between reported and comparable EBITDA in 2018 is due to the write-down of receivables relating to expected refunds for green certificates of prior years, totalling approximately EUR 29 million.

Moving on to the analysis of EBITDA calculated according to Italian accounting standards, this stood at EUR 98.3 million in 2019, compared to EUR 67.7 million achieved in the same period last year. During the period under review, electricity production decreased by 7% and the CIP6/92 tariff by 5%. At the same time, fixed costs increased compared to the same period last year. This result does not include CO2 hedging derivatives (negative by EUR 19 million) recorded under financial charges. This item was positive and amounted to approximately EUR 46 million in 2018. Moreover, the 2018 result was also affected by the write-down of receivables relating to expected reimbursements for green certificates of previous years, totalling approximately EUR 29 million.

Investments amounted to EUR 24.8 million.

MARKETING

The Saras Group conducts its Marketing business in Italy and in Spain, directly and through its subsidiaries, primarily in wholesale channels. To this end, in Italy the Group makes use of, in addition to the logistics of the refinery, its own coastal warehouse located in Arcola (La Spezia), which has a total capacity of 200,000 cubic metres, and it has medium-/long-term transit contracts for storage capacity in other warehouses owned by third parties, located mainly in the central-northern part of the Italian peninsula (Civitavecchia, Livorno, Ravenna, Marghera, Genoa, Lacchiarella, Naples, etc.).

In Spain, the associate company Saras Energia owns and manages the warehouse located in Cartagena (Spain), with a capacity of 114,000 cubic metres, and also uses other terminals in the rest of Spain (owned by third-party operators, including mainly Decal and CLH) that allow it to distribute products throughout the Iberian territory.

Reference market

According to data collected by UP (Unione Petrolifera – the Oil Industry Union), total oil consumption amounted to approximately 60.4 million tonnes in 2019, down about 1.0% compared to the previous year on the Italian market, which represents the main wholesale channel of the Saras Group. This dynamic is the result of stability in gasoline consumption and of a 1% decrease in diesel demand. Total fuel consumption (gasoline + diesel), of around 31.1 million tonnes, decreased by 1%. In 2019, new registrations were essentially in line with the previous year, with diesel representing 39.8% of the total (compared to 51.2% in 2018). LPG-powered cars covered 7% of new registrations, hybrids 6%, methane 2% and electric cars 0.6%.

On the Spanish market, preliminary data compiled by CORES shows consumption figures in line with 2018. More in detail, total diesel consumption was unchanged, while gasoline consumption increased by 5.6%, kerosene consumption by 3.5% and fuel oil dropped by 3.8%.

Main operating and financial results

		2019	2018	Change %
TOTAL SALES	**thousand tons**	**3,574**	**3,682**	**-3%**
of which in Italy	thousand tons	2,155	2,119	2%
of which in Spain	thousand tons	1,418	1,564	-9%

In terms of operating performance, the Group recorded a 3% decrease in its sales volumes compared with a 2% increase in Italy and a 9% decrease in Spain.

The comparable EBITDA of the Marketing segment was EUR 22.1 million, compared to EUR 24.1 million in 2018 due to lower margins on the wholesale network in Italy and the disposal of the Spanish network. This contribution should be considered together with that of Refining because their technical and commercial expertise, on which the Group's business model is based, is closely coordinated.

Lastly, investments amounted to EUR 0.6 million in 2019.

EUR million	2019	2018	Change %
EBITDA	20.3	24.3	-16%
Comparable EBITDA	**22.1**	**24.1**	**-8%**
EBIT	17.3	19.0	-9%
Comparable EBIT	**19.1**	**18.8**	**2%**
CAPEX	**0.6**	**1.3**	**-54%**

WIND POWER

The Saras Group has been active in the production and sale of electricity from renewable sources since 2005, through its subsidiary Sardeolica Srl, which operates a wind park in Ogliastra (Sardinia). The park consists of 57 wind turbines, with a total installed power of 126 MW, and is equipped with a Management System certified according to BS OHSAS 18001:2007 (Health and Safety), ISO 14001:2015 (Environment) for which it has obtained EMAS accreditation, ISO 9001:2015 (Quality) and ISO 50001:2011 (Energy).

In 2019, the production of the Ulassai wind park amounted to 220,363 MWh, which corresponds to the annual electricity needs of around 180,000 people. Exploiting the renewable wind source has therefore resulted in the saving of almost 280,000 barrels of oil, with the consequent reduction of CO2 emissions by about 140,000 tonnes. Moreover, cumulatively in the period starting from its operational start date until 31st December 2019, the wind farm's electricity production reached 2,444,116 MWh.

It should be noted that in July 2019 the subsidiary Sardeolica obtained a positive environmental compatibility rating for the Reblading project of the Ulassai wind farm, which will lead to an increase in production of 33 GWh/year. The project is expected to be completed by the end of 2020; investments in 2019 relating to this project amount to approximately EUR 10 million.

Production 2019 [MWh]	Equivalent annual population [1]	TEP [2] "saved"	Barrels of oil [3] "saved"
220,363.0	175,868	41,207.9	282,246
Production 2019 [MWh]	**Pollutant**	**Specific emissions [4] [kg/MWh]**	**Emissions avoided [t]**
220,363.00	CO_2	648	142,795.2

Production 2005–2019 [MWh]	TEP [2] "saved"	Barrels of oil [3] "saved"	
2,444,116.0	457,049.7	3,130,477	
Production 2005–2019 [MWh]	**Pollutant**	**Specific emissions4 [kg/MWh]**	**Emissions avoided [t]**
2,444,116.0	CO_2	648	1,583,787.2

1. Energy consumption per capita in Sardinia for domestic use, 2017: 1,307 kWh/person/year (Terna: Statistical Data, Consumption http://download.terna.it/terna/0000/1089/69.PDF)
2 . 1 kWh = 0,187×10-3 TEP (AEEGSI, Delibera EEN 3/08, http://www.autorita.energia.it/it/docs/08/003-08een.htm)
3. 1 equivalent barrel of oil = 0.146 TEP (https://it.wikipedia.org/wiki/Tonnellata_equivalente_di_petrolio)
4. Regional Environmental Energy Plan for Sardinia. "Towards a shared energy economy". Adoption of the technical proposal and start of the strategic environmental assessment procedure, p. 114 (http://www.regione.sardegna.it/documenti/1_274_20160129120346.pdf)

Reference market

Italy was one of the first Member States to adopt, at the end of 2017, a National Energy Strategy (SEN) inspired by the European Clean Energy Package. The SEN sets ambitious goals for the period 2020-30, and in particular to make the national energy system more competitive (price reduction and energy costs), more sustainable (environmental and decarbonisation objectives) and safer (supply security and system flexibility). For renewable sources, SEN foresees a contribution of these sources of 28% on total consumption by 2030 compared to 17.5% in 2015 and, for electric renewables, the transition is from 48-50% to 55%.

According to the Anie Rinnovabili Fer Observatory, in the first eight months of 2019 new installations of renewable energy sources (solar, wind and hydroelectric) in Italy reached a total of about 771 MW (+49% compared to 2018). In particular, there was strong progress in wind power, with about 412 MW (+200% compared to the same period in 2018). Most of the connected power (90%) is located in the regions of Southern Italy.

According to WindEurope, at European level, 4.8 GW of new wind capacity was added to the electricity grid in the first six months of 2019, i.e. 400 MW more than in 2018. For the first time, the offshore rather than the onshore segment drove growth. Offshore wind power experienced a growth in installed capacity of 1.9 GW in the first half of the year, mainly thanks to Great Britain (931 MW), Denmark (374 MW), Belgium (370 MW) and Germany (252 MW). The onshore segment grew at a slower pace, with onshore installed capacity increasing by 2.9 GW from January to June (400 MW less than in the same period in 2018).

The latest data produced by Terna show that wind power in Italy produced 20,063 GWh in 2019, substantially in line with 2018 thanks to good wind conditions. Wind power production covers 7.1% of domestic electricity production and 6.2% of electricity demand in Italy.

Main operating and financial results

		2019	2018	Change %
ELECTRICITY PRODUCTION	MWh	220,363	169,811	30%
POWER TARIFF	Eurocent/KWh	4.7	5.7	-18%
INCENTIVE TARIFF	Eurocent/KWh	9.2	9.9	-7%

In 2019, the comparable EBITDA for the Wind Power segment (corresponding to IFRS) was equal to EUR 10.0 million, compared to EUR 10.6 million in 2018.

In particular, volumes produced increased by 30% compared to the previous year, thanks to better windy conditions and the entry into operation of the new installed capacity of 30 MW from the end of September. At equal capacity the volumes produced would have increased by 16%.

The Incentive Tariff was 0.7 EURcent/kWh lower than in 2018 and incentivised production represented about 9% of volumes in 2019 (compared to 23% in 2018). The electricity tariff was 18% lower than in 2018.

Investments amounted to EUR 26.4 million, mainly aimed at the expansion of the wind farm with the installation of 9 new turbines for an additional capacity of 30 MW. This work was completed on 27th September. In Q4 reblading of the Ulassai plant began, which involved replacement of all the blades and is expected to result in increased production, with installed capacity remaining unchanged.

EUR million	2019	2018	Change %
EBITDA	10.0	10.6	-6%
Comparable EBITDA	**10.0**	**10.6**	**-6%**
EBIT	4.6	6.0	-23%
Comparable EBIT	**4.6**	**6.0**	**-23%**
CAPEX	**26.4**	**6.9**	**283%**

OTHER ASSETS

This segment includes the activities of the subsidiaries Sartec Srl, Reasar SA and others.

In particular, Sartec Srl, a wholly owned subsidiary of Saras SpA, is the Group company that develops services and technologies to improve industrial performance, operating in these main sectors:

- industrial efficiency and energy saving, with business lines dedicated to industrial design solutions, plant engineering and automation, process studies, supply of package systems and analysis, industrial services, asset integrity and oil refining studies;
- sustainability and environmental protection (environmental engineering, environmental analysis systems, environmental monitoring and olfactometric analytical services);
- digital and industry 4.0 projects (data analysis, knowledge management, digital asset management, enterprise content management, cybersecurity, digital safety advice, VR training).

With reference to Sartec, 2019 was another year that confirmed the trend of consolidation in margins recorded in the last four years. The production volumes achieved highlight the strong commitment to activities that support the Group's investment plan and also the maintenance of control over activities developed for the "non-captive" market.

During 2019, Sartec maintained its orientation in the engineering and industrial services sectors and the environmental services sector, while also developing consulting services for the optimisation of plant reliability and availability, and innovative solutions for predictive and prescriptive maintenance and speedy characterisation of oil raw materials.

EUR million	2019	2018	Change %
EBITDA	4.9	(0.2)	2550%
Comparable EBITDA	**5.6**	**5.3**	**6%**
EBIT	4.0	(0.9)	544%
Comparable EBIT	**4.7**	**4.6**	**2%**
CAPEX	**0.8**	**0.6**	

STRATEGY AND OUTLOOK

With its high conversion configuration, integration with the IGCC plant and an operational model based on integrated supply chain management, the Saras Refinery in Sarroch (Sardinia) is a leader among European sites. These strengths place the Group in an excellent position in view of expected developments in its scenario, especially in terms of the IMO – Marpol VI regulation that, as from 1st January 2020, tightens the limits on the sulphur content of marine gas oil (MGO) emissions, creating favourable market conditions for sites like the one in Sarroch. The Group intends to continue initiatives to improve the operating performance and reliability of its plants and rationalise costs. It is completing a series of investments that will enable it to maintain its leadership in the refining industry over the next decade, including through technological innovation and digitalisation.

The Brent price was USD 66/bl at the start of 2020, before dropping to around USD 10/bl in the wake of concerns about the effects of coronavirus. This is despite the fact that on 18th January, Libya declared force majeure on oil exports, reducing production by almost 1 mbl/g. Experts anticipate ample availability on the crude oil market thanks to continuous increases in production by non-conventional US producers and greater volumes from Brazil, Norway, Guyana and Canada, predicting the Brent price to be around USD 57/bl.

In terms of consumption, in its February 2020 report, the International Energy Agency (IEA) reduced its estimate of global demand growth from +1.2 mbl/g to +0.8 mbl/g for the current year, supported by relatively low crude oil prices and progress in the resolution of trade disputes between China and the United States. The International Monetary Fund anticipates economic growth of 3.3% in 2020 (compared to +2.9% in 2019).

Analysing profit margins on the main refined products, experts anticipate a slight improvement in the gasoline crack spread compared to the previous year, although with the usual seasonal performance. This is an indirect effect of the new IMO regulation, as the production of large quantities of VLSFO (very low sulphur fuel oil) diverts certain semi-finished products away from gasoline production to formulate fuel oil. In the first quarter, middle distillates were penalised by mild temperatures and the effects of coronavirus on the demand for fuel oils for transport, but the consensus among experts is that the crack spread will begin strengthening as early as the second quarter of the year.

These estimates suffer from a high level of uncertainty in relation to the slowdown mainly in Asian economies, aggravated by the effects of the coronavirus. The impact on the global economy and demand for oil and oil products is currently difficult to assess. A prolonged coronavirus situation could lead, among other things, to a reduction in demand for refined products globally, and this could lead to lower refining margins than expected by experts.

The scheduled significant maintenance cycle will affect the profitability of the Refinery segment in the first half of the year, while in the second half, the Group stands to reap the full benefits of the opportunities arising from the new IMO regulation, which should create favourable conditions for high conversion capacity refineries like the Saras refinery. The market conditions described above should result in improved refining margins compared to 2019. The Saras Group will aim to achieve an average premium above the EMC benchmark margin of approx. 2.5 ÷ USD 3.0/bl (net of maintenance).

In 2020, operations will be affected by an extraordinary maintenance cycle concentrated in the first part of the year. The main maintenance projects will entail the long-term turnaround of the fluid catalytic cracking ("FCC") plant, of its main ancillary alkylation unit (Alky) and of Topping ("T1"). Routine maintenance will also be carried out on the following plants: VisBreaking "VSB", "MHC2", "U400" and "U500". Overall, yearly crude runs are expected to total 13.9÷14.6 million tonnes (corresponding to 100÷105 million barrels), in addition to another 1.2 million tonnes of complementary feedstock (corresponding to approximately 9 million barrels).

The maintenance plan for the Electricity Generation segment includes routine work on the three combined-cycle Gasifier-Turbine trains and on one of the two gas washing lines. Total electricity production for 2020 is expected to come to roughly 4.3 TWh. The CIP6/92 tariff is affected by the drop in the price of gas due to the wide supply available on the market.

The Marketing segment's results are expected to be stable. This segment's contribution should be considered together with that of Refining because their technical and commercial expertise, on which the Group's business model is based, is closely coordinated.

In the Wind Power segment, the Ulassai plant is being rebladed; in other words, all the blades are being replaced, which will lead to an increase in production with installed capacity remaining unchanged. The work will be completed by the fourth quarter of 2020, with full capacity expected to be around 300 GWh/year. In the meantime, work continues on the development of new renewable capacity.

INVESTMENTS BY SEGMENT

In 2019, the Saras Group made investments of approximately EUR 344.6 million compared to EUR 243.0 million in 2018, aimed, among other things, at completing the multi-year turnaround on plants and investment to seize the new opportunities offered by the IMO (International Maritime Organization) regulation.

As usual, a significant part of the investments was dedicated to full compliance with all HSE requirements, and to maintaining the operational efficiency of the plants. The breakdown of investments by segment of activity is shown in the corresponding table:

EUR million	2019	2018
REFINING	291.9	213.4
ELECTRICITY GENERATION	24.8	20.7
MARKETING	0.6	1.3
WIND	26.4	6.9
OTHER ACTIVITIES	0.8	0.6
Total	**344.6**	**243.0**

Investments in 2019 mainly concerned the refining sector, with the aim of improving production capacity and optimising processes with a view to improving efficiency. It should also be noted that the purchase of equipment and all the preparatory activities for the turnaround planned for early 2020 have been brought forward.

Work continued on upgrading the South Dock and the movement by means of the replacement and integration of the loading and handling lines for crude in order to increase storage and consequently operational flexibility. Activities connected to the production and handling of Bunker (maritime fuel) with low sulphur content were concluded.

Among the specific interventions dedicated to Health, Safety and Environment (HSE) is the start of the TAF project (groundwater treatment of the "dynamic barrier"), which aims to optimise our approach in the consumption of water resources. Investment in the vapour recovery unit (VRU) on the South Dock was also substantially completed, aimed at significantly reducing losses relating to volatile components.

The capacity of the Ulassai wind farm was also increased by 30 MW during 2019, with the installation of 9 new wind turbines.

Lastly, the Company continued the #DigitalSaras programme initiatives, with interventions aimed at improving the operation of the plants, making their operation more efficient, and optimising maintenance plans and interventions through the ongoing monitoring of the machines, including with the use of sensors. In this regard, it is worth noting the system for the management and optimisation of raw materials (crude).

SARLUX

HUMAN RESOURCES

In accordance with the provisions of Article 5, paragraph 3, letter b of Legislative Decree No 254/2016, the Company prepared the consolidated non-financial statement, which constitutes a separate report. The 2019 consolidated non-financial statement, prepared in accordance with GRI Standards, consists of an autonomous document, which, in addition to fulfilling the requirements of Legislative Decree No 254/16, enables the sharing of the Company Purpose and the sustainable development strategy. Therefore, the chapters concerning Human Resources, Social Responsibility, Health, Safety and Environment, and activities with the community, will be broken down more thoroughly in the Sustainability Report - Consolidated Non-Financial Statement.

The systematic set of tools, interventions and activities prepared during the year in the field of human resources is illustrated below to ensure for the organisation the goal of business objectives and continuous improvement of performance according to the strategic plan defined in the business plan and in the budget of the year.

The interventions were inspired by the principles contained in the Group's Purpose relating to sustainable development, the transformation of our way of working and the enhancement of the potential of our people. The initiatives carried out have focused on the development of existing skills, the strengthening of managerial sensibilities enabling people management roles, and the renewed awareness of the individual impact on results.

Organisational development

In 2019, the Group's workforce increased by 2.4% compared to last year (net of 40 people leaving). This figure does not include the subsidiary Saras Energia, which reported a significant reduction in the workforce due to the sale of certain assets.

The 97 new employees hired during the year, 57 of whom are under 30 years of age, with degrees mainly in engineering and technical diplomas, primarily cover requirements in the development of trading and sales, bunkering activities, innovation and digitisation programmes, the expansion of the wind farm and the replacement of people retiring.

To meet the challenging needs of our market, the reorganisation processes have been geared towards generating greater efficiency, reliability and operational flexibility, inspired by the realisation of an organic vision for the Group and enhanced collaboration between departments.

To complete the reorganisation of the first line reporting to the Chief Executive Officer started at the end of 2018, the structure was initially fully harmonised for greater concordance of the different roles, and the Energy Transition function was then established with the aim of tackling the challenges for the long-term sustainability of our Group business. The new function is primarily responsible for coordinating the study and development of new technological solutions that help reduce the environmental impact of fossil fuels, participating in the various institutional offices in activities concerning energy transition and promoting the identification of appropriate sustainability parameters for the Group's needs.

A new office was opened in Rome in 2019 as part of the evolution of commercial activities, to improve the competitive positioning on the Italian market while optimising relations with commercial counterparts, regulatory bodies, trade associations and all operators with decision-making centres in Rome.

In the latter part of the year, the Chief Commercial Officer's organisation was redesigned with the aim of continuing the optimisation of proprietary assets and pursuing growth, including by assessing potential new geographical coverage.

There are three main branches of the commercial organisation: Supply & Trading, Network & Extra-network Italy and Spain, Middle Office. Supply &Trading is responsible for procurement and sales activities, including the supply of the network/extra-network system in Italy and Spain, and the development of trading operations with third parties.

Network & Extra-network Italy and Network & Extra-network Spain manage

sales to the end consumer and logistics sales on the corresponding markets, and oversee the management of proprietary warehouses.

In coordination with the trading units, Middle Office is responsible for the implementation of hedging transactions involving loads and inventories.

The Oil & Energy structure is responsible for directing and coordinating the core refining and energy production activities, as well as promoting the optimisation of technological and industrial development initiatives for the entire Group.

In Oil & Energy, the Digital Innovation Programme function has been reorganised into a matrix to respond to the need to expand the industrialisation phase of digital transformation initiatives and to encourage teamwork. As a result, the Digital Platform Manager, who is in charge of exploring new activities and selecting the relevant technological platforms, and Project Managers for the various lines of digitisation development, have been identified. Across the different areas of digitisation, there are the roles of Data Steward, responsible for the structuring and governance of the Company's digital data system; Data Scientists, who provide specialised support to individual projects through innovative technologies and data science approaches; and the Scrum Master, a professional position that monitors project development through Agile methodology.

As part of the organisation of the Chief Oil & Energy Officer, activities relating to the development of environmental issues and relations with national and international associations have also been reassigned, while system quality management has been assigned to Planning and Sustainability.

In line with the Group's strategic vision, the organisational structure of the subsidiary

60,350
Total training hours 2019
Saras Group

Sartec has been redesigned to support the creation of value within the Group, through the provision of increasingly efficient services and the development of skills and innovative technological solutions. The new organisation responds to the need to strengthen the synergy between business functions; develop and commercially exploit new technological solutions; optimise the management of resources on different projects; and disseminate the skills acquired in the digital environment throughout the organisation.

Therefore, the Business Development, Skills Management & Sales unit has been established, which supports the Engineering and Industrial Services, Environment & Oil and Asset Management, Industrial Automation & Connectivity business lines. The structure is completed by the roles of HSE and Integrated Management System staff.

The Investment and Costs Committee has been established to exercise increasingly precise and continuous control over investments and costs. The Committee has overall financial and technical-strategic responsibility for costs and investments for the entire Group, including the final approval of the investment budget and costs of Group companies and consistency between the objective and the final balance. The Committee is composed of the Chief Oil & Energy Officer, the Chief Security ICT & Procurement Officer, the Employer and Site Manager of the subsidiary concerned at the time, and the Chief Financial Officer.

The Investment Challenge and Cost Improvement function, reporting to the CFO, was set up to support the activities of the Investment and Costs Committee.

Following the redefinition of first-line reporting to the CEO, the new Human Resources structure also aims to increase coordination and integration between the various components of the Group, developing organisational and management solutions in line with the competitive environment and developing initiatives with which to implement transformation.

The new structure is developed in matrix form to better develop vertical skills to support HR partnership activities with Business Leaders.

The role of HR Business Partners has been revisited to reinforce its central character inside and outside the organisation, and four Competence Centres have also been created to develop tools and programmes to support the new HR vision. To complete the structure, the role of Industrial Relations & HR Administration staff provides support in the definition of strategic relations with social partners and sets out the necessary administrative formalities.

The Human Resources Process Guideline was updated, to complete the reorganisation of Human Resources.

Finally, the ICT Management function, which has a very strategic role within the Saras Group in the current phase of evolution of the competitive environment, has also been reorganised in the form of a matrix to maximise teamwork and the ability to provide adequate and consistent support to the Group's different realities and business needs.

The ICT Business Partners are the Company departments' reference point in which demand converges and solutions are implemented in accordance

with defined timescales, costs and objectives, and the Competence Centres are responsible for defining the architectural, security and management guidelines for the development of Saras Group systems, and the operation thereof. The structure is completed by the Cross Programmes role, for programmes that cross organisations and competence centres, and with the roles of Governance and Innovation staff.

Industrial relations

In the first part of 2019, relations with the social partners focused on welfare issues. In February, the Communities and study trips financing agreement was renewed for the three-year period 2019-2021, and subsequently the trade union agreement on corporate financing to CRAL was also renewed.

The final portion of training begun in 2018 was presented to the RSU (Unitary Union Representatives), and the 2019 training plan was also presented on that occasion.

The main trade union relations issue during the year was the negotiation of the renewal of the supplement and Result Bonus (productivity and profitability) for the three-year period 2019-2021, which was concluded in July. Also this year, the bonus was introduced with a view to involving the corporate functions and all personnel in a concrete participation for achieving the Company's economic and productive results. Some observations have been introduced to simplify the award system, confirming the improvements in the areas of production, the implementation of the most significant investments for the Company, energy efficiency, maintenance costs and Digital. As usual, these indicators are subject to periodic monitoring through a mixed joint commission composed of representatives of the Company and the RSU.

During the first part of the summer, there was a nationwide strike due to the late renewal of the national collective bargaining agreement. However, as industrial relations were good, judicious solutions were discerned, in the best interests of all parties involved.

In September, a welfare platform provided by a leading company in the sector was launched, which, in compliance with the provisions of the union agreement on the 2018 Result Bonus, allows all Saras and Sarlux employees who have decided to transform all or part of their bonus into welfare services and all Sartec employees who receive the welfare share provided for by the Metalworkers National Collective Labour Agreement to purchase welfare goods and services. The launch of the platform was accompanied by an intranet page, which includes dedicated content and e-learning information sessions aimed at all staff and transmitted via streaming.

In the last part of the year, negotiations on the need to include maintenance assistants on shifts for the construction of the cluster of stops at the Northern Plants took place at organisational and managerial level. An agreement was reached and signed, with the understanding that this solution should be used as a pilot for the milestones in 2020.

Training and development of human resources

Saras Group companies promote learning and the continuous development of skills in the belief that the challenges constantly launched by the economic system in which the Group operates can only be addressed and predicted through investment in people. The proposed initiatives, in line with the Company's values and the personal and professional characteristics of its people, are reflected in the Learning & Development Training Plan. This sets out actions and programmes aimed at specific targets and/or that are available across the board for all of the Group's people, creating conditions that promote "learning by doing" as a powerful tool for learning and preparation.

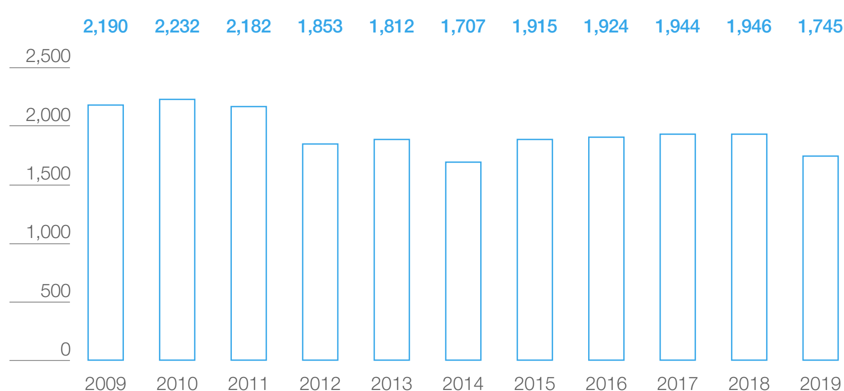
The main macro-areas of intervention concern the development of specialist technical skills, soft skills and managerial skills, with adequate space and attention always afforded to compliance training.

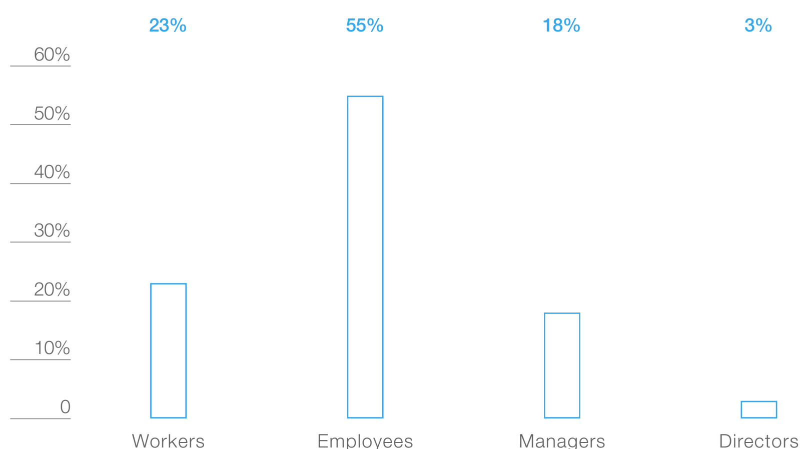
In 2019, Saras laid the foundations for the development of Learning Agility, an approach based on the ability to independently undertake learning pathways and develop knowledge and skills, initiating a process to raise awareness of the importance of being the creators of one's own development. In December, the new Digital Learning platform "SarasLearning" was launched, which includes both "mandatory" training and accessible soft skills and digital skills content.

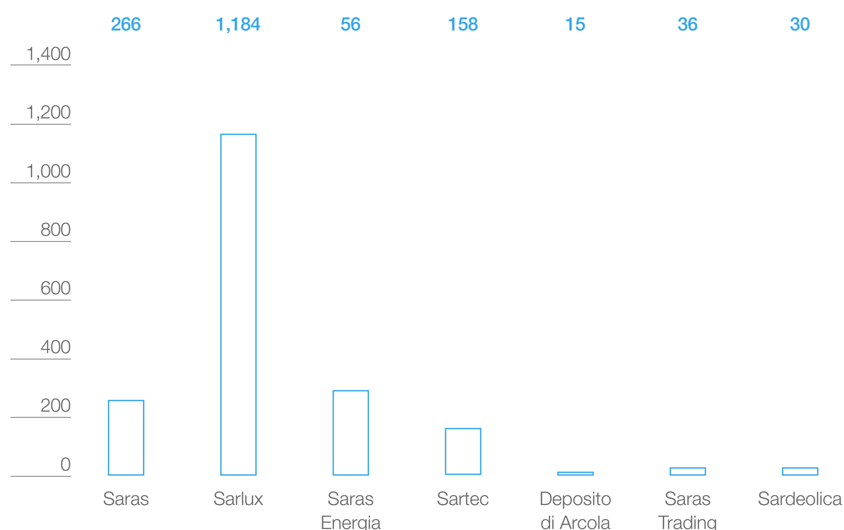
With regard to training on privacy, following the entry into force of the GDPR and the 231 Organisation, Management and Control Model, in 2019 the entire Group population was reached thanks to the creation of online training mini-modules or “learning pills" available on SarasLearning.

All of this content has also been included in the SarasLearning platform on the onboarding path provided for all new employees.

As part of the initiatives aimed at young colleagues, in 2019 the Induction Programme was launched for 50 graduate colleagues who had joined the Company over the last four years. This programme lasts for a total of 24 months, and its purpose is to create conditions that motivate and retain resources in the







Company, stimulate the development of soft skills, keep the group spirit active, increase the vision of the business with internal and external discussions, and promote transversal and experiential development in the different business areas.

It is also important to underline the integration process in Sarlux of about 50 young operators, who alternated between classroom-based learning and plant inspections for several weeks. After the preparatory training phase pursuant to Legislative Decree 81/08, the fairly rich and intense programme allowed them to get to know the entire value chain, production processes, machines, plants, as well as aspects related to the values and soft skills needed to grow and contribute at the Refinery's production site.

Training in the specialist technical field continued in accordance with the continuous updating guidelines dictated by the technical reference standards and the technological adjustments and developments following the introduction of new technologies and systems. In particular, following the investment plan deployed in 2019 at the Sarroch industrial site, the operating personnel were involved in functional training for undertaking new projects.

With the aim of developing and refining skills related to project management, the 130 Project Managers in the Group were involved in a specific course for their role, proposed on the basis of blended learning: four modules in the classroom, alternated with four training clips on the themes of planning, organisation, control and risk. The courses ended with the development of several project works that led to the identification, and subsequent adoption, of new tools, methods and approaches that met the expectations of the organisations to which they belonged.

To support the #digitalSaras programme, various initiatives have been organised to accompany the ongoing transformation, referring in particular to issues related to Data Science, through meetings with expert testimonials from prestigious universities. An awareness campaign was also launched dedicated to the entire corporate population which, through e-learning tools, promotes a process of incremental acquisition of digital skills starting from the basic ones. More specialised courses were dedicated to the resources involved in the realisation of pilot projects and

the subsequent industrialisation of technological solutions.

With the aim of providing executives and managers with greater tools for understanding the economic and financial dimensions that accompany the daily operational decisions required in the exercise of their respective roles, the "Finance for non-financial" training programme was extended to Sartec. The course provided common methodological and language bases on the main financial statement documents and company reporting, increased knowledge on the metrics for creation and measurement of the value produced by the individual business units, and taught participants how investors assessed the Company, especially with regard to the information and transparency requirements dictated by the stock market listing.

Internal communication

Internal communication initiatives were mainly aimed at supporting the transformation through open and transparent communication, the dissemination and sharing of strategies, values, culture and, more generally, information aimed at motivating employees to pursue and achieve corporate objectives.

During 2019, the "My work in our organisation" survey was conducted for the second time. It is an online survey aimed at detecting how people feel within their professional role and their interactions within the work environment. On this occasion, the population involved was further expanded, and the intention is to gradually involve the entire Group.

The level of participation confirmed the willingness of many colleagues to give their feedback and contribute actively to change processes. The evaluations expressed showed overall satisfaction with the company experience, registering an appreciable improvement compared to 2017 and confirming a strong sense of belonging in the Group, which has always characterised the company culture.

Alongside the feedback received, specific programmes have been designed and proposed to support people management processes in our organisation, in which leaders from all Saras Group organisations participated, supported by specific communication campaigns.

Activities that were of interest across the Group involved the all Group company employees at the same time, which was enabled through the use of technologies that facilitate communication between different locations and overcome physical distances, such as the streaming of events and the testing and diffusion of interaction and collaboration systems.

As in previous years, there have been various communication initiatives to support the widespread and correct adoption of new tools and applications for the digitisation of business processes.

With regard to the upcoming introduction of the welfare platform, a communication campaign was conducted featuring a survey that aimed to construct the best welfare offer. Specific meetings were conducted (and streamed) and a new page was published on the Group intranet, with dedicated materials and links.

Another important opportunity for communication and involvement was the relocation of the Milan office. The people concerned were involved in the different steps of the project, from the design phase of workspaces to the sharing of the new office concept, which meets the objectives of fostering integration and connection between functions and teams, up to Welcome Day.

Finally, in the name of open and transparent communication, the project to gradually extend the Company's e-mail account to all Group employees was completed in December, with the assignment of individual accounts to operational colleagues at the Sarroch industrial site. Through this initiative, information and communication initiatives can now involve the entire population of the Group and every employee has access to cross-cutting digital tools and applications.

Remuneration policies

Management pay components

The gross annual fixed remuneration refers to the Contract for Managers of Companies Producing Goods and Services (National Industry Managers Contract). This remuneration may be supplemented by any benefits and a variable component linked to strategic objectives and operating results.

On 16th April 2019, the Shareholders' Meeting approved the long-term incentive plan for the management of the Saras Group (Stock Grant Plan 2019/2021). Details are provided in a subsequent section of this Report on Operations.

Non-management staff pay components

The gross annual fixed pay for non-management staff refers to the "National Collective Labour Agreement" (Energy and Oil National Collective Labour Agreement and Metalworkers National Collective Labour Agreement, where applicable) and supplementary second-level agreements in force.

This remuneration is supplemented by the variable part Performance bonus, managed and regulated through trade union agreements. In some cases, there may also be assigned benefits and/or a part of an individual variable linked to results.

"We are committed to maintaining a safe workplace. For all our employees it remains the single most important principle in the working environment. We have developed a code of conduct that specifically emphasises staff training and safety"

HEALTH, SAFETY AND ENVIRONMENT

A constantly improving picture

Being innovative, sustainable and a model among suppliers of safely and reliably produced energy is one of the principles that guide our strategic choices. Improving reliability and continuity in operations and at the same time guaranteeing territorial and environmental protection is a priority of the Company. In particular, activities to protect the health and safety of all those who work directly and indirectly for the Saras Group are of vital concern. Our company's continued commitment has made it possible to significantly reduce the impact of production activities on the environment.

In 2019, the constant improvement in environmental performance was confirmed. This is the result of the consolidation of management activities at the plants. A detailed and accurate overview of all the environmental aspects that directly or indirectly affect the environment, within and outside the Sarroch plant, is given in the annual "Environmental Statement", drafted as required by the EMAS Regulation. During the year, activities to monitor all environmental aspects relating to air, water and soil continued.

The emissions data for 2019 highlight the improvements that have been achieved thanks to the investments made and management and plant optimisations. Small fluctuations, however, can be seen from year to year, which relate to plant adaptations and extraordinary maintenance. The improvement in environmental metrics is due to a series of technical and management measures put in place, which have gradually equipped the refinery with more efficient technology and resources in terms of production and respect for the environment. Sulphur dioxide (SO2) emissions confirm the trend over the last few years. In fact, since 2015 this index also takes emissions from the Northern Plants into account, which are in the range of 0.23 ÷ 0.28 (tonnes of SO2/1000 from processing). Compared with the average trend of recent years, this is in line with past volumes recorded for SO2 emissions due to the Southern Plants only, thus confirming the trend towards improvement.

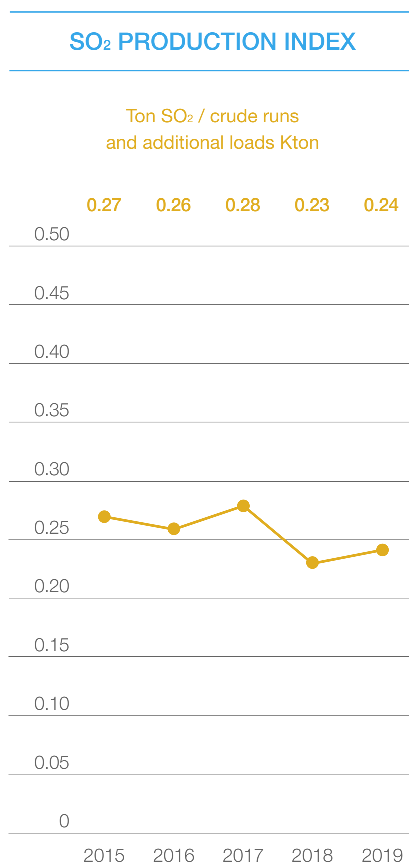
This improved result was achieved chiefly due to the entry into service in December 2008 of the tail-gas treatment and sulphur recovery unit, which enables emissions to be reduced. It has performed very well in recent years.

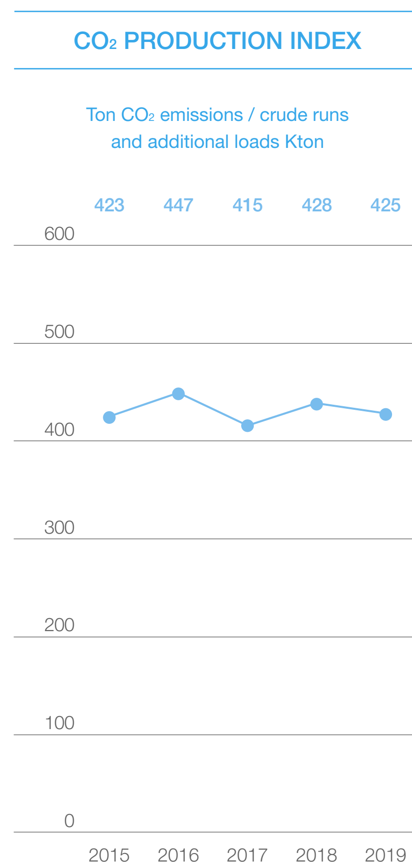
Investment in environment and safety is a key part of the Saras Group's growth strategy. In this context, issues such as energy-saving culture and environmental sustainability, which are not new to the Company or the Group, have become even more topical in the last few years.

In particular, in the area of Health, Safety and Environment (HSE), the Company has, over the last five years, implemented environmental protection measures; achieved improvements in energy efficiency with a reduction in the fuel burned (and therefore emissions); and activities to protect the water tables continued with paving operations on the tank basins and the construction of double bottoms on the tanks.

Thanks to its environmental protection policy, again in 2019, no situations arose in which the Company was held responsible for damage caused to the environment, and neither was it subject to fines or penalties for environmental offences or damage.

The environmental protection policies also require continuous investment in staff training, which involves all workers at the refinery (including those of contractor companies) and other





Group companies in a process aimed at creating a high degree of awareness of environmental issues. Even the most advanced technological systems must be supported by careful management and control by all those involved in the production cycle.

AIA: Integrated Environmental Authorisation

The process of obtaining the Integrated Environmental Authorisation (AIA) permit began in early 2007, and was completed in April 2009. Saras is the first refinery in Italy to obtain the AIA, which represents part of a journey to improve the technical and structural characteristics of plants and the production facility, which thus minimised the environmental impact of the production activities. The AIA permit, issued by the Ministry of the Environment, replaces all other authorisations, and lasts for eight years (conditional on maintaining EMAS (EU Eco-Management and Audit Scheme) registration. This further recognition covers the basic concepts of the Environmental Code, which concerns all the elements (air, water, soil, visual impact, etc.) as part of a whole. It is the result of a process that led to the Company obtaining Environmental Certification ISO 14001 in 2004, which was subsequently confirmed in 2007, 2010, 2013 and 2016. It is also worthy of note that, following the company reorganisation of the previous year, with effect from 1st July 2013, the AIA permit was transferred from Saras SpA to Sarlux Srl, a Group company that now manages all production activities of the Sarroch site. Similarly, the ISO 14001 certification was also transferred from Saras SpA to Sarlux Srl on that same date. The procedure to combine the two existing AIA permits Refinery+IGCC and Northern Plants (formerly Versalis) submitted by Sarlux was approved in December 2015.

The overall review of the Sarlux Integrated Environmental Authorisation was released on 27th October 2017, and is published on the website of the Ministry for the Environment and Protection of the Land and Sea.

The review investigation, which became necessary for all refineries following the publication of the new BAT in October 2014, ended with the Services Conference on 20th July 2017, in the presence of all competent Bodies (Ministry of the Environment, Region, Metropolitan City of Cagliari, Municipality of Sarroch, National Institute for Environmental Protection and Research (ISPRA) and Regional Environmental Protection Agency (ARPAS)), following a process started in July 2016 with the presentation of the required documentation.

Sarlux obtained the renewal of the AIA (Integrated Environmental Authorisation permit) in 2017. The plant, which is owned and run by the Sarlux Srl subsidiary and which includes the Southern Plants (Refinery and IGCC) and Northern Plants (Chemical plants) was thus authorised to operate under Ministerial Decree 0000263 of 11th October 2017, issued by the Ministry for the Environment and Protection of the Land and Sea.

Overall, the plant is given almost total adherence to the new BAT under review both in terms of implementing innovative monitoring programmes, such as those relating to fugitive emissions and odours, and in terms of the choice and implementation of new technologies, such as flare temperature measurement.

The current AIA – whose validity is 16 years due to the fact that the Sarlux plant holds the ISO 14001 certification and the EMAS registration, extended in 2016 also to the Northern Plants – authorises the Manager to exercise the three activities carried out in Sarroch, namely:

- Category IPPC 1.1: Combustion of fuels in installations with a total rated thermal input of 50 MW or more;
- Category IPPC 1.2: Refining of mineral oil and gas;
- Category IPPC 4.1: Chemical plant for the production of basic organic chemicals.

The monitoring and control activities stipulated in the AIA permit continued on a regular basis during 2019.

EMAS registration

The organisation has adopted an environmental management system that complies with the EMAS Regulation to ensure the continuous improvement of its environmental performance and to publish an annual environmental statement. The environmental

management system was verified and the environmental statement was validated by an accredited environmental certifier. In November, the ECOLABEL-ECOAUDIT Committee of the ISPRA certified the three-year renewal of EMAS registration (expiry date 27th June 2022).

The Environmental Statement provides information to the public and all stakeholders about:

- Sarlux's activities;
- the environmental aspects connected to these activities, whether directly or indirectly;
- the environmental improvement objectives that the company has set for itself.

The document is addressed to the community outside and inside the company and aims to establish a transparent relationship with all stakeholders, particularly the population, local authorities and workers, who actively work to ensure that the activities are managed correctly and that environmental information is accessible.

The data contained in the document fulfils the compliance requirements set out in the EMAS Regulation, and Sarlux also declares fulfilment of the legal and legislative compliance requirements set out in the applicable legislation.

Following the validation visit, the document shall always be available on the Sarlux website (http://www.sarlux.saras.it/it/emas/).

Again, with a view to improving transparency, the PRTR (Pollutant Release and Transfer Register) was updated regularly throughout the year with the site's main environmental data. This information is sent to the Ministry for the Environment and Protection of the Land and Sea, which in turn sends it to the European Commission. Specifically, the information concerned levels of water and air emissions based on various parameters relating to the activities carried out.

The workplace health and safety management system

Now more than ever, the HSE (Health, Safety and Environment) management system is the result of a complex process that began in 2001 and led Sarlux to obtain certification of the plant's Environmental Management System (EMS) according to the international ISO 14001 standard. The certification was issued in 2004, confirmed in the following years and extended also to the Northern Plants pursuant to the acquisition of Versalis, an ENI Group company, up to the last positive verifications in May 2019.

Following a similar path to that undertaken for the EMS, in December 2007, the plant also obtained OHSAS 18001 certification for the Safety Management System (SMS). The OHSAS 18001 standard was adopted voluntarily by Sarlux to address the evolution of specific legislation for the protection of the health and safety of workers in a structured and timely manner. In May 2019, the outcome of the surveillance visit to maintain health and safety at work certification was successful, while in January of the same year a GAP Analysis was carried out to assess the compliance of the Sarlux management system with the new ISO 45001:2018 standard, which will replace the old OHSAS 18001 standard by 2021.

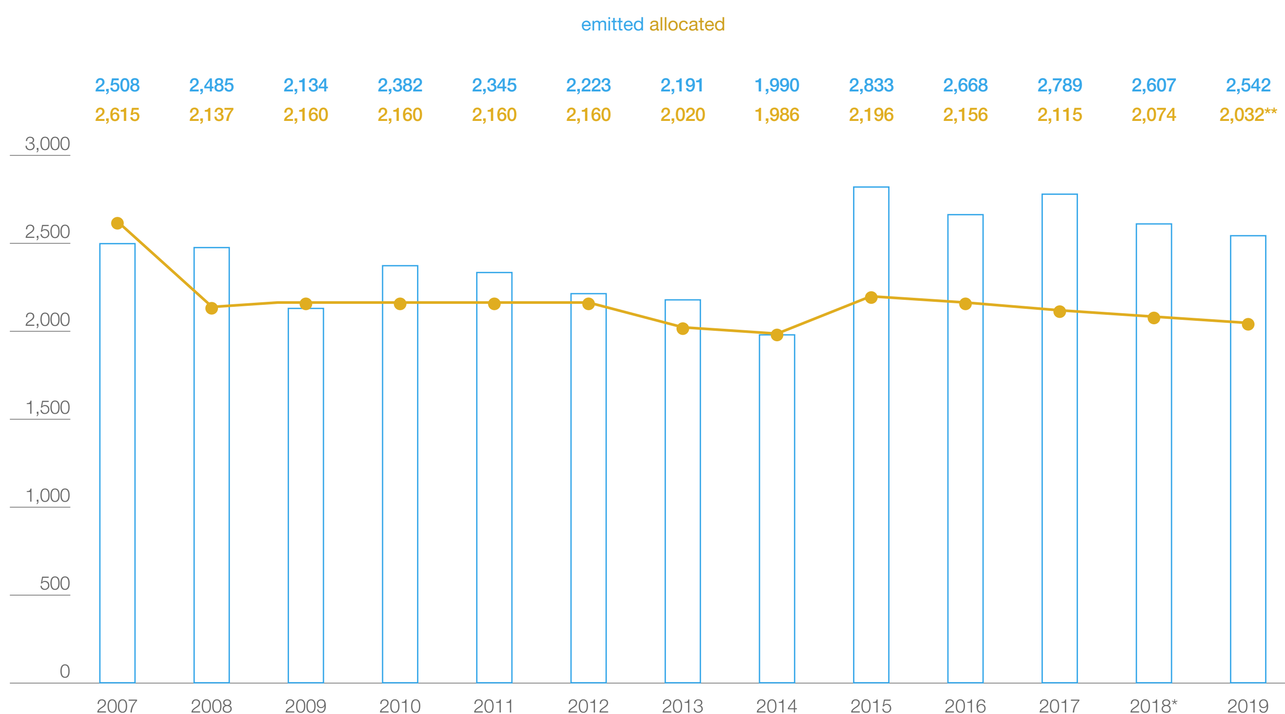
In 2008, the "Organisation, Management and Control Model" was adapted, pursuant to Legislative Decree No 231/01, to comply with the provisions of Law No 123/07 and the subsequent Legislative Decree No 81/08 on the protection of health and safety in the work place, and this was updated again in 2011.

The Safety Management System for the prevention of major accidents (SMS-MAPP), mandatory for the site and falling within the scope of Legislative Decree No 105/2015 ("Seveso Directive") completes the overall HSE framework.

Therefore, Sarlux has:

- drawn up the Safety Report;
- established a Major Accident Prevention Policy;
- implemented and maintained a Safety Management System for the Prevention of Major Accidents (SMS-MAPP);
- defined an Internal Emergency Plan (PEI) and External Emergency

REFINERY CO_2 EMISSIONS (TONS/YEAR)



* 2018 emissions have been modified following the verifications and consequent certifications by Lloyd's, temporally following the publication of the financial statements.

** The free quotas relating to the Northern Plants (included among the allocated quantities) have been requested and are awaiting approval.

Plan (PEE), in collaboration with the Prefecture of Cagliari and the Fire Brigade;

- considered the domino effect in its evaluation of any accidental events.

The HSE management system is now a unique system (major accident prevention, occupational health and safety and environmental protection) that has matured over the years, and it is the main management tool for achieving continuous plant improvement.

Below we list some of the most significant activities carried out by the plant, with a view to continuous improvement:

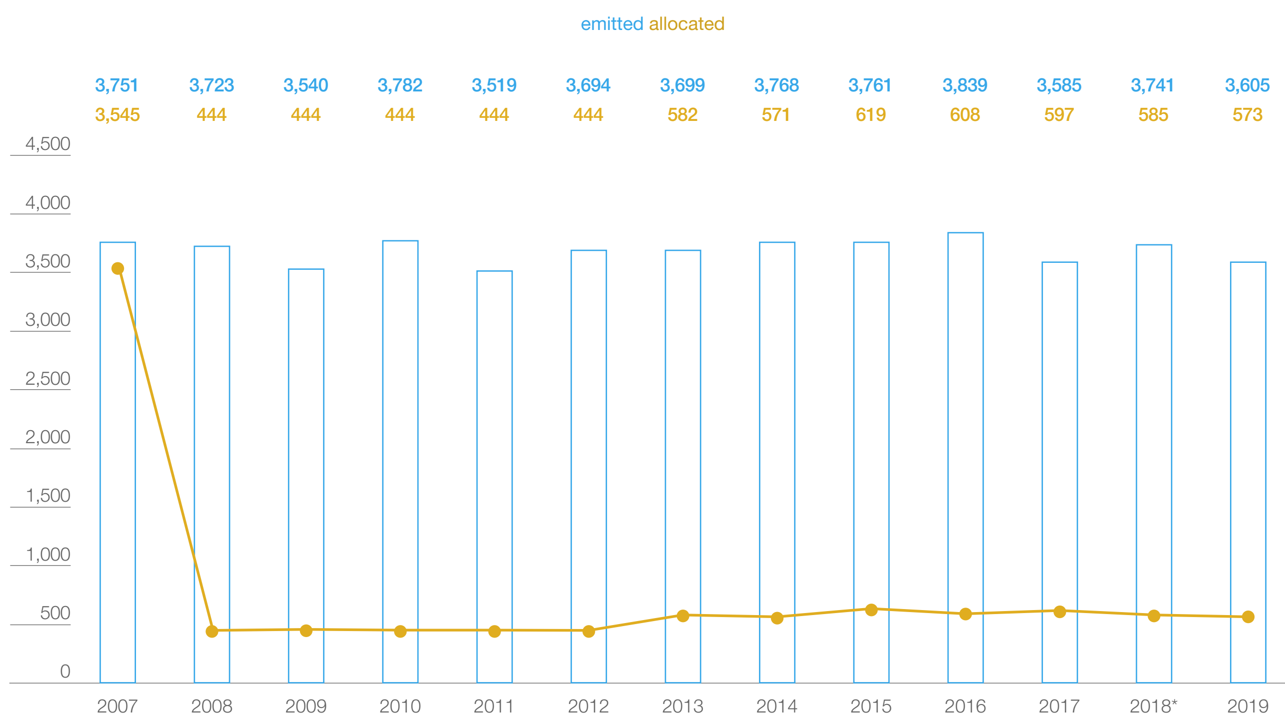
- **Asset Management System (AMS)**: As part of the wider and broader project of digitisation and technological innovation, the Sarlux plant in Sarroch has implemented a new computerised system for the management of all activities required by law for active fire prevention systems (cooling, extinguishing, control, water and foam, detection and alarm systems). This system constitutes the basis for the management and future development of all issues related to the prevention of major accident risks, through modern and digital geolocalisation of fire prevention assets.

- **BBS (Behavior-Based Safety):** In 2019, the extension of the BBS protocol to all areas of the site (Southern and Northern Plants) consolidated the replacement of the other safety performance monitoring systems, providing a consolidated tool for measuring and improving behaviour related to health and safety aspects. The results of the measurement of the behaviours observed are more than satisfactory and constantly improving for the year under review. In detail, in 2019, 24,100 observations were conducted compared to 21,925 in 2018, and the percentage of positive behaviours observed was 98.1% of the total.

- **Systematic Periodic Comparison with Contractors**: In synergy with the Asset Management function, a weekly calendar of meetings to discuss HSE issues that have occurred on the site is followed during the shutdown periods. Proactive comparison was further enriched by the contribution of the companies' prevention and protection representatives, who also attend the above-mentioned meetings.

- **Analysis of incidental and near-miss events**: Near-misses are events related to work activities, with the potential to produce severe damage to persons and/or things. Once again, in 2019, the aim was to monitor the trend in near-misses in order to increase the level of perception of the risk for staff working at the site. This was achieved by classifying the severity of near-misses according to the accident scenario, the consequences (magnitude) and possible frequency of the occurrence of the event. During the year, 96 near-misses were reported, including 41 serious near-misses, including those commensurate with major field operations conducted in parallel with the massive amount of maintenance activities on the site. The near-misses classified as serious were analysed

IGCC CO_2 EMISSIONS (KTON/YEAR)



* 2018 emissions have been modified following the verifications and consequent certifications by Lloyd's, temporally following the publication of the financial statements.

The figure published for 2019 is provisional and it may be amended upon completion of the certification process required pursuant to Directive 2003/87/EC

Note: as of 2013, the National Allocation Plan of CO2 allowances provides a single allocation for the entire Sarroch site (Refinery+IGCC)

by following the same accidents procedure with a level 1 and 2 analysis, through which root causes, contributors and corrective and improvement actions are identified.

- **Audit of HSE management systems**: In 2019, 19 internal audits were planned and conducted.

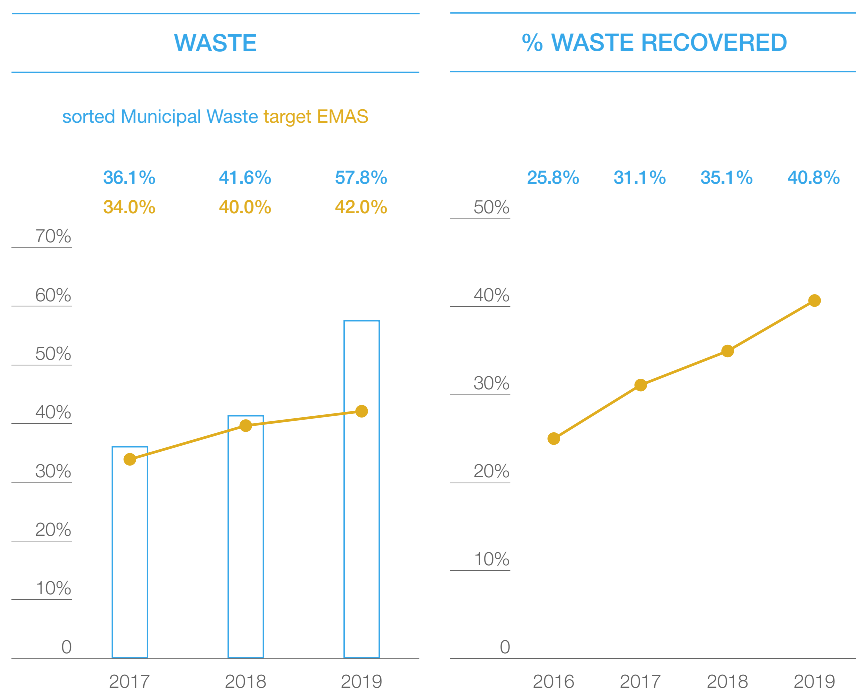
- **Site inspections**: A total of 132 audits were carried out with the involvement of 45 companies and about 590 audited workers, as part of the constant monitoring of the activities carried out by the companies.

The Saras Group promotes a culture of safety at all corporate levels through training staff, sharing information and checking the degree of effectiveness of the activities pursued. Disseminating the culture of safety translates into continuous training and the creation of working conditions aimed at gradually reducing emergencies and accidents involving Saras Group staff and the employees of contractor companies. This commitment is once again confirmed in 2019, with an accident index level that is consistently lower than the sector benchmarks (CONCAWE).

This commitment has also confirmed, for the third consecutive year, an accident frequency index[1] for the Group in line with figures for recent years, which is lower than the average statistical figures of competitors in the European oil sector: 2.30 (CONCAWE data equal to 2.40 in 2018).

Greenhouse gas emissions

The Saras Group falls within the scope of the European Emissions Trading System (ETS) Directive due to the two activities carried out by its subsidiary Sarlux Srl at the Sarroch site, namely the Refining segment and the Electricity Generation segment (IGCC plant). The ETS Directive was introduced across Europe to control and reduce carbon dioxide emissions as part of the battle against the greenhouse effect and consequent climate change. Carbon dioxide emissions do not have a direct impact at local level, particularly in terms of air quality around the site, but are connected to global phenomena. The Emissions Trading System Directive was introduced in 2005 to help Member States comply with the requirements of the Kyoto Protocol. It works by assigning an emissions allowance to each individual plant falling within the scope of the Directive; this allowance is set by the Member State concerned under a "National Allocation Plan". The ETS mechanism also anticipates that surplus allowances may be traded and/or stockpiled, and any deficit must instead be covered by purchasing emissions allowances on the market. The allowance is assigned for each of the reference periods established by the Directive. The first reference period was the three-year period between 2005 and 2007, the second related to the five-year period between 2008 and 2012, while the current period relates to 2013-2020. In the second period of application of the ETS Directive, allocations were tighter, based on the Kyoto Protocol targets. The third period (eight years), which started in 2013, has also led to a further annual reduction in the allocation of emissions allowances. As regards the request for additional allowances



presented by Sarlux subsequent to the purchase of the "Northern Plants" (formerly Versalis), considering the specific nature of the operation (partial purchase of the facility), the proceedings for the reassignment of the allowances are still in progress.

The "Emissions Trading System" National Register is available for consultation and records the allowances assigned and the YoY emissions of CO2 in Italy.

The subsidiary Sarlux has been allocated a single position based on the total emissions from all its operations at the Sarroch site. Sarlux keeps a register that records, calculates and monitors CO2 emissions. The system is certified by accredited independent bodies in accordance with European guidelines, and was updated subsequent to the purchase of the Northern Plants.

Caring for the sea

We are conscious that we must preserve and limit any type of change to the environment. For this reason, we have for years had very stringent criteria relating to the transport of oil and refined products by sea. Only latest generation ships have been utilised since 2009. From this year, 100% of the ships used have been "twin-hulled", in anticipation of current legislation on maritime traffic.

Measures to protect the marine environment also include minute-by-minute monitoring of oil tankers both arriving at and departing from the Sarroch terminals. In this regard, vetting inspections are regularly carried out at other ports by trusted Saras personnel, in accordance with international criteria, as are on-the-spot pre-mooring inspections.

Furthermore, during the entire permanence of the ships at the Sarroch Marine Terminals, a trusted Safety Inspector is always present on board, who supervises all embarking and disembarking activities of oil products in order to verify the strict respect of procedures with particular reference to Health, Safety and Environment issues.

Waste

Salux, which is EMAS certified, is committed to the continuous search for solutions to reduce the environmental impact generated by the waste produced on the site.

Sarlux's objective is to reduce waste production, seek ways to reduce the share of hazardous waste rather than non-hazardous waste, and to identify any possibility of finding new operating procedures favouring the use of material and/or energy recovery, avoiding landfill disposal where possible.

The quest for more efficient operating solutions from an environmental point of view has led to an increase in the share of waste sent for recovery; in 2019 this share was about 40%.

As part of the reduction in waste leaving the site, a new facility was installed in 2019 at an authorised third-party company, operating within the site to reduce the quantities of the main waste produced by Sarlux processes through dehydration.

A further commitment on the part of Sarlux is to optimise the collection of waste that can be assimilated to municipal waste, with an increase in the differentiated portion of the total product recorded in 2019.

SOCIAL RESPONSIBILITY AND ACTIVITIES WITH THE COMMUNITY

Relations with the community

Every company starts out and grows in a specific local context, and the relationship it establishes with that community characterises the future growth of both the Company and the local community.

The Saras Group, now a major international organisation, was originally founded and expanded in Sardinia, an island with a strong identity and for which it has great respect.

That is why, for almost 60 years now, Saras has been actively engaged in initiatives and projects to support the social fabric, history and traditions of this region, with a special focus on young people and the needs of the community.

The Company has defined an "Our stakeholders" policy, setting out the Group's approach to managing relations with the local communities, and recognises the local community and the regions of reference as strategically important stakeholders. Saras promotes social projects capable of creating value for the community. After conducting a preliminary assessment of the economic aspects and consistency with the corporate purpose, the choice falls on projects considered to have the largest impact and value for the community.

In recent years, the Group has adopted specific guidelines with regard to the scope of its activities, based on two main principles: the social context, in terms of the people who deserve support – especially young people, the elderly and less affluent members of society – and the physical territory, meaning the area covered by the Group's actions. One objective that is especially important for Saras is the promotion of the business culture and demonstrating that "doing business" in Sardinia is still possible. To that end, Saras supports educational activities at schools and has ongoing relations with the university, aimed at fostering social development that cannot take place without employment, sustainability and economic growth, in a region weakened by depopulation, especially with many young people moving away.

Saras for schools

Saras is pursuing various ways to meet the requirements of schools and contribute to innovative and more effective teaching. Between 2013 and 2019, about 600 secondary school students entered the Sarroch industrial site (under various projects), among which the most widespread was work experience in order to gain a closer look at how a large company works.

Ad hoc lessons were organised for each course, during which technicians and managers of the Company addressed industrial topics such as safety, the environment, production processes, ICT, corporate structure, often also including simulations to represent our way of working and convey key concepts to help them do well in the world of work. It was with this in mind that in-depth information was provided on how to draw up a curriculum and hold a job interview.

Many students visited the Group's labs and control rooms, gaining hands-on experience of practical applications and attending lessons on specific subjects on Industry 4.0 and the application of innovation in the refining industry and on wind farms. Some students were able to gain an even more in-depth view by interning with the Company.

This internship was dedicated to the ability to deal with change, new technologies and sustainable behaviour, and was part of the work experience programme Street Art 4.0 #diamociunaMoSSa (let's get things going), which aims to stimulate the students' creative and communicative strength. Specifically, five higher education institutions in Cagliari have participated in projects on sustainability issues to stimulate the debate for ideas and behaviour, in particular on the theme of mobility, considered in all its aspects including those related to logistics and sea transport. At the end of the course, five mixed teams presented an innovative idea on sustainable mobility and produced a specific graphic representation. The best idea and graphic representation were reproduced on one of the shuttle buses used within the Sarlux Site.

In the last five years, over 1,000 students have participated in work experience programmes (now known as PCTO, Courses for Transversal Skills and Orientation), which has enabled them to have a hands-on experience of the working world and in particular to observe the complex system of skills and technological innovation that develops in a large industrial group. This has definitely contributed to increasing interaction with the community and consolidating a model of social responsibility within the Company that is ongoing.

For primary schools, Saras has continued to support the cultural growth of students at the Sarroch comprehensive state school for over 20 years. Textbooks were loaned to students and then, in accordance with the culture of sustainability, sent on to other institutes where they are still current given that educational programmes vary. Dedicated tablets and computer rooms were also provided, in preparation for the digital future.

Saras for universities

As part of the Memorandum of Understanding with the University of Cagliari, regular seminars of a technical nature were organised, as part of the training for future engineers and projects in collaboration with the various faculties, aimed at the development of scientific and technological innovation. In 2019, the Saras Group hosted 18 trainees from different disciplines in the various Group companies. Saras also contributed to scholarships for the best Chemical

Engineering graduates, under a project conceived by the Italian Chemical Engineering Society.

The value of Saras for the community

A study conducted by The European House - Ambrosetti estimated the value creation of the Saras Group, based on 2018 data, by measuring its economic, social, environmental and cognitive impact (according to the "four capitals" model) within the country and in Sardinia. The results of the study have shown that the Group has been a protagonist over the years, with constant transformation and strong internationalisation, accompanied by its strong roots in Sardinia. The analysis highlighted the importance of Saras, which is one of the largest companies in Italy in terms of turnover (ninth group in the general survey) and the largest company in Sardinia. Furthermore, in a national context of declining investments, both public and private, the Group has set an example, contributing significantly to the growth of the local and national economy with EUR 2 billion of investments in the last 12 years and around EUR 800 million provided for in the 2020-2023 Business Plan.

Saras for the community and sport

Saras also supports the community by sponsoring several amateur and professional sports associations. The Sarroch volleyball club, the Sarroch youth football team and the Amatori Capoterra rugby team represent the community, and the Group is proud to be able to help them grow and continue to attract promising young sportsmen and women.

Saras is also among the partners of the Cagliari Football Academy. This Academy was established with the aim of being a point of reference for children playing football in Sardinia, to stimulate personal growth as well as technical skills and create a virtuous cycle where sport fosters individual growth.

Community and safety

Saras shares its expertise in the field of safety at the workplace with many local firms, and holds HSE training courses with a view to disseminating an appropriate industrial culture in tune with these fundamental principles.

RISK ANALYSIS

The Saras Group bases its risk management policy on the identification, assessment and mitigation of risks that affect strategic, operational and financial areas, despite operating in a sector in which economic and financial performance is influenced by external market factors, which are only partially controllable by individual operators and have demonstrated high levels of volatility and unpredictability, now and in the past.

The principal risks are reported to and discussed by the Group's top management, to create the prerequisites for their management and also to assess the acceptable residual risk.

The management of the risks found in the company processes is based on the principle by which the operational or financial risk is managed by the person responsible for the related process, based on the indications of top management, while the control function measures and controls the level of exposure to risk and the results of the actions to mitigate such risk. To manage financial risks, the Saras Group policy includes the use of derivatives, only for the purposes of cover and without resorting to complex structures.

FINANCIAL RISKS

Currency risk

The Group's oil business is structurally exposed to fluctuations in exchange rates, because the reference prices for the procurement of crude oil and for the sale of the vast majority of refined oil products are linked to the US dollar. To reduce the exchange rate risk for transactions that will be executed in the future, and the risk originating from payables and receivables expressed in currencies other than the functional currency, Saras also uses hedging derivative instruments where appropriate.

Interest rate risk

Loans at variable interest rates expose the Group to the risk of variations in results and in cash flows, due to interest payments. Loans at fixed interest rates expose the Group to the risk of variation of the fair value of the loans received. The main existing loan contracts are stipulated in part at variable market rates and in part at fixed rates. The Saras Group also uses derivative instruments to reduce the risk of variations in results and in cash flows deriving from interest.

Credit risk

The refining sector represents the Group's reference market and it is principally made up of multinational companies operating in the oil sector. Transactions executed are generally settled very quickly and are often guaranteed by primary credit institutions. Sales in the retail and wholesale markets are small on an individual basis; nonetheless, also these sales are usually guaranteed or insured.

Liquidity risk

The Group finances its activities both through the cash flows generated by operating activities and through the use of externally sourced financing, and it is therefore exposed to liquidity risk, which involves the capacity to source adequate lines of credit as well as fulfil contractual obligations and respect covenants arising from the financing contracts entered into.

However, the significant self-financing capacity, together with the low level of debt, suggest that the liquidity risk is moderate.

OTHER RISKS

Price fluctuation risk

The results of Saras Group are influenced by the trend in oil prices and especially by the effects that this trend has on refining margins (represented by the difference between the prices of the oil products generated by the refining process and the price of the raw materials, principally crude oil). In addition, for its production activities, the Saras Group is required to maintain adequate inventories of crude oil and finished products, and the value of these inventories is subject to the fluctuations of market prices.

The selling price of electricity sold by our subsidiaries Sarlux and Sardeolica is also prone to fluctuations, as are the prices of Energy Efficiency Certificates, green and CO_2 emissions certificates.

The risk of price fluctuation and of the related financial flows is closely linked to the very nature of the business, and it can be only partly mitigated through the use of appropriate risk management policies, including agreements to refine oil for third parties at partially predetermined prices. To mitigate the risks arising from price fluctuation, the Saras Group also takes out hedging derivative contracts on commodities.

Risk relating to the supply of crude oil

A significant portion of the crude oil refined by Saras originates from countries exposed to a higher level of political, social and macroeconomic uncertainty than other countries; changes in legislation, political rulings, economic stability and social unrest could have a negative impact on the commercial relationships between Saras and those countries, with potential negative effects on the Group's economic and financial position. At 31st December 2019, the Saras Group's procurement broke down as follows: 29% from the Middle East, 25% from North Africa, 26% from Russia and Caspian, 14% from West Africa and 6% from the North Sea.

Risks of interruption of production

The activity of the Saras Group depends heavily on its refinery located in Sardinia, and on the contiguous IGCC plant. This activity is subject to the risks of accident and of interruption due to non-scheduled plant shut-downs.

Saras believes that the complexity and modularity of its systems limit

the negative effects of unscheduled shutdowns and that the safety plans in place (which are continuously improved) reduce any risks of accident to a minimum: in addition, Saras has a major programme of insurance cover in place to offset such risks. However, under certain circumstances, this programme may not be sufficient to prevent the Group from bearing costs in the event of accidents and/or interruption to production.

Environmental risks

The activities of the Saras Group are regulated by many European, national, regional and local laws regarding the environment.

The highest priority of the Saras Group is to conduct its activity with the utmost respect for the requirements of environmental legislation. The risk of environmental responsibility is, however, inherent in our activity, and it is not possible to say with certainty that new legislation will not impose further costs in the future.

Regulatory risk

Owing to the characteristics of the business carried out by the Group, it is conditioned by the continuously evolving legislative and regulatory context of the countries in which it operates. To this end, Saras is engaged in continuous monitoring and constructive dialogue with national and local institutions aimed at researching inconsistencies and promptly assessing the regulatory changes that have occurred, working to minimise the economic impact of these changes. In this context, the most significant aspects of the main regulatory developments relate to:

- Regulations relating to the reduction of national emissions of determined atmospheric pollutants and the relative impact of the same on the limits indicated in the current AIA permit.

- The view of the European Commission and the AAEG (Italian Authority for Electricity, Gas and Water) implementing documents in relation to the recognition of the Sarlux subsidiary as an energy-intensive enterprise.

- Regulatory dispositions relating to energy efficiency certificates for the Power sector and incentives for the Wind sector, and their consequences for the GSE.

- Reference regulations relating to the fact that the Sarlux Srl subsidiary sells the electricity generated to the GSE under the conditions specified by the legislation in force (Law No 9/1991, Law No 10/1991, CIP Decision 6/92 as amended, Law No 481/1995), which remunerate the electricity produced by plants powered by renewable and assimilated sources based on the costs avoided and time-limited incentives, linked to the actual production.

Dependencies on third parties

The IGCC plant, owned by the Sarlux Srl subsidiary, depends on oxygen supplied by Air Liquide Italia in addition to raw materials derived from crude oil supplied by Saras. Should these supplies fail, Sarlux would have to locate alternative sources, which it may not be able to find or to source at similar financial terms and conditions.

Protection of Personal Data

The Saras Group operates in compliance with the current regulations on data protection regarding its customers, employees, suppliers and all those with whom it comes into contact daily. In particular, on 25th May 2018 the new Regulation (EU) 2016/679 ("GDPR") on the protection of personal data entered in force. The Saras Group launched a project aimed at implementing the new measures required by the GDPR and aligning its procedures and processes with the changes introduced by this Regulation.

Information technology and cybersecurity

Complex information systems support the various business activities and processes. Risk aspects concern the adequacy of such systems, and the availability, integrity and confidentiality of data and information. In particular, some relevant systems may be exposed to the risk of cyberattacks. The Group has long been developing projects and applying solutions that aim to significantly reduce this type of risk, making use of specialised consultants on the subject and adopting the international standard IEC 62443.

Risk of events affecting the international economy

Based on the information available to date, Brexit is not expected to have a significant influence on the Group's operations.

The impact of the coronavirus on the global economy and demand for oil and oil products is currently difficult to assess. A prolonged situation could lead, among other things, to a reduction in demand for refined products globally and to lower refining margins than expected by experts.

Provisions for risks and charges

In addition to what has been described above in relation to risk management and mitigation activities, the Saras Group, in view of current obligations and the results of past events, which may be of a legal, contractual or regulatory nature, made appropriate allocations to provisions for risks and charges included under balance sheet liabilities (see the Notes to the Consolidated Financial Statements).

OTHER INFORMATION

Treasury shares
In the course of 2019, Saras SpA has not bought nor sold any treasury shares.

On 13th May 2019, 5,769,638 ordinary Saras SpA shares were allocated to the Saras Group management, pursuant to the 2016-18 Stock Grant Plan.

Pursuant to the above, at 31st December 2019, Saras SpA held 9,220,216 treasury shares or 0.97% of the share capital, while there were 941,779,784 Saras SpA shares outstanding.

Changes in the shareholding structure
On 24th June, the total non-proportional demerger of MOBRO in favour of Angel Capital Management SpA (ACM) and Stella Holding SpA (Stella) was concluded. As a result of the demerger, Saras SpA is controlled by Massimo Moratti SapA with 20.01%, Angel Capital Management SpA with 10.005% and Stella Holding SpA with 10.005% of the share capital and an aggregate 40.02%, by virtue of the signing of a supplementary agreement to the Saras Pact, aimed exclusively at taking over the effects of the MOBRO demerger and the consequent takeover by ACM and Stella of MOBRO's stake in Saras SpA. As a result of the second tacit renewal of the shareholders' agreement, the next expiry date will fall on 30th September 2022.

Stock Grant Plans
On 16th April 2019, the Shareholders' Meeting approved the "Long-term incentive plan for Saras Group management" (the "2019/2021 Stock Grant Plan"), assigning the Board of Directors all powers necessary and appropriate to implement the Plan.

The recipients of the Plan are:

- managers with strategic responsibilities within the Company;
- directors of Italian and/or foreign subsidiaries of the Company pursuant to Article 2359 of the Italian Civil Code;
- other senior positions within the Group, including those with an independent employment contract.

Each Beneficiary is assigned a right to receive shares free of charge upon achievement of the following performance targets:

1. TSR: the relative positioning of Saras' Total Shareholder Return (TSR) compared with the TSR of a group of industrial companies (peer group) included in the FTSE Italia Mid Cap index (accounting for 30% of the Rights Assigned);
2. Margin vs EMC Benchmark Margin: the positioning of the Margin, expressed in USD/bbl, and compared in terms of absolute distance from the EMC Benchmark Margin (accounting for 40% of the Rights Assigned);
3. EBITDA in the Power segment (accounting for 30% of the Rights Assigned).

The Plan involves a maximum of 9,500,000 Shares; the shares will be delivered within six months from the end of the Performance Period.

At the beginning of each year of the three-year period of the Plan, the Performance Targets, their weight in relation to the Rights Assigned, and their level of achievement on the basis of which the Shares are assigned to the Beneficiaries may be reviewed and modified.

Transactions with related parties
At the end of 2019, the effect on the Saras Group Balance Sheet and Income Statement arising from transactions or positions with related parties was not significant. For further details please refer to the Notes to the Consolidated Financial Statements, chapter 7.3

"Transactions with Related Parties".

Use of financial instruments

Details can be found in the Notes to the Consolidated Financial Statements, in the chapter "Additional information".

Research and development

In 2019, Saras did not undertake any significant research and development activities. Therefore, no significant costs have been capitalised or recorded in the Income Statement. For further information, please refer to paragraph 5.2.2 "Intangible assets".

Information by segment and geographical area

Information on the breakdown of purchases and sales by business segment and geographical area is provided in chapter 4 "Information by business segment and geographical area" of the Notes to the Consolidated Financial Statements.

Non-recurring and unusual transactions

On 25th July, Spanish subsidiary Saras Energia and Kuwait Petroleum España SA signed the deed of sale for the branch of business comprising the service stations located in Spain and directly owned and operated stations, ancillary services directly related to the network and their personnel. The total consideration for the sale is EUR 35 million (in addition to the value of working capital and inventory of EUR 3.8 million transferred at the time of closing the transaction). It is hereby noted that some stations and the related working capital have not yet been transferred (as well as the related consideration has not yet been paid) while waiting to receive certain authorisations from local authorities. They have therefore been classified under "non-current assets held for sale" and the subsidiary received a partial consideration of approximately EUR 30 million.

Information on shareholdings held by members of the Board of Directors, Board of Statutory Auditors and Managers

Details are available in the Notes to the Separate Financial Statements of Saras SpA, paragraph 7.5 "Shareholdings held by members of the Board of Directors, Statutory Auditors, General Manager and Managers with strategic responsibilities".

Adoption of the fiscal consolidation

Details are available in paragraph 3.4 "Summary of accounting standards and policies" in the Notes to the Consolidated Financial Statements, under paragraph X "Taxes".

Reconciliation between Group Net Result and Shareholders' Equity

The reconciliation between the Group's Net Result and Shareholders' Equity and that of the Parent Company's Net Result and Shareholders' Equity is provided in the table below.

EUR thousand	Net result	Equity
As per the Financial Statements of Saras SpA as at 31st December 2019	**77,503**	**678,795**
Differences between book value and Equity as at 31st December 2019 of shareholdings at cost in the Financial Statements valued of Saras SpA	(45,548)	345,505
Corrections made during consolidation	(5,801)	34,539
As per the Group Consolidated Financial Statements as at 31st December 2019	**26,154**	**1,058,839**

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MAIN EVENTS AFTER THE END OF 2019

On 5th February 2020, Saras signed a five-year revolving credit line totalling EUR 305 million, refinancing in advance the EUR 255 million revolving credit line expiring in December 2020. The transaction enabled the extension of the average duration of the available sources of financing and reduced their cost, taking advantage of the positive market conditions. The funds are intended to provide the Company with adequate financial flexibility so that, despite a positive net financial position, it is able to weather any peaks in working capital and fulfil the commitments required by the investment plan, which includes, for example, interventions aimed at improving the configuration of the site, initiatives dedicated to reliability and energy efficiency, and the digitisation project within Industry 4.0.

In February 2020 the loan with maturity on 20th March 2020 was repaid and a new loan facility amounting to EUR 50 million with maturity 3 and 6 years was opened.

Please note that Sarlux, a Group company, has received a communication from the relevant entities on a possible resolution of the revision of the CO2 quotas assigned. This arises from the acquisition of the business unit from Versalis (Northern Plants) in 2015, which could lead to the final recognition of the benefit requested in the next financial year.

With regards to the evolution of the situation connected to Coronavirus in northern Italy started at the end February 2020 and the resulting social and health crisis, it is reported that the Saras Group put in place all the necessary measures to protect people, customers, the community and to continue his operations in full compliance with current legislation.

CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2019

CONSOLIDATED STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2019

Thousands of EUR	(1)	(2)	31/12/2019	31/12/2018
ASSETS				
Current financial assets	**5,1**		**2,117,692**	**1,683,910**
Cash and cash equivalents	5,1,1	A	431,463	272,831
of which with related parties:			*17*	*18*
Other financial assets	5,1,2	B	51,928	131,723
Trade receivables from third parties	5,1,3	C	351,539	290,210
of which with related parties:			*109*	*85*
Inventories	5,1,4	D	1,040,842	861,601
Current tax assets	5,1,5	E	84,058	19,051
Other assets	5,1,6	F	157,862	108,494
Non-current assets	**5,2**		**1,439,254**	**1,241,008**
Property, plant and equipment	5,2,1	H	1,272,572	1,087,107
Intangible assets	5,2,2	J	77,970	112,127
Right-of-use of leased assets	5,2,3	I	49,919	0
Other investments	5,2,4	L	502	502
Deferred tax assets	5,2,5	X	31,816	37,205
Other financial assets	5,2,6	M	6,475	4,067
Non-current assets held for sale	**5,3**		**7,038**	**35,001**
Property, plant and equipment	5,3,1		7,038	25,235
Intangible assets	5,3,2		0	9,766
Total assets			**3,563,984**	**2,959,919**
LIABILITIES AND EQUITY				
Current liabilities	**5,4**		**2,015,764**	**1,301,078**
Short-term financial liabilities	5,4,1	R	204,897	106,630
Trade and other payables	5,4,2	R	1,648,736	1,043,162
Tax liabilities	5,4,3	X	76,472	74,948
Other liabilities	5,4,4	R	85,659	76,338
Non-current liabilities	**5,5**		**489,381**	**554,771**
Long-term financial liabilities	5,5,1	R	254,704	256,001
Provisions for risks and charges	5,5,2	P, AA	194,278	203,313
Provisions for employee benefits	5,5,3	Q	9,858	10,322
Deferred tax liabilities	5,5,4	X	4,437	3,819
Other liabilities	5,5,5	R	26,104	81,316
Total liabilities			**2,505,145**	**1,855,849**
EQUITY	**5,6**	**N,O,W**		
Share capital			54,630	54,630
Legal reserve			10,926	10,926
Other reserves			967,129	898,089
Net result			26,154	140,425
Total parent company equity			**1,058,839**	**1,104,070**
Third-party minority interests			-	-
Total equity			**1,058,839**	**1,104,070**
Total liabilities and equity			**3,563,984**	**2,959,919**

(1) Please refer to the Notes, section 5 “Notes on the Statement of Financial Position”

(2) Please refer to the Notes, section 3.4 “Summary of accounting standards and policies”

CONSOLIDATED STATEMENT OF INCOME FOR 2019

Thousands of EUR	(1)	(2)	01/01/2019 31/12/2019	*of which non-recurring*	01/01/2018 31/12/2018 (3)	*of which non-recurring*
Revenues from ordinary operations	6.1.1	S	9,369,093		10,267,867	
Other income	6.1.2	S	148,603		129,045	*8,504*
of which with related parties:			*133*		*111*	
Total returns			**9,517,696**	***0***	**10,396,912**	***8,504***
Purchases of raw materials, consumables and supplies	6.2.1	T	(8,345,145)	*(2,500)*	(9,093,028)	
Cost of services and sundry costs	6.2.2	T, AA	(771,109)	*(674)*	(726,758)	*(63,353)*
of which with related parties:			*517*		*508*	
Personnel costs	6.2.3	Q,T	(148,653)		(156,611)	*(3,000)*
Depreciation/amortisation and write-downs	6.2.4	H,J	(198,697)		(178,838)	*(7,798)*
Total costs			**(9,463,604)**	***(3,174)***	**(10,155,235)**	***(74,151)***
Operating result			**54,092**	***(3,174)***	**241,677**	***(65,647)***
Net income (charges) from equity investments		K, L				
Financial income	6.3	U	57,979		79,728	
Financial charges	6.3	U	(76,757)		(135,882)	*(6,308)*
Result before taxes			**35,314**	***(3,174)***	**185,523**	***(71,955)***
Income tax	6.4	X	(9,160)	*885*	(45,098)	*24,007*
Net result			**26,154**	***(2,288)***	**140,425**	***(47,947)***
Net result attributable to:						
Shareholders of the parent company			26,154		140,425	
Third-party minority interests			0		0	
Net earnings per share – base (euro cents)		Z	**2.78**		**15.00**	
Net earnings per share – diluted (euro cents)		Z	**2.78**		**15.00**	

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR 2019

Thousands of EUR		01/01/2019 31/12/2019	01/01/2018 31/12/2018 (3)
Net result (A)		**26,154**	**140,425**
Items that may be reclassified subsequently to profit or loss			
Effect of translation of the financial statements of foreign operations	V	42	140
Items that will not be reclassified to profit or loss			
Actuarial effect IAS 19 on employee post-employment benefits	Q, T	(703)	336
Other profit/(loss), net of the fiscal effect (B)		**(661)**	**476**
Total consolidated net result (A + B)		**25,493**	**140,901**
Total consolidated net result attributable to:			
Shareholders of the parent company		25,493	140,901
Third-party minority interests		0	0

(1) Please refer to the Notes, section 6 “Notes to the Statement of Comprehensive Income”
(2) Please refer to the Notes, section 3.4 “Summary of accounting standards and policies”
(3) During 2019, the Saras Group continued to further improve the methods used to measure its operating performance and economic results, reflected in both GAAP and non-GAAP indicators communicated internally and externally. To this end, starting in the fourth quarter of 2019, the Group decided to revise its accounting policy regarding the rules for the classification of derivative instruments, including the results achieved and not the results of derivative instruments used to hedge commodities and CO_2 charges to the operating result. This decision was also inspired by the opportunities introduced by the recent entry into force of IFRS 9. In accordance with IFRS, the figures for 2018 impacted by this reclassification have been restated to allow their comparability with those of the current year.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR 2019

Thousands of EUR	Share Capital	Legal Reserve	Other Reserves	Profit (Loss) Financial year	Total Equity attributable to the Parent Company	Third-party Minority Interests	Total Equity
Balance at 31/12/2017	**54,630**	**10,926**	**765,904**	**240,836**	**1,072,296**	**0**	**1,072,296**
Period 1/1/2018 - 31/12/2018							
Allocation of previous year result			240,836	(240,836)	0		0
Dividend Distribution			(112,321)		(112,321)		(112,321)
Conversion effect balances in foreign currency			140		140		140
Actuarial effect IAS 19			336		336		336
Reserve for stock option plan			1,990		1,990		1,990
F.T.A. effect IFRS 9			1,204		1,204		1,204
Net result				140,425	140,425		140,425
Total net result			*140*	*140,425*	*140,425*	*0*	*140,425*
Balance at 31/12/2018	**54,630**	**10,926**	**898,089**	**140,425**	**1,104,070**	**0**	**1,104,070**
Period 1/1/2019 - 31/12/2019							
Allocation of previous year result			140,425	(140,425)	0		0
Dividend Distribution			(75,310)		(75,310)		(75,310)
Conversion effect balances in foreign currency			42		42		42
Actuarial effect IAS 19			(703)		(703)		(703)
Reserve for stock option plan			1,658		1,658		1,658
Other changes			2,928		2,928		2,928
Net result				26,154	26,154		26,154
Total net result			*42*	*26,154*	*26,154*	*0*	*26,154*
Balance at 31/12/2019	**54,630**	**10,926**	**967,129**	**26,154**	**1,058,839**	**0**	**1,058,839**

CONSOLIDATED STATEMENT OF CASH FLOWS FOR 2019

Thousands of EUR	(1)	(2)	01/01/2019 31/12/2019	01/01/2018 31/12/2018
A - Initial cash and cash equivalents			**272,831**	**421,525**
B - Cash flow from (for) operating activities				
Net result	5.5		26,154	140,425
Unrealised exchange rate differences on bank current accounts			(256)	2,863
Amortisation, depreciation and write-downs of assets	6.2.4	K, J	198,697	178,838
Net change in risk provisions	5.4.2	P, AA	(9,035)	81,228
Net change in provision for employee benefits	5.4.3	Q	(464)	72
Net change in deferred tax liabilities and deferred tax assets	5.2.4 - 5.4.4	X	6,007	(22,265)
Net interest		U	17,457	16,548
Income tax set aside	6.4	X	3,153	67,363
Change in the fair value of derivatives	5.1.2 - 5.3.1		14,789	(66,206)
Other non-monetary components	5.5		3,925	3,670
Profit for the year before changes in working capital			**260,427**	**402,536**
(Increase)/Decrease in trade receivables	5.1.3	C	(61,329)	101,190
of which with related parties:			*(24)*	*(19)*
(Increase)/Decrease in inventories	5.1.4	D	(179,241)	13,668
(Increase)/Decrease in trade and other payables	5.3.2	R	605,574	(107,122)
Change other current assets	5.1.5 - 5.1.6	F	(114,375)	46,019
Change other current liabilities	5.3.3 - 5.3.4	R	77,008	(17,782)
Interest received		U	1,578	702
Interest paid		U	(19,035)	(17,250)
Taxes paid	5.3.2	X	(69,316)	(95,425)
Change other non-current liabilities	5.4.5	R	(55,212)	(78,744)
Total (B)			**446,079**	**247,792**
C - Cash flow from (for) investment activities				
(Investments) in PPE and intangible assets	5.2.1-5.2.2	H, I	(340,688)	(240,172)
(Investments) in Right-of-use of leased assets			(59,236)	
(Increase)/Decrease in other financial assets	5.1.2	B	98,473	63,384
Increases in the sale of non-current assets held for sale	5.2.1-5.2.2		27,963	
Total (C)			**(273,488)**	**(176,788)**
D - Cash flow from (for) financing activities				
Increase/(decrease) m/l-term financial payables	5.4.1	R	(1,297)	(1,139)
Increase/(decrease) short-term financial payables	5.3.1	R	62,392	(103,375)
Distribution of dividends and treasury share purchases			(75,310)	(112,321)
Total (D)			**(14,215)**	**(216,835)**
E - Cash flows for the period (B+C+D)			**158,376**	**(145,831)**
Unrealised exchange rate differences on bank current accounts			256	(2,863)
F - Final cash and cash equivalents			**431,463**	**272,831**

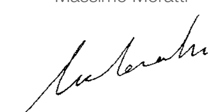
(1) Please refer to the Notes, section 5 “Notes on the Statement of Financial Position”

(2) Please refer to the Notes, section 3.2 “Summary of accounting standards and policies”

(3) It includes the effects of first time application of IFRS16: therefore, the variation is a non-monetary item.

For the Board of Directors - The President

Massimo Moratti



NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AT 31ST DECEMBER 2019

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS AS AT 31ST DECEMBER 2019

1. Introduction

Saras SpA (the "Parent") is a company limited by shares listed on the Milan stock exchange. Its registered office is in Sarroch (CA), Italy, S.S. 195 "Sulcitana" Km. 19. The Company is jointly controlled by Massimo Moratti SapA (20.01%), Angel Capital Management SpA (10.005%) and Stella Holding SpA (10.005%), which together represent 40.02% of the share capital of Saras SpA (excluding treasury shares) under the shareholders' agreement signed by these companies on 24th June 2019. The company is established until 31st December 2056, as stated in its articles of association.

Saras SpA operates in the Italian and international oil markets as a buyer of crude oil and a seller of finished products. The Saras Group's activities include refining of crude, the production and sale of electricity via an integrated gasification combined cycle (IGCC) plant operated by its subsidiary Sarlux Srl and a wind farm run by the subsidiary Sardeolica Srl.

These consolidated financial statements for the year ended 31st December 2019 are presented in euro, since this is the currency of the economy in which the Group operates. They consist of a Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Cash Flow Statement, Statement of Changes in Shareholders' Equity and these Notes. All amounts shown in these Notes to the Consolidated Financial Statements are expressed in thousands of euro, unless otherwise stated.

2. Basis of preparation of the Consolidated Financial Statements

The consolidated financial statements of the Group for the year ending 31st December 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS or international accounting standards) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of Regulation (EC) 1606/2002 of the European Parliament and Council of 19th July 2002, and in accordance with the measures adopted in implementation of Article 9 of Legislative Decree No 38 of 28th February 2005.

The term IFRS is used to mean all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC), endorsed by the European Commission as of the date the draft consolidated and separate financial statements were approved by its Board of Directors, and set out in the relevant EU regulations published as of that date.

The financial statements have been prepared using the following criteria, in line with IAS 1, deemed suitable to provide a more complete picture of the financial position, operating results and cash flows of the Group:

- Statement of Financial Position: assets and liabilities are divided into current and non-current items, according to liquidity;
- Income statement and statement of comprehensive income: income statement items are presented according to their nature;
- Cash flow statement: presented using the indirect method, which distinguishes between cash flows from operations, investing and financing activities;
- Statement of Changes in Consolidated Equity.

The accounting standards shown below have been applied consistently to all the periods reported.

These financial statements were prepared in accordance with the going concern principle, as the Directors determined that there are no financial or operating indicators, among others, signalling criticalities in the Group's ability to meet its obligations in the foreseeable future. The risks and uncertainties relative to the business, as well as the volatility of external and market factors to which the Group's economic and financial performances are exposed, are described in the section dedicated to the Report on Operations. A description of the Group's financial risk management, including liquidity and capital risks, is provided in the section on additional information on financial instruments and risk management policy of these notes.

3. Accounting standards applied

3.1 New accounting standards, interpretations and changes adopted by the Group

The standards and interpretations which had already been issued at the preparation date of these consolidated financial statements and which became effective during the year are listed below. It should be noted that the first application of these new standards did not have any effect on the Group's shareholders' equity.

IFRS 16 – Leases
With effect from 1st January 2019, the new international financial reporting standard, IFRS 16 - Leases, came into effect. The standard was approved by Regulation 2017/1986, issued by the European Commission on 31st October 2017.

It replaces IAS 17 - Leases and defines a single model for recording leases, based on the recording by the lessee of an asset representing the right of use of the asset (the "right-of-use asset") and a liability representing the obligation to make the payments envisaged by the contract (the "lease liability").

As of 1st January 2019, due to first-time application of IFRS 16, the Saras Group recognises for all leases, with the exception of short-term leases (i.e. leases with a term of 12 months or less that do not contain a purchase option) and leases with low-value assets (i.e. with a unit value of less than approximately EUR 5 thousand), a right of use at the lease commencement date, i.e. the date on which the underlying asset is available for use. Lease payments for short-term and low-value leases are recognised as costs in the income statement on a straight-line basis throughout the term of the lease.

The accounting treatment of the new standard envisages, in short, the recording, for the lessee:

- in the statement of financial position, of the right-of-use assets and the financial liabilities relating to the obligation to make the payments envisaged by the contract. Right-of-use assets are measured at cost, net of accumulated depreciation and impairment losses, adjusted for any subsequent remeasurement of lease liabilities. The value assigned to right-of-use assets corresponds to the initial amount of the lease liabilities plus any initial direct costs incurred, lease payments made before the lease commencement date and restoration costs, minus any lease incentives received. At the commencement date, the lessee measures the lease liability at a total amount equal to the present value of the lease payments to be paid over the term of the lease, discounted using the incremental borrowing rate ("IBR") if the interest rate implicit in the lease cannot be readily determined. After the commencement date, the amount of the lease liabilities increases to reflect the accrual of interest and decreases to reflect the payments made;

- in the income statement,

    (i) depreciation of the asset for right of use, the value of which, is depreciated on a straight-line basis over its estimated useful life or the term of the contract, whichever is shorter, unless the Saras Group is reasonably certain of obtaining ownership of the leased asset at the end of the lease term, and

    (ii) interest expense accrued on the lease liability, which represents the financial cost incurred over the term of the contract to reflect a constant interest rate on the residual debt of the liability, for each individual asset; the income statement also includes lease payments that meet the short-term and low-value requirements and variable payments related to the use of assets, not included in the determination of the right of use/lease liability, as permitted by the standard;

- in the cash flow statement, the following effects of reclassification of the cash flows related to leasing contracts, compared to the previous accounting, are determined:

    a) a change in net cash flow from operating activities that will no longer include lease payments but will present the amount of interest expense on the lease liability as selected by the Group;

    b) a change in net cash flow from financing activities that will accommodate disbursements related to the repayment of lease liabilities.

During the first application of the new standard, the Saras Group acted as follows:

- it applied the modified retrospective approach;

- it availed itself of the practical expedient that allows it not to apply IFRS 16 to leases with a residual term as at 1st January 2019 of less than 12 months, for all asset types;

- it considered as leases all contracts classifiable as such under IFRS 16, without applying the "grandfathering" expedient (possibility of not reviewing all contracts existing as at 1st January 2019, only applying IFRS 16 to contracts previously identified as leases in accordance with IAS 17 and IFRIC 4);

- it measured the right-of-use asset at an amount equal to the lease liability;

- the options for renewal or early termination were analysed, where present, in order to determine the overall term of the contract.

The key assumptions used to define the incremental borrowing rate (IBR) at the date of first-time application of the new standard are as follows:

- a method was defined to estimate the IBR to apply to a portfolio of leases with reasonably similar characteristics. The Group then opted to adopt the practical expedient of simplifying the definition of this parameter, as permitted by the new standard;

- the IBR at the date of first-time application of the new standard was estimated based the Parent Saras SpA's average effective borrowing rate as at 31st December 2018 (as the Group's cash pooling is centralised with the Parent) with a maturity similar to the average maturity of the agreements subject to restatement. This rate was appropriately adjusted according to the requirements of the new accounting rules to simulate a theoretical IBR consistent with the leases being measured.

The IBR applied to discount lease payments as of 1st January 2019 is 1.55%.

The application of the new standard had significant impacts on the economic and equity position and cash flow of the Group, as a consequence:

- of an increase in fixed assets for the right-of-use of assets amongst assets;
- of an impact on net financial debt, deriving from the rise in financial liabilities for lease payables;
- of an increase in EBITDA and, to a lesser extent, EBIT, as a result of the exclusion from these figures of the lease payments previously included in operating costs, and a simultaneous increase in depreciation;
- of a marginal change in the net result, reflecting the difference between the various cost items (financial charges and depreciation) booked in application of the new standard, and the lease payments which were previously entirely recognised in the income statement;
- of an improvement in net cash flow from operating activities, which no longer includes payments for operating lease payments, but only outlays for interest expense on the lease liability;
- of a worsening to net cash flow from loans, which includes outlays connected with the reimbursement of the lease liability.

The analysis covered the following types of contracts:

Historical Cost	01/01/2019	N° contracts analysed	N° contracts excluded	N° contracts included
Land and buildings	35,197	22	3	19
Leased plant and equipment	11,952	10	0	10
Other leased assets	6,290	9	3	6
Total	**53,439**	**41**	**6**	**35**

The impacts on the consolidated Income Statement were:

- EUR 10.7 million increase in EBITDA (decrease due to restatement from service costs);
- EUR 3.1 million increase in EBIT (due to the above-mentioned reclassification, net of the increase in amortisation and depreciation);
- increase in the net result by EUR 2.4 million (effect net of tax of the difference between previous items, plus the EUR 0.7 million increase in financial expense).

The difference between the estimated financial assets and liabilities in the Group's consolidated financial statements as at 31st December 2018 and the opening balance at first-time application indicated above, amounting to roughly EUR 2 million, is due to the further refinement of the criteria used to determine the discount rate.

The identification of the lease term is an extremely important aspect as form, legislation and business practices for real estate leases vary significantly from one jurisdiction to another and the assessment of the effects of options to extend at the end of the non-cancellable lease period on the estimated lease term entails the use of assumptions. Indeed, to define the lease term, the Group has considered the lessee's, lessor's or both parties' options to respectively extend and cancel the lease. When both contractual parties may exercise options to extend the lease, the Group considered whether there are significant disincentives in refusing the extension request.

The application of the method described above, considering the specific facts and circumstances and an assessment of the reasonable certainty that the option will be exercised has led the Group to, where it reasonably expects that the option will be exercised, consider a lease term up to the second contractual extension date, based on past experience and the fact that it cannot consider extensions past the second term as reasonably certain.

In June 2019, the IFRS Interpretation Committee began a discussion of the lease term (project: Lease Term and Useful Life of Leasehold Improvements).

In June 2019, the IFRS Interpretation Committee began a discussion of the lease term (project: Lease Term and Useful Life of Leasehold Improvements). A decision was published in November 2019 clarifying how the concepts of non-depreciable period, lease term (considered for the recognition of the liability) and due date (useful for certain financial statement disclosures and for identifying when the contract no longer generates rights and obligations that are due) should be read and correlated for the application of IFRS 16.

The decision made it clear that for the purposes of identifying the due period a lessee must consider the contractual moment at which both parties involved can exercise their right to terminate the contract without incurring significant penalties; the concept of penalty must not have a purely contractual meaning but must be seen in the light of all the economic aspects of the contract. Once the due period has been identified, the lessor considers any renewal or cancellation options and assesses the period it is reasonably certain to control the right to use the asset which therefore determines the duration of the lease.

The Group has considered these discussions and will monitor their development.

IFRIC Interpretation 23 – Uncertainty of Income Tax Treatments
The Interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties affecting the application of IAS 12 and does not apply to taxes or fees that do not fall within the scope of IAS 12, nor does it specifically include requirements relating to interests or penalties due to uncertain tax treatments.

The Interpretation specifically deals with the following points:

- if an entity considers uncertain tax treatment separately;
- the assumptions of the entity on the examination of tax treatments by the tax authorities;
- how an entity determines the taxable profit (or the tax loss), the tax base, unused tax losses, unused tax credits and tax rates;
- how an entity treats changes in facts and circumstances.

An entity must define whether to consider each uncertain tax treatment separately or together with others (one or more) uncertain tax treatments. The approach that allows the best prediction of the uncertainty resolution should be followed.

The Group applies a significant degree of judgement in identifying uncertain tax income treatments. Since the Group operates in a complex multinational context, it has evaluated whether the Interpretation may have had an impact on the consolidated half-year financial statements.

At the adoption date of the Interpretation, the Group has examined whether there are any uncertain tax positions and found that there was no impact on the consolidated financial statements as the Saras Group already applied IAS 12 consistently with IFRIC 23.

Amendments to IFRS 9: Prepayment Features with Negative Compensation

Under IFRS 9, a debt instrument may be measured at amortised cost or fair value in the statement of comprehensive income as long as the contractual cash flows are “solely payments of principal and interest” (SPPI) and that the instrument is classified in the appropriate business model. The amendments to IFRS 9 clarify that a financial asset meets the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and regardless of which party pays or receives reasonable compensation for early termination of the contract.

These amendments have had no impact on the consolidated financial statements of the Saras Group.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement

The amendments to IAS 19 establish the accounting treatment for cases in which, during the reporting period, there is an amendment, curtailment or settlement to an employee benefit plan. The amendments specify that when a plan amendment, curtailment or settlement occurs during the reporting period, an entity is required to determine the service cost for the remainder of the reporting period after the plan amendment, curtailment or settlement, using the relevant actuarial assumptions to remeasure its net defined benefit liability or asset in order to reflects the benefits offered by the plan and the plan assets after the event. The entity is also required to determine the net interest for the remainder of the reporting period after the plan amendment, curtailment or settlement: the net liability (asset) for defined benefits that reflects the benefits offered by the plan and the plan assets after the change; and the discount rate used to adjust the net liability (asset) for defined benefits.

These amendments have not had any impact on the consolidated financial statements as the Saras Group did not have any amendments, curtailments or settlements of plans in the reporting period.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures

These amendments specify that an entity applies IFRS 9 to long-term interests in an associate or joint venture not measured using the equity method but that substantially form part of the net interest in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model under IFRS 9 applies to these long-term interests.

The amendments also clarify that, when applying IFRS 9, an entity must not consider any losses of the associate or joint venture or any impairment in the equity investment recognised as adjustments to the net interest in the associate or joint venture due to the application of IAS 28 Investments in Associates and Joint Ventures.

These amendments do not apply to the Saras Group.

Annual Improvements - 2015-2017 Cycle

IFRS 3 Business Combinations

The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including the remeasurement of the previously held interest in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures the previously held interest in the joint operation.

The entity applies these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st January 2019; early application is permitted.

This amendment does not have any impact on the consolidated financial statements of the Saras Group as there were no business combinations in which joint control was obtained.

IFRS 11 Joint Arrangements

An entity that participates in a joint operation, without joint control, could obtain joint control of the joint operation if the operation constitutes a business as defined by IFRS 3.

The amendments clarify that the previous held interests in the joint operation are not remeasured. An entity applies these amendments to transactions in which it holds joint control on or after the beginning of the first annual reporting period beginning on or after 1st January 2019; early application is permitted.

The Group does not expect any significant impacts from application of IFRS 11, as there were no business combinations in which joint control was obtained.

IAS 12 Income Taxes

The amendments clarify that the effects of income taxes on dividends are linked to past transactions or events that generated distributable income, rather than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss for the period, in other comprehensive income or shareholders’ equity according to the way in which the entity previously recognised such past transactions or events.

An entity applies these amendments to reporting periods beginning on or after 1st January 2019; early application is permitted. When an entity applies these amendments for the first time, it applies them to the effects of income taxes on dividends recognised as from the start of the first reporting period.

Since the Group's current practice is in line with these amendments, they do not have any impact on the Saras Group’s consolidated financial statements.

IAS 23 Borrowing Costs
The amendments clarify that an entity treats any borrowing that was originally agreed specifically to develop an asset as non-specific if all the necessary steps to prepare such asset for use or sale have been completed.

An entity applies these amendments to borrowing costs incurred on or after the beginning of the period in which the entity applies these amendments for the first time. An entity applies these amendments to reporting periods beginning on or after 1st January 2019; early application is permitted.

Since the Group's current practice is in line with these amendments, they do not have any impact on the Saras Group's consolidated financial statements.

3.2 Standards issued but not yet in force

The standards and interpretations that had already been issued and endorsed at the preparation date of these Consolidated Financial Statements and that will become effective in the following years are listed below.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29th March 2018)
The IASB published the revised version of the Conceptual Framework for Financial Reporting with first-time application on 1st January 2020. The main changes concern:

- a new chapter on measurement;
- improved definitions and guidance, particularly with regard to the definition of a liability;
- clarifications of important concepts, such as stewardship, prudence and measurement uncertainty.

Amendments to the definition of a business in IFRS 3 (issued on 22nd October 2018)
The IASB published amendments to the definition of a business in IFRS 3 with the aim of helping to determine whether a transaction is an acquisition of a business or a set of activities that does not meet the definition of a business under IFRS 3. The amendments will apply to acquisitions after 1st January 2020. The Group will apply the amendments when they come into effect.

Amendments to the definition of material in IAS 1 and IAS 8 (issued on 31st October 2018)
The IASB published amendments to the definition of material in IAS 1 and IAS 8, in order to clarify the definition of "material" and help entities to assess whether information should be included in the financial statements. The amendments will apply as of 1st January 2020. The Group will apply the amendments when they come into effect.

IFRS 17 - Insurance Contracts (issued on 18th May 2017)
The IASB has published IFRS 17 - Insurance Contracts, a new complete standard which covers the recognition and measurement, presentation and disclosure of insurance contracts. The standard will be effective for annual periods starting on or after 1st January 2021 and will apply to all types of insurance contracts, regardless of the entity writing them, and to certain guarantees and financial instruments with discretionary participation characteristics. On the basis of preliminary analyses, the Group does not expect the standard to have any material effects on its consolidated financial statements.

3.3 Consolidation Scope and Criteria

The consolidated financial statements include the financial statements of the Parent Company and of the companies over which it exercises control, directly or indirectly, starting from the date on which it was acquired and up to the date when such control ceases. In this case, said control is exercised both by virtue of the direct or indirect ownership of the majority of shares with voting rights and the exercise of a dominant influence expressed by the power to determine, even indirectly by virtue of contractual or legal agreements, financial and managerial choices of the entities, obtaining the relative benefits, even disregarding equity transactions. The existence of potential voting rights exercisable at the reporting date is considered for the purpose of determining control.

The consolidated financial statements have been prepared as at 31st December, and are generally those specifically prepared and approved by the Boards of Directors of the individual companies, appropriately adjusted, where necessary, to align them with the accounting standards of the Parent Company.

On 2nd March 2020, the Board of Directors of Saras SpA approved the draft separate financial statements of Saras SpA.

Consolidated subsidiaries are listed below.

Consolidated on a line-by-line basis	% owned
Deposito di Arcola Srl	100%
Sarlux Srl	100%
Saras Ricerche e Tecnologie Srl	100%
Sarint SA and subsidiaries	100%
Saras Energia SAU	100%
Terminal Logistica de Cartagena SLU	100%
Reasar SA	100%
Sardeolica Srl and subsidiary	100%
Saras Trading SA	100%

Other investments: measured at cost as not significant	
Sarda Factoring	4.01%
Consorzio La Spezia Utilities	5%

As compared with 31st December 2018, the only change made is the liquidation of the company Alpha Eolica Srl (already in liquidation last year).

The criteria adopted for the line-by-line consolidation of subsidiaries consolidated on a line-by-line basis are as follows:

[I] assets and liabilities, expenses and income are consolidated on a line-by-line basis attributing to minority shareholders, where applicable, the portion of shareholders' equity and net result for the period pertaining to them; these items are reported separately in specific items of Shareholders' Equity and the Consolidated Statement of Comprehensive Income;

[II] business combinations that lead to the control of an entity being acquired are accounted for using the purchase method. The cost of acquisition equates to the fair value on the date on which the entity's assets and liabilities and any equity instruments issued are acquired. The difference between:

- the consideration paid (generally calculated on the basis of its fair value at acquisition date), and – in the case of a business combination achieved in stages – the fair value at the date of acquisition of control of the equity investment already held in the Company; and

- the fair value of the identifiable assets acquired net of the identifiable liabilities taken on, measured at the date that control is acquired

is recognised, where the relevant conditions apply, as goodwill on the date that control of the business is acquired. Badwill (negative goodwill) is recognised in the Income Statement.

[III] gains and losses arising from transactions between companies that are consolidated on a line-by-line basis, which have yet to be realised with third parties, are derecognised, where significant, as are any intragroup payables and receivables, costs and revenues, and financial income and charges.

[IV] gains and losses arising from the disposal (without loss of control) of equity investments in consolidated companies are charged to equity for amounts corresponding to the difference between the selling price and the portion of consolidated equity effectively transferred. If further acquisitions of equity investments take place without a change in control, the difference between the purchase price and the corresponding portion of equity acquired is recognised through equity.

Investments in companies over which control is exercised jointly with other companies (joint ventures) and in companies over which the Group exercises significant influence (referred to hereinafter as ‘affiliated companies’), which is presumed to exist when a stake of between 20% and 50% is held, are accounted for using the equity method, except where the application of this method does not impact on the Group’s financial position, operating results and cash flow; in such instances, the investment is measured at fair value. The way in which the equity method is applied is described below:

[I] the carrying amount of an investment is brought into line with the equity of the investee, adjusted, where necessary, to reflect the adoption of accounting policies that are consistent with those adopted by the Parent Company and includes, where applicable, any goodwill identified at the time of the acquisition;

[II] the Group’s proportionate share of profits or losses is recognised in the consolidated income statement from the date on which the significant and controlling influence commences until the day it ceases to exist. Should the company, as a result of losses, report a net deficit, the carrying amount of the investment is eliminated and any excess amount attributable to the Group is allocated to the relevant provision, only where the Group has undertaken to meet the investee’s legal or constructive obligations or in any event to cover its losses. Changes in the equity of investee companies that are not allocated to the result posted in the income statement are directly added to or deducted from equity reserves;

[III] unrealised gains and losses arising from transactions between the Parent Company and subsidiaries or investee companies are derecognised based on the value of the stake held by the Group in the investees. Unrealised losses are eliminated, except where they represent an impairment loss.

The financial statements of the companies included in the basis of consolidation are prepared using the currency of the main economic environment in which they operate (functional currency). The consolidated financial statements are presented in euro, which is the functional currency of the Parent Company. The following rules are followed when translating the financial statements of companies expressed in a currency other than the functional currency into euro:

[I] assets and liabilities are translated at the applicable exchange rates on the reporting date;

[II] costs and revenues are translated at the average exchange rate for the period;

[III] the translation reserve includes both exchange rate differences arising from the translation of income statement amounts at an exchange rate different from the year-end rate and those arising from the translation of equity balances at the beginning of the year at an exchange rate different from the year-end rate;

[IV] goodwill and fair value adjustments relating to the acquisition of a foreign entity are treated as assets and liabilities of that entity and translated at the previous year-end exchange rate;

[V] when preparing the consolidated statement of cash flows, the average exchange rates for the period are used to translate the cash flows of foreign subsidiaries.

3.4 Summary of accounting standards and basis of measurement

The consolidated statements have been prepared based on the cost principle, except in the specific cases described in the notes below, where fair value has been applied.

The main valuation criteria used are described below, which are unchanged compared with the previous year, except the comments made in the following paragraph "6 - Notes to the Income Statement" concerning the classification of results from derivative instruments.

A Cash and cash equivalents

Cash and cash equivalents mainly consist of cash on hand, demand deposits with banks, other short-term, highly liquid investments (convertible into cash within 90 days) and overdraft facilities; overdrafts in bank accounts are reported under current liabilities. Items listed under net cash and cash equivalents are measured at fair value, and changes are reported in the income statement.

B Other financial assets

Other financial assets are reported at fair value, with any gains reported in the income statement under “Financial income” and “Financial charges”. Other financial assets also include derivative contracts, which are discussed in the appropriate section "Y Derivative Instruments" which provide additional details.

C Trade receivables from third parties

Trade receivables are measured at fair value on initial recognition. Subsequently, they are valued at amortised cost by applying the effective interest rate method. Where there is objective evidence indicating impairment (in terms of both solvency and the credit risk characteristics of individual debtors), the asset's carrying amount is decreased to an amount equal to the discounted value of its future cash flows.

At the closing date of each balance sheet, the Group conducts an analysis of any expected losses on trade receivables measured at amortised cost, and recognises or adjusts specific provisions for impairment.

The provisions for the above-mentioned expected losses are based on assumptions regarding the risk of default and expected losses. To this end, management uses its professional judgement and historical experience, as well as knowledge of current market conditions and forward estimates at the end of each reporting period.

Expected Credit Loss (ECL), determined using probability of default (PD), loss in case of default (LGD) and exposure to risk in case of default (EAD), is determined as the difference between the cash flows due under the contract and the expected cash flows (including cash inflows) discounted using the original effective interest rate.

The Group essentially applies an analytical approach, on individually significant positions and in the presence of specific information on the significant increase in credit risk. For individual assessments, PD is obtained mainly from external providers such as legal advisors who are entrusted with debt collection cases.

Receivable assignments

Assignments of receivable are accounted for in accordance with the method indicated by IFRS 9 for the derecognition of financial assets. Consequently, all receivables assigned to the factoring company, when contractual provisions include clauses that involve maintaining significant exposure to the performance of cash flows arising from the receivables assigned, remain recognised in the financial statements.

D Inventories

Inventories are recognised at the lower of purchase or production cost and the net realisable value at the end of the financial year represented by the amount that the Group expects to obtain from their sale as part of its ordinary business activities, considering the sales realized after the ent ot the financial year and/or the future price projections. The value of crude oil, materials and spare parts is determined by the FIFO method. The value of oil product inventories is calculated using the weighted average cost of the last quarter.

E Current tax assets

Current tax assets are booked at initial recognition in the amount that is expected to be recovered from the tax authorities, taking into account their expected realisable value. Subsequently, they are recognised at amortised cost.

F Other assets

Other current assets are measured at fair value on initial recognition. Where there is objective evidence indicating impairment, the asset's carrying amount is decreased to an amount equal to the discounted value of its future cash flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-down no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

White certificates are recognised on an accruals basis under "Other income", in proportion to the savings, expressed as tonnes of oil equivalent (TOE), achieved during the year.

The certificates are valued at the average market value for the year, unless the market value at the end of the year is significantly lower. The decreases due to the sale of white certificates accrued in the current or prior years are measured at the sale price. Gains and losses arising from the sale of certificates in different years from those in which they were accrued are recognised under 'Other income' or 'Services and sundry costs', respectively.

G Derecognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised at once (e.g. removed from the statement of financial position of the Group) when:

- the rights to receive cash flows from the asset are extinguished, or

- the Group has transferred to a third party the right to receive cash flows from the asset or has assumed the contractual obligation to pay them in full and without delay and (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over that asset.

In cases where the Group has transferred the rights to receive cash flows from an asset or entered into an agreement under which it retains the contractual rights to receive the cash flows from the financial asset, but assumes a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it assesses whether and to what extent it has retained the risks and rewards of ownership. If it has neither transferred nor retained substantially all the risks and benefits or has not lost control over it, the asset continues to be recognised in the Group's financial statements to the extent of its residual involvement in the asset. In this case, the Group also recognises an associated liability. The transferred asset and the associated liability are valued to reflect the rights and obligations that continue to be incumbent upon the Group.

When the entity's continuing involvement is a guarantee on the transferred asset, the involvement is measured at the lower of the amount of the asset and the maximum amount of consideration received that the entity may have to repay.

A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled. Where an existing financial liability is replaced by another from the same lender, under substantially different conditions, or the conditions of an existing liability are substantially changed, such exchange or change is treated as a derecognition of the original liability, accompanied by the recognition of a new liability, with any differences in carrying amounts recognised in profit or loss.

H Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, less accumulated depreciation and any impairment. The cost includes all expenses incurred directly in preparing the assets for use, as well as any disposal and removal charges incurred as a result of contractual obligations. Any interest expenses relating to the construction of tangible assets are capitalised until the asset is ready to be used.

Costs associated with requirements to restore or dismantle plants arising from statutory or contractual obligations are accounted for as an increase in the historical cost of the asset with an offsetting entry in the provisions for risks and future liabilities.

Maintenance and repair charges are expensed as incurred. Costs relating to the expansion, modernisation or improvement of facilities owned by Saras or used by third parties are only capitalised up to the limits within which they fulfil the conditions for separate classification as an asset or part of an asset in accordance with the component approach. Turnaround costs are classed as extraordinary maintenance costs and capitalised in the year in which they are incurred. They are amortised over the expected length of time until the next turnaround. Similarly, the costs of replacing the identifiable components of complex assets are recognised as assets and depreciated over their useful life; the residual value of components thus replaced is charged to the income statement. Government grants relating to capital expenditure are deducted from the purchase price or production cost of the relevant assets when the conditions necessary for receiving them have been met.

The carrying amount of property, plant and equipment is depreciated on a straight-line basis from the time the asset is available and ready for use, in relation to its estimated useful life.

The useful life estimated by the Group for each of the various asset categories is as follows:

	for I.G.C.C. plant	per other
Buildings	until 2031	18 years
General plants	until 2031	12 years
Highly corrosive plants	until 2031	9 years
Thermoelectric plant	until 2031	
Wind Farm		10/25 years
Transformation stations	until 2031	13 years
Office furniture and equipment		4 years
Vehicles		4 years
Other assets		5/12 years
Leasehold improvements	The shorter of the duration of the lease and the useful life of the asset	

The useful life of property, plant and equipment and their residual value are revised annually at each reporting date, and adjusted accordingly.

Land is not depreciated.

If an asset to be depreciated consists of separately identifiable components and the useful life of one component differs significantly from that of the others, each component of the asset is depreciated separately in accordance with the component approach. Tangible assets are derecognised at the time of their disposal or when no future economic benefits are expected from their use or disposal; the relative profit or loss is recognised in the Income Statement.

I Leased assets and rights to use assets

Assets held through leasing contracts or contracts granting rights to use third party assets are recognised as Group assets at their current value or, if lower, at the current value of the minimum lease payments due, except for those of short-term or low value. The corresponding liability to the lessor is recognised on the statement of financial position under financial liabilities. The assets are depreciated on a straight-line basis over the term of the underlying contract, and the financial liability is repaid on the basis of the payments provided for in the lease or the right to use.

J Intangible assets

Intangible assets are made up of elements that are non-monetary in nature, without physical substance and clearly identifiable (i.e. distinct, able to be separated, dismantled or traded, and deriving from other contractual or legal rights), controlled by the company and capable of generating future economic benefits. These elements are recognised at acquisition and/or production cost, which includes any directly attributable charges incurred in preparing the asset for use, net of accumulated amortisation and any impairment losses. Any interest expenses accrued during and in respect of the development of intangible assets are charged to the income statement. Amortisation commences from the time the asset is available for use and is charged on a straight-line basis over its estimated useful life.

Tangible assets are derecognised at the time of their disposal or when no future economic benefits are expected from their use or disposal; the relative profit or loss is recognised in the Income Statement.

[I] Goodwill

Goodwill is the excess cost (acquisition cost plus the fair value of any minority interests already held at the point when control is acquired) incurred over net fair value, as recorded on the acquisition date, when acquiring assets and liabilities forming businesses or business units. Goodwill relating to equity-accounted investees is included in the carrying amount of the investees. It is not systematically amortised, but is periodically tested for impairment. These tests are performed with reference to the cash generating unit to which goodwill is attributed. Any reduction in goodwill is recognised where the recoverable amount of goodwill is lower than its carrying amount; the recoverable amount is the higher of the fair value of the cash generating unit, less disposal costs, and its value in use, which is the present value of the cash flows expected to be generated in the years during which the cash generating unit is operating and from its disposal at the end of its useful life.

If the impairment arising from the test is greater than the amount of goodwill allocated to the cash generating unit, the residual amount is in turn allocated to the assets included within the cash generating unit, in proportion to their carrying value. The minimum amount for this allocation is the highest of the following:

- the fair value of the asset, less disposal costs;
- its value in use, as defined above;
- zero.

Where goodwill was previously written down for impairment, the write-down is not reversed.

[II] Patent rights, concessions, licences and software (intangible assets with an indefinite useful life)

Intangible assets with a finite useful life are amortised systematically over their useful life, taken to be the estimated period in which the assets will be used by the company; the recoverability of the carrying amount of the assets is checked using the same method applied to "Property, plant and equipment".

[III] Research and development expenses

The costs associated with the acquisition of new knowledge or discoveries, the development of alternative products or processes, new techniques or models, the design and construction of prototypes, or otherwise relating to other scientific research or technological development are treated as current costs and taken to profit or loss when incurred.

K Impairment of assets

At each reporting date, property, plant and equipment and intangible assets with a finite useful life and equity investments are tested for impairment, originating from both internal and external sources. Where such indicators exist, the recoverable amount of these assets is estimated and any impairment loss duly charged to the income statement. The recoverable amount of an asset is the greater of its fair value minus selling costs and its value in use (the present value of the future cash flows that the asset is expected to generate). In determining value in use, future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money in relation to the period of the investment and the risks specific to the asset. The recoverable value of an asset that does not generate largely independent cash flows is determined in relation to the cash generating unit to which the asset belongs. An impairment is recognised in the income statement whenever the carrying value of an asset, or of the cash generating unit to which it is allocated, is higher than its recoverable value. When the reasons for impairment no longer exist, the impairment loss is reversed to profit or loss up to the carrying amount that the asset would have had, had it not been impaired and if it had been depreciated.

L Other investments

The investments included under "Other investments" are measured at fair value, with the impact of any changes in fair value recognised through equity. Where fair value cannot be reliably determined or is insignificant, they are measured at cost less any impairment losses, in compliance with IFRS 9. These costs are periodically reviewed in order to determine whether any impairment indicators exist that might indicate that their recoverable value is lower than their carrying value.

M Other financial assets

Depending on the characteristics of the instrument and the business model adopted for its management, financial assets are classified into the following categories:

(i) financial assets measured at amortised cost;

(ii) financial assets measured at fair value with recognition of the effects among the other components of comprehensive income (hereinafter also OCI);

(iii) financial assets measured at fair value with recognition of the effects in the Income Statement.

Initial recognition is at fair value; for trade receivables without a significant financial component, the initial recognition value is represented by the transaction price. Subsequent to initial recognition, financial assets that generate contractual cash flows exclusively representing capital and interest payments are measured at amortised cost if held for the purpose of collecting the contractual cash flows (hold-to-collect business model). The application of the amortised cost method results in the recognition in the income statement of interest income determined on the basis of the effective interest rate, exchange rate differences and any write-downs.

The treatment of financial assets linked to derivative instruments is shown under point "Y Derivatives".

N Treasury shares

Treasury shares are recognised at cost and deducted from equity.

O Shareholders' equity

[I] Share capital

Share capital consists of the Parent Company's subscribed and paid-up capital. Costs strictly related to the issue of new shares are deducted from equity reserves, after any deferred tax effect.

[II] Reserves

Reserves comprise equity-related reserves set aside for a specific purpose relating to the Parent Company; they include retained earnings.

[III] Share-based payments by the Parent Company to Group employees and management

The Group grants additional benefits to employees and management via the allocation of bonus shares. In accordance with IFRS 2-Share-based Payments, the cost of stock plans is recognised in profit or loss over the vesting period on a straight-line basis, with a balancing entry in equity. Changes in fair value after the grant date have no effect on the initial valuation.

P Provisions for risks and charges

Provisions for risks and charges are recognised only where a present obligation (legal or constructive) exists in relation to past events that is expected to result in an outflow of financial resources, the amount of which can be reasonably assessed. This amount represents the best estimate of the sum that must be paid to discharge the obligation.

Those risks in respect of which it is only possible to show a future liability are disclosed in the section on commitments and risks, and no provision is made.

Q Provisions for employee benefits

The Group provides various types of pension plans, in keeping with the conditions and practices that are commonly applied locally in those countries in which it carries out its activities.

From 1st January 2007, the regulations governing post-employment benefits (TFR) were amended to include the option for employees to decide where these are held. Specifically, new post-employment benefits may be allocated to pension funds or held at the company (if it has fewer than 50 employees, or allocated to INPS if it has more than 50 employees). The

introduction of these regulations has resulted in the following accounting changes:

- **Provisions made up to 31st December 2006**
  Post-employment benefits pursuant to Article 2120 of the Italian Civil Code are treated in the same way as "defined benefit plans"; these plans are based on the working life of the employees and on the remuneration they receive over a pre-determined period of service. The liability relating to post-employment benefits is entered on the statement of financial position based on their actuarial value, since this can be quantified as a staff benefit due on the basis of a defined benefit plan. The recognition of defined benefit plans requires the estimate of the benefits accrued by the employees in exchange for the service provided using actuarial techniques. These services are then discounted in order to determine the present value of the Group's obligations. The present value of the Group's obligations is determined by an external consultant using the projected unit credit method. This method, which comes under the more general area of "accrued benefit methods", considers each period of service at the company as an additional unit of entitlement: actuarial liabilities must therefore be quantified solely on the basis of years worked at the valuation date; thus, an estimate of the total liability is normally extrapolated from the number of years of service at the valuation date to account for the total number of years worked at the time the benefit is expected to be paid.

  The cost accrued for the year in respect of defined benefit plans is recorded in the income statement under personnel expenses and is equivalent to the sum of the average present value of entitlements accrued by current employees and the annual interest accrued on the present value of the Group's obligations at the beginning of the year, calculated using the discount rate for future disbursements that is used to estimate liabilities at the end of the previous year. The annual discount rate adopted for these calculations is the end-of-year market rate for zero coupon bonds with the same maturity as the average remaining duration of the liabilities.

  Following application of IAS 19 (revised), actuarial gains and losses relating to the change in parameters, previously reported in the income statement (personnel costs), are now recognised in the statement of comprehensive income.

- **Amounts due from 1st January 2007**
  The allocations in question are accounted for using the method adopted for defined contribution pension plans (which are not subject to actuarial valuations) as the amount relating to employees has been transferred in full outside the Group.

  The corresponding liability is determined according to Article 2120 of the Italian Civil Code.

R Financial liabilities, trade and other payables and other liabilities

They are measured, on initial recognition, at fair value and subsequently at amortised cost, using the effective interest rate method. Where there is a change in the estimated future cash flows and these can be reliably estimated, the value of the payables is recalculated to reflect this change on the basis of the present value of the new estimated future cash flows and the internal rate of return originally calculated.

Sale transactions with a repurchase obligation represent a form of financing as the risks attached to ownership (mainly the risk relating to changes in fair value) remain with the company. In this case, the assets are not derecognised, the debt for the repurchase is of a financial nature and the difference is recognised in profit and loss as a component of a financial nature.

Financial liabilities also include derivative contracts, which are discussed in the appropriate section below. Derivative contracts are measured at fair value with a balancing entry in profit or loss at each reporting date.

S Revenue recognition

The recognition of revenues from contracts with customers is based on the following five steps: (i) identification of the contract with the customer; (ii) identification of the performance obligations, represented by the contractual promises to transfer goods and/or services to a customer; (iii) determination of the transaction price; (iv) allocation of the transaction price to the performance obligations identified on the basis of the stand-alone sale price of each good or service; (v) recognition of the revenue when the relative performance obligation is satisfied, i.e. when the promised good or service is transferred to the customer; the transfer is considered completed when the customer obtains control of the good or service, which can occur continuously (over time) or at a specific time (at a point in time).

With reference to the products sold for the Group, the time of revenue recognition generally coincides:

- for crude and oil products, with shipping;
- for electricity with delivery to the customer;
- for oil products sold on the network market, with delivery to service stations.

The recognition of revenues from services is based on the stage of completion reached.

Revenues are recorded net of returns, discounts, allowances and premiums, and of directly related taxes.

Excise duties paid on purchases are netted off against those collected on sales.

T Recognition of costs

Costs are recognised when they relate to goods and services that are sold or used during the year or by systematic allocation, or when their future usefulness cannot be determined.

U Interest income and expenses

Interest income and interest expense are recognised on an accrual basis applying the effective interest method.

V Conversion of items expressed in a currency other than the euro

Foreign currency transactions are translated into euros at the exchange rates ruling on the transaction date. Exchange rate gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary asset and liability items denominated in a foreign currency are recorded in the income statement.

W Dividends

[A] Dividends received

Dividends are recognised on the date on which the resolution approving them is carried by a shareholders' meeting.

[B] Dividends distributed

The payment of dividends to Parent Company shareholders is recognised as a liability in the statement of financial position of the year in which the distribution was approved by the company's shareholders.

X Taxes

Current taxes are calculated based on the taxable income for the period, applying the prevailing tax rates at the reporting date.

Deferred taxes are calculated on all temporary differences arising between the tax base of an asset or liability and its carrying amount, with the exception of goodwill, and those relating to temporary differences originating from investments in subsidiaries, when the timing of the reversal of such differences is controlled by the Group and it is probable that the differences will not be reversed within a reasonably foreseeable timescale. In respect of deferred tax assets (including those relating to tax losses from previous periods) that cannot be offset against deferred tax liabilities in full, the residual portion is recognised to the extent that it is probable that taxable income will be generated in future against which they can be recovered.

Deferred taxes are calculated using the tax rates that are expected to apply in the years in which temporary differences are realised or reversed.

Changes in tax rates due to regulatory amendments are recorded in the income statement or under equity, in relation to the transaction that generated the underlying deferred tax.

Current and deferred taxes are recognised in the income statement, with the exception of those related to items directly deducted from or added to equity, in which case the tax effect is taken directly to equity. Current and deferred taxes are set off when income taxes are applied by the same tax authority, when there is a legal right of set-off and the intention to settle on a net basis.

Other taxes not related to income, such as property taxes, are included under "Cost of services and sundry costs".

The Parent Company allows its Italian subsidiaries to participate in the tax consolidation scheme for the purposes of calculating corporate income tax (IRES), pursuant to Articles 117-128 of the Consolidated Law on Income Tax ("Consolidated National Tax"). As a result, a single tax base is created for the Parent Company and some Italian subsidiaries, essentially through the algebraic sum of the tax profit or loss of each participant. Participation in a particular scheme is confirmed by a communication to the tax authority made by the Parent Company indicating which subsidiaries have decided to take up this option. The option has a fixed duration of three years (except in the event of interruptions provided for by law) and the matter is governed between the two parties by a consolidation agreement. With specific reference to the transfer of tax losses, the agreements in force provide for remuneration commensurate with the ordinary IRES tax rate, equal to the portion of the loss of each subsidiary that was effectively offset by taxable income generated by other consolidated companies. Any excess losses remain allocated to the Parent Company and remuneration for these losses is deferred until the year that they are actually used under the national tax consolidation scheme.

Y Derivative instruments

All derivatives are financial assets and liabilities that are recognised at fair value.

They are classified as hedging instruments when the relationship between the derivative and the item being hedged is formally documented and the effectiveness of the hedge, verified periodically, is high. When derivatives hedge the risk of changes in the fair value of the underlying items (fair value hedges, e.g. hedging the variability of the fair value of assets/liabilities), they are recorded at fair value in the income statement; with the effects of the changes taken to profit or loss; at the same time, the hedged items are adjusted to reflect the changes in fair value associated with the risk hedged.

Derivative financial instruments on commodities, in accordance with IFRS 9, are recognised at fair value with the change in the fair value of the instrument recognised in the income statement, and this change is allocated to the items of operating costs to which the hedges refer.

Derivative financial instruments on commodities not related to physical transactions underlying are recognised at fair value with the change in the fair value recognised in the income statement, and classified in the financial results.

Derivative financial instruments on exchange rates and interest rates are recorded at fair value with the change in the fair value of the instrument recognised in the income statement, which is charged to financial operations.

The fair value of financial instruments listed on active markets is represented by the related market price (the bid price) on the closing date of the period in question. In the absence of an active market, fair value is determined by using measurement models based largely on objective financial variables, and by considering, wherever possible, the prices observed in recent transactions and the prices for comparable financial instruments.

It is hereby specified that the great majority offinancial derivatives essentially relate to hedging transactions , for which hedge accounting rules have not been applied.

Z Earnings per share

[I] Basic

Basic EPS is calculated by dividing the Group's profit or loss, adjusted by the portion of profit or loss attributable to the holders of preference shares, by the weighted average of ordinary shares outstanding during the year, excluding treasury shares.

[II] Diluted

Diluted EPS is calculated by dividing Group-operating profit, adjusted by the portion of earnings attributable to the holders of preference shares, by the weighted average of ordinary shares outstanding during the year, excluding treasury shares. For the purpose of calculating diluted earnings per share, the weighted average of shares

outstanding is modified by assuming the conversion of all potentially dilutive ordinary shares, while the Group's profit or loss is adjusted to take into account the after-tax effects of the conversion.

AA Emission Trading

Decree-Law No 216 of 4th April 2006 introduced limits on CO_2 emissions from plants. If these limits are exceeded a company must purchase allowances or credits on the relevant market representing the excess CO_2.

If the allowances allocated are insufficient, the value of the shortfall is measured at market value and recorded in risks; if, however, the allowances exceed requirements, the surplus, measured at purchase cost aligned to the market value at the end of the year if lower, is recorded under intangible assets.

AB Segment information

An operating segment is a part of an entity:

- **a)** that undertakes commercial activities that generate revenues and costs (including revenues and costs relating to transactions with other parts of the same entity);
- **b)** whose operating results are reviewed periodically at the highest operational decision-making level of the entity in order to adopt decisions on the resources to be allocated to the segment and the assessment of the results; and
- **c)** for which separate accounting information is available.

A geographical segment is defined as a group of assets and transactions used for specific services in a particular geographical area and subject to risks and benefits substantially different from those related to other geographical areas.

3.5 Use of estimates

The preparation of financial statements requires directors to apply accounting standards and methodologies that, in certain situations, are based on difficult and subjective valuations and estimates founded on past experience and assumptions that at the time are considered reasonable and realistic under the circumstances. The use of these estimates and assumptions affects the amounts reported in the financial statements, i.e. the statement of financial position, income statement, statement of comprehensive income and cash flow statement, as well as the accompanying disclosures. The actual amounts of accounting entries for which estimates and assumptions have been used may differ from those shown in the financial statements, due to the uncertainty surrounding said assumptions and the conditions upon which the estimates are based.

3.6 Most significant accounting policies requiring a greater degree of subjectivity

A brief description is provided below of the most significant accounting policies requiring greater subjectivity by the directors in the preparation of their estimates and in respect of which a change in the conditions underlying the assumptions used could have a significant effect on the restated aggregate financial information.

[I] Depreciation of fixed assets: depreciation of fixed assets is a significant cost for the Group. The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the assets concerned. The useful life of the Group's assets is determined by the directors at the time they are purchased; it is based on past experience for similar assets, market conditions and expectations as to future events that could affect their useful life, such as changes in technology. Their actual useful life could therefore differ from the estimate. The Group periodically assesses technological changes and industry developments, dismantling and disposal costs and recoverable amount in order to adjust the asset's remaining useful life. This periodic revision process could lead to a change in the depreciation period considered and, therefore, in the depreciation charged in future years.

[II] Recoverable amount of property, plant and equipment: in the presence of impairment indicators, the estimated recoverable value is derived from a complex valuation process that largely depends on external sector variables or changes in the regulatory framework. The corresponding environment is monitored continuously and sector analyses are obtained regularly. However, it may be that the effective change in the key variables is not in line with expectations.

[III] Recoverable amount of inventories: the estimate of the recoverable amount of inventories entails a valuation process that is highly influenced by the performance of the oil product market, which is exposed to significant changes, including of a short-term nature. Therefore, the net realisable value of crude oil and finished goods at year end is estimated based on the amount that the Group expects to obtain from their sale, by observing the sales taking place after the reporting date. Consequently, this assessment is influenced by market conditions.

[IV] Deferred tax assets: deferred tax assets are accounted for on the basis of expected taxable income in future periods. The measurement of expected income for deferred tax recognition purposes depends on factors that may vary over time and may have a significant effect on the measurement of deferred tax assets.

[V] Provisions for risks and impairment losses on current assets: in certain circumstances, determining whether there is a current obligation (either legal or constructive) or the recoverability of current assets is not always straightforward. The directors consider such circumstances on a case-by-case basis, and at the same time estimate the amount of financial resources needed to discharge the obligation. Where the directors feel that a liability or the risk of not recovering an asset are only possible, the associated risks are disclosed in the note concerning commitments and risks, and no accrual is made. Where the directors feel that a liability or the risk of not recovering an asset are only probable, a special risk provision is recorded.

[VI] Revenues from the sale of electricity by the subsidiary Sarlux Srl to the GSE (Gestore dei Servizi Energetici SpA): said revenues are affected by the straight-line basis calculation based on both the duration of the contract (20 years) and forecasts for the price of crude oil and gas, which are determining factors for electricity tariffs and electricity production costs; in the years ahead, crude oil and gas prices could vary significantly from estimates as a result of events that cannot be predicted at present.

[VII] Measurement of the recoverable amount of receivables: most of the receivables arising from the Group's operations are factored without recourse (and derecognised) and/or covered by other credit risk mitigation measures applicable to wholesale customers (mainly through insurance policies and, to a lesser extent, bank sureties) and receivables from cargo trading activities (collection, including through letters of credit, bank sureties or parent company guarantees); Most receivables arising from cargo trading activities (with a significant unit amount) are characterised by extremely limited terms of payment (i.e., a few days after the date of delivery of the goods); the allowance for impairment is currently calculated based on specific assessments of the recoverability of past due positions; It is also recalled that the losses on receivables historically recognised by the Group are not of a significant amount. Measurement of Derivatives' Fair value: the estimation and evaluation depends on several market conditions, such as market price of commodities and exchange rates on currencies, whose variability and volatility depends on external factors.

[VIII] Measurement of Derivatives' Fair value: the estimation and evaluation depends on several market conditions, such as market price of commodities and exchange rates on currencies, whose variability and volatility depends on external factors.

The trends on market conditions and prices, in the short as well as in the middle-long term, such as oil price and availability or global demand for oil products in respect of the production capacity, are all factors that could significantly affect the performance of the Group. Such conditions represent one of the most critical assumptions for the evaluation processes, among which the evaluation of fixed assets, inventories, and fair value of derivatives. The underlying evaluation processes are often complex and they require estimates that strongly depends on external factors, highly volatile and based on assumption that are necessarily based on a high level of judgement of the Management, also supported by scenarios taken from independent experts.

4. Information by business segment and geographical area

4.1 Introduction

The Saras Group's business segments are:
1. refining;
2. marketing;
3. generation of power by the combined cycle plant;
4. generation of power by wind farms;
5. other activities.

1. **The refining activities** carried out by the Parent Company Saras SpA and subsidiary Sarlux Srl relate to the sale of oil products obtained:

    - upon completion of the entire production cycle, ranging from the sourcing of raw materials to the refining and production of finished products, which is carried out at the company's site in Sarroch, Sardinia;

    - and, in part, by acquiring oil products from third parties.

    The finished products are sold to major international operators.

2. **Marketing activities** concern the distribution of oil products, an activity aimed at smaller-sized customers and/or those with distribution procedures that differ from those described above in relation to refining. These activities are undertaken:

    - in Italy by Saras SpA (Wholesale Division), to wholesale customers (wholesalers, buying consortia, municipal utilities and retailers of oil products) and oil companies through a logistics network organised on own base (Sarroch), on a third party's base pursuant to a transit contract (Livorno, Civitavecchia, Marghera, Ravenna, Udine, Trieste, Lacchiarella, Arquata) and by Deposito di Arcola Srl for the logistics management of the Arcola depot (SP);

    - in Spain, by Saras Energia SA, for third-party and Group-owned service stations, supermarkets and resellers via an extensive network of depots located throughout the country, the most important of which, the Cartagena terminal, is owned by the company itself.

3. **The electricity generated by the combined cycle plant** refers to the sale of the electricity generated by the Sarroch power station owned by Sarlux Srl. Sales take place exclusively with the client GSE (Gestore dei Servizi Energetici SpA) and benefit from the feed-in tariff under CIP 6/92.

4. **The electricity generated by wind farms** relates to the activity carried out at the Ulassai wind farm owned by subsidiary Sardeolica Srl.

5. **Other activities** include reinsurance activities carried out for the Group by Reasar S.A. and research for environmental sectors undertaken by Sartec Srl.

The management monitors the operating results for individual business segments separately, in order to determine the allocation of resources and evaluate performance. The results of each segment are assessed on the basis of operating profits or losses. The breakdown by business segment and the basis on which segment results are determined are the same as in the consolidated financial statements as at 31st December 2018.

4.2 Segment information

In order to present continuously and consistently the profits attributable to the various segments, in the event of corporate actions such as mergers or asset contributions, the intercompany transactions that are no longer carried out as the result of such corporate actions continue to be reported based upon the conditions set forth in the previously existing contracts.

A breakdown by segment follows below: For further quantitative details and comments, please refer to the appropriate sections of the Report on Operations:

Income Statement as at 31st December 2019	REFINING	POWER	MARKETING	WIND	OTHER	TOTAL
Revenues from ordinary operations	10,987,930	495,444	2,039,165	12,953	28,643	13,564,135
to be deducted: intersectoral revenues	(4,108,682)	(62,239)	(831)	0	(23,291)	(4,195,043)
Revenues from third parties	**6,879,248**	**433,205**	**2,038,334**	**12,953**	**5,352**	**9,369,093**
Other operating revenues	148,549	76,035	5,389	2,121	528	232,622
to be deducted: intersectoral revenues	(82,958)	(512)	(24)	(202)	(321)	(84,017)
Other income from third parties	**65,591**	**75,523**	**5,365**	**1,919**	**207**	**148,603**
Depreciation/amortisation and write-downs	(134,537)	(54,845)	(3,020)	(5,381)	(914)	(198,697)
Operating result	**(68,514)**	**96,719**	**17,269**	**4,591**	**4,030**	**54,092**
Financial income (a)	64,508	369	377	54	13	65,321
Financial charges (a)	(81,532)	(535)	(1,897)	(108)	(27)	(84,099)
Income tax	20,840	(23,989)	(4,304)	(871)	(838)	(9,160)
Profit (loss) for the year	**(64,698)**	**72,564**	**11,445**	**3,666**	**3,178**	**26,154**
Total directly attributable assets (b)	**1,994,002**	**1,227,967**	**194,299**	**111,382**	**36,336**	**3,563,984**
Total directly attributable liabilities (b)	**2,031,463**	**196,036**	**222,002**	**25,964**	**29,680**	**2,505,145**
Intangible fixed assets	**286,176**	**24,836**	**346**	**26,414**	**844**	**338,616**
Investments in intangible assets	**5,727**	**0**	**225**	**9**	**1**	**5,962**

Income Statement as at 31st December 2018	REFINING	POWER	MARKETING	WIND	OTHER	TOTAL
Revenues from ordinary operations	11,429,587	569,547	2,179,818	13,596	35,690	14,228,238
to be deducted: intersectoral revenues	(3,876,649)	(60,466)	(987)	0	(22,269)	(3,960,371)
Revenues from third parties	**7,552,938**	**509,081**	**2,178,831**	**13,596**	**13,421**	**10,267,867**
Other operating revenues	161,030	54,908	3,614	2,295	655	222,502
to be deducted: intersectoral revenues	(92,181)	(474)	0	(309)	(493)	(93,457)
Other income from third parties	**68,849**	**54,434**	**3,614**	**1,986**	**162**	**129,045**
Depreciation/amortisation and write-downs	(115,998)	(52,312)	(5,286)	(4,536)	(706)	(178,838)
Operating result	**77,174**	**140,328**	**19,013**	**6,037**	**(877)**	**241,677**
Financial income (a)	83,849	318	411	80	17	84,675
Financial charges (a)	(134,579)	(514)	(5,718)	(14)	(5)	(140,830)
Income tax	(338)	(43,606)	(1,020)	(360)	227	(45,097)
Profit (loss) for the year	**26,107**	**96,526**	**12,686**	**5,743**	**(637)**	**140,425**
Total directly attributable assets (b)	**1,321,164**	**1,272,565**	**251,252**	**83,032**	**31,906**	**2,959,919**
Total directly attributable liabilities (b)	**1,342,393**	**229,397**	**244,781**	**16,816**	**22,462**	**1,855,849**
Intangible fixed assets	**206,673**	**20,684**	**763**	**6,882**	**549**	**235,551**
Investments in intangible assets	**6,716**	**0**	**586**	**22**	**76**	**7,400**

(a) Determined without considering infra-sector eliminations. For an assessment of intercompany transactions, see section 7.2 of the separate financial statements of Saras SpA.

(b) Total assets and liabilities are calculated after intercompany eliminations.

4.3 Reporting by geographical area

The breakdown by geographical area takes into account the size of the reference market and the countries in which the registered offices of counterparties are located.

Directly attributable assets and investments by geographical area of location.

Directly attributable assets	31/12/2019	31/12/2018	Change
Italy	3,186,620	2,743,754	442,866
Other EEC	148,603	162,644	(14,041)
Non-EEC	228,761	53,521	175,240
Total	**3,563,984**	**2,959,919**	**604,065**

Investments in tangible and intangible fixed assets	31/12/2019	31/12/2018	Change
Italy	339,748	237,948	101,800
Other EEC	246	349	(103)
Non-EEC	4,583	4,654	(71)
Total	**344,578**	**242,951**	**101,626**

Net revenues from ordinary operations by geographical area:

Revenues from ordinary operations	31/12/2019	31/12/2018	Change
Italy	2,623,572	2,476,025	147,547
Spain	811,279	963,848	(152,569)
Other EEC	1,154,799	2,993,022	(1,838,223)
Non-EEC	4,391,196	3,576,177	815,019
USA	536,851	387,840	149,011
Total	**9,517,696**	**10,396,912**	**(879,216)**

Amounts are shown net of inter-company eliminations.

The following table shows a breakdown of trade receivables by geographical area:

Trade receivables from third parties	31/12/2019	31/12/2018	Change
Italy	114,049	151,084	(37,035)
Spain	36,934	59,210	(22,277)
Other EEC	18,133	42,662	(24,529)
Non-EEC	186,829	42,819	144,011
USA	2,394	390	2,004
Bad debt provision	(6,801)	(5,955)	(846)
Total	**351,539**	**290,210**	**61,328**

The most significant changes to the statement of financial position and statement of comprehensive income compared with the previous year are illustrated below.

5. Notes to the statement of financial position

5.1 Current financial assets

5.1.1 Cash and cash equivalents

The following table shows a breakdown of cash and cash equivalents:

Cash and cash equivalents	31/12/2019	31/12/2018	Change
Bank and postal deposits	431,627	271,616	160,011
Cash	(164)	1,215	(1,379)
Total	**431,463**	**272,831**	**158,632**

Bank deposits, which are not subject to constraints or restrictions, are mainly attributable to Saras SpA (EUR 271,612 thousand), Reasar SA (EUR 10,739 thousand), Saras Energia (EUR 28,672 thousand) and Saras Trading SA (EUR 116,072 thousand). For further details on the net financial position, reference is made to the relevant section of the Report on Operations and the statement of cash flows.

5.1.2 Other financial assets

Other financial assets break down as follows:

Current financial assets	31/12/2019	31/12/2018	Change
Current financial derivatives	21,086	93,143	(72,057)
Deposits to secure derivatives	29,600	30,595	(995)
Other assets	1,242	7,985	(6,743)
Total	**51,928**	**131,723**	**(79,795)**

The item financial derivative instruments comprises the positive fair value of existing instruments on the year-end date and the positive differentials realised and not yet received.

For further details, see 5.4.1.

The item derivative guarantee deposits includes deposits requested by the counterparties with which the Group uses derivative instruments to guarantee open positions on the year-end date.

5.1.3 Trade receivables from third partiesi

Trade receivables amounted to EUR 351,539 thousand, up on the previous year due to the price dynamics of oil products in the last quarter. The item is presented net of the provision for doubtful receivables, which amounts to EUR 6,800 thousand (EUR 5,955 thousand as at 31st December 2018). As already mentioned, the Group conducts a specific analysis of credit positions and the provision for write-downs includes the results of these assessments: the provision made during the year therefore refers to a specific receivable held by the subsidiary Sartec Srl.

5.1.4 Inventories

The following table shows a breakdown of inventories and the changes that occurred in the year:

Inventories	31/12/2019	31/12/2018	Change
Raw materials, consumables and supplies	400,474	193,810	206,664
Unfinished products and semi-finished products	70,502	105,924	(35,422)
Finished products and goods	455,812	439,405	16,407
Spare parts and raw materials, supplies	114,054	122,462	(8,408)
Total	**1,040,842**	**861,601**	**179,241**

The increase in the value of oil inventories (crude oil, semi-finished and finished products) is essentially due to the increase in quantities in stock at the end of the year, due to higher purchases concentrated in the last quarter of 2019: most of such purchases were onboard and on their way to the refinery at the closing of the financial year.

In accordance with the accounting standards, the Group valued inventories at the lower of purchase or production cost and recoverable market value, and from this comparison it recorded a lower value of inventories – essentially products – of EUR 2.8 million.

No inventories are used as collateral for liabilities.

The item Finished products and goods held for resaleincludes around 955 thousand tonnes of oil products (valued at around EUR 425 million) held for group companies and certain third parties in accordance with the obligations of Legislative Decree No 22 of 31st January 2001 (in the previous year, these stocks amounted to 998 thousand tonnes valued at around EUR 422 million).

5.1.5 Current tax assets

Current tax assets break down as follows:

Current tax assets	31/12/2019	31/12/2018	Change
VAT credit	33	81	(48)
IRES credits	62,357	4,493	57,864
IRAP credits	19,944	12,680	7,264
Other amounts due from the tax authorities	1,724	1,797	(73)
Total	**84,058**	**19,051**	**65,007**

IRES receivables are mainly due to advances paid during the year, and results in excess of the debt accrued at the end of this year, as well as the abolished Robin Hood Tax, which was recovered through offsetting the payment of other taxes.

IRAP receivables refer to advances paid in previous years by the subsidiary Sarlux and results in excess of the tax for the year – while the remainder refers to advances paid during the year and results in excess of the tax for the year.

Other receivables include taxes claimed for reimbursement or provisionally paid.

5.1.6 Other assets

The balance breaks down as follows:

Other assets	31/12/2019	31/12/2018	Change
Accrued income	211	251	(40)
Prepaid expenses	17,486	10,403	7,083
Other short-term loans	140,165	97,840	42,325
Total	**157,862**	**108,494**	**49,368**

Prepayments mainly relate to insurance premiums and charges for the biofuel regulations for the Parent.

"Other receivables" mainly comprises:

- the receivable of EUR 75,232 thousand due from the subsidiary Sarlux Srl with the Equalisation Fund for the Electricity Sector for the recognition, pursuant to Title II, paragraph 7-bis, CIP Regulation 6/92, of charges resulting from Directive 2003/87/EC (Emissions Trading), in application of the Authority for Electricity and Gas Resolution ARG/elt/77/08 of 11th June 2008, referring to the year 2019; the increase compared with the previous year is essentially due to the increase in the value of CO_2 quotas (EUR 24.77/MT in 2019 and EUR 15.63/MT in 2018);

- white certificates of EUR 36,688 thousand, related to the benefits granted to the subsidiary Sarlux in respect of the energy savings achieved through specific projects preliminarily authorised by the GSE and carried out at the Sarroch refinery (EUR 36,600 thousand in 2018); for additional information, reference should be made to section 7.1;

- the receivable consisting of the insurance reimbursement of EUR 20,500 thousand for damages caused by the weather event, which occurred in September 2018.

The change compared with the previous year is due mainly to a receivable for Emissions Trading Credit Trading, which increased by EUR 25,315 thousand due to an increase in the average annual price of CO_2.

5.2 Non-current assets

As at 31st December 2017, goodwill and intangible assets with indefinite useful lives and tangible assets were tested for impairment in accordance with IAS 36. The impairment test was performed on the Cash Generating Units (CGUs) to which the above goodwill and other assets are allocated, assuming the greater between the market value, if available, and the value in use that can be obtained from the multi-year plans approved by the competent Boards of Directors.

These tests confirmed the recoverability of the carrying amounts.

The CGUs are identified taking into account how goodwill and other assets are monitored for internal purposes. In line with the Group's organisational business structure, CGUs match the operating sectors presented pursuant to IFRS 8 (Refining, Power, Wind) or areas of activity identified within the Marketing sector, in the presence of assets or groups of assets, whose recoverability can be directly correlated and measurable with respect to cash flows in specific entries and separable with respect to those present in the sector (Wholesale, Cartagena Storage Facility).

As described in greater detail below, intangible assets with an indefinite useful life and property, plant and equipment and intangible assets for which it was deemed necessary were subject to impairment, estimating their value in use based on the discounting of cash flows from the most recent business plans developed for each Cash Generating Unit and approved by the Group.

The forecasts contained in the plans represent the best estimate of the management on the future operating performance of the various CGUs, also taking into account the indications that can be derived from the main external sources of information comprising the forecasts of reference market trends formulated by the main specialist observers.

It is noted that at the reference date of these financial statements, the market capitalisation of Saras exceeded the equity of the Group resulting from the last interim consolidated statement of financial position approved.

For more detailed information, see the specific note at sub-paragraph 5.2.2 below.

5.2.1 Property, plant and equipment

The following table shows a breakdown of property, plant and equipment:

Historical Cost	31/12/2017	Increases	Decreases	Write-downs	Other changes	31/12/2018
Land and buildings	225,652	221	(1,817)	0	(40,187)	183,869
Plant and machinery	3,220,527	29,748	(4,782)	0	112,081	3,357,574
Industrial and commercial equipment	38,682	270	(624)	0	(3,335)	34,993
Other goods	566,663	2,074	(3,544)	0	38,668	603,861
Tangible fixed assets under construction	143,434	203,238	0	0	(168,983)	177,689
Total	**4,194,958**	**235,551**	**(10,767)**	**0**	**(61,756)**	**4,357,986**

Amortisation Fund	31/12/2017	Amortisation	Use	Write-downs	Other changes	31/12/2018
Land and buildings fund	122,524	5,551	(15)	0	(18,295)	109,765
Plant and machinery fund	2,583,901	108,121	(4,672)	0	(795)	2,686,555
Industrial and commercial equipment fund	27,154	3,578	(210)	0	(5,352)	25,170
Other goods	441,169	21,544	(3,554)	0	(9,770)	449,389
Total	**3,174,748**	**138,794**	**(8,451)**	**0**	**(34,212)**	**3,270,879**

Net Value	31/12/2017	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2018
Land and buildings	103,128	221	(1,802)	(5,551)	0	(21,892)	74,104
Plant and machinery	636,626	29,748	(110)	(108,121)	0	112,876	671,019
Industrial and commercial equipment	11,528	270	(414)	(3,578)	0	2,017	9,823
Other goods	125,496	2,074	10	(21,544)	0	48,438	154,472
Tangible fixed assets under construction	143,434	203,238	0)	0	0	(168,983)	177,689
Total	**1,020,210**	**235,551**	**(2,316)**	**(138,794)**	**0**	**(27,544)**	**1,087,107**

Historical Cost	31/12/2018	Increases	Decreases	Write-downs	Other changes	31/12/2019
Land and buildings	183,869	24	(12,531)	0	5,812	177,174
Plant and machinery	3,357,574	89,028	(8,309)	0	127,997	3,566,290
Industrial and commercial equipment	34,993	49	(229)	0	2,245	37,058
Other goods	603,861	948	(2,713)	0	40,500	642,596
Tangible fixed assets under construction	177,689	248,566	(31)	0	(177,927)	248,297
Total	**4,357,986**	**338,615**	**(23,813)**	**0**	**(1,373)**	**4,671,415**

Amortisation Fund	31/12/2018	Amortisation	Use	Write-downs	Other changes	31/12/2019
Land and buildings fund	109,765	4,642	(12,935)	0	(809)	100,663
Plant and machinery fund	2,686,555	121,265	(7,871)	0	(55)	2,799,894
Industrial and commercial equipment fund	25,170	3,645	(138)	0	(84)	28,593
Other goods	449,389	23,157	(2,727)	0	(126)	469,693
Total	**3,270,879**	**152,709**	**(23,671)**	**0**	**(1,074)**	**3,398,843**

Net Value	31/12/2018	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2019
Land and buildings	74,104	24	404	(4,642)	0	6,621	76,511
Plant and machinery	671,019	89,028	(438)	(121,265)	0	128,052	766,396
Industrial and commercial equipment	9,823	49	(91)	(3,645)	0	2,329	8,465
Other goods	154,472	948	14	(23,157)	0	40,626	172,903
Tangible fixed assets under construction	177,689	248,566	(31)	0	0	(177,927)	248,297
Total	**1,087,107**	**338,615**	**(142)**	**(152,709)**	**0**	**(299)**	**1,272,572**

Historical costs are shown net of grants received for investments. The original amount of grants deducted from property, plant and equipment was EUR 188,448 thousand, and was related to the programme agreements entered into with the Ministry of Industry, Commerce and Crafts on 19th June 1995, with the Ministry of Productive Activities on 10th October 1997 and with the Ministry of Economic Development on 10th June 2002. The balance of these grants as at 31st December 2019 was EUR 286 thousand (EUR 422 thousand as at 31st December 2018).

"Land and buildings" chiefly include industrial buildings, offices and warehouses with a carrying amount of EUR 36,620 thousand, office buildings in Milan and Rome belonging to the Parent Company with a carrying amount of EUR 3,074 thousand and land largely relating to the Sarroch and Arcola sites respectively belonging to the subsidiary Sarlux Srl and the subsidiary Deposito di Arcola Srl with a carrying amount of EUR 36,817 thousand.

"Plant and machinery" mainly relates to the refining and combined-cycle power plants at Sarroch.

"Industrial and commercial equipment" includes equipment relative to the chemical laboratory and the control room connected with refinement and various assets supplied as necessary to the production process.

"Other assets" mainly include tanks and pipelines used to carry the group companies' products and crude oil (Sarlux Srl, Saras Energia SA and Deposito di Arcola Srl).

"Assets under construction and payments on account" reflect costs incurred mainly for investment in tanks, and work to adapt and upgrade existing facilities, particularly for environmental, safety and reliability purposes.

The increases for the year total EUR 338,615 thousand. They mainly relate to the technological work on the refining plants and the amplitude of the wind farm mentioned above

The main depreciation rates used are as follows:

	for I.G.C.C. plant	per other fixed assets (annual base)
Industrial buildings (land and buildings)	until 2031	5.50%
Generic plant (plant and machinery)	until 2031	8.38%
Highly corrosive plant (plant and machinery)	until 2031	11.73%
Pipelines and tanks (plant and machinery)		8.38%
Thermoelectric power plant (plant and machinery)	until 2031	
Wind park (plant and machinery)		10.00%
Supplies (equipment plant and machinery)		25.00%
Electronic office equipment (other assets)		20.00%
Office furniture and machinery (other assets)		12.00%
Vehicles (other assets)		25.00%

The concession for the use of public lands on which the service facilities of the Sarroch refinery (wastewater treatment, desalination sea water, blow-down, flare and landing stage) issued by the Port Authority of Cagliari is valid until 31st December 2027.

During the year, no financing costs were capitalised.

As a result of the manifestation of certain external phenomena linked to the macroeconomic and commodity scenario, such as to be able to cause a reduction in recoverable value, in accordance with the provisions of the accounting standards applied by the Group, and in particular IAS 36, all the tangible and intangible assets that make up the "Refining, Marketing and Power" operating segment were tested for impairment at the reference date of these financial statements. The analysis showed that no impairment had taken place, and it was therefore unnecessary to make any write-downs. The impairment test must be carried out for each individual asset. If it is not possible to estimate the recoverable value of the individual asset, the recoverable value of the cash-generating unit (CGU) to which the asset belongs must be determined, i.e. the group of assets, unit or business unit capable, taken individually, of generating cash flows on an ongoing basis.

The test was performed by comparing the carrying amount with the recoverable amount, representing by the higher of fair value, net of selling costs, and value in use, as required by IAS 36.

The impairment testing process was organised into the following phases:

a) **Definition of cash-generating units (CGUs):** the CGU subject to valuation is represented by all the tangible and intangible assets of the "Refining, Marketing and Power" operating segment: as represented in the 2020-2023 Business Plan, a process of management reorganisation is planned such that both the "Marketing" and "Power" operating segments, which are integral parts of the overall configuration of the refining business, will be included in the broader "Refining" operating segment, following the sale of Saras Energia's commercial network and the expiry of the CIP6 contract for Power, respectively.

b) **Determination of the recoverable value of plants based on their value in use:** The recoverable amount of the CGU in question was determined on the basis of its value in use, i.e. the present value of future cash flows expected to originate from the CGU.

   The cash flows were determined on the basis of the assumptions set out in the Group's 2020-2023 Business Plan prepared by management and approved (with regard to the Budget on 3rd February 2020) by the Board of Directors on 2nd March 2020, considering cash flows net of future developments.

   The flows were determined taking into account the oil scenario (crude oil prices, petroleum products and refining margins) and the electricity scenario of the 2020-2023 Business Plan, supported by recent publications by leading analysts in the sector.

   At the end of the plan horizon, a Terminal Value was estimated on the basis of a normalised operating cash flow consistent with the specific situations and cyclicality of the business, applying a growth rate beyond the plan of 1%, in line with analysts' estimates of expected long-term inflation. The average operating cash flow for the period 2020-2023 of the "Refining and Marketing" operating segments was used as the normalised cash flow at full capacity due to the current uncertainty related to the future cash flow contribution of the "Power" operating segment.

   The discount rate for cash flows (weighted average cost of capital - WACC) has been estimated at 6.5%, through the application of market parameters specific to the reference sector;

c) **Sensitivity analysis:** this analysis showed that a reasonable change in the key assumptions shows recoverable values higher than the carrying amount of the goodwill in question, thus not resulting in impairment losses as defined by IAS 36;

d) **External indicators:** lastly, no events took place during the year that had an impact on the refining production in general or that generated by the CGU in particular, which would lead to an impairment loss.

5.2.2 Intangible assets

The following table shows the changes in intangible assets:

Historical Cost	31/12/2017	Increases	Decreases	Write-downs	Other changes	31/12/2018
Industrial patent and original work rights	47,846	2,959	0	0	810	51,615
Concessions, licences, trademarks and similar rights	50,155	12	(151)	0	(25,526)	24,490
Goodwill and intangible assets with indefinite life	21,909	0	0	0	(890)	21,019
Other intangible fixed assets	519,898	0	0	0	7,419	527,317
Intangible assets under construction	1,550	4,429	(1,132)	0	0	4,847
Total	**641,358**	**7,400**	**(1,283)**	**0**	**(18,187)**	**629,288**

Amortisation Fund	31/12/2017	Amortisation	Use	Write-downs	Other changes	31/12/2018
Industrial patent and original work rights	42,339	2,672	0	0	66	45,077
Concessions, licences, trademarks and similar rights	24,431	1,126	(108)	0	(14,177)	11,272
Other intangible fixed assets	421,897	32,869	0	0	6,046	460,812
Total	**488,667**	**36,795**	**(108)**	**0**	**(8,065)**	**517,161**

Net Value	31/12/2017	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2018
Industrial patent and original work rights	5,507	2,959	0	(2,672)	0	744	6,538
Concessions, licences, trademarks and similar rights	25,724	12	(43)	(1,126)	0	(11,267)	13,300
Goodwill and intangible assets with indefinite life	21,909	0	0	0	0	(890)	20,937
Other intangible fixed assets	98,001	0	0	(32,869)	0	1,373	66,505
Intangible assets under construction	1,550	4,429	(1,132)	0	0	0	4,847
Total	**152,691**	**7,400**	**(1,175)**	**(36,667)**	**0**	**(10,040)**	**112,127**

Historical Cost	31/12/2018	Increases	Decreases	Write-downs	Other changes	31/12/2019
Industrial patent and original work rights	51,615	423	0	0	1,262	53,300
Concessions, licences, trademarks and similar rights	24,490	0	(30)	0	(111)	24,349
Goodwill and intangible assets with indefinite life	21,019	0	0	0	0	21,019
Other intangible fixed assets	527,317	4,514	0	0	1	531,832
Intangible assets under construction	4,847	1,026	(4,479)	0	(176)	1,218
Total	**629,288**	**5,963**	**(4,509)**	**0**	**976**	**631,718**

Amortisation Fund	31/12/2018	Amortisation	Use	Write-downs	Other changes	31/12/2019
Industrial patent and original work rights	45,077	2,868	0	0	570	48,515
Concessions, licences, trademarks and similar rights	11,272	606	(3)	0	86	11,961
Other intangible fixed assets	460,812	33,197	0	0	(819)	493,190
Total	**517,161**	**36,671**	**(3)**	**0**	**(163)**	**553,748**

Net Value	31/12/2018	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2019
Industrial patent and original work rights	6,538	423	0	(2,868)	0	692	4,785
Concessions, licences, trademarks and similar rights	13,300	0	(33)	(606)	0	(273)	12,388
Goodwill and intangible assets with indefinite life	20,937	0	0	0	0	0	20,937
Other intangible fixed assets	66,505	4,514	0	(33,197)	0	820	38,642
Intangible assets under construction	4,847	1,026	(4,479)	0	0	(176)	1,218
Total	**112,127**	**5,963**	**(4,512)**	**(36,671)**	**0**	**1,063**	**77,970**

Amortisation of intangible assets totalled EUR 36,671 thousand, and was calculated using the annual rates shown below.

Industrial patent rights and intellectual property rights	20%
Concessions, licences, trademarks and similar rights	3% - 33%
Other intangible assets	6% - 33%

There are no significant intangible assets with definite useful life held for sale.

The main items are set out in detail below.

Concessions, licences, trademarks and similar rights
This item mainly refers to the concession for the operation of the Ulassai wind farm, which will be fully amortised by 2035.

Goodwill and intangible assets with indefinite life
This item relates to the goodwill recognised for the subsidiary Sardeolica Srl (EUR 20,937 thousand), paid by Saras SpA for the purchase of Parchi Eolici Ulassai Srl (subsequently merged by incorporation into Sardeolica Srl in 2017): this goodwill is justified by the projection of future cash flows expected by the subsidiary Sardeolica Srl over a time horizon extended until the term of the concessions obtained (2035).

In accordance with the accounting standards applied by the Group, particularly IAS 36, the goodwill in question was tested for impairment as of the date of these financial statements to verify whether the asset had undergone no impairment. The analysis showed that no impairment had taken place, and – as in previous years – it was therefore unnecessary to post any write-downs.

The value of the goodwill acquired can only be defined on a residual basis. It can be measured by estimating the recoverable value relating to a set of assets that identify the business unit(s) to which it pertains: the Cash Generating Unit (CGU).

The test was conducted by comparing the carrying amount of the CGU with its recoverable value represented by the higher of fair value, net of disposal costs, and value in use, as required by IAS 36.

The impairment testing process was organised into the following phases:

a) **Definition of cash-generating units (CGUs):** Sardeolica Srl is identified as a CGU, i.e., as the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows generated by other assets or groups of assets. During 2019, the "Reblading" Project was launched to replace the wind turbine blades and overhaul the main components of the wind turbine. All the authorisations have been obtained and all the contracts for the implementation of the project have been signed, against which the advance payments required by the suppliers for the start of the implementation phase which will end in 2020 have been paid;

b) **Allocation of goodwill to the CGU:** goodwill is entirely attributable to the subsidiary Sardeolica Srl as it arose during the purchase of 30% of the share capital of the same. It is equal to EUR 20,937 thousand;

c) **Determination of the recoverable amount of goodwill based on value in use:** the recoverable value of the CGU Sardeolica Srl was determined on the basis of value in use, i.e. the present value of the nominal future cash flows expected to be generated by the CGU with a time horizon of 2035 (period of validity of the concession obtained by the Municipality of Ulassai and the Municipality of Perdasdefogu).

   At the end of the concession period, a terminal value equal to the net invested capital remaining at the end of the time horizon was assumed.

   The cash flows were determined on the basis of the assumptions set out in the Group's 2020-2023 Business Plan prepared by management and approved (with regard to the Budget approved on 3rd February 2020) by the Board of Directors on 2nd March 2020, considering cash flows including the Reblading Project, net of future developments.

   The flows were determined in consideration of the energy sales price scenario up to the expiry of the concession, supported by important independent companies specialised in the sector, and consistently with the 2020-2023 Business Plan.

   The discount rate for cash flows (weighted average cost of capital - WACC) has been estimated at 4.6%, through the application of market parameters specific to the reference sector;

d) **Sensitivity analysis:** this analysis showed that a reasonable change in the key assumptions (the quantity of electricity produced and the electricity sale prices) shows recoverable values higher than the carrying amount of the goodwill in question, thus not resulting in impairment losses as defined by IAS 36;

e) **External indicators:** lastly, no events took place during the year that had an impact on the production of wind power in general or that generated by the CGU in particular, which would lead to an impairment loss.

Other intangible fixed assets

The subsidiary Sarlux Srl has entered into a long-term contract for the supply of electricity under the CIP6 regime signed with Gestore dei Servizi Elettrici SpA (hereinafter, GSE). This contract – which was originally recognised at fair value in the 2006 consolidated financial statements at EUR 547.5 million and amortised over its term – was measured over its term, in accordance IAS 36.

In the past few years, the carrying amount of this contract was always tested for impairment, based on the changes to the background and legislation.

In view of the fact that this CIP6 contract will expire in early 2021 and that no events have occurred during 2019 that would indicate a significant impairment loss, it was not deemed necessary to estimate the recoverable amount of the contract for 2019.

Intangible assets under construction and advance payments

The item includes investments underway to purchase software licences. The item includes investments underway to purchase software licences.

5.2.3 Right-of-use of leased assets

The Saras Group has acquired rights to use third party assets essentially for the use of:

- functional and indispensable areas for carrying out its characteristic activities (state-owned areas adjacent to the Sarroch and Arcola sites, areas on which the Ulassai wind farm is located, etc.), for which it was unable or unwilling to acquire ownership;

- buildings used as executive offices;

- capital goods and plants built and operated by industrial partners, for which the Group did not possess the appropriate technological know-how to enable them to be built and operated.

Changes in the rights to use leased assets are shown in the following tables:

Historical Cost	31/12/2018	Increases	Decreases	Write-downs	Other changes	31/12/2019
Leased land and buildings	0	39,956	0	0	0	39,956
Leased plant and equipment	0	11,952	0	0	0	11,952
Leased industrial and commercial equipment	0	0	0	0	0	0
Other leased assets	0	7,261	0	0	124	7,385
Total	**0**	**59,169**	**0**	**0**	**124**	**59,293**

Amortisation Fund	31/12/2018	Amortisation	Use	Write-downs	Other changes	31/12/2019
Leased land and buildings provision	0	5,889	0	0	57	5,096
Leased plant and machinery provision	0	1,649	0	0	0	1,649
Leased industrial and commercial equipment provision	0	0	0	0	0	0
Other goods	0	2,629	0	0	0	2,629
Total	**0**	**9,317**	**0**	**0**	**57**	**9,374**

Net Value	31/12/2018	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2019
Leased land and buildings	0	39,956	0	(5,039)	0	(57)	34,860
Leased plant and equipment	0	11,952	0	(1,649)	0	0	10,303
Leased industrial and commercial equipment	0	0	0	0	0	0	0
Other leased assets	0	7,262	0	(2,629)	0	123	4,756
Total	**0**	**59,170**	**0**	**(9,317)**	**0**	**66**	**49,919**

The balance at 31st December 2019, for EUR 49,919 thousand, relates to the first application of the new standard IFRS 16 - Leases. Booking essentially refers to the following types of contracts:

1) Concessions, building rights and similar: these are mainly concessions of areas on which part of the production site of Sarroch and the oil depots of Arcola and Cartagena are located, as well as the area on which the Ulassai wind farm was built and operates;

2) Plants: these are mainly contracts stipulated by the subsidiary Sarlux with suppliers for the construction and operation of some plants within the production site of Sarroch;

3) Company car fleets: these are long-term lease contracts on company cars used both within the industrial site of Sarroch and by employees in various managerial and commercial sites.

4) Leases of buildings to be used as management and commercial premises.

For further details, please see the comments in paragraph 2.2 (New accounting standards, interpretations and amendments adopted by the Group) on the adoption of the new international financial reporting standard, IFRS 16 - Leases.

5.2.4 Equity investments

Following is a list of the equity investments held as at 31st December 2019, with an indication of the main information relating to investee companies:

Name	Registered office	Currency	Share Capital	Amount held of Group (%) at 31-12-19	Amount held of Group (%) at 31-12-18	Amount (%) on Share Capital	Shareholder	% by law voting	Relationship of investment
Deposito di Arcola Srl	Arcola (SP)	Euro	1,000,000	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Sartec Saras Ricerche e Tecnologie Srl	Assemini (CA)	Euro	3,600,000	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Sarint S.A. and subsidiaries:	Luxembourg	Euro	50,705,314	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Saras Energia SAU and subsidiary:	Madrid (Spain)	Euro	44,559,840	100.00%	100.00%	100.00%	Sarint SA	100.00%	Indirect Subsidiary
Terminal Logistica de Cartagena SLU	Cartagena (Spain)	Euro	3,000	100.00%	100.00%	100.00%	Saras Energia SA	100.00%	Indirect Subsidiary
Reasar SA	Luxembourg	Euro	2,225,000	100.00%	100.00%	100.00%	Sarint SA	100.00%	Indirect Subsidiary
Sarlux Srl	Sarroch (CA)	Euro	100,000,000	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Sardeolica Srl and subsidiaries:	Cagliari	Euro	56,696	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Saras Trading SA	Geneva (Switzerland)	Usd	1,000,000	100.00%	100.00%	100.00%	Saras SpA	100.00%	Subsidiary
Consorzio La Spezia Utilities	La Spezia	Euro	122,143	5.00%	5.00%	5.00%	Dep. di Arcola Srl	5.00%	Other investments
Sarda Factoring	Cagliari	Euro	9,027,079	4.01%	4.01%	4.01%	Saras SpA	4.01%	Other investments

As previously mentioned, equity investments in subsidiaries are consolidated on a line-by-line basis in these financial statements.

5.2.4.1 Other investments

Other investments break down as follows:

Other investments	31/12/2019	31/12/2018	Change
Consorzio La Spezia Utilities	7	7	0
Sarda Factoring	495	495	0
Total	**502**	**502**	**0**

5.2.5 Deferred tax assets

The net deferred tax assets and liabilities of the Saras Group at 31st December 2019 amounted to EUR 27,379 thousand (consisting of deferred tax assets of EUR 31,816 recognised under non-current assets and deferred tax liabilities of EUR 4,437 thousand).

At the consolidated level and also by virtue of the tax consolidation agreements in force between the Group's Italian companies, the deferred tax assets and liabilities of these companies are offset and shown net (which consists of the aforementioned net assets of EUR 31,816 thousand), while the deferred tax liabilities of the foreign subsidiaries are not offset and constitute the aforementioned deferred tax liability of EUR 4,437 thousand.

With regard to the above, the total balance of the Group's net position is almost entirely due to the taxes of the Italian companies:

- net deferred tax assets allocated on tax losses generated during the year amounting to EUR 20,365 thousand;
- deferred tax assets of EUR 31,517 thousand for accruals to the provision for risks and charges, mainly on CO_2 allowances;
- deferred tax assets of the subsidiary Sarlux Srl of EUR 7,146 thousand relating to the linearisation of Power revenues described above;
- deferred taxes of EUR 25,414 relating to excess and accelerated depreciation.

Net deferred tax assets are deemed recoverable against future profits, as determined in the most recent business plans.

The following table shows changes in deferred and prepaid taxes.

Figures in thousands of EUR	Total 31/12/2018	Other movement	Accruals	Reversal	Other changes (balance sheet only)	Amounts at 31/12/2019
Deferred tax assets						
Expenses deductible in future years	2,407		*1,708*	*2,006*		2,109
Write-downs of fixed assets and receivables and temporary differences in statutory-tax depreciation and amortisation	24,005		*2,473*	*526*		25,952
Tax losses	0		*20,365*			20,365
Provisions for risks and charges (taxed)	40,874		*4,729*	*14,087*		31,517
Tax assets tax loss transferred to National Consolidated	10,223			*10,045*		178
Provision for bad debts	1,056		*146*			1,202
Other residual items	171		*245*	*169*		247
Effect IAS/Consolidated (other residual items Group companies)	5,408		*80*	*1*		5,488
Effect IAS/Consolidated (straight-line revenues Sarlux)	22,674			*15,215*	(313)	7,146
IFRS 16 effect	0		*19*			19
Total deferred taxes	**106,818**	**0**	**29,765**	**42,047**	**(313)**	**94,222**
Deferred tax liabilities						
Non-accounting amortisation and depreciation	27,536		*0*	*2,121*		25,414
Deferred income and taxation	9,683		*0*	*0*		9,683
Tax assets tax loss transferred to National Consolidated	0		*1,077*	*30*		1,046
Tassa emissioni	0		*0*	*0*		0
Revaluation land	7,995		*0*	*946*		7,049
Other residual items	977		*2,898*	*0*		3,874
Effect IAS/Consolidated (other residual items Group companies)	4,194		*55*	*8,370*	9,278	5,157
Effect IAS/Consolidated (Fair value contract GSE - Sarlux)	16,740		*0*	*8,370*		8,370
Effect IAS/Consolidated (capitalised financial charges on IGCC plant)	2,077		*0*	*927*		1,150
Effect IAS/Consolidated (Valorisation licences wind farms - Sardeolica)	3,638		*0*	*227*		3,411
Effect IAS/Consolidated (homogenisation inventory valuation criteria - Saras)	591		*1,535*	*439*		1,687
Total deferred taxes	**73,431**	**0**	**6,338**	**21,431**	**9,278**	**66,842**
Total net	**33,387**	**0**	**23,427**	**20,616**	**(9,591)**	**27,379**

In relation to the National Tax Consolidation, it should be noted that as of tax year 2017, Article 7-quater of Decree-Law No 193/2016 (converted into Law No 225/2016) introduced the automatic renewal of this option.

As a result of this change, therefore, the 'Tax Consolidation' regime is automatically renewed for the period provided for by law, unless the option is expressly revoked under the same terms and conditions provided for the original choice, either by the parent company or any subsidiary concerned from time to time.

The following table shows deferred tax assets/liabilities broken down into the current and non-current portions:

Figures in thousands of EUR	Short Term	Medium-long term	Total 31/12/2019
Deferred tax assets			
Expenses deductible in future years	1,756	353	2,109
Write-downs of fixed assets and receivables and temporary differences in statutory-tax depreciation and amortisation	10,440	15,512	25,952
Tax losses	20,365	0	20,365
Fondo TFR adeguamento IFRS	0	0	0
Provisions for risks and charges (taxed)	31,387	130	31,517
Tax assets tax loss transferred to National Consolidated	178	0	178
Provision for bad debts	0	1,202	1,202
Other residual items	247	0	247
Effect IAS/Consolidated (other residual items Group companies)	5,488	0	5,488
Effect IAS/Consolidated (straight-line revenues Sarlux)	7,146	0	7,146
IFRS 16 effect	19	0	19
Total deferred taxes	**77,025**	**17,197**	**94,222**
Deferred tax liabilities			
Non-accounting amortisation and depreciation	2,121	23,293	25,414
Deferred income and taxation	-	9,683	9,683
Revaluation land	-	7,049	7,049
Other residual items	1,046		1,046
Effect IAS/Consolidated (other residual items Group companies)	3,874	-	3,874
Effect IAS/Consolidated (Fair value contract GSE - Sarlux)	5,157	-	5,157
Effect IAS/Consolidated (capitalised financial charges on IGCC plant)	8,370	-	8,370
Effect IAS/Consolidated (Valorisation licences wind farms - Sardeolica)	1,150	-	1,150
Effect IAS/Consolidated (homogenisation inventory valuation criteria - Saras)	228	3,183	3,411
IFRS 16 effect	1,689	-	1,689
Total deferred taxes	**23,635**	**43,208**	**66,843**
Total net	**53,389**	**(26,011)**	**27,379**

5.2.6 Other financial assets

At 31st December 2019, this item amounts to EUR 6,475 thousand (EUR 4,067 thousand at 31st December 2016) and mainly relates to medium-/long-term receivables.

5.3 Non-current assets held for sale

The balance at 31st December 2019 of EUR 7,038 thousand consists of the residual value of the subsidiary Saras Energia SAU's business unit, which is held for sale. On 25th July 2019, to complete the agreement signed in November 2018 with Kuwait Petroleum España SA, the Spanish subsidiary sold the service stations in Spain. The residual balance refers to the value of certain stations whose transfer has not yet been completed pending certain authorisations from the local authorities.

5.4 Current liabilities

5.4.1 Short-term financial liabilities

The following table provides a breakdown of short-term financial liabilities:

Short-term financial liabilities	31/12/2019	31/12/2018	Change
Current bank loans	70,017	0	70,017
Bank current accounts	7,973	16,957	(8,984)
Financial derivatives	35,875	26,937	8,938
Other short-term financial liabilities	91,032	62,736	28,296
Total	**204,897**	**106,630**	**98,267**

The item "Current bank loans" mainly includes a EUR 50 million loan taken out by the Parent Company, expiring in March 2020 and valued at amortised cost; this loan is subject to the following restrictions:

- of a financial nature (requiring compliance with the parameters below): (i) Net Financial Indebtedness/EBITDA <at 3.5 and Net Financial Indebtedness/Shareholders' Equity <at 1.5, both calculated on the basis of the results of the Group's Consolidated Financial Statements at 31st December of each year;
- in corporate terms, mainly in relation to the Company's ownership structure, a ban on changing business activities, reducing the share capital, selling the majority of its significant shareholdings or selling a significant portion of its non-current assets.

Failure to comply with these covenants will give the banking syndicate the right to demand early repayment of the loan.

On the last verification date, all financial covenants had been met.

A EUR 20 million "hot money" loan was also taken out by the Parent Company with a leading credit institution, maturing on 30th April 2020.

"Current bank accounts" comprise the credit lines balance used by the Group as part of the performance of its ordinary activities.

The item "Derivative financial instruments" includes the negative fair value of derivative financial instruments held at year-end.

Financial derivatives	31/12/2019 Assets	31/12/2019 Liabilities	31/12/2018 Assets	31/12/2018 Liabilities	Change
Interest rate swaps	0	(100)	272		(100)
Fair value derivatives on commodities	21,086	(29,392)	74,395	(26,860)	(2,532)
Fair value forward purchases and sales on exchange rates	0	(3,283)		(77)	(3,206)
Fair value forward purchases and sales on CO_2 allowances	0	(3,100)	18,475		(3,100)
Total	**21,086**	**(35,875)**	**93,142**	**(26,937)**	**(8,938)**

The following tables show the notional values and corresponding fair values of the derivatives outstanding as at 31st December 2019 and 31st December 2018:

Type of Operation	31/12/2019				31/12/2018			
	Notional value		Fair value		Notional value		Fair value	
	Purchases	Sales	Pos.	Neg.	Purchases	Sales	Pos.	Neg.
oil and crude products	(105,106)	340,506	21,086	(29,392)	(127,977)	575,200	74,395	(26,860)
exchange rates	(457,160)			(3,283)	(318,000)		0	(77)
interest rates	(50,000)			(100)	(170,000)		272	0
CO_2 allowances				(3,100)			18,475	0
Total	**(612,266)**	**340,506**	**21,086**	**(35,875)**	**(615,977)**	**575,200**	**93,142**	**(26,937)**

"Other current financial liabilities" essentially include receipts related to receivables factored without recourse and without notification, received from customers and that have yet to be forwarded to factors.

Bank loans and bonds are measured using the amortised cost method.

For further details, see the cash flow statement.

5.4.2 Trade and other payables

The table below shows a breakdown of this item.

Payables to suppliers	31/12/2019	31/12/2018	Change
Customers advances account	80,400	18,890	61,510
Payables to current suppliers	1,568,336	1,024,272	544,064
Total	**1,648,736**	**1,043,162**	**605,574**

"Advances from customers" relate to payments on account received from customers for the supply of oil products.

The balance of "Trade payables" essentially includes payables for crude oil supplies; the increase compared to the previous year is mainly due to the higher purchases of crude oil and petroleum products at the end of the year, compared to 2018, and with settlement at the beginning of 2020.

5.4.3 Tax liabilities

This item breaks down as shown below:

Tax liabilities	31/12/2019	31/12/2018	Change
Payables for VAT	9,888	14,727	(4,839)
IRES payables (and income tax foreign firms)	255	234	21
IRAP payables	0	806	(806)
Other tax payables	66,329	59,181	7,148
Total	**76,472**	**74,948**	**1,524**

"Other tax payables" mainly include payables for excise duties on products released for consumption by the Parent Company (EUR 58,631 thousand) and the subsidiary Saras Energia SA (EUR 3,555 thousand).

5.4.4 Other liabilities

A breakdown of other current liabilities is shown below:

Other current liabilities	31/12/2019	31/12/2018	Change
Payables employee benefit and social security	11,038	11,397	(359)
Payables due to employees	19,977	25,236	(5,259)
Payables to others	21,690	9,467	12,223
Accrued liabilities	3,904	7,452	(3,548)
Deferred income	29,050	22,786	6,264
Total	**85,659**	**76,338**	**9,321**

The item "Payables due to personnel" includes salaries not yet paid for December, the portion of additional monthly payments accrued and performance bonuses for the achievement of business targets.

5.5 Non-current liabilities

5.5.1 Long-term financial liabilities

This item breaks down as shown below:

Long-term financial liabilities	31/12/2019	31/12/2018	Change
Non-current bonds	198,994	198,675	319
Non-current bank loans	0	49,393	(49,393)
Other long-term financial liabilities	55,710	7,933	47,777
Total	**254,704**	**256,001**	**(1,297)**

It comprises the medium/long-term portions of the bank loans taken out by the Parent Company and renegotiated in the previous year.

The following table summarises these loans, showing both short-term and medium-/long-term portions (amounts expressed in millions of euros).

Values expressed in millions of EUR	Commencement / Debt renegotiation	Original amount	Rate base	Balance at 31/12/2018	Balance at 31/12/2019	Maturities	
						1 year	beyond 1 year to 5 years
Saras SpA							
Unicredit	April 2017	50	6M Euribor	49.4	50.0	50.0	
Bond	December 2017	200	1.70%	198.7	199.0		199.0
Total liabilities to banks for loans				**248.1**	**249.0**	**50.0**	**199.0**

The “Long-term financial liabilities” include a bond with a total nominal value of EUR 200 million, maturing on 28th December 2022 and a fixed coupon of 1.70% on an annual basis represented by a private placement of bonds with the Austrian multilateral trading system, Third Market, which belongs to Wiener Börse AG.

The Parent Company Saras also has a Revolving Credit Facility credit line with maturity 2020 for a maximum amount of EUR 255 million: the amount used as at 31st December 2019 was zero.

5.5.2 Provisions for risks and charges

Provisions for risks and charges break down as follows:

Provisions for risks and charges	31/12/2017	Provisions	Use	Other changes	31/12/2018
Plant dismantling fund	19,038	0	0	0	19,038
Charges for CO_2 quotas fund	43,940	144,379	(32,560)	0	155,759
Other funds for risks and charges	59,106	5,934	(36,524)	0	28,516
Total	**122,084**	**150,313**	**(69,084)**	**0**	**203,313**

Provisions for risks and charges	31/12/2018	Provisions	Use	Other changes	31/12/2019
Plant dismantling fund	19,038	0	0	0	19,038
Charges for CO_2 quotas fund	155,759	92,151	(99,199)	0	148,711
Other funds for risks and charges	28,516	0	(1,987)	0	26,529
Total	**203,313**	**92,151**	**(101,186)**	**0**	**194,278**

The provisions for dismantling plants relate to the future costs of dismantling plant and machinery, which are made wherever there is a legal and constructive obligation to be met in this regard.

The provision for risks and charges (EUR 148,711 thousand) was accrued pursuant to Legislative Decree No 216 of 4th April 2016, which introduced limits on CO_2 emissions from plants. If these limits are exceeded, allowances covering the excess amount of CO_2 must be purchased on the appropriate market The provisions in question represent allowances totalling EUR 92,151 thousand, required and not yet purchased. It is also noted that following the acquisition of the business unit (Northern Plants) from Versalis SpA by the subsidiary Sarlux, the latter requested to update the authorisation to emit greenhouse gases and to adapt the assigned quotas to obtain the CO_2 emission quotas of which Versalis was the assignee (from 2013 to 2020) starting from 2015. The competent bodies subsequently requested the Company to resubmit the assignment request, requiring it to formulate it as a “substantial expansion of production capacity”. The new application, presented by Sarlux in October 2018, was implemented in Italy and is now being examined by the European Commission. Sarlux has historically calculated the charge for CO_2 emissions by considering the free allocation of shares also for this part of plants with consequent lower costs recognised in the income statement. Pending the definition of the foregoing with regard to the former Versalis units, the Group has set aside a provision.

During the year, the provision was used for EUR 99,199 thousand for the purchase (and delivery) of shares pertaining to the previous year.

The item “Other provisions for risks” mainly refers to provisions recorded for probable liabilities of a legal and fiscal nature, mainly due to a dispute with the GSE for the recognition of white certificates (TEE).

5.5.3 Provisions for employee benefits

The balance breaks down as follows:

Provisions for employee benefits	31/12/2019	31/12/2018	Change
Post-employment benefits	9,858	10,322	(464)
Total	**9,858**	**10,322**	**(464)**

Employee end-of-service payments are governed by art. 2120 of the Italian Civil Code and reflect the estimated amount that the company will be required to pay employees when they leave their employment. The liability accrued as at 31st December 2006 was determined using actuarial methods.

The following table shows the changes in “Post-employment benefits”:

31/12/2017	**10,250**
Provision part for defined contributions	7,797
Interest	174
actuarial (income)/charges	336
Utilisations/ Contributions to supplementary funds or INPS Treasury	(8,235)
31/12/2018	**10,322**
Provision part for defined contributions	6,972
Interest	79
actuarial (income)/charges	703
Utilisations/ Contributions to supplementary funds or INPS Treasury	(8,218)
31/12/2019	**9,858**

Pursuant to IAS 19, the post-employment benefits fund was valued using the projected unit credit cost method and the following assumptions:

ECONOMIC ASSUMPTIONS	31/12/2019	31/12/2018
Increase in the cost of living:	1.50%	1.50%
Discount rate:	0.77%	1.57%
Pay increase:	2.50%	2.50%
Annual rate of CPAS increase:	n.a.	n.a.

DEMOGRAPHIC ASSUMPTIONS	
Probability of death	Use of tables SIM 2002 differentiated between males and females
Probability of invalidity	Use of tables C.N.R. unisex
Probability of dismissal	Used assumption of constant annual rate, corresponding to historical company values
Probability of retirement	Assumed the achievement of the first of the retirement requirements valid for A.G.B.
Probability of payout	An annual value per year of 3% is assumed

As at 31st December 2019, the discount rate used was the IBOXX Eurozone Corporates AA- (0.77%).

The actuarial calculation takes into account the changes to pensions legislation (Decree Law no. 201/2011).

Given the accounting method used (see the paragraph entitled "Summary of accounting standards and policies" and sub-paragraph Q "Provisions for employee benefits"), as at 31st December 2019, there were no actuarial losses.

As required by IAS 19 (revised), a sensitivity analysis of the main actuarial assumptions as at 31st December 2019 and 2018 for post-employment benefits are indicated:

2019	Reference parameter change	
	-0.5%	0.5%
ANNUAL DISCOUNT RATE	10,382	9,375
	Reference parameter change	
	-0.5%	0.5%
ANNUAL INFLATION RATE	9,554	10,177
	Reference parameter change	
	-0.5%	0.5%
ANNUAL TURNOVER RATE	9,842	9,867

2018	Reference parameter change	
	-0.5%	0.5%
ANNUAL DISCOUNT RATE	10,752	9,333
	Reference parameter change	
	-0.5%	0.5%
ANNUAL INFLATION RATE	9,915	10,546
	Reference parameter change	
	-0.5%	0.5%
ANNUAL TURNOVER RATE	10,180	10,257

5.5.4 Deferred tax liabilities

Deferred tax liabilities, totalling EUR 4,437 thousand, relate to the foreign subsidiaries. For more details, please see 5.2.5 "Deferred tax assets".

5.5.5 Other non-current liabilities

Other non-current liabilities break down as follows:

Other non-current liabilities	31/12/2019	31/12/2018	Change
Deferred income straight-line reporting Sarlux/Gse	25,563	80,263	(54,700)
Other payables	541	1,053	(512)
Total	**26,104**	**81,316**	**(55,212)**

The change compared with 31st December 2018 is mainly due to the decrease in "Deferred income" posted by the subsidiary Sarlux Srl. This item relates to the recognition of revenues arising from the agreement for the sale of energy between the subsidiary and the GSE (Gestore dei Servizi Energetici SpA) on a straight-line basis in accordance with both the term of the contract (20 years) and forecasts for the price of crude oil and gas, which are determining factors for electricity tariffs and electricity production costs.

5.6 Shareholders' equity

Shareholders' equity comprises the following:

Total equity	31/12/2019	31/12/2018	Change
Share capital	54,630	54,630	0
Legal reserve	10,926	10,926	0
Other reserves	967,129	898,089	69,040
Net profit (loss) for the year	26,154	140,425	(114,271)
Total	**1,058,839**	**1,104,070**	**(45,231)**

Share capital
At 31st December 2019, the fully subscribed and paid-up share capital of EUR 54,630 thousand comprised 951,000,000 ordinary shares with no par value.

Legal reserve
The legal reserve, which is unchanged from the previous year-end balance, is equal to one-fifth of the share capital.

Other reserves
This caption totals EUR 967,129 thousand, up by a net EUR 69,040 thousand compared with the previous year-end balance. The net increase was the combined result of:

- increase due to the allocation of the previous year's profit, of EUR 140,425 thousand;
- decrease due to the allocation of dividends, as approved by the shareholders in their meeting of 16th April 2019 (EUR 75,310 thousand);
- increase of EUR 1,658 thousand in the reserve for the bonus issue to all employees under the Company's stock grant plans;
- decrease of EUR 703 thousand, due to the effect of IAS 19 discounting;
- increase of EUR 42 thousand in the reserve for the translation of the financial statements of foreign operations;
- increase of EUR 2,928 thousand due to other movements.

In accordance with IAS 1, para. 1 and 97, it is noted that no equity transactions took place with shareholders acting in their capacity as owners of the company.

Net result
The consolidated profit for the year amounted to EUR 26,154 thousand.

Restrictions on the distribution of equity reserves
The main restrictions on the distribution of reserves are as follows:

- the legal reserve, totalling EUR 10.9 million, may only be used to cover losses;
- The "Locked-in reserve" pursuant to Article 7, paragraph 6 of Legislative Decree No 38/05", totalling EUR 19.7 million and included in "Other reserves", is distributable solely to cover losses or to increase share capital.

Dividends

On 16th April 2019, in their ordinary meeting called to approve the financial statements as at 31st December 2018, Saras SpA shareholders resolved to pay a dividend of EUR 0.08 for each of the 936,010,146 outstanding ordinary shares, for a total of EUR 75,310 thousand, from the profit for the year 2019.

The average number of shares outstanding was 939,724,844 in 2019, an increase compared to the average number of shares outstanding in 2018 due to the allotment in May 2019 of shares at the end of the 2016/2018 Stock Grant Plan.

As at 31st December 2019, Saras SpA held 9,220,216 treasury shares as a result of the bonus allocation of shares to the management of Group companies.

6. Notes to the income statement

During 2019, the Saras Group continued to study further possible refinements to the way in which the Group's economic performance is represented, reflected in GAAP and non-GAAP indicators. In particular, it has started an analysis to verify the existence of the requirements for the application of the hedge accounting treatment, in accordance with IFRS 9 "Financial Instruments" to the portfolio of derivative financial instruments.

On the basis of the analyses carried out and the results obtained, the Group has decided to revise its accounting policy with regard to the rules for the accounting classification of derivative financial instruments as from 2019, without applying hedge accounting rules. This has made it possible to represent the hedging transactions conducted to mitigate the risks on changes in the price of crude oil, semi-finished products, petroleum products and CO_2 quotas in the ordinary course of business. Such classification is supported by the Group risk and IT systems and is coherent with the results of the underlying physical transactions. Non-hedging transactions in derivatives are classified, as before, in the financial incomes and expenses.

This restatement provides for the recognition of the net result of hedging transactions under "Services and other costs"; the results of derivatives not directly related to physical transactions are classified, as in the past, in the financial results.

In accordance with IFRS, the figures for 2018 impacted by this reclassification have been restated to allow their comparability with those of the current year.

6.1 Revenue

6.1.1 Revenues from ordinary operations

The “Revenues from operations” break down as follows:

Revenues from ordinary operations	31/12/2019	31/12/2018	Change
Revenues from sales and services	8,888,000	9,711,904	(823,904)
Sale of electricity	470,557	538,789	(68,232)
Other remunerations	10,874	16,793	(5,919)
Change in contract work in progress	(338)	381	(719)
Total	**9,369,093**	**10,267,867**	**(898,774)**

The decrease in “Revenues from sales and services” is largely due to the trend in the price of oil products during the year and to the slight decrease in volumes sold.

Revenues from the sale of electricity include those relating to the gasification plant of the subsidiary Sarlux Srl (EUR 430,806 thousand) and revenues relating to the wind farm of the subsidiary Sardeolica Srl (EUR 10,676 thousand).

Revenues from the sale of electricity by the subsidiary Sarlux Srl comprise the effect of the recognition of the margin on a straight-line basis, calculated over the residual term of the contract that expires in 2020, principally taking into account the tariff amount, the future scenarios relating to both the price of gas and crude and the projected EUR/USD exchange rate until the contract expires; said projections are reviewed when there are significant changes.

It is worthy of note that, pending the settlement of the dispute with the ARERA (the Regulatory Authority for Energy, Networks and Environment) over the method of calculating the avoided fuel cost component (CEC), revenues from the sale of electricity were determined in accordance with Decree-Law No 69/2013 (the ‘Decree of doing’), which is less beneficial for the subsidiary.

Other remuneration essentially includes the revenues earned by the subsidiaries Sartec Srl and Reasar S.A. in their respective business segments.

Revenues from ordinary operations are broken down by business segment and geographical area in sections 4.2 “Segment information” and 4.3 “Breakdown by geographical area” above.

6.1.2 Other income

The following table shows a breakdown of other income:

Other operating revenues	31/12/2019	31/12/2018	Change
Compensation for storage of mandatory stocks	9,715	8,139	1,576
Sale various materials	619	509	110
Contributions	1,608	1,587	21
Ship tanks hire	3,955	4,545	(590)
Recovery for claims and compensation	22,244	1,415	20,829
CO_2 charges reimbursement	75,232	49,917	25,315
Other revenues	35,230	62,933	(27,703)
Total	**148,603**	**129,045**	**19,558**

The item “Repayment of CO_2 charges” refers to the revenues recognised by the subsidiary Sarlux Srl following the recognition, pursuant to Title II, point 7-bis of CIP Regulation 6/92, of the repayment of the charges incurred as part of the application of Directive 2003/87/EC (Emission Trading) as per AEEG Resolution 77/08. The increase compared to the previous year is mainly due to the change in the price of allowances.

The item "Recovery for claims and compensation" mainly includes the insurance reimbursement referred to in point **5.1.6 - Other Assets**.

6.2 Costs

The following table shows a breakdown of the main costs.

6.2.1 Purchases of raw materials, consumables and supplies

Purchases of raw materials, replacement parts, consumables	31/12/2019	31/12/2018	Change
Purchase of raw materials	3,909,046	4,699,005	(789,959)
Purchase semi-finished products	340,496	241,692	98,804
Purchase supplies and consumables	87,725	88,721	(996)
Increase in property, plant and equipment	(15,301)	(12,212)	(3,089)
Purchase finished products	4,218,177	4,061,518	156,659
Change in inventories	(194,998)	14,304	(209,302)
Total	**8,345,145**	**9,093,028**	**(747,883)**

The negative change in costs for the purchase of raw, ancillary and consumable materials totalled EUR 747,883 thousand compared to the previous financial year; this change is attributable to the trend in the prices of petroleum products and the quantities purchased during the year.

6.2.2 Cost of services and sundry costs

Services and sundry costs	31/12/2019	31/12/2018	Change
Costs for services	658,930	640,909	18,021
Capitalisations	(67,895)	(31,944)	(35,951)
Derivatives on crude oil products and CO_2	66,141	(96,877)	163,018
Costs for use of third-party goods	1,581	15,522	(13,941)
Provisions for risks	94,651	172,862	(78,211)
Bad debt provision trade receivables	674	732	(58)
Other operating costs	17,027	25,554	(8,527)
Total	**771,109**	**726,758**	**44,351**

Service costs mainly comprise maintenance, rentals, transport, electricity and other utilities, as well as bank charges.

The change on the previous year, amounting to EUR 18,021 thousand, is due to an increase in the cost of maintenance and in technical and consulting services required by the Parent Company and the subsidiary Sarlux.

2019 was characterised by an important maintenance cycle at the Sarroch refinery, which led to a natural increase in capitalisations during the period.

The aforementioned effect of the reclassification of derivatives (-EUR 66,141 thousand for 2019 and +EUR 96,877 thousand for 2018) is also worth mentioning

The item “Costs for the use of leased assets" decreased by EUR 13,941 thousand due to the entry into force of IFRS 16.

In fact, the principle provides that, for identified contracts, the costs relating to fees are reclassified – appropriately adjusted – in depreciation and financial charges.

The item "Provision for risks and charges" mainly includes the provision for charges relating to the application of Directive 2003/87/EC (Emissions Trading), which decreased compared to the previous year as the subsidiary Sarlux Srl prudently allocated a provision for risks corresponding to CO_2 quotas during the previous year for the period 2015-2017.

“Other operating costs” chiefly comprise direct taxes (municipal tax on property and air emission taxes) and membership fees.

6.2.3 Personnel costs

The breakdown of “Personnel costs” is as follows:

Personnel costs	31/12/2019	31/12/2018	Change
Salaries and wages	114,876	118,082	(3,206)
Increases in fixed assets for internal work	(12,371)	(9,636)	(2,735)
Social security contributions	33,047	33,459	(412)
Post-employment benefits	6,972	7,797	(825)
Other costs	4,054	4,118	(64)
Remuneration to the Board of Directors	2,075	2,791	(716)
Total	**148,653**	**156,611**	**(7,958)**

Personnel costs decreased by EUR 7,958 thousand compared to the previous year, essentially due to the decrease in the workforce.

On 16th April 2019, the Shareholders’ Meeting approved the “Long-term incentive plan for the management of the Saras Group” (the “2019/2022 Stock Grant Plan”), assigning the Board of Directors all powers necessary and appropriate to implement the Plan.

The recipients of the Plan are the Directors with strategic responsibilities within the Company; the Directors of the Board of Italian and/or foreign subsidiaries controlled by the Company, and some other senior executives within the Group, including those with an independent employment contract.

Each beneficiary is assigned the right to receive free shares after achieving performance objectives determined in relation to:

- the relative positioning of the Total Shareholder Return of Saras compared to the TSR of a group of industrial companies that are part of the FTSE Italia Mid Cap;
- the positioning of the Refining margin achieved by the Group with respect to the EMC Benchmark margin;
- EBITDA performance in the Power segment.

The cost for the year totals EUR 1,658 thousand.

During the year, the "Stock Grant Plan 2016/2018" was also completed, through the assignment of shares in May.

6.2.4 Depreciation/amortisation and write-downs

“Amortisation, depreciation and write-downs” are shown below:

Depreciation/amortisation and write-downs	31/12/2019	31/12/2018	Change
Amortisation of intangible assets	36,671	36,667	4
Depreciation of tangible assets	152,709	138,794	13,915
Impairment (Reversal of impairment)	0	3,377	(3,377)
Total	**189,380**	**178,838**	**10,542**

This item increased due to the effect of the entry into operation and therefore the depreciation of investments made during the year.

The impairment loss at 31st December 2018 is represented by the write-down of the medium-/long-term receivables from third parties,

"Amortisation, depreciation and write-downs" break down as follows:

Amortisation of leased items	31/12/2019	31/12/2018	Change
Amortisation of leased tangible fixed assets	9,317	0	9,317
Total	**9,317**	**0**	**9,317**

This item represents the effect of the entry into force of IFRS 16. For further details, please see the comments in paragraph 2.2 (New accounting standards, interpretations and amendments adopted by the Group) regarding IFRS 16 - Leases.

6.3 Financial income and charges

A breakdown of financial income and charges is shown below.

Financial income	31/12/2019	31/12/2018	Change
Bank interest income	1,578	702	876
Unrealised differences on derivatives	173	313	(140)
Realised differences on derivatives	1,912	891	1,021
Other income	12	1	11
Profit on exchange rates	54,304	77,821	(23,517)
Total	**57,979**	**79,728**	**(21,749)**

Financial charges	31/12/2019	31/12/2018	Change
Unrealised differences on derivatives	(3,206)	406	(3,612)
Realised differences on derivatives	(3,573)	(22,047)	18,474
Interest expenses on loans and other financial charges	(19,035)	(17,252)	(1,783)
Interest on rights of use on leases	(791)	0	(791)
Other financial charges	0	(11,117)	11,117
Exchange rate losses	(50,152)	(85,872)	35,720
Total	**(76,757)**	**(135,882)**	**59,125**

The table below shows net income/charges by type:

Financial income e Financial charges	31/12/2019	31/12/2018	Change
Net interest	(18,248)	(16,550)	(1,698)
Result of derivative instruments, of which:	(4,694)	(20,436)	15,742
Realised	*(1,661)*	*(21,154)*	*19,493*
Fair value of open positions	*(3,033)*	*719*	*(3,752)*
Net exchange rate differences	4,152	(8,051)	12,203
Other	12	(11,117)	11,129
Total	**(18,778)**	**(56,154)**	**37,376**

The fair value of derivative instruments outstanding at 31st December 2019 refers entirely to exchange and interest rate hedging transactions as well as speculative transactions.

As shown, the changes mainly refer to net exchange rate differences, as well as gains/losses on derivative financial instruments. In this regard, it should be noted that the derivative financial instruments in question consist of hedging transactions against which hedge accounting has not been adopted; in this regard, it should be noted that during the year the results in derivatives described in point 6 - Notes to the Income Statement were reclassified, and that the figures for 2018 were also restated.

6.4 Income tax

Income taxes are shown below:

Income tax	31/12/2019	31/12/2018	Change
Current taxes	17,983	70,440	(52,457)
Net deferred tax liabilities (assets)	(8,823)	(25,342)	16,519
Total	**9,160**	**45,098**	**(35,938)**

Current taxes consist of IRES (corporate income tax) accrued on the results of foreign companies and IRAP (regional business tax) accrued by the Italian companies. The overall change is due to the negative taxable income of the Italian companies for the year in question compared with the previous year.

Differences between the theoretical and effective tax rates for the two periods compared are shown below (figures in EUR million):

IRES	2019	2018
PRE-TAX RESULT [A]	35.3	185.1
IRES THEORETICAL TAX [A*24%] [B]	8.5	44.4
THEORETICAL TAX RATE [B/A*100] %	24.0%	24.0%
EFFECTIVE INCOME TAX [C]	6.2	34.2
EFFECTIVE TAX RATE [C/A*100] %	17.6%	18.5%

	2019		2018	
	TAX	TAX RATE	TAX	TAX RATE
Theoretical tax	**8.5**	**24.0%**	**44.4**	**24.0%**
Effect of concession pursuant to Art. 1 of Dec-Law 201/2011 (ACE)	(1.5)	-4.3%	(2.9)	-1.6%
Super amortisation facilitation	(6.6)	-18.6%	(3.8)	-2.1%
Reversal tax asset (Saras Energia)	0.0	0.0%	(4.1)	-2.2%
Other permanent differences	5.8	16.4%	0.6	0.3%
Effective tax	**6.2**	**17.5%**	**34.2**	**18.5%**

IRAP	2019	2018
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	54.1	144.4
TOTAL PERSONNEL COSTS [ONLY IN 2014]		
DIFFERENCE BETWEEN ADJUSTED PRODUCTION VALUE AND COSTS (A)	54	144.4
IRAP THEORETICAL TAX [2.93%] FOR 2018 [3.9%] FOR 2017 [B]	1.6	4.2
THEORETICAL TAX RATE [B/A*100] %	2.9%	2.9%
EFFECTIVE INCOME TAX [C]	10.9	10.9
EFFECTIVE TAX RATE [C/A*100] %	20.2%	7.5%

	2019		2018	
	TAX	TAX RATE	TAX	TAX RATE
Theoretical tax	**1.6**	**2.9%**	**4.2**	**2.93%**
IRAP effect on foreign companies with positive Production Value	(0.2)	0%	0.0	0.00%
Effect of different regional rates on production value	(1.1)	-2.0%	2.0	1.39%
Non-recognition of Tax Asset for IRAP companies with negative EBIT	3.0	5.5%	4.3	2.98%
Other permanent differences	(0.4)	-0.7%	0.4	0.24%
Effective tax	**2.9**	**5.4%**	**10.9**	**7.5%**

The theoretical tax rate for 2019 was calculated using the 2.93% ordinary rate, instead of the 3.90% soft rate, which was provisionally introduced by the Autonomous Region of Sardinia (Regional Law No 5/2015).

7. Other information

7.1 Main legal actions pending

The Parent Saras SpA and the subsidiaries Sarlux Srl and Sardeolica Srl were subject to a tax audit by the tax authorities which led, in some cases, to disputes pending before tax courts.

The Group Companies are involved in legal disputes filed by different plaintiffs for various reasons. The outcome of some of these disputes is hard to predict. Although the decisions made by the ordinary and administrative courts were contradictory with regard to the alleged violations, the company assumes that probability of any liability is remote; where instead the liability was deemed probable, appropriate accruals were made to the provisions for risks.

Moreover, as regards the subsidiary Sarlux Srl, there are ongoing disputes about the non-recognition of the categorisation of the IGCC plant as cogeneration and the subsequent alleged obligation to purchase "green certificates"; the companies producing electricity from non-renewable or cogeneration sources (pursuant to Legislative Decree No 79/99 and ARERA Resolution No 42/02) are, in fact, subject to the obligation to purchase green certificates for a certain percentage of electricity fed into the grid.

In particular:

i) Productions 2002-2005. An ad hoc AEEG committee, after inspecting the IGCC plant in 2007, came, a posteriori, to a different interpretation than what it made during the generation period relative to the above resolution. As a result, the AEEG deemed that the company was required to buy green certificates for the years from 2002 to 2005; Sarlux initiated administrative proceedings for all the years in question. In March 2015, the Council of State allowed, in its final decision, Sarlux's appeal for the years from 2002-2005, voiding the outcome of the inspection and the challenged acts that had obliged the company to buy green certificates. In the present financial year, the GSE completed the repayment of the amount paid by Sarlux.

ii) Production 2009. The Council of State, in the above decision, did not deliver any opinion on one of the items appealed (hydrogen produced by the plant qualifying as "useful heat"), an interpretation that, if granted, would have enabled the subsidiary to be considered a cogeneration plant, including with reference to 2009 Generation. As it believes in the reasons already included in the appeal filed with the Council of State, Sarlux commenced new proceedings to obtain recognition of the validity of its reasons about the cogeneration arising from the production of hydrogen as "useful heat".

iii) Production 2011 et seq. As regards production in 2011, 2012, 2013, and 2014, the Company submitted the cogeneration declaration pursuant to the requirements of Resolution no. 42/02, as in previous years, since it considered the resolution still in effect. The GSE instead deemed that, starting with the 2012 obligation (2011 and subsequent generation), the only reference regulation was that for High Yield Cogeneration (CAR) as set out in the Ministerial Decree of 4th April 2011, and therefore rejected the Company's request. Sarlux Srl therefore lodged various appeals with the Regional administrative court (TAR) with the aim of receiving confirmation that Resolution 42/02 is applicable or, if the regulation for High Yield Cogeneration is applicable, that cogeneration conditions were satisfied for the years in question. In the meantime, to avoid incurring administrative penalties, the Company purchased green certificates for the 2011, 2012, 2013 and 2014 generation years in accordance with the GSE's calculation worth EUR 67.0 million, and immediately submitted a claim for reimbursement to the AEEG, obtaining EUR 11.7 million for the 2011 generation year, EUR 15.1 million for 2012 and EUR 14.6 million for 2013. The appeal to the Regional Administrative Court relative to the 2012 generation, which sought confirmation regarding the applicability of resolution 42/02, was rejected in February 2015; Sarlux Srl appealed to the Italian Council of State in September 2015 and argues that the grounds for that appeal and petitions to the Regional Administrative Court that sought to obtain confirmation that cogeneration parameters had been observed in the event that High-Yield Cogeneration regulations are valid and applicable for all years in question. In November 2018, the Council of State, with reference to said year and for Resolution 42/02, definitively rejected the appeal presented by Sarlux. In light of this sentence, there is a risk that the appeals for the years 2011 and 2013 referring to AEEG Resolution 42/02 may have the same outcome, while a different interpretation should be given to the appeals concerning the requirements of the High Yield Cogeneration legislation, where it becomes difficult to assess the probability of non-acceptance of the appeals presented by the company.

Consequently, the Company did not recognise any expenses or revenue with reference to the generation from 2011 onward.

Furthermore, other assets (as described in note 5.1.6 – Other assets) include receivables for white certificates (TEE) related to benefits assigned for energy savings obtained through specific projects preliminarily authorised by GSE. In 2016, the latter commenced its inspections on all projects, although they had been already preliminary authorised. Upon completion of the inspections, GSE recalculated the portion of TEE pertaining to the Company to the extent of the projects inspected. The Group initiated an administrative dispute challenging the outcome of the above inspections. Its assessment of the risk arising from the possible outcome of the dispute was reflected in the financial statements. In 2018, the GSE partially accepted the claims put forward by the subsidiary for some projects, thus arriving at the final definition: the effects of these changes were adequately reflected in these financial statements.

Finally, with regard to the accruals recognised in the financial statements, under the provisions for CO_2 allowances (as described in section 5.5.2 - Provisions for risks and charges), relating to the free CO_2 allocation allowances due to the Northern Plants for the period 2015-17, it is noted that a formal request was resubmitted in October 2018 following the dispute relating to the process previously followed, pending approval by the European Commission.

7.2 Earnings per share

Earnings per share (EPS) is calculated by dividing the profit (loss) for the year by the weighted average number of Saras SpA shares outstanding during the year, excluding treasury shares.

The net earnings per share totalled EUR +2.78 cents per share for 2019 and EUR +15.00 cents per share for 2018. Diluted earnings per share do not vary significantly from basic earnings per share.

The average number of shares outstanding was 939,724,844 in 2019. As at 31st December 2019, Saras SpA held 9,220,216 treasury shares as a result of the bonus allocation of shares to the management of Group companies.

7.3 Related party transactions

The transactions carried out by Saras with related parties mainly concern the exchange of goods, the provision of services and arrangements of a financial nature.

The figures for commercial, miscellaneous and financial transactions with related parties are set out below, and information is provided on the largest transactions.

The effects on the statement of financial position of transactions or positions with related parties are summarised in the table below.

Description	Absolute value (Euro/000) and % on balance sheet 31/12/2019		Absolute value (Euro/000) and % on balance sheet 31/12/2018	
Related party transactions involving Saras Group's majority shareholders				
Trade receivables	109	0.03%	85	0.03%
Other operating revenues	133	0.09%	111	0.09%
Cost of services and sundry costs	517	0.07%	508	0.06%
Other related parties				
Liquid assets	17	0.00%	18	0.01%
Cost of services and sundry costs	0	0.00%	0	0.00%

With regard to the above-mentioned transactions, contracts governing provision of services are settled with amounts in line with market conditions.

The effects of transactions or positions with related parties on the statement of financial position and the income statement are summarised in the table below:

Description	Absolute value (Euro/000) and % on balance sheet 31/12/2019			Absolute value (Euro/000) and % on balance sheet 31/12/2018		
	Related parts	Total	Incidence %	Related parts	Total	Incidence %
Liquid assets	17	431,463	0.00%	18	272,831	0.01%
Trade receivables	109	351,539	0.03%	85	290,210	0.03%
Other operating revenues	133	148,603	0.09%	111	129,045	0.09%
Cost of services and sundry costs	517	771,109	0.07%	508	823,635	0.06%

The main cash flows with related parties are shown in the table below:

Flows with related parties	2019	2018
(Increase) Decrease in trade receivables	(24)	(19)
Increase (Decrease) in trade payables	0	0
Cash flow from (for) activities in the year	**(24)**	**(19)**
Interest received (paid)	0	0
Cash flow from (for) investment activities	**0**	**0**
(Increase)/Decrease financial payables	0	0
Cash flow from (for) financial activities	**0**	**0**
Total cash flows towards related parties	**(24)**	**(19)**

The effects of cash flows with related parties are shown in the table below:

	Absolute value (Euro/000) and % on balance sheet 31/12/2019			Absolute value (Euro/000) and % on balance sheet 31/12/2018		
	Related parts	Total	Incidence %	Related parts	Total	Incidence %
Cash flow from (for) activities in the year	(24)	446,079	-0.01%	19	247,792	-0.01%
Cash flow from (for) investment activities	0	(273,488)	0.00%	-	(176,788)	0.00%
Cash flow from (for) financial activities	0	(14,215)	0.00%	-	(216,838)	0.00%

7.4 Information pursuant to IFRS 7 and 13 – Financial instruments: Disclosures

To the extent that it is applicable to the Saras Group, the disclosure on financial instruments to be provided in financial statements and interim reports is mainly set out in IFRS 7 and 13.

IFRS 7 – Financial Instruments: Disclosures, requires entities to provide supplementary disclosures in financial statements that make it possible to evaluate:

a) the value of financial instruments with respect to the financial position and results of operations;

b) the nature and extent of the risks deriving from financial instruments to which the company is exposed during the year and at the reporting date, and the way in which this is managed.

IFRS 13 – Fair Value Measurement, which is applicable from 1st January 2013, requires supplementary disclosures on fair value, some of which is also required for interim reports. In general, the standard clarifies how fair value should be calculated for the purposes of financial statements, and it applies to all IFRS standards that require or permit fair value measurement or the presentation of information based on fair value.

Fair value hierarchy

Sub-paragraphs a) and b) of paragraph 93 of the standard in question require the submission of the amount of assets and liabilities measured at fair value broken down by fair value hierarchy. To this end, IFRS 13 defines a precise three-tier fair value hierarchy. The criterion used concerns the actual degree to which inputs used for the estimate can be observed. As such, the hierarchy establishes the various levels of reliability of fair value, depending on whether it is based on:

(a) unadjusted quotations taken from an active market – as defined by IAS 39 – for the assets and liabilities being measured (level 1);

(b) measurement techniques based on factors other than the quoted prices referred to above, which can either be observed directly (prices) or indirectly (derived from prices) on the market (level 2);

(c) measurement techniques that are not based on observable market data as a reference (level 3).

Based on the above, the following table shows assets and liabilities measured at fair value by the Group as at 31st December 2018, broken down by fair value hierarchy:

Type of Operation	31/12/2019 Assets	Fair value level 1	Fair value level 2	Fair value level 3	31/12/2019 Liabilities	Fair value level 1	Fair value level 2	Fair value level 3
Interest rate swaps					(100)		(100)	
Derivatives on commodities	21,086	21,086			(29,392)	(29,392)		
Exchange rate derivatives					(3,283)		(3,283)	
Derivatives on CO_2 allowances					(3,100)		(3,100)	
Total	**21,086**	**21,086**	**0**	**0**	**(35,875)**	**(29,392)**	**(6,483)**	**0**

The Group's criterion specifies that the transfer of financial assets and liabilities measured at fair value from one hierarchy to another is recognised on the date that the event that causes the transfer takes place.

Pursuant to sub-paragraph c) of paragraph 93, there were no reclassifications among the various levels of the fair value hierarchy during the year.

Measurement techniques

As shown in the table in the section above, financial instruments measured at fair value by the Saras Group largely consist of derivatives entered into by the Parent Company and the subsidiaries Sarlux Srl and Saras Trading to hedge the currency and interest rate risks, and the fluctuating price of oil and crude products and CO_2 emission allowances.

Specifically, the fair value measurement of these instruments is carried out:

- for interest and exchange rate derivatives, based on regular official statements received from counterparties (financial intermediaries) with which the instruments were created;

- for commodity-based derivatives and CO_2 quotas, based on the account statements of open positions that are periodically received from the clearing broker through which these instruments are agreed.

For all types of derivatives described above, the fair value measurements received from the counterparties in open positions are verified by comparing them to the fair value measurement carried out within the Group for the same positions. These internal measurements are carried out using reference parameters observable on markets (spot and forward interest rates, exchange rates, and crude oil and oil product prices available in active regulated markets).

The valuation does not consider the counterparty risk as the effect is not significant considering the existing security deposits.

The Saras Group has no financial assets or liabilities that are measured at fair value level 3 pursuant to IFRS 13.

The standard applies to all entities and all types of financial instrument, except for shareholdings in subsidiaries, associates and joint ventures accounted for in accordance with IAS 27, 28 or 31, employers' rights and obligations arising from employee benefit schemes (IAS 19), contracts relating to business combinations (IFRS 3), insurance contracts (IFRS 4) and financial instruments, contracts and obligations relating to share-based payments (IFRS 2).

7.4.1 Information on the Statement of Financial Position

With reference to the Statement of Financial Position, Sections 8 - 19 of the standard in question state that the carrying value of all financial instruments belonging to the categories set out in IFRS 9 must be provided, as well as detailed information where the Group has opted to record financial assets or liabilities at fair value through profit and loss, or where it has reclassified financial assets or derecognised them from the accounts. The statement of financial position of the Saras Group as at 31st December 2019 and 31st December 2018 is shown below, with details of the Group's financial instruments:

31/12/2019	Accounting value of financial derivatives categories, defined according to IFRS 9				
	FVTPL	Amortised cost	FVOCI (debt securities)	Others	Balance at 31/12/2019
ASSETS					
Current financial assets	**967,660**	**1,242**	**0**	**1,580,252**	**2,117,692**
Cash and cash equivalents	431,463				431,463
Other financial assets	50,686	1,242			51,928
Titles held for the purpose of trading					
Derivative instruments	*50,686*				
Other current financial assets		*1,242*			
Trade receivables from third parties	351,539				351,539
Inventories				1,040,842	1,040,842
Current tax assets				84,058	84,058
Other assets	133,972			23,889	157,862
Emissions Trading Credit	*75,231*				
White certificates	*36,688*				
Other	*22,053*				
Non-current assets	**6,475**	**0**	**0**	**1,432,779**	**1,439,254**
Property, plant and equipment				1,272,572	1,272,572
Intangible assets				77,970	77,970
Right-of-use of leased assets				49,919	49,919
Equity investments at cost					0
Other investments				502	502
Deferred tax assets				31,816	31,816
Other financial assets	6,475				6,475
Loans	*2,580*				
Sundry receivables	*3,895*				
Non-current assets held for sale	**974,135**	**1,242**	**0**	**3,013,032**	**7,038**
Property, plant and equipment				(2,728)	(2,728)
Intangible assets				9,766	9,766
Total active financial instruments	**0**	**0**	**0**	**0**	**3,563,984**
LIABILITIES					
Current liabilities	**35,875**	**1,817,758**	**0**	**162,130**	**2,015,764**
Short-term financial liabilities	35,875	169,022			204,897
Bonds loans					
Bank loans		*70,017*			
C/a advances		*7,973*			
Financial payables to Group companies		*91,032*			
Derivative instruments	*35,875*				
Trade and other payables		1,648,736			1,648,736
Tax liabilities				76,472	76,472
Other liabilities				85,659	85,659
Other payables				*85,659*	
Non-current liabilities	**0**	**255,245**	**0**	**229,699**	**489,381**
Long-term financial liabilities		254,704			254,704
Bank loans		*0*			
Bonds loans		*198,994*			
Financial payable IFRS 16		*48,667*			
Other payables		*7,042*			
Risk funds				194,278	194,278
Provisions for employee benefits				9,858	9,858
Deferred tax liabilities				4,437	4,437
Other liabilities		541		25,563	26,104
Other payables		*541*			
Total passive financial instruments	**35,875**	**2,073,003**	**0**	**391,830**	**2,505,145**

31/12/2018	Accounting value of financial derivatives categories, defined according to IFRS 9				
	FVTPL	Amortised cost	FVOCI (debt securities)	Others	Balance at 31/12/2018
ASSETS					
Current financial assets	**777,270**	**7,985**	**0**	**1,171,489**	**1,683,910**
Cash and cash equivalents	272,831				272,831
Other financial assets	123,738	7,985			131,723
Titles held for the purpose of trading					
Derivative instruments	*123,738*				
Other current financial assets		*7,985*			
Trade receivables from third parties	290,210				290,210
Inventories				861,601	861,601
Current tax assets				19,051	19,051
Other assets	90,492			18,006	108,494
Emissions Trading Credit	*49,917*				
White certificates	*36,600*				
Other	*3,975*				
Non-current assets	**4,067**	**0**	**0**	**1,236,941**	**1,241,008**
Property, plant and equipment				1,087,107	1,087,107
Intangible assets				112,127	112,127
Right-of-use of leased assets					0
Equity investments at cost					0
Other investments				502	502
Deferred tax assets				37,205	37,205
Other financial assets	4,067				4,067
Loans	*89*				
Sundry receivables	*3,978*				
Non-current assets held for sale	**781,338**	**7,985**	**0**	**2,408,430**	**35,001**
Property, plant and equipment				25,233	25,235
Intangible assets				9,766	9,766
Total active financial instruments	**0**	**0**	**0**	**0**	**2,959,919**
LIABILITIES					
Current liabilities	**26,937**	**1,122,854**	**0**	**151,287**	**1,301,078**
Short-term financial liabilities	26,937	79,693			106,630
Bonds loans					
Bank loans					
C/a advances		*16,957*			
Financial payables to Group companies		*62,736*			
Derivative instruments	*26,937*				
Trade and other payables		1,043,162			1,043,162
Tax liabilities				74,948	74,948
Other liabilities				76,338	76,338
Other payables				*76,338*	
Non-current liabilities	**0**	**257,053**	**0**	**293,898**	**554,771**
Long-term financial liabilities		256,001			256,001
Bank loans		*49,393*			
Bonds loans		*198,675*			
Financial payable IFRS 16					
Other payables		*7,933*			
Risk funds				203,313	203,313
Provisions for employee benefits				10,322	10,322
Deferred tax liabilities				3,819	3,819
Other liabilities		1,053		80,263	81,316
Other payables		*1,053*			
Total passive financial instruments	**26,937**	**1,379,907**	**0**	**445,185**	**1,855,849**

Financial instruments measured at fair value in the income statement comprise derivatives held by the Parent Company and the subsidiaries Sarlux Srl and Saras Trading, described in paragraph 5.4.1. The derivatives relate to commodities, interest rates and foreign exchange. The first type was entered into by the Parent Company to hedge the risks inherent in the business in which it operates, which stem from changes in the price of crude and oil products (futures, options and swaps). The second type was entered into by the Parent Company and the subsidiary to hedge the interest rate risk on loans. Finally, the third type was entered into by the Parent Company to hedge the currency risk on open currency positions.

All trade receivables and most other current and non-current receivables are classed as "Loans" since they consist of non-derivative financial assets with fixed or determinable payments that are not listed on any active market. The value entered in the financial statements is close to fair value.
With regard to the remaining financial assets and liabilities that are not directly measured at fair value, their carrying amount is close to their fair value.

Other financial liabilities valued at amortised cost include all the Group's financial liabilities and trade payables arising from the Group's contractual obligations to deliver cash or other financial assets to another entity.

31/12/2019	Net profits and losses, active and passive interests, fees and expenses generated from:				
	FVTPL	Amortised cost	FVOCI (debt securities)	Others	Balance at 31/12/2019
Revenues from ordinary operations				9,369,093	9,369,093
Other income				148,603	148,603
Total returns				**9,517,696**	**9,517,696**
Purchases of raw materials, consumables and supplies				(8,345,145)	(8,345,145)
Cost of services and sundry costs	(66,141)			(704,968)	(771,109)
Personnel costs				(148,653)	(148,653)
Depreciation/amortisation and write-downs				(198,697)	(198,697)
Total costs				**(9,397,463)**	**(9,463,604)**
Operating result					**54,092**
Net income (charges) from equity investments					
Other financial income (charges)	(4,693)	(14,085)			(18,778)
from titles held for the purpose of trading					
- of which:					
Realised differentials					
FV change					
from interest on current accounts		*1,578*			
from loans made to Group companies					
from derivative instruments	*(4,693)*				
- of which:					
Realised differentials	*(1,660)*				
FV change	*(3,033)*				
from Other financial assets					
from Interest on bank loans		*(19,035)*			
from Interest on loans from Group companies		*(6,873)*			
from other credits/debts		*10,246*			
Result before taxes					**35,314**
Income tax					(9,160)
Net result					**26,154**

No financial assets valued at amortised cost were restated at fair value or vice versa; nor were any financial assets transferred and derecognised, with the exception of trade receivables sold on a 'without recourse' basis. An analysis of the contractual terms and conditions confirmed that the receivables in question could be derecognised.

All financial assets are booked on the trade date.

During the year, the company met all its obligations with respect to the scheduled repayment of loans in place at the end of the period.

7.4.2 Information on the Income Statement

Paragraph 20 of the standard in question requires companies to state the net gains or losses generated by financial assets and liabilities, broken down according to the various income statement items. This information may be provided in either the financial statements or the notes to the accounts. To avoid overloading the accounting statements with information, the Group has opted for the second alternative, as advised in the Appendix to the accounting standard itself.

The following tables therefore show details of income statement items for the current and the previous year.

31/12/18	Net profits and losses, active and passive interests, fees and expenses generated from:				
	FVTPL	Amortised cost	FVOCI (debt securities)	Others	Balance at 31/12/2018
Revenues from ordinary operations				10,267,867	10,267,867
Other income				129,045	129,045
Total returns				**10,396,912**	**10,396,912**
Purchases of raw materials, consumables and supplies				(9,093,028)	(9,093,028)
Cost of services and sundry costs	96,877			(823,635)	(726,758)
Personnel costs				(156,611)	(156,611)
Depreciation/amortisation and write-downs				(178,838)	(178,838)
Total costs				**(10,252,112)**	**(10,155,235)**
Operating result					**241,677**
Net income (charges) from equity investments					
Other financial income (charges)	*(20,438)*	*(35,717)*			(56,155)
from titles held for the purpose of trading					
- of which:					
Realised differentials					
FV change					
from interest on current accounts		*702*			
from loans made to Group companies					
from derivative instruments	*(20,438)*				
- of which:					
Realised differentials	*(21,156)*				
FV change	*718*				
from Other financial assets					
from Interest on bank loans		*(17,250)*			
from Interest on loans from Group companies		*(6,453)*			
from other credits/debts		*(12,716)*			
Result before taxes					**185,523**
Income tax					(45,098)
Net result					**140,425**

The fair value of derivative instruments outstanding at 31st December 2019 refers entirely to exchange and interest rate hedging transactions as well as speculative transactions.

As shown, the changes mainly refer to net exchange rate differences, as well as gains/losses on derivative financial instruments. In this regard, it should be noted that the derivative financial instruments in question consist of hedging transactions against which hedge accounting has not been adopted; in this regard, it is hereby specified that during the year the results in derivatives, crude oil, raw materials, products and CO_2, as described in point 6 - Notes to the Income Statement were reclassified, and that the figures for 2018 were also restated.

Financial liabilities measured at amortised cost generated losses of EUR 19,035 thousand (EUR 17,250 thousand in the previous year), mainly due to interest on loans.

7.4.3 Additional information

7.4.3.1 Accounting for transactions with derivative instruments

As stated earlier, the Parent Company enters into derivative contracts on commodities to hedge the risks arising from changes in the price of crude oil and oil products, on CO_2 emission allowances, on the EUR/USD exchange rate to hedge against the risks relating to its currency positions, and on interest rates, to hedge against interest rate risk on its loans.

As already indicated under point 6 - Notes to the Income Statement, the Saras Group has decided to review its accounting policy insofar as the accounting classification of financial derivative instruments, which has made it possible to represent the hedging transactions conducted to mitigate the risks on changes in the price of crude oil, semi-finished products, petroleum products and CO_2 quotas in the ordinary course of business.

In accordance with IFRS, the figures for 2018 impacted by this reclassification have been restated to allow their comparability with those of the current year.

As at 31st December 2019, outstanding derivatives contracts included derivatives on all three types of underlying assets, classified as financial instruments held for trading.

These instruments are recorded at fair value: changes in fair value, as well as differentials realised, are recorded for the part linked to the hedging of petroleum products in the income statement under revenues and costs of ordinary operations.

All other financial instruments (interest rate swaps and Forwards on exchange rates) not linked to the hedging of petroleum products are recorded at fair value: changes in fair value, as well as realised differentials, are recorded in the income statement under financial income or financial expenses.

Most outstanding positions on commodities and on foreign exchange at the reporting date are expected to be closed out by the end of the first quarter of 2020, while the interest rate swaps have the same duration as the underlying loans to which they refer.

The fair value of instruments is determined on the basis of the statements that are periodically sent by the counterparties with which these instruments are stipulated.

7.4.3.2 Fair value

Financial assets and liabilities, with the exception of derivatives, are recognised at amortised cost. As these assets and liabilities mainly relate to positions underlying trade agreements due to be settled in the short term, or, alternatively, are long-term in nature and subject to interest rates in line with current market rates, the amortised cost does not differ significantly from the fair value as at 31st December 2019.

The bond carries a fixed rate and market values from the relevant stock market are not available. The value of the related cash flows, discounted to present value at the market rate, does not differ significantly from the value recorded in the financial statements.

In accordance with the amendment to IFRS 7 transposed in Europe by means of Regulation (EC) No 1165/2009 of 27th November 2009, all financial instruments booked at fair value are calculated based on valuation methods that use observable market parameters other than the prices of these instruments as their reference, except for forex and commodities futures classified under “Other current assets” or “Short-term financial liabilities”, which are valued based on prices in an active market; moreover, during the year there were no changes in valuation methods compared with the previous year.

7.4.4 Risks arising from financial instruments

Risks deriving from financial instruments to which the Group is exposed are:

a. Credit risk: i.e. the risk that the Group will incur a loss in the event that a counterparty to a financial instrument defaults;

b. Liquidity risk: i.e. the risk that the Group will be unable to service payment obligations arising from the agreed maturities of its financial liabilities;

c. Market risk: i.e. the risk relating to the performance of markets in which the Group operates, which incorporates foreign exchange risk, interest rate risk and the price risk of crude and oil products.

For information on risk management policies concerning the above, please refer to the relevant section of the Report on Operations.

7.4.4.1 Credit risk

The company’s exposure to credit risk relates mainly to trade receivables, other current and non-current receivables, assets held for trading and cash and cash equivalents.

The information required by sections 36-38 is shown in the tables below:

	Accounting value at 31/12/2019		Credit risk		Analysis of maturities by financial activity, ex paragraph 37 b) IFRS 7						Value impairment loss	
	Total	of which financial instruments	Maximum exposure at credit risk without consideration of guarantees or other similar instruments	Guarantees	Current	Expired				Total	Determined in the financial year	Progressive
						0-30 days	31-60 days	61-90 days	beyond 90 days			
Current financial assets	**2,117,692**	**841,731**	**841,731**	**85,660**	**621,844**	**145,676**	**37,135**	**12,934**	**24,140**	**834,930**		
Cash and cash equivalents	431,463	431,463	431,463		431,463					431,463		
Other financial assets held for trading	51,928	51,928	51,928		51,928					51,928		
Trade receivables from third parties	358,340	358,340	358,340	85,660	138,453	145,676	37,135	12,934	24,140	351,539		
Bad debt provision	(6,801)									0	0	(6,801)
Inventories	1,040,842											
Current tax assets	84,058											
Other assets	157,862											
Non-current assets	**1,439,254**	**502**	**4,397**	**0**	**3,895**	**0**	**0**	**0**	**0**	**3,895**		
Property, plant and equipment	1,272,572											
Intangible assets	77,970											
Right-of-use of leased assets	49,919											
Equity investments at cost												
Other investments	502	502	502									
Deferred tax assets	31,816											
Other financial assets	6,475		3,895		3,895					3,895		
Non-current assets held for sale	**7,038**	**0**										
Property, plant and equipment	(2,728)											
Intangible assets	9,766											
Total assets	**3,563,984**	**842,232**	**846,127**	**85,660**	**625,739**	**145,676**	**37,135**	**12,934**	**24,140**	**838,824**		

	Accounting value at 31/12/2018		Credit risk		Analysis of maturities by financial activity, ex paragraph 37 b) IFRS 7						Value impairment loss	
	Total	of which financial instru-ments	Maximum exposure at credit risk without consideration of guarantees or other similar instruments	Guarantees	Current	Expired				Total	Determined in the financial year	Progressive
						0-30 days	31-60 days	61-90 days	beyond 90 days			
Current financial assets	**1,683,910**	**799,431**	**799,431**	**159,942**	**606,454**	**135,029**	**24,461**	**14,673**	**18,813**	**793,476**		
Cash and cash equivalents	272,831	272,831	272,831		272,831					272,831		
Other financial assets held for trading	131,723	131,723	131,723		131,723					131,723		
Trade receivables from third parties	296,165	296,165	296,165	159,942	103,188	135,029	24,461	14,673	18,813	290,210		
Bad debt provision	(5,955)									0	0	(5,955)
Inventories	861,601											
Current tax assets	19,051											
Other assets	108,494	98,712	98,712		98,712					98,712		
Non-current assets	**1,241,008**	**502**	**4,480**	**0**	**3,978**	**0**	**0**	**0**	**0**	**3,978**		
Property, plant and equipment	1,087,107											
Intangible assets	112,127											
Right-of-use of leased assets												
Equity investments at cost												
Other investments	502	502	502									
Deferred tax assets	37,205											
Other financial assets	4,067		3,978		3,978					3,978		
Non-current assets held for sale			**35,001**	**0**								
Property, plant and equipment	25,234											
Intangible assets	9,766											
Total assets	**2,959,919**	**799,933**	**803,911**	**159,942**	**610,432**	**135,029**	**24,461**	**14,673**	**18,813**	**797,454**		

Guarantees on trade receivables are represented by sureties requested from Off-grid customers by Saras SpA and customers of Saras Energia, a credit insurance policy taken out by them covering most of the turnover, as well as letters of credit guaranteeing part of the Parent Company's receivables.

7.4.4.2 Liquidity risk

The company's exposure to liquidity risk relates mainly to trade payables and bank loans. The significant self-financing capacity, together with the low level of debt, suggests that the liquidity risk is moderate.

It shall also be recalled, as stated earlier, that the Group met all its obligations with respect to the payment of loans in place at the end of the year.

The comparative quantitative disclosures required by section 39 of the relevant accounting standard are set out in the table below:

	Accounting value at 31/12/2019		Liquidity risk		Analysis of maturities for financial liabilities, pursuant to par. 39 a) IFRS 7					
	Total	of which financial instruments	Nominal value of the financial liabilities	Guarantee	2019	2020	2021	2022	2023	beyond 5 years
LIABILITIES										
Current liabilities	**2,015,764**	**2,015,763**	**1,939,274**	**0**	**1,870,154**	**0**	**0**	**0**	**0**	**0**
Short-term financial liabilities	204,897	204,897	204,879	0	135,759					
Bonds loans										
Amount interest bonds										
Bank loans		*70,018*	*70,000*			*70,000*				
C/a advances		*7,973*	*7,973*		*7,973*					
Interest rates (final average rate = 1,257%)					880	*440*				
Financial payables to Group companies		*91,032*	*91,032*		*91,032*					
Derivative instruments		*35,875*	*35,875*		*35,875*					
Trade and other payables	1,648,736	1,648,736	1,648,736		1,648,736					
Tax liabilities	76,472	76,472								
Other liabilities	85,659	85,659	85,659		85,659					
Non-current liabilities	**489,381**	**255,249**	**200,545**	**0**	**3,765**	**4,310**	**3,765**	**3,765**	**201,883**	**0**
Long-term financial liabilities	254,704	254,704	200,000	0	3,765	3,765	3,765	3,765	201,883	0
Bank loans										
Bonds loans		*198,994*	*200,000*						*200,000*	
Financial payable IFRS 16		*48,667*			*0,7*	*0,7*	*0,6*	*0,5*	*0,4*	
Other		*7,043*								
Medium-long term loan rates (final average rate = 1,257%)										
Amount interest bonds					*3,765*	*3,765*	*3,765*	*3,765*	*1,882*	
Risk funds	194,278									
Provisions for employee benefits	9,858									
Deferred tax liabilities	4,437									
Other liabilities	26,104	545	545			545				
Total liabilities	**2,505,145**	**2,271,012**	**2,139,819**	**0**	**1,873,919**	**4,310**	**3,765**	**3,765**	**201,883**	**0**

	Accounting value at 31/12/2018		Liquidity risk		Analysis of maturities for financial liabilities, pursuant to par. 39 a) IFRS 7					
	Total	of which financial instruments	Nominal value of the financial liabilities	Guarantee	2018	2029	2020	2021	2022	beyond 5 years
LIABILITIES										
Current liabilities	**1,301,078**	**1,301,078**	**1,226,130**	**0**	**1,226,130**	**0**	**0**	**0**	**0**	**0**
Short-term financial liabilities	106,630	106,630	106,630	0	106,630					
Bonds loans										
Amount interest bonds										
Bank loans										
C/a advances		*16,957*	*16,957*		*16,957*					
Interest rates (final average rate = 1,23%)										
Financial payables to Group companies		*62,736*	*62,736*		*62,736*					
Derivative instruments		*26,937*	*26,937*		*26,937*					
Trade and other payables	1,043,162	1,043,162	1,043,162		1,043,162					
Tax liabilities	74,948	74,948								
Other liabilities	76,338	76,338	76,338		76,338					
Non-current liabilities	**554,771**	**257,057**	**251,057**	**0**	**4,380**	**5,436**	**54,072**	**3,765**	**201,882**	**0**
Long-term financial liabilities	256,001	256,001	250,000	0	4,380	4,380	54,072	3,765	201,882	0
Bank loans		*49,393*	*50,000*				*50,000*			
Bonds loans		*198,675*	*200,000*						*200,000*	
Financial payable IFRS 16										
Other		*7,933*								
Medium-long term loan rates (final average rate = 1,23%)					*615*	*615*	*308*	*0*	*0*	
Amount interest bonds					*3,765*	*3,765*	*3,765*	*3,765*	*1,882*	
Risk funds	203,313									
Provisions for employee benefits	10,322									
Deferred tax liabilities	3,819									
Other liabilities	81,316	1,057	1,057			1,057				
Total liabilities	**1,855,849**	**1,558,135**	**1,477,186**	**0**	**1,230,509**	**5,436**	**54,072**	**3,765**	**201,882**	**0**

7.4.4.3 Market risk

As stated previously, the market risks to which the Group is exposed via its financial instruments relate to:

- the EUR/USD exchange rate, which affects the value of cash and cash equivalents and the receivables and payables recorded at the reporting date, and which determines the exchange rate gains and losses recorded under "Financial income" or "Financial charges" as well as the fair value of derivatives held at the reporting date;
- the Euribor interest rate, to which the interest rates paid by the Group on its loans are indexed, as well as the fair value of derivative instruments held at the reporting date;
- prices of crude oil and oil products, which affect the fair value of the derivatives in place at the reporting date.

As required by section 40 of IFRS 7, a sensitivity analysis for every type of risk to which the Group is exposed at the reporting date has been prepared, which shows the effects of these risks on the income statement and equity. The ranges used in the sensitivity analysis (exchange rate, interest rate and crude price) are in line with management's forecasts. The results of the analysis are shown in the tables below.

Euro/US dollar exchange rate

With reference to the EUR/USD exchange rate, at the reporting date, the Saras Group had a significant level of financial instruments denominated in the latter currency recorded mainly under trade receivables and payables (principally relating to the Parent Company).

The Group carried out a simulation of the impact on net profit and equity, assuming a change of +/- 10% in the EUR/USD exchange rate at the end of the year, which was used to translate currency positions in the preparation of the statement of financial position.

2019					
EURO/US dollar exchange rate				Reference parameter change	
Balance sheet item	Amount in currency	EUR/USD Exchange rate	Amount in (thousands of €)	-10%	+10%
Currency net position	1,610,905	1.123	(527,339)		
Effect on result before tax				(58,593)	47,940
Effect on net result (and equity)				(40,195)	32,887

2018					
EURO/US dollar exchange rate				Reference parameter change	
Balance sheet item	Amount in currency	EUR/USD Exchange rate	Amount in (thousands of €)	-10%	+10%
Currency net position	829,966	1.145	(55,190)		
Effect on result before tax				(6,132)	5,017
Effect on net result (and equity)				(4,207)	3,442

To mitigate the effects of sensitivity to the EUR/USD exchange rate, the Parent Company also enters into forward exchange rate contracts, which are recognised at their fair value at the reporting date. As fair value is inevitably affected by the underlying exchange rate, the Group carried out a simulation of the impact on the Group's profit (loss) for the year and equity, assuming a change of +/-10% in the benchmark parameters.

The details and results of the simulation are shown in the tables below:

2019			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2019	-10%	+10%
Exchange rates	(3,283)	45,159	(36,931)
	(3,283)	**45,159**	**(36,931)**
Effect on result before tax		**45,159**	**(36,931)**
Effect on net result (and equity)		**32,740**	**(26,775)**

2018			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2018	-10%	+10%
Exchange rates	(77)	25,978	(21,296)
	(77)	**25,978**	**(21,296)**
Effect on result before tax		**25,978**	**(21,296)**
Effect on net result (and equity)		**18,834**	**(15,440)**

Interest rate

The Group has medium/long-term as well as short-term exposure to variable interest rates indexed to Euribor.

A simulation of the impact of this variable on Group net profit and consequently on equity was carried out, assuming a change of +/- 50 basis points in rates and only taking into account the portion of variable-rate funding.

The analysis measures the impact in terms of greater or lower interest expense that would have accrued on floating-rate loans in 2019.

The details and results of the simulation are shown in the table below:

2019				
VARIABLE INTEREST RATES			Reference parameter change	
	Average annual rate of interest 2019	Passive interest annual	-50 bps	+50 bps
Short and medium-long term financial liabilities	1.26%	(18,248)		
Effect on result before tax			7,259	(7,259)
Effect on net profit (and equity)			5,262	(5,262)

2018				
VARIABLE INTEREST RATES			Reference parameter change	
	Average annual rate of interest 2018	Passive interest annual	-50 bps	+50 bps
Short and medium-long term financial liabilities	1.23%	(16,548)		
Effect on result before tax			6,727	(6,727)
Effect on net profit (and equity)			4,877	(4,877)

In addition, the fair value of the Interest Rate Swaps (IRS) and interest rate options outstanding at the reporting date relating to the Parent Company is affected by the fluctuations in the Euribor rate: a simulation of the impact of this variable on the profit for the year and equity was carried out, assuming a change of +/- 25 basis points in rates, which was considered appropriate given potential rate fluctuations (the simulation for the previous year was adjusted).

The details and results of the simulation are shown in the tables below:

2019		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2019	-25 bps	+25 bps
Fair value of Interest rate swaps	(100)	100	(100)
	(100)	100	(100)
Effect on result before tax		100	(100)
Effect on net result (and equity)		73	(73)

2018		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2018	-25 bps	+25 bps
Fair value of Interest rate swaps	(272)	(145)	(400)
	(272)	(145)	(400)
Effect on result before tax		(145)	(400)
Effect on net result (and equity)		(105)	(290)

Prices of crude and oil products

Oil prices affect the fair value of derivatives outstanding at the reporting date and the relevant differences recognised in the income statement: derivatives as at 31st December 2019 consisted of futures, swaps and options on oil products, and the fair value recorded in the statement of financial position was derived from the market prices of the relevant underlying assets at that date.

The Group therefore carried out a simulation of the impact of this variable on net profit and consequentially, on equity, assuming a change of +/- 20%.

The details and results of the simulation (comparative) are shown in the tables below:

2019			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2019	-20%	+20%
Crude and oil products	(8,306)	24,663	(23,295)
	(8,306)	24,663	(23,295)
Effect on result before tax		24,663	(23,295)
Effect on net result (and equity)		17,881	(16,889)

2018			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2018	-20%	+20%
Crude and oil products	47,495	120,099	(9,388)
	47,495	120,099	(9,388)
Effect on result before tax		120,099	(9,388)
Effect on net result (and equity)		87,072	(6,806)

The above analysis of the Group's exposure to risks relating to financial instruments shows that there are no significant concentrations of risk in terms of counterparty, geographical area or market; the concentration risk relating to exposure to US dollars is mitigated by the hedging policies implemented.

7.5 Average number of employees

The average numbers of staff working at companies included in the perimeter of consolidation, divided by category, are shown below:

Numero medio dipendenti	2019	2018
Top management	56	71
White collars	1,277	1,270
Blue collars	453	610
Total	1,785	1,951

The Group's employees went from 1,946 at the end of 2018 to 1,745 as at 31st December 2019.

7.6 Fees and remuneration of key management personnel

In 2019, key management personnel received remuneration totalling EUR 2,088 thousand. For further details, please see section 7.5.1 of the Notes to the Financial Statements of Saras SpA.

For information on indemnities in the event of the early termination of employment of directors and succession plans for executive directors (pursuant to Article 114, paragraph 5 of Legislative Decree No 58 of 24th February 1998), please see the annual report on corporate governance and ownership structure pursuant to Article 123-bis of Legislative Decree No 58 of 24th February 1998.

7.7 Commitments

At 31st December 2019 and 2018 there were no irrevocable commitments in existence for the purchase of materials or the provision of services over a period of several years.

As part of its normal activities, the Parent Company issued sureties totalling EUR 235,105 thousand as at 31st December 2019, mainly in favour of subsidiaries and bodies, such as Customs Agencies and the Ministry of Defence.

7.8 Disclosure of external auditor's fees

Pursuant to Article 149-duodecies of the Consob Issuers' Regulation, the table below provides details of the fees relating to 2019 paid to the independent auditors for the provision of audit and other non-audit services and the services provided by the network companies.

Types of services	Provider	Recipient	Consideration of competence of the 2019 financial year
Audit	EY SpA	Saras SpA	491
	EY SpA	Subsidiaries Italy	158
	Network EY	Subsidiaries abroad	140
Net income			789
Certification services	EY SpA	Saras SpA "Non financial reporting"	35
	Network EY	Subsidiaries abroad "AUP Saras Energia"	17
Net income			52
Other services	EY SpA	Saras SpA	84
	EY SpA	Subsidiaries Italy	16
Total			100
TOTAL			941

7.9 Other

No atypical and/or unusual transactions were carried out during the year

7.10 Subsequent events

For information on subsequent events, reference should be made to the relevant section in the Report on Operations.

8. Publication of the Consolidated Financial Statements

In its meeting on 2nd March 2020, Saras' Board of Directors authorised publication of the Consolidated Financial Statements. At the same meeting, the Board vested the Chairman and the CEO with separate powers to include in the Report on Operations and/or the Notes to the accounts any further detailed information deemed necessary or appropriate to provide a clearer picture of operations to shareholders.

For the Board of Directors
The Chairman
Massimo Moratti

REPORT ON OPERATIONS OF SARAS SPA

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REPORT ON OPERATIONS OF SARAS SPA

Saras SpA is the Parent Company and operates in the Italian and international oil markets buying and selling refined oil products. This has already been analysed in detail in the Report on Operations of the Saras Group, which can be consulted for further information, as well as for a detailed analysis of the market, regulatory framework, principal events in the year, significant events after the end of the year and the business outlook.

In 2019, Saras SpA posted revenues of EUR 8,518 million, down by EUR 750 million on the previous year as a consequence of the trend in oil prices.

KEY PROFIT AND LOSS FIGURES

EUR million	2019	2018	Change
Revenue	8,518	9,269	(751)
EBITDA	120	303	(183)
EBIT	114	296	(182)
NET RESULT	78	177	(99)

EBITDA was EUR 120 million, down compared to the previous year, due to lower refining margins during 2019.

The net profit for the year, totalling EUR 78 million, was affected by as described above for the operating results.

The Net Financial Position of Saras SpA at 31st December 2019 was positive by EUR 35 million.

The following information is provided pursuant to Article 2428 of the Italian Civil Code:

- intangible assets do not include research and development costs;
- transactions with subsidiaries, associates and companies controlled by the latter are shown in the Notes under 7.2 "Transactions with related parties";
- during the year, there were no transactions for the purchase and sale of treasury shares. During the year, the "Plan for the free allocation of Company shares to Saras Group management" for the period 2016/2018 (the "2016/2018 Stock Grant Plan" or the "Plan") came to an end;
- during the year, the "Plan for the free allocation of Company shares to Saras Group management" for the period 2019/2021 (the "2019/2021 Stock Grant Plan" or the "Plan") was approved and began.

For information about the use of financial instruments by the company, see the following section of this report, "Risk analysis".

The only secondary place of business of the Company is the General and Administrative Headquarters, located in Milan, Galleria Passarella, 2.

Information about remuneration and shareholdings of directors and auditors, general managers and key managers is shown in the Notes under 7.5.

Finally, for the analysis of the main litigation pending please refer to the Notes in section 7.1 "Main Litigation Pending", while reference is made to the relevant section of the Consolidated Financial Statements of the Saras Group for:

- Corporate Governance;
- Structure of the Group;
- Atypical and/or unusual transactions;
- Performance indicators and non-financial indicators;
- Information about staff;
- Information about the environment.

RISK ANALYSIS

The main principles of the risk policy are based on the prevention of the main risks inherent in the objectives and are related to the strategic, operational and financial areas. Risk management in the company's individual policies and processes is based on the principle that operational and financial risk is managed by the process owner. The main risks are reported and discussed by top management in order to create a basis on which to hedge, secure and measure residual risk. In addition to the guidelines for risk management, there are also specific guidelines for financial risks, such as interest rate and credit risk.

Financial risks

Exchange rate risk

The Company's oil business is structurally exposed to fluctuations in exchange rates, because the reference prices for the procurement of crude oil and for the sale of the vast majority of refined oil products are linked to the US dollar. To reduce both the exchange rate risk for transactions that will be executed in the future, and the risk originating from payables and receivables expressed in currencies other than the functional currency, Saras also uses hedging derivative instruments.

Interest rate risk

Loans at variable interest rates expose the Company to the risk of variations in results and in cash flows, due to interest payments. Loans at fixed interest rates expose the Company to the risk of variation of the fair value of the loans received. The main existing loan contracts are stipulated in part at variable market rates and in part at fixed rates. Saras also uses derivative instruments to reduce the risk of variations in results and in cash flows deriving from interest.

Credit risk

The refining sector represents the Company's reference market and it is principally made up of multinational companies operating in the oil sector. Transactions executed are generally settled very quickly and are often guaranteed by primary credit institutions. Sales in the retail and wholesale markets are small on an individual basis; nonetheless, also these sales are usually guaranteed or insured.

Liquidity risk

The Company finances its activities both through the cash flows generated by operating activities and through the use of externally sourced financing, and it is therefore exposed to liquidity risk, comprising the capacity to source adequate lines of credit as well as fulfil contractual obligations and respect covenants arising from the financing contracts entered into.

The significant self-financing capacity, together with the low level of debt, suggests that the liquidity risk is moderate.

Other risks

Price fluctuation risk

The results of Saras are influenced by the trend in oil prices and especially by the effects that this trend has on refining margins (represented by the difference between the prices of the oil products generated by the refining process and the price of the raw materials, principally crude oil). In addition, to carry out production, Saras is required to maintain adequate inventories of crude oil and finished products, and the value of these inventories is subject to the fluctuations of market prices.

The risk of price fluctuation and of the related financial flows is closely linked to the very nature of the business and it can be only partly mitigated, through the use of appropriate risk management policies, including agreements to refine oil for third parties, at partially pre-set prices. To mitigate the risks deriving from price fluctuation, the Company also takes out derivative contracts on commodities with hedging nature.

Risk related to the procurement of crude oil

A significant portion of the crude oil refined by Saras originates from countries exposed to a higher level of political, social and macroeconomic uncertainty than other countries; changes in legislation, political rulings, economic stability and social unrest could have a negative impact on the commercial relationships between Saras and those countries, with potential negative effects on the Group's economic and financial position.

Risks of interruption of production

A significant proportion of Saras' activities depend on the refinery owned by the subsidiary Sarlux Srl, which is located in Sardinia. This activity is subject to the risks of accident and of interruption due to non-scheduled plant shut-downs.

Saras believes that the complexity and modularity of these systems limit the negative effects of unscheduled shutdowns and that the safety plans in place (which are continuously improved) reduce any risks of accident to a minimum: in addition, the subsidiary has a major programme of insurance cover in place to offset such risks. However, under certain circumstances, this programme may not be sufficient to prevent Saras from bearing costs in the event of accidents and/or interruption to production.

Environmental risk

The activities of Saras are regulated by many European, national, regional and local laws regarding the environment.

The highest priority of Saras is to conduct its activity with the utmost respect for the requirements of environmental legislation. The risk of environmental responsibility is, however, inherent in our activity, and it is not possible to say with certainty that new legislation will not impose further costs in the future.

Legislative and regulatory risk

Owing to the characteristics of the business carried out by Saras, it is conditioned by the continuously evolving legislative and regulatory context of the countries in which it operates. With regard to this, Saras is committed to a continuous activity of monitoring and constructive dialogue with national and local institutions aimed at researching joint activities and promptly evaluating the applicable normative amendments, acting on minimising the economic impact deriving from them.

Protection of Personal Data

Saras operates in compliance with the current regulations on data protection regarding its customers, employees, suppliers and all those with whom it comes into contact daily. In particular, on 25th May 2018 the new Regulation (EU) 2016/679 ("GDPR") on the protection of personal data entered in force. The Saras Group launched a project aimed at implementing the new measures required by the GDPR and aligning its procedures and processes with the changes introduced by this Regulation.

Information Technology and Cyber Security

Complex information systems support the various business activities and processes. Risk aspects concern the adequacy of such systems, the availability and integrity/confidentiality of data and information. In particular, some relevant systems may be exposed to the risk of cyberattacks. Saras has long been developing projects and applying solutions that aim to significantly reduce this type of risk, making use of specialised consultants on the subject and adopting the international standard IEC 62443.

Risk of events affecting the international economy

Based on the information available to date, Brexit is not expected to have a significant influence on the Saras' operations.

The impact of the coronavirus on the global economy and demand for oil and oil products is currently difficult to assess. A prolonged situation could lead, among other things, to a reduction in demand for refined products globally and to lower refining margins than expected by experts.

Provisions for risks and charges

In addition to what has been described above in relation to risk management and mitigation activities, Saras, in the presence of current obligations, resulting from past events, which may be of a legal, contractual or regulatory nature, made appropriate allocations to provisions for risks and charges included in balance sheet liabilities (see Notes).

PROPOSALS OF THE BOARD OF DIRECTORS

Shareholders,

Your company's Separate Financial Statements as at 31st December 2019 show a net profit of EUR 77,502,692. If you agree with the principles used to prepare the financial statements and the accounting standards and policies implemented therein, we propose that the following resolutions be passed:

The Shareholders' Meeting

- having examined the Company's Separate Financial Statements as at 31st December 2019;
- having seen the statutory auditors' report to the shareholders' meeting pursuant to Article 153 of Legislative Decree 58/1998 (the Consolidated Law on Finance, TUF);
- having viewed the external auditor's report on the separate financial statements as at 31st December 2019,

votes

to approve the Company's Separate Financial Statements for the year ended 31st December 2019 as a whole and in the individual entries and to carry forward the net result.

For the Board of Directors
The Chairman
Massimo Moratti

SEPARATE FINANCIAL STATEMENTS OF SARAS SPA AT 31ST DECEMBER 2019

SARAS SPA – STATEMENT OF FINANCIAL POSITION AS AT 31ST DECEMBER 2019

Thousands of EUR	(1)	(2)	31/12/2019	31/12/2018
ASSETS				
Current financial assets	**5.1**		**1,716,815**	**1,371,530**
Cash and cash equivalents	5.1.1	A	271,637	244,023
of which with related parties:			*17*	*18*
Other financial assets	5.1.2	B	188,073	93,970
of which with related parties:			*150,843*	*3,629*
Trade receivables from third parties	5.1.3	C	326,645	337,903
of which with related parties:			*113,199*	*243,899*
Inventories	5.1.4	D	858,904	680,058
Current tax assets	5.1.5	E	67,109	8,539
Other assets	5.1.6	F	4,447	7,036
From			*0*	*290*
Non-current assets	**5.2**		**723,397**	**728,387**
Property, plant and equipment	5.2.1	H	12,746	11,589
Intangible assets	5.2.2	J	1,979	2,712
Right-of-use of leased assets	5.2.3	I	7,266	0
Equity investments measured at cost	5.2.3.1	L	697,233	697,233
Other investments	5.2.3.2	L	495	495
Deferred tax assets	5.2.4	X	0	12,681
Other financial assets	5.2.5	M	3,678	3,677
Total assets			**2,440,212**	**2,099,917**
LIABILITIES AND EQUITY				
Current liabilities	**5.3**		**1,541,162**	**1,161,594**
Short-term financial liabilities	5.3.1	R	213,265	280,186
of which with related parties:			*67,151*	*185,176*
Trade and other payables	5.3.2	R	1,234,181	777,910
of which with related parties:			*141,332*	*207,003*
Tax liabilities	5.3.3	X	60,749	63,707
Other liabilities	5.3.4	R	32,967	39,790
of which with related parties:			*22,794*	*22,610*
Non-current liabilities	**5.4**		**220,255**	**263,166**
Long-term financial liabilities	5.4.1	R	214,422	256,001
Provisions for risks and charges	5.4.2	P, Z	1,696	3,134
Provisions for employee benefits	5.4.3	Q	2,356	2,310
Deferred tax liabilities	5.4.4		1,781	0
Other liabilities	5.4.5	R	0	1,721
Total liabilities			**1,761,417**	**1,424,760**
EQUITY	5.5	N, O, W		
Share capital			54,630	54,630
Legal reserve			10,926	10,926
Other reserves			535,736	432,781
Net result			77,503	176,820
Total equity			**678,795**	**675,157**
Total liabilities and equity			**2,440,212**	**2,099,917**

(1) Please refer to the Notes, section 5 “Notes on the Statement of Financial Position”

(2) Please refer to the Notes, section 3.1 “Summary of accounting standards and policies adopted”

SARAS SPA – STATEMENT OF INCOME FOR 2019

Thousands of EUR	(1)	(2)	01/01/2019 31/12/2019	of which non-recurring	01/01/2018 31/12/2018 (3)	of which non-recurring
Revenues from ordinary operations	6.1.1	S	8,462,671		9,200,810	
of which with related parties:			*911,793*		*1,987,196*	
Other income	6.1.2	S	55,493		68,259	*2,683*
of which with related parties:			*34,596*		*60,766*	
Total returns			**8,518,164**	***0***	**9,269,069**	***2,683***
Purchases of raw materials, consumables and supplies	6.2.1	T	(7,709,509)		(8,398,602)	
of which with related parties:			*(1,721,765)*		*(1,573,145)*	
Cost of services and sundry costs	6.2.2	T, Z	(655,161)		(530,818)	
of which with related parties:			*(334,750)*		*(333,259)*	
Personnel costs	6.2.3	T, Q	(33,393)		(36,777)	***(3,000)***
Depreciation/amortisation and write-downs	6.2.4	H, J	(6,030)		(7,154)	***(3,627)***
Total costs			**(8,404,093)**	***0***	**(8,973,351)**	***(6,627)***
Operating result			**114,071**	***0***	**295,718**	***(3,944)***
Net income (charges) from equity investments	6.3	L, W	2,682		(2,000)	
of which with related parties:			*2,682*		*(2,000)*	
Financial income	6.4	U, Y	61,569		81,695	
of which with related parties:			*6,731*		*3,439*	
Financial charges	6.4	U, Y	(71,589)		(129,424)	*(6,308)*
of which with related parties:			*(354)*		*(1,667)*	
Result before taxes			**106,733**	***0***	**245,988**	***(10,252)***
Income tax	6.5	X	(29,230)		(69,168)	1,514
Net result			**77,503**	***0***	**176,820**	***(8,738)***

SARAS SPA – STATEMENT OF COMPREHENSIVE INCOME FOR 2019

Thousands of EUR		01/01/2019 31/12/2019	01/01/2018 31/12/2018
Net result (A)		**77,503**	**176,820**
Items that may be reclassified subsequently to profit or loss			
Items that will not be reclassified to profit or loss			
Actuarial effect IAS 19 on employee post-employment benefits	Q, T		
Other profit/(loss), net of the fiscal effect (B)		**0**	**0**
Consolidated net result (A + B)		**77,503**	**176,820**
Consolidated net result for the period attributable to:			
Shareholders of the parent company		77,503	176,820
Third-party minority interests		0	0

(1) Please refer to the Notes section 6 “Notes to the Statement of Comprehensive Income”
(2) Please refer to the Notes, section 3.1 “Summary of accounting standards and policies adopted”
(3) During 2019, the Saras Group continued to further improve the methods used to measure its operating performance and economic results, reflected in both GAAP and non-GAAP indicators communicated internally and externally. To this end, starting in the fourth quarter of 2019, the Group decided to revise its accounting policy regarding the rules for the classification of derivative instruments, including the results achieved and not the results of derivative instruments used to hedge commodities and CO_2 charges to the operating result: this decision was also inspired by the opportunities introduced by the recent entry into force of IFRS 9. In accordance with IFRS, the figures for 2018 impacted by this reclassification have been restated to allow their comparability with those of the current year.

SARAS SPA – STATEMENT OF CHANGES IN EQUITY FOR 2019

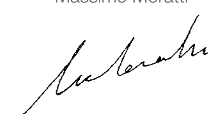
Thousands of EUR	Share Capital	Legal Reserve	Other Reserves	Profit (Loss) for the year	Total equity
Balance at 31/12/2017	**54,630**	**10,926**	**334,759**	**207,062**	**607,377**
Period 01/01/2018 - 31/12/2018					
Allocation of previous year result			207,062	(207,062)	0
Dividend Distribution			(112,321)		(112,321)
Employee share plan reserve			1,990		1,990
Actuarial effect IAS 19			87		87
F.T.A. effect IFRS 9			1,204		1,204
Net result				176,820	176,820
Total net result			*87*	*176,820*	*176,907*
Balance at 31/12/2018	**54,630**	**10,926**	**432,781**	**176,820**	**675,157**
Period 01/01/2019 - 31/12/2019					
Allocation of previous year result			176,820	(176,820)	0
Dividend Distribution			(75,310)		(75,310)
Employee share plan reserve			1,658		1,658
Actuarial effect IAS 19			(213)		(213)
F.T.A. effect IFRS 9					0
Net result				77,503	77,503
Total net result			*(213)*	*77,503*	*77,290*
Balance at 31/12/2019	**54,630**	**10,926**	**535,736**	**77,503**	**678,795**

SARAS SPA – STATEMENT OF CASH FLOW FOR 2019

Thousands of EUR	(1)	(2)	01/01/2019 31/12/2019	01/01/2018 31/12/2018
A - Initial cash and cash equivalents	**5.1.1**	**A**	**244,023**	**378,236**
B - Cash flow from (for) operating activities				
Net result	5.5		77,503	176,820
Unrealised exchange rate differences on bank current accounts			(256)	2,863
Amortisation, depreciation and write-downs of assets	6.2.4	H, J	6,030	7,154
Net income (charges) from equity investments	6.3	L	(2,682)	2,000
of which with related parties:			*(2,682)*	*2,000*
Net change in provisions for risks	5.4.2	P, Z	(1,438)	(9,038)
Net change in provision for employee benefits	5.4.3	Q	46	(200)
Net change in deferred tax liabilities and deferred tax assets	5.2.4	X	14,462	(4,351)
Net interest		U, Y	7,779	10,900
Income tax set aside	6.5	X	14,768	73,519
Change FV financial assets for trading and financial liabilities			12,241	(46,269)
Other non-monetary components	5.5		1,445	3,281
Profit (loss) of operating activities before monetary and non-monetary differences in working capital			**129,898**	**216,678**
(Increase) Decrease in trade receivables	5.1.3	C	11,258	18,344
of which with related parties:			*130,700*	*(155,732)*
(Increase) Decrease in inventories	5.1.4	D	(178,846)	46,569
(Increase) Decrease in trade and other payables	5.3.2	R	456,271	(92,667)
of which with related parties:			*(65,671)*	*(940)*
Change other current assets	5.1.5 - 5.1.6	E, F	(55,981)	15,124
of which with related parties:			*(12,711)*	*13,079*
Change other current liabilities	5.3.3 - 5.3.4	X, R	44,797	(30,347)
of which with related parties:			*13,185*	*(12,381)*
Interest received		U, Y	8,122	4,003
of which with related parties:			*6,731*	*3,439*
Interest paid		U, Y	(15,901)	(14,903)
of which with related parties:			*(354)*	*(1,667)*
Income taxes paid		E, X	(69,346)	(94,993)
Change other non-current liabilities	5.4.4	R	(1,721)	(2,153)
Total (B)			**328,551**	**65,655**
C - Cash flow from (for) investment activities				
(Net investments) in tangible and intangible assets	5.2.1 - 5.2.2	H, I	(13,720)	(5,323)
Change investments	5.2.3.1	L	2,682	(2,000)
(Increase) / decrease in other financial assets	5.1.2 - 5.2.5	B, M	(79,791)	75,394
Total (C)			**(90,829)**	**68,071**
D - Cash flow from (for) financing activities				
Increase / (decrease) m/l-term financial payables	5.4.1	R	(41,579)	(1,139)
Increase / (decrease) short-term financial payables	5.3.1	R	(93,475)	(151,617)
of which with related parties:			*257,801*	*(65,817)*
Distribution of dividends and treasury share purchases	5.5	V	(75,310)	(112,321)
Total (D)			**(210,364)**	**(265,077)**
E - Cash flows for the period (B+C+D)			**27,358**	**(131,351)**
Unrealised exchange rate differences on bank current accounts			256	(2,863)
F - Final cash and cash equivalents			**271,637**	**244,023**

(1) Please refer to the Notes, section 5 “Notes to the Statement of Financial Position" and section 6 “Notes to the Statement of Comprehensive Income”
(2) Please refer to the Notes, section 3.1 “Summary of accounting standards and policies adopted”

For the Board of Directors - The Chairman
Massimo Moratti



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NOTES TO THE SEPARATE FINANCIAL STATEMENTS OF SARAS SPA AT 31ST DECEMBER 2019

1. Introduction

Saras SpA (the "Parent") is a company limited by shares listed on the Milan stock exchange. Its registered office is in Sarroch (CA), Italy, S.S. 195 "Sulcitana" Km. 19. It is jointly controlled by Massimo Moratti SapA (20.01%), Angel Capital Management SpA (10.005%) and Stella Holding SpA (10.005%), which together represent 40.02% of the share capital of Saras SpA (excluding treasury shares) under the shareholders' agreement signed by these companies on 24th June 2019. The company is established until 31st December 2056, as stated in its articles of association.

Saras SpA operates in the Italian and international oil market through the sale of refining derivatives; it also holds total interests (direct and indirect) in companies operating in turn:

- in the refining of crude oil in the plant owned by its Sarlux Srl subsidiary;
- in the sale of oil products in the retail and wholesale markets in Spain (Saras Energia S.A.);
- in the generation and sale of electricity via an integrated gasification combined cycle plant (Sarlux Srl) and a wind farm (Parchi Eolici Ulassai Srl and subsidiary Sardeolica Srl);
- in research activities for environmental sectors (Sartec SpA) and reinsurance (Reasar S.A.).

These financial statements for the year ended 31st December 2018 are presented in euros, since this is the currency of the economy in which the Company operates. They consist of a Statement of Financial Position, Income Statement, Statement of Comprehensive Income, Statement of Cash Flows, Statement of Changes in Shareholders' Equity, and these Notes. All amounts shown in these Notes to the Financial Statements are expressed in thousands of euro, unless otherwise stated.

2. Basis of preparation of the Separate Financial Statements

The Separate Financial Statements of Saras SpA for the year ending 31st December 2019 were prepared in accordance with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB) and adopted by the European Commission pursuant to Article 6 of Regulation (EC) 1606/2002 of the European Parliament and of the Council of 19th July 2002, and in accordance with the measures adopted in implementation of Article 9 of Legislative Decree No 38 of 28th February 2005. The term IFRS is used to mean all International Financial Reporting Standards, all International Accounting Standards (IAS) and all interpretations of the International Financial Reporting Interpretations Committee (IFRIC), previously known as the Standing Interpretations Committee (SIC), endorsed by the European Commission as of the date the draft separate financial statements were approved by its Board of Directors, and set out in the relevant EU regulations published as of that date.

The financial statements have been prepared using the following criteria, in line with IAS 1, deemed suitable to provide a more complete picture of the financial position, operating results and cash flows:

- Statement of Financial Position: assets and liabilities are divided into current and non-current items, according to liquidity;
- Income statement and statement of comprehensive income: income statement items are presented according to their nature;
- Cash flow statement: presented using the indirect method, which distinguishes between cash flows from operations, investing and financing activities;
- Statement of changes in equity.

The accounting standards shown below have been applied consistently to all the periods reported.

These financial statements were prepared in accordance with the going concern principle, as the Directors determined that there are no financial or operating indicators, among others, signalling criticalities in the Company's ability to meet its obligations in the foreseeable future. The risks and uncertainties relative to the business are described in the section dedicated to the Report on Operations. A description of the Company's financial risk management, including liquidity and capital risks, is provided in the section on additional information on financial instruments and risk management policy of these notes.

3. Accounting standards applied

The standards and interpretations which had already been issued at the preparation date of these financial statements and which became effective during the year are listed below. It should be noted that the first application of these new standards did not have any effect on the Company's shareholders' equity.

IFRS 16 – Leases

With effect from 1st January 2019, the new international financial reporting standard, IFRS 16 - Leases, came into effect. The standard was approved by Regulation 2017/1986, issued by the European Commission on 31st October 2017. It replaces IAS 17 - Leases and defines a single model for recording leases, based on the recording by the lessee of an asset representing the right of use of the asset (the “right-of-use asset”) and a liability representing the obligation to make the payments envisaged by the contract (the “lease liability”).

As of 1st January 2019, due to first-time application of IFRS 16, Saras recognises for all leases, with the exception of short-term leases (i.e. leases with a term of 12 months or less that do not contain a purchase option) and leases with low-value assets (i.e. with a unit value of less than approximately EUR 5 thousand), a right of use at the lease commencement date, i.e. the date on which the underlying asset is available for use. Lease payments for short-term and low-value leases are recognised as costs in the income statement on a straight-line basis throughout the term of the lease.

The accounting treatment of the new standard envisages, in short, the recording, for the lessee:

- in the statement of financial position, of the right-of-use assets and the financial liabilities relating to the obligation to make the payments envisaged by the contract. Right-of-use assets are measured at cost, net of accumulated depreciation and impairment losses, adjusted for any subsequent remeasurement of lease liabilities. The value assigned to right-of-use assets corresponds to the initial amount of the lease liabilities plus any initial direct costs incurred, lease payments made before the lease commencement date and restoration costs, minus any lease incentives received. At the commencement date, the lessee measures the lease liability at a total amount equal to the present value of the lease payments to be paid over the term of the lease, discounted using the incremental borrowing rate (“IBR”) if the interest rate implicit in the lease cannot be readily determined. After the commencement date, the amount of the lease liabilities increases to reflect the accrual of interest and decreases to reflect the payments made;

- in the income statement,

  i) depreciation of the asset for right of use, the value of which is depreciated on a straight-line basis over its estimated useful life or the term of the contract, whichever is shorter, unless Saras is reasonably certain of obtaining ownership of the leased asset at the end of the lease term, and

  ii) interest expense accrued on the lease liability, which represents the financial cost incurred over the term of the contract to reflect a constant interest rate on the residual debt of the liability, for each individual asset; the income statement also includes lease payments that meet the short-term and low-value requirements and variable payments related to the use of assets, not included in the determination of the right of use/lease liability, as permitted by the standard;

- in the cash flow statement, the following effects of reclassification of the cash flows related to leasing contracts, compared to the previous accounting, are determined:

  a) a change in net cash flow from operating activities that will no longer include lease payments but will present the amount of interest expense on the lease liability as selected by the Company;

  b) a change in net cash flow from financing activities that will accommodate disbursements related to the repayment of lease liabilities.

During the first application of the new standard, Saras proceeded as follows:

- it applied the modified retrospective approach;

- it availed itself of the practical expedient that allows it not to apply IFRS 16 to leases with a residual term as at 1st January 2019 of less than 12 months, for all asset types;

- it considered as leases all contracts classifiable as such under IFRS 16, without applying the “grandfathering” expedient (possibility of not reviewing all contracts existing as at 1st January 2019, only applying IFRS 16 to contracts previously identified as leases in accordance with IAS 17 and IFRIC 4);

- it measured the right-of-use asset at an amount equal to the lease liability;

- the options for renewal or early termination were analysed, where present, in order to determine the overall term of the contract.

The key assumptions used to define the incremental borrowing rate (IBR) at the date of first-time application of the new standard are as follows:

- a method was defined to estimate the IBR to apply to a portfolio of leases with reasonably similar characteristics. The Group then opted to adopt the practical expedient of simplifying the definition of this parameter, as permitted by the new standard;

- the IBR at the date of first-time application of the new standard was estimated based the Parent Company Saras SpA's average effective borrowing rate as at 31st December 2018, with a maturity similar to the average maturity of the agreements subject to restatement. This rate was appropriately adjusted according to the requirements of the new accounting rules to simulate a theoretical IBR consistent with the leases being measured.

The IBR applied to discount lease payments as of 1st January 2019 is 1.55%.

The application of the new standard had significant impacts on the economic and equity position and cash flow of the Company, as a consequence:

- of an increase in fixed assets for the right-of-use of assets amongst assets;

- of an impact on net financial debt, deriving from the rise in financial liabilities for lease payables;

- of an increase in EBITDA and, to a lesser extent, EBIT, as a result of the exclusion from these figures of the lease payments previously included in operating costs, and a simultaneous increase in depreciation;

- of a marginal change in the net result, reflecting the difference between the various cost items (financial charges and depreciation) booked in application of the new standard, and the lease payments which were previously entirely recognised in the income statement;

- of an improvement in net cash flow from operating activities, which no longer includes payments for operating lease payments, but only outlays for interest expense on the lease liability;

- of a worsening to net cash flow from loans, which includes outlays connected with the reimbursement of the lease liability.

The analysis covered the following types of leases:

Historical Cost	01/01/2019	N° contracts analysed	N° contracts excluded	N° contracts included
Land and buildings	7,887	8	1	7
Other leased assets	1,556	16	12	4
Total	**9,443**	**24**	**13**	**11**

The only significant impact on the Income Statement was an increase of EUR 2.1 million in EBITDA (a decrease in service costs due to reclassification), essentially in terms of EBIT and the net result.

The identification of the lease term is an extremely important aspect as form, legislation and business practices for real estate leases vary significantly from one jurisdiction to another and the assessment of the effects of options to extend at the end of the non-cancellable lease period on the estimated lease term entails the use of assumptions. To define the lease term, Saras has considered the lessee's, lessor's or both parties' options to respectively extend and cancel the lease. When both contractual parties may exercise options to extend the lease, the Group considered whether there are significant disincentives in refusing the extension request.

The application of the method described above, considering the specific facts and circumstances and an assessment of the reasonable certainty that the option will be exercised has led the Company to, where it reasonably expects that the option will be exercised, consider a lease term up to the second contractual extension date, based on past experience and the fact that it cannot consider extensions past the second term as reasonably certain.

In June 2019, the IFRS Interpretation Committee began a discussion of the lease term (project: Lease Term and Useful Life of Leasehold Improvements). A decision was published in November 2019 clarifying how the concepts of non-depreciable period, lease term (considered for the recognition of the liability) and due date (useful for certain financial statement disclosures and for identifying when the contract no longer generates rights and obligations that are due) should be read and correlated for the application of IFRS 16.

The decision made it clear that for the purposes of identifying the due period a lessee must consider the contractual moment at which both parties involved can exercise their right to terminate the contract without incurring significant penalties; the concept of penalty must not have a purely contractual meaning but must be seen in the light of all the economic aspects of the contract. Once the due period has been identified, the lessor considers any renewal or cancellation options and assesses the period it is reasonably certain to control the right to use the asset which therefore determines the duration of the lease.

The Company has considered these discussions and will monitor their development.

IFRIC Interpretation 23 – Uncertainty of Income Tax Treatments
The Interpretation defines the accounting treatment of income taxes when the tax treatment involves uncertainties affecting the application of IAS 12 and does not apply to taxes or fees that do not fall within the scope of IAS 12, nor does it specifically include requirements relating to interests or penalties due to uncertain tax treatments.

The Interpretation specifically deals with the following points:

- if an entity considers uncertain tax treatment separately;

- the assumptions of the entity on the examination of tax treatments by the tax authorities;

- how an entity determines the taxable profit (or the tax loss), the tax base, unused tax losses, unused tax credits and tax rates;

- how an entity treats changes in facts and circumstances.

An entity must define whether to consider each uncertain tax treatment separately or together with others (one or more) uncertain tax treatments. The approach that allows the best prediction of the uncertainty resolution should be followed.

The Company applies a significant degree of judgement in identifying uncertain tax income treatments. Since the Company operates in a complex multinational context, it has evaluated whether the interpretation may have had an impact on the financial statements.

At the adoption date of the interpretation the Company examined whether there are any uncertain tax positions, and found that there was no impact on the Consolidated Financial Statements as the Saras Group already applied IAS 12 consistently with IFRIC 23.

Amendments to IFRS 9: Prepayment Features with Negative Compensation
Under IFRS 9, a debt instrument may be measured at amortised cost or fair value in the statement of comprehensive income as long as the contractual cash flows are "solely payments of principal and interest" (SPPI) and that the instrument is classified in the appropriate business model. The amendments to IFRS 9 clarify that a financial asset meets the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and regardless of which party pays or receives reasonable compensation for early termination of the contract.

These amendments have had no impact on the financial statements of Saras.

Amendments to IAS 19: Plan Amendment, Curtailment or Settlement
The amendments to IAS 19 establish the accounting treatment for cases in which, during the reporting period, there is an amendment, curtailment or settlement to an employee benefit plan. The amendments specify that when a plan amendment, curtailment or settlement occurs during the reporting period, an entity is required to determine the service cost for the remainder of the reporting period after the plan amendment, curtailment or settlement, using the relevant actuarial assumptions to remeasure its net defined benefit liability or asset in order to reflects the benefits offered by the plan and the plan assets after the event. The entity is also required to determine the net interest for the remainder of the reporting period after the plan amendment, curtailment or settlement: the net liability (asset) for defined benefits that reflects the benefits offered by the plan and the plan assets after the change; and the discount rate used to adjust the net liability (asset) for defined benefits.

These amendments have not had any impact on the Consolidated Financial Statements, as Saras did not have any amendments, curtailments or settlements of plans in the reporting period.

Amendments to IAS 28: Long-term Interests in Associates and Joint Ventures
These amendments specify that an entity applies IFRS 9 to long-term interests in an associate or joint venture not measured using the equity method but that substantially form part of the net interest in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model under IFRS 9 applies to these long-term interests.

The amendments also clarify that, when applying IFRS 9, an entity must not consider any losses of the associate or joint venture or any impairment in the equity investment recognised as adjustments to the net interest in the associate or joint venture due to the application of IAS 28 Investments in Associates and Joint Ventures.

These amendments do not apply to Saras.

Annual Improvements 2015-2017 Cycle

- **IFRS 3 Business Combinations**
  The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including the remeasurement of the previously held interest in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures the previously held interest in the joint operation.

  The entity applies these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1st January 2019; early application is permitted.

  This amendment does not have any impact on the Consolidated Financial Statements of Saras as there were no business combinations in which joint control was obtained.

- **IFRS 11 Joint Arrangements**
  An entity that participates in a joint operation, without joint control, could obtain joint control of the joint operation if the operation constitutes a business as defined by IFRS 3.

  The amendments clarify that the previous held interests in the joint operation are not remeasured. An entity applies these amendments to transactions in which it holds joint control on or after the beginning of the first annual reporting period beginning on or after 1st January 2019; early application is permitted.

  This amendment does not have any impact on the Consolidated Financial Statements of Saras as there were no business combinations in which joint control was obtained.

- **IAS 12 Income Taxes**
  The amendments clarify that the effects of income taxes on dividends are linked to past transactions or events that generated distributable income, rather than to distributions to owners. Therefore, an entity recognises the income tax consequences of dividends in profit or loss for the period, in other comprehensive income or shareholders' equity according to the way in which the entity previously recognised such past transactions or events.

  An entity applies these amendments to reporting periods beginning on or after 1st January 2019; early application is permitted. When an entity applies these amendments for the first time, it applies them to the effects of income taxes on dividends recognised as from the start of the first reporting period.

  Since the Group's current practice is in line with these amendments, they do not have any impact on Saras' financial statements.

- **IAS 23 Borrowing Costs**
  The amendments clarify that an entity treats any borrowing that was originally agreed specifically to develop an asset as non-specific if all the necessary steps to prepare such asset for use or sale have been completed.

An entity applies these amendments to borrowing costs incurred on or after the beginning of the period in which the entity applies these amendments for the first time. An entity applies these amendments to reporting periods beginning on or after 1st January 2019; early application is permitted.

Since the Group's current practice is in line with these amendments, they do not have any impact on Saras' financial statements.

STANDARDS ISSUED BUT NOT YET IN FORCE

The standards and interpretations that had already been issued and endorsed at the preparation date of these Consolidated Financial Statements and that will become effective in the following years are listed below.

Amendments to the Conceptual Framework for Financial Reporting (issued on 29th March 2018)
The IASB published the revised version of the Conceptual Framework for Financial Reporting with first-time application on 1st January 2020. The main changes concern:

- a new chapter on measurement;
- improved definitions and guidance, particularly with regard to the definition of a liability;
- clarifications of important concepts, such as stewardship, prudence and measurement uncertainty.

Amendments to the definition of a business in IFRS 3 (issued on 22nd October 2018)
The IASB published amendments to the definition of a business in IFRS 3 with the aim of helping to determine whether a transaction is an acquisition of a business or a set of activities that does not meet the definition of a business under IFRS 3. The amendments will apply to acquisitions after 1st January 2020. Saras will apply the amendments when they come into effect.

Amendments to the definition of material in IAS 1 and IAS 8 (issued on 31st October 2018)
The IASB published amendments to the definition of material in IAS 1 and IAS 8, in order to clarify the definition of "material" and help entities to assess whether information should be included in the financial statements. The amendments will apply as at 1st January 2020. Saras will apply the amendments when they come into effect.

IFRS 17 - Insurance Contracts (issued on 18th May 2017)
The IASB has published IFRS 17 - Insurance Contracts, a new complete standard which covers the recognition and measurement, presentation and disclosure of insurance contracts. The standard will be effective for annual periods starting on or after 1st January 2021 and will apply to all types of insurance contracts, regardless of the entity writing them, and to certain guarantees and financial instruments with discretionary participation characteristics. Based on the preliminary analyses carried out, Saras does not expect any significant impact on its financial statements.

3.1 Summary of accounting standards and basis of measurement

The Financial Statements have been prepared based on the cost principle, except in the specific cases described in the notes below, where fair value has been applied.

The main valuation criteria used are described below, which are unchanged compared with the previous year, except the comments made in the following paragraph "Notes to the Income Statement" concerning the classification of results from derivative instruments.

A Cash and cash equivalents
Cash and cash equivalents mainly consist of cash on hand, demand deposits with banks, other short-term, highly liquid investments (convertible into cash within 90 days) and overdraft facilities; overdrafts in bank accounts are reported under current liabilities. Items listed under net cash and cash equivalents are measured at fair value, and changes are reported in the income statement.

B Financial assets held for trading
Financial assets held for trading are reported at fair value, with any gains reported in the income statement under "Financial income" and "Financial charges". Financial assets held for trading consist entirely of derivative contracts, which are discussed in the relevant section below.

C Trade receivables from third parties

Trade receivables are measured at fair value on initial recognition. Subsequently, they are valued at amortised cost by applying the effective interest rate method. Where there is objective evidence indicating impairment (in terms of both solvency and the credit risk characteristics of individual debtors), the asset's carrying amount is decreased to an amount equal to the discounted value of its future cash flows.

At the closing date of each balance sheet, the Company conducts an analysis of any expected losses on trade receivables measured at amortised cost, and recognises or adjusts specific provisions for impairment.

The provisions for the above-mentioned expected losses are based on assumptions regarding the risk of default and expected losses. To this end, management uses its professional judgement and historical experience, as well as knowledge of current market conditions and forward estimates at the end of each reporting period.

Expected Credit Loss (ECL), determined using probability of default (PD), loss in case of default (LGD) and exposure to risk in case of default (EAD), is determined as the difference between the cash flows due under the contract and the expected cash flows (including cash inflows) discounted using the original effective interest rate.

The Group essentially applies an analytical approach, on individually significant positions and in the presence of specific information on the significant increase in credit risk. For individual assessments, the PD is obtained mainly from external providers such as legal advisors who are entrusted with debt collection cases.

Assignment of receivables

Assignment of receivables is accounted for in accordance with the method indicated by IAS 39 for the derecognition of financial assets. Consequently, all receivables assigned to the factoring company, when contractual provisions include clauses that involve maintaining significant exposure to the performance of cash flows arising from the receivables assigned, remain recognised in the financial statements.

D Inventories

Inventories are recognised at the lower of purchase or production cost and the net realisable value at the end of the financial year represented by the amount that the Company expects to obtain from their sale as part of its ordinary business activities, also taking into consideration the sales realized after the closing of the period or future expectations (such as future curves). The cost of crude oil, materials and spare parts is determined by the FIFO method. The cost of oil product inventories is calculated using the weighted average cost method of the last quarter.

E Current tax assets

Current tax assets are booked at initial recognition in the amount that is expected to be recovered from the tax authorities, taking into account their expected realisable value. Subsequently, they are recognised at amortised cost based on the effective interest rate method.

F Other assets

Other current assets are measured at fair value on initial recognition. Subsequently they are recognised at amortised cost by applying the effective interest rate method. Where there is objective evidence indicating impairment, the asset’s carrying amount is decreased to an amount equal to the discounted value of its future cash flows. Impairment losses are recognised in the income statement. If in subsequent periods the reasons for the write-down no longer exist, the write-down is reversed up to the amount that would have resulted from the application of amortised cost had the asset not been written down.

G Derecognition of financial assets and liabilities

A financial asset (or, where applicable, part of a financial asset or part of a group of similar financial assets) is derecognised at once (e.g. removed from the statement of financial position) when:

- the rights to receive cash flows from the asset are extinguished, or

- the Company has transferred to a third party the right to receive cash flows from the asset or has assumed the contractual obligation to pay them in full and without delay and (a) has transferred substantially all the risks and rewards of ownership of the financial asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control over that asset.

In cases where the Company has transferred the rights to receive cash flows from an asset or entered into an agreement under which it retains the contractual rights to receive the cash flows from the financial asset, but assumes a contractual obligation to pay the cash flows to one or more beneficiaries (pass-through), it assesses whether and to what extent it has retained the risks and rewards of ownership. If it has neither transferred nor retained substantially all the risks and benefits or has not lost control over it, the asset continues to be recognised in the Company's financial statements to the extent of its residual involvement in the asset. In this case, the Company also recognises an associated liability. The transferred asset and the associated liability are valued to reflect the rights and obligations that continue to be incumbent upon the Company.

When the entity's continuing involvement is a guarantee on the transferred asset, the involvement is measured at the lower of the amount of the asset and the maximum amount of consideration received that the entity may have to repay.

A financial liability is derecognised when the obligation underlying the liability is extinguished, cancelled or fulfilled. Where an existing financial liability is replaced by another from the same lender, under substantially different conditions, or the conditions of an existing liability are substantially changed, such exchange or change is treated as a derecognition of the original liability, accompanied by the recognition of a new liability, with any differences in carrying amounts recognised in profit or loss.

H Property, plant and equipment

Property, plant and equipment are measured at purchase or production cost, less accumulated depreciation and any impairment. The cost includes all expenses incurred directly in preparing the assets for use, as well as any disposal and removal charges incurred as a result of contractual obligations. Any interest expenses relating to the construction of tangible assets are capitalised until the asset is ready to be used.

Costs associated with requirements to restore or dismantle plants arising from statutory or contractual obligations are accounted for as an increase in the historical cost of the asset with an offsetting entry in the provisions for risks and future liabilities.

Maintenance and repair charges are expensed as incurred. Costs relating to the expansion, modernisation or improvement of facilities owned by Saras or used by third parties are only capitalised up to the limits within which they fulfil the conditions for separate classification as an asset or part of an asset in accordance with the component approach. Similarly, the costs of replacing the identifiable components of complex assets are recognised as assets and depreciated over their useful life; the residual value of components thus replaced is charged to the income statement.

The carrying amount of property, plant and equipment is depreciated on a straight-line basis from the time the asset is available and ready for use, in relation to its estimated useful life.

The useful life estimated by the Company, for the different categories of assets, is the following:

Buildings	18 years
Office furniture and machinery	4 - 8 years
Vehicles	4 years
Other goods	12 years
Leasehold improvements	The shorter of the duration of the lease and the asset’s useful life

The useful life of property, plant and equipment and their residual value are revised annually at each reporting date, and adjusted accordingly.

Land is not depreciated.

If an asset to be depreciated consists of separately identifiable components and the useful life of one component differs significantly from that of the others, each component of the asset is depreciated separately in accordance with the component approach.

I Leased goods

Assets held through leasing contracts or contracts granting rights to use third-party assets are recognised as Company assets at their current value or, if lower, at the current value of the minimum lease payments due. The corresponding liability to the lessor is recognised on the statement of financial position under financial liabilities. The assets are depreciated on a straight-line basis over the term of the underlying contract, and the financial liability is repaid on the basis of the payments provided for in the lease or the right to use.

J Intangible assets

Intangible assets are made up of elements that are non-monetary in nature, without physical substance and clearly identifiable (i.e. distinct, able to be separated, dismantled or traded, and deriving from other contractual or legal rights), controlled by the company and capable of generating future economic benefits. These elements are recognised at acquisition and/or production cost, which includes any directly attributable charges incurred in preparing the asset for use, net of accumulated amortisation and any impairment losses. Any interest expenses accrued during and in respect of the development of intangible assets are charged to the income statement. Amortisation commences from the time the asset is available for use and is charged on a straight-line basis over its estimated useful life.

Intangible assets are recorded, where required, with the approval of the Board of Statutory Auditors.

[I] Patent rights, concessions, licences and software (intangible assets with an indefinite useful life)

Intangible assets with a finite useful life are amortised systematically over their useful life, taken to be the estimated period in which the assets will be used by the company; the recoverability of the carrying amount of the assets is checked using the same method applied to "Property, plant and equipment".

[II] Research and development expenses

The costs associated with the acquisition of new knowledge or discoveries, the development of alternative products or processes, new techniques or models, the design and construction of prototypes, or otherwise relating to other scientific research or technological development are treated as current costs and taken to profit or loss when incurred.

K Impairment of assets

At each reporting date, property, plant and equipment and intangible assets with a finite useful life and equity investments are tested for impairment, originating from both internal and external sources. Where such indicators exist, the recoverable amount of these assets is estimated and any impairment loss duly charged to the income statement. The recoverable amount of an asset is the greater of its fair value minus selling costs and its value in use (the present value of the future cash flows that the asset is expected to generate). In determining value in use, future cash flows are discounted using a pre-tax discount rate that reflects current market assessments of the time value of money in relation to the period of the investment and the risks specific to the asset. The recoverable value of an asset that does not generate largely independent cash flows is determined in relation to the cash generating unit to which the asset belongs. An impairment is recognised in the income statement whenever the carrying value of an asset, or of the cash generating unit to which it is allocated, is higher than its recoverable value. When the reasons for impairment no longer exist, the impairment loss is reversed to profit or loss up to the carrying amount that the asset would have had, had it not been impaired and if it had been depreciated.

L Equity investments

Investments in subsidiaries, affiliates and joint ventures are recorded at purchase cost, and reduced for any losses according to the provisions of IAS 36.

The investments included under "Other investments" are measured at fair value, with the impact of any changes in fair value recognised through equity. Where fair value cannot be reliably determined or is insignificant, they are measured at cost less any impairment losses, in compliance with IAS 39. These costs are periodically reviewed in order to determine whether any impairment indicators exist that might indicate that their recoverable value is lower than their carrying value. When the reasons that led to a write-down in previous periods no longer exist, the write-down of the investment is reversed through the income statement.

M Other financial assets

Depending on the characteristics of the instrument and the business model adopted for its management, financial assets are classified into the following categories:

(i) financial assets measured at amortised cost;

(ii) financial assets measured at fair value with recognition of the effects among the other components of comprehensive income (hereinafter also OCI);

(iii) financial assets measured at fair value with recognition of the effects in the Income Statement.

Initial recognition is at fair value; for trade receivables without a significant financial component, the initial recognition value is represented by the transaction price. Subsequent to initial recognition, financial assets that generate contractual cash flows exclusively representing capital and interest payments are measured at amortised cost if held for the purpose of collecting the contractual cash flows (hold-to-collect business model). The application of the amortised cost method results in the recognition in the income statement of interest income determined on the basis of the effective interest rate, exchange rate differences and any write-downs

The treatment of financial assets linked to derivative instruments is shown under point "Y Derivatives".

N Treasury shares

Treasury shares are recognised at cost and deducted from equity.

O Shareholders' equity

[I] Share capital
Share capital consists of subscribed and paid-up capital. Costs strictly related to the issue of new shares are deducted from equity reserves, after any deferred tax effect.

[II] Reserves
Reserves comprise equity-related reserves set aside for a specific purpose; they include retained earnings.

[III] Share-based payments by the Company to employees and management
The Company grants additional benefits to employees and management via the allocation of bonus shares. In accordance with IFRS 2 (Share-based Payments), the cost of stock plans is recognised in profit or loss over the vesting period on a straight-line basis, with a balancing entry in equity. Changes in fair value after the grant date have no effect on the initial valuation.

P Provisions for risks and charges

Provisions for risks and charges are recognised only where a present obligation (legal or constructive) exists in relation to past events that is expected to result in an outflow of financial resources, the amount of which can be reasonably assessed. This amount represents the best discounted estimate of the sum that must be paid to discharge the obligation. The rate used to determine the present value of the liability reflects current market values and includes the additional effects of the specific risk associated with each liability.

Those risks in respect of which it is only possible to show a future liability are disclosed in the section on commitments and risks, and no provision is made.

Q Provisions for employee benefits

The Company provides various types of pension plans, in keeping with the conditions and practices that are commonly applied locally in those countries in which it carries out its activities.

From 1st January 2007, the regulations governing post-employment benefits (TFR) were amended to include the option for employees to decide where these are held. Specifically, new post-employment benefits may be allocated to pension funds or held at the company (if it has fewer than 50 employees, or allocated to INPS if it has more than 50 employees). The introduction of these regulations has resulted in the following accounting changes:

- **Amounts set aside to 31st December 2006**
  Post-employment benefits pursuant to Article 2120 of the Italian Civil Code are treated in the same way as "defined benefit plans"; these plans are based on the working life of the employees and on the remuneration they receive over a pre-determined period of service. The liability relating to post-employment benefits is entered on the statement of financial position based on their actuarial value, since this can be quantified as a staff benefit due on the basis of a defined benefit plan. The recognition of defined benefit plans requires the estimate of the benefits accrued by the employees in exchange for the service provided using actuarial techniques. These services are then discounted in order to determine the present value of the Company's obligations. The present value of the Company's obligations is determined by an external consultant using the projected unit credit method. This method, which comes under the more general area of "accrued benefit methods", considers each period of service at the company as an additional unit of entitlement: actuarial liabilities must therefore be quantified solely on the basis of years worked at the valuation date; thus, an estimate of the total liability is normally extrapolated from the number of years of service at the valuation date to account for the total number of years worked at the time the benefit is expected to be paid.

  The cost accrued for the year in respect of defined benefit plans is recorded in the income statement under personnel expenses and is equivalent to the sum of the average present value of entitlements accrued by current employees and the annual interest accrued on the present value of the Company's obligations at the beginning of the year, calculated using the discount rate for future disbursements that is used to estimate liabilities at the end of the previous year. The annual discount rate adopted for these calculations is the end-of-year market rate for zero coupon bonds with the same maturity as the average remaining duration of the liabilities.

Following application of IAS 19 (revised), actuarial gains and losses relating to the change in parameters, previously reported in the income statement (personnel costs), are now recognised in the statement of comprehensive income.

- **Amounts due from 1st January 2007**
  The allocations in question are accounted for using the method adopted for defined contribution pension plans (which are not subject to actuarial valuations) as the amount relating to employees has been transferred in full outside the Company.

  The corresponding liability is determined according to Article 2120 of the Italian Civil Code.

R Financial liabilities, trade and other payables and other liabilities

They are measured, on initial recognition, at fair value and subsequently at amortised cost, using the effective interest rate method. Where there is a change in the estimated future cash flows and these can be reliably estimated, the value of the payables is recalculated to reflect this change on the basis of the present value of the new estimated future cash flows and the internal rate of return originally calculated.

Sale transactions with a repurchase obligation represent a form of financing as the risks attached to ownership (mainly the risk relating to changes in fair value) remain with the Company. In this case, the assets are not derecognised, the debt for the repurchase is of a financial nature and the difference is recognised in profit and loss as a component of a financial nature.

Financial liabilities also include derivative contracts, which are discussed in the appropriate section below. Derivative contracts are measured at fair value with a balancing entry in profit or loss at each reporting date.

S Revenue recognition

Sales revenues are recognised when the risks and benefits associated with ownership have effectively been transferred or when a service has been rendered.

The recognition of revenues from services is based on the stage of completion reached.

Revenues are recorded net of returns, discounts, allowances and premiums, and of directly related taxes.

T Recognition of costs

Costs are recognised when they relate to goods and services that are sold or used during the year or by systematic allocation, or when their future usefulness cannot be determined.

U Interest income and expenses

Interest income and expenses are booked on an accruals basis.

V Conversion of items expressed in a currency other than the euro

Foreign currency transactions are translated into euros at the exchange rates ruling on the transaction date. Exchange rate gains and losses arising from the settlement of such transactions and from the translation at year-end exchange rates of monetary asset and liability items denominated in a foreign currency are recorded in the income statement.

W Dividends

[A] Dividends received

Dividends received from subsidiaries, joint ventures, affiliates and other holdings are recorded in the income statement when the right of shareholders to receive the payment has been established.

[B] Dividends distributed

The payment of dividends to Company shareholders is recognised as a liability in the statement of financial position of the year in which the distribution was approved by the company's shareholders.

X Taxes

Current taxes are calculated based on the taxable income for the period, applying the prevailing tax rates at the reporting date.

Deferred taxes are calculated on all temporary differences arising between the tax base of an asset or liability and its carrying amount, with the exception both of those relating to investments in subsidiaries, and when the timing of the reversal of such differences is controlled by the company and it is probable that the differences will not be reversed within a reasonably foreseeable timescale.

In respect of deferred tax assets (including those relating to tax losses from previous periods) that cannot be offset against deferred tax liabilities in full, the residual portion is recognised to the extent that it is probable that taxable income will be generated in future against which they can be recovered.

Deferred taxes are calculated using the tax rates that are expected to apply in the years in which temporary differences are realised or reversed.

Current and deferred taxes are recognised in the income statement, with the exception of those related to items directly deducted from or added to equity, in which case the tax effect is taken directly to equity. Current and deferred taxes are set off when income taxes are applied by the same tax authority, when there is a legal right of set-off and the intention to settle on a net basis.

Changes in tax rates due to regulatory amendments are booked in the year in which the changes are substantially enacted; the effect is recorded in the income statement or under equity, in relation to the transaction that generated the underlying deferred tax.

Other taxes not related to income, such as property taxes, are included under "Cost of services and sundry costs".

The Parent Company allows its Italian subsidiaries to participate in the tax consolidation scheme for the purposes of calculating corporate income tax (IRES), pursuant to Articles 117-128 of the Consolidated Law on Income Tax ("Consolidated National Tax"). As a result, a single tax base is created for the Parent Company and some Italian subsidiaries, essentially through the algebraic sum of the tax profit or loss of each participant. Participation in a particular scheme is confirmed by a communication to the tax authority made by the Parent Company indicating which subsidiaries have decided to take up this option. The option has a fixed duration of three years (except in the event of interruptions provided for by law) and the matter is governed between the two parties by a consolidation agreement. With specific reference to the transfer of tax losses, the agreements in force provide for remuneration commensurate with the ordinary IRES tax rate, equal to the portion of the loss of each subsidiary that was effectively offset by taxable income generated by other consolidated companies. Any excess losses remain allocated to the parent company and remuneration for these losses is deferred until the year that they are actually used under the national tax consolidation scheme.

Y Derivative instruments

All derivatives are financial assets and liabilities that are recognised at fair value.

They are classified as hedging instruments when the relationship between the derivative and the item being hedged is formally documented and the effectiveness of the hedge, verified periodically, is high. When derivatives hedge the risk of changes in the fair value of the underlying items (fair value hedges, e.g. hedging the variability of the fair value of fixed-rate assets/liabilities), they are recorded at fair value in the income statement; with the effects of the changes taken to profit or loss; at the same time, the hedged items are adjusted to reflect the changes in fair value associated with the risk hedged. Derivative financial instruments on commodities, in accordance with IFRS 9, are recognised at fair value with the change in the fair value of the instrument recognised in the income statement, and this change is allocated to the items of operating costs to which the hedges refer. Derivative financial instruments on commodities not related to physical transactions underlying are recognised at fair value with the change in the fair value recognised in the income statement, and classified in the financial results. The majority of derivative instruments the Company deals with are not dealt with an hedge accounting approach. Derivative financial instruments on exchange rates and interest rates are recorded at fair value with the change in the fair value of the instrument recognised in the income statement, which is charged to financial operations. To determine the fair value of financial instruments listed on active markets, the bid price of the security on the relevant reporting date is used. In the absence of an active market, fair value is determined by using measurement models based

largely on objective financial variables, and by considering, wherever possible, the prices observed in recent transactions and the prices for comparable financial instruments. These derivatives relate to hedging transactions not subject to "hedge accounting" rules.

Z Segment information

An operating segment is a part of an entity:

a) that undertakes commercial activities that generate revenues and costs (including revenues and costs relating to transactions with other parts of the same entity);

b) whose operating results are reviewed periodically at the highest operational decision-making level of the entity in order to adopt decisions on the resources to be allocated to the segment and the assessment of the results; and

c) for which separate accounting information is available.

A geographical segment is defined as a group of assets and transactions used for specific services in a particular geographical area.

3.2 Use of estimates

The preparation of financial statements requires directors to apply accounting standards and methodologies that, in certain situations, are based on difficult and subjective valuations and estimates founded on past experience and assumptions that at the time are considered reasonable and realistic under the circumstances. The use of these estimates and assumptions affects the amounts reported in the financial statements, i.e. the statement of financial position, income statement, statement of comprehensive income and cash flow statement, as well as the accompanying disclosures. The actual amounts of accounting entries for which estimates and assumptions have been used may differ from those shown in the financial statements, due to the uncertainty surrounding said assumptions and the conditions upon which the estimates are based.

3.3 Most significant accounting policies requiring a greater degree of subjectivity

A brief description is provided below of the most significant accounting policies requiring greater subjectivity by the directors in the preparation of their estimates and in respect of which a change in the conditions underlying the assumptions used could have a significant effect on the restated aggregate financial information.

[I] Depreciation of fixed assets: depreciation of fixed assets is a significant cost. The cost of property, plant and equipment is depreciated on a straight-line basis over the estimated useful life of the assets concerned. The useful life of assets is determined by the directors at the time they are purchased; it is based on past experience for similar assets, market conditions and expectations as to future events that could affect their useful life, such as changes in technology. Their actual useful life could therefore differ from the estimate. The Company periodically reviews technological and sector changes, dismantling charges and the recovery amount of assets to update their residual useful lives. This periodic revision process could lead to a change in the depreciation period considered and, therefore, in the depreciation charged in future years.

[II] Recoverable amount of property, plant and equipment: in the presence of impairment indicators, the estimated recoverable value is derived from a complex valuation process that largely depends on external sector variables or changes in the regulatory framework. The corresponding environment is monitored continuously and sector analyses are obtained regularly. However, it may be that the effective change in the key variables is not in line with expectations.

[III] Deferred tax assets: deferred tax assets are accounted for on the basis of expected taxable income in future periods. The measurement of expected income for deferred tax recognition purposes depends on factors that may vary over time and may have a significant effect on the measurement of deferred tax assets.

[IV] Provisions for risks and impairment losses on current assets: in certain circumstances, determining whether there is a current obligation (either legal or constructive) or the recoverability of current assets is not always straightforward. The directors consider such circumstances on a case-by-case basis, and at the same time estimate the amount of financial resources needed to discharge the obligation. Where the directors feel that a liability or the risk of not recovering an asset are only possible, the associated risks are disclosed in the note concerning commitments and risks, and no accrual is made. Where the directors feel that a liability or the risk of not recovering an asset are only probable, a special risk provision is recorded.

[V] Recoverable amount of inventories: the estimate of the recoverable amount of inventories entails a valuation process that is highly influenced by the performance of the oil product market, which is exposed to significant changes, including of a short-term nature. Therefore, the net realisable value of crude oil and finished goods at year end is estimated based on the amount that the Group expects to obtain from their sale, by observing the sales taking place after the reporting date. Consequently, this assessment is influenced by market conditions.

[VI] Measurement of Derivatives' Fair value: the estimation and evaluation depends on several market conditions, such as market price of commodities and exchange rates on currencies, whose variability and volatility depends on external factors.

The trends on market conditions and prices, in the short as well as in the middle-long term, such as oil price and availability or global demand for oil products in respect of the production capacity, are all factors that could significantly affect the performance of the Company. Such conditions represent one of the most critical assumptions for the evaluation processes, among which the evaluation of fixed assets, inventories, and fair value of derivatives. The underlying evaluation processes are often complex and they require estimates that strongly depends on external factors, highly volatile and based on assumption that are necessarily based on a high level of judgement of the Management, also supported by scenarios taken from independent experts.

4. Information by business segment and geographical area

4.1 Introduction

The Company operates in the Italian and international oil markets as a seller of products derived from the refining process. It is therefore deemed that the Company operates in just one segment.

4.2 Information by geographical area

The breakdown by geographical area takes into account the size of the reference market and the countries in which the registered offices of counterparties are located.

Net revenues from ordinary operations by geographical area:

Revenues from ordinary operations	31/12/2019	31/12/2018	Change
Italy	2,917,500	3,119,459	(201,959)
Spain	256	284,760	(284,504)
Other EEC countries	1,153,474	2,425,044	(1,271,570)
Non-EEC	3,854,590	2,996,937	857,653
USA	536,851	374,609	162,242
Total	**8,462,671**	**9,200,809**	**(738,138)**

The following table shows a breakdown of trade receivables by geographical area:

Trade receivables	31/12/2019	31/12/2018	Change
Italy	177,277	210,599	(33,322)
Spain	0	18,042	(18,042)
Other EEC countries	17,806	32,480	(14,674)
Non-EEC	135,296	81,552	53,744
USA	1,383	347	1,036
Bad debt provision	(5,117)	(5,117)	0
Total	**326,645**	**337,903**	**(11,258)**

The most significant changes to the statement of financial position and statement of comprehensive income compared with the previous year are illustrated below.

5. Notes to the statement of financial position

5.1 Current financial assets

5.1.1 Cash and cash equivalents

The following table shows a breakdown of cash and cash:

Cash and cash equivalents	31/12/2019	31/12/2018	Change
Bank and postal deposits	271,612	243,980	27,632
Cash	25	43	(18)
Total	**271,637**	**244,023**	**27,614**

For further details on the Company's net financial position, reference is made to the relevant section of the Report on Operations and the Statement of cash flows.

5.1.2 Other financial assets

The table below shows the breakdown of other financial assets:

Current financial assets	31/12/2019	31/12/2018	Change
Current Loans vs Group	150,843	3,629	147,214
Current financial derivatives	14,313	70,454	(56,141)
Deposits to secure derivatives	22,917	13,145	9,772
Other assets	0	6,742	(6,742)
Total	**188,073**	**93,970**	**94,103**

This item includes the positive fair values of derivatives in place at the reporting date, the guarantee deposits paid to the clearing house and the "Current Group loans".

The latter carry interest charged at market rates and are due beyond one year. For further details, see 5.3.1.

5.1.3 Trade receivables from third parties

Receivables from customers amounted to EUR 326,645 thousand, down EUR 11,258 thousand compared with the previous year, as a result of the price trends of oil products in the last quarter. The item is shown net of the allowance for impairment of EUR 5,117 thousand (unchanged compared to the previous year-end balance).

It also comprises the receivables from group companies, mainly the subsidiaries Saras Energia SAU (EUR 18,605 thousand) and Saras Trading SA (EUR 47,722 thousand) for the supply of oil products, and the subsidiary Sarlux Srl (EUR 49,879 thousand) for the supply of raw materials and services.

5.1.4 Inventories

The following table shows a breakdown of inventories and the changes that occurred in 2019:

Inventories	31/12/2019	31/12/2018	Change
Raw materials, consumables and supplies	399,708	176,672	223,036
Unfinished products and semi-finished products	69,344	104,732	(35,388)
Finished products and goods	389,852	398,654	(8,802)
Total	**858,904**	**680,058**	**178,846**

The increase in the value of oil inventories (crude oil, semi-finished and finished products) is essentially due to the increase in quantities in stock at the end of the year, due to higher purchases concentrated in the last quarter of 2019, of which a significant portion was onboard at the end of the period in accordance with the accounting standards, the Group valued inventories at the lower of purchase or production cost and recoverable market value, and from this comparison it recorded a lower value of inventories – essentially products – of EUR 1 million.

No inventories are used as collateral for liabilities.

The item "Finished products and goods held for resale" includes around 955 thousand tonnes of oil products (valued at around EUR 425 million) held for group companies and certain third parties in accordance with the obligations of Legislative Decree No 22 of 31st January 2001 (in the previous year, these stocks amounted to 998 thousand tonnes valued at around EUR 422 million).

5.1.5 Current tax assets

Current tax assets break down as follows:

Current tax assets	31/12/2019	31/12/2018	Change
VAT credit	0	6,545	(6,545)
IRES credits	59,785	1,871	57,914
IRAP credits	7,881	635	7,246
Other amounts due from the tax authorities	(557)	(512)	(45)
Total	**67,109**	**8,539**	**58,570**

IRES receivables consist of the tax surplus of the repealed Robin Hood Tax, which is recovered as compensation for the payment of other taxes, net of the IRES payable for the period.

5.1.6 Other assets

The balance breaks down as follows:

Other assets	31/12/2019	31/12/2018	Variazione
Accrued income	0	113	(113)
Prepaid expenses	2,962	4,761	(1,799)
Receivables from subsidiaries for taxes transferred	0	290	(290)
Other short-term loans	1,485	1,872	(387)
Total	**4,447**	**7,036**	**(2,589)**

The item includes the receivables from subsidiaries for taxes, which concern credit positions, transferred by Group companies in virtue of the already cited tax consolidation agreements, as well as deferred assets, and various receivables.

5.2 Non-current assets

5.2.1 Property, plant and equipment

The following table shows a breakdown of property, plant and equipment:

Historical Cost	31/12/2017	Increases	Decreases	Write-downs	Other changes	31/12/2018
Land and buildings	15,192	153	0	0	0	15,345
Industrial and commercial equipment	84	67	0	0	(1)	150
Other goods	15,681	764	0	0	(1)	16,444
Tangible fixed assets under construction	722	0	0	0	(186)	536
Total	**31,679**	**984**	**0**	**0**	**(188)**	**32,475**

Amortisation Fund	31/12/2017	Amortisation	Use	Write-downs	Other changes	31/12/2018
Land and buildings fund	13,944	176	0	0	0	14,120
Industrial and commercial equipment fund	84	8	0	0	0	92
Other goods	5,253	1,421	0	0	0	6,674
Total	**19,281**	**1,605**	**0**	**0**	**0**	**20,886**

Net Value	31/12/2017	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2018
Land and buildings	1,248	153	0	(176)	0	0	1,225
Industrial and commercial equipment	0	67	0	(8)	0	(1)	58
Other goods	10,428	764	0	(1,421)	0	(1)	9,770
Tangible fixed assets under construction	722	0	0	0	0	(186)	536
Total	**12,398**	**984**	**0**	**(1,605)**	**0**	**(188)**	**11,589**

Historical Cost	31/12/2018	Increases	Decreases	Write-downs	Other changes	31/12/2019
Land and buildings	15,345	0	(11,536)	0	0	3,809
Industrial and commercial equipment	150	0	0	0	0	150
Other goods	16,444	592	0	0	0	17,036
Tangible fixed assets under construction	536	1,036	0	0	0	1,572
Total	**32,475**	**1,628**	**(11,536)**	**0**	**0**	**22,567**

Amortisation Fund	31/12/2018	Amortisation	Use	Write-downs	Other changes	31/12/2019
Land and buildings fund	14,120	433	(12,427)	0	(433)	1,693
Industrial and commercial equipment fund	92	17	0	0	0	109
Other goods	6,674	1,460	(78)	0	(37)	8,019
Total	**20,886**	**1,910**	**(12,505)**	**0**	**(470)**	**9,821**

Net Value	31/12/2018	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2019
Land and buildings	1,225	0	891	(433)	0	433	2,116
Industrial and commercial equipment	58	0	0	(17)	0	(0)	41
Other goods	9,770	592	78	(1,460)	0	37	9,017
Tangible fixed assets under construction	536	1,036	0	0	0	0	1,572
Total	**11,589**	**1,628**	**969**	**(1,910)**	**0**	**470**	**12,746**

"Land and buildings" includes office buildings and improvements to the Milan offices.

"Other assets" mainly include furniture and electronic equipment.

"Assets under construction and payments on account" reflect the costs incurred for investments not yet deployed as at 31st December 2019.

The most significant annual depreciation rates used are shown below:

Industrial buildings (land and buildings)	5,50%
Supplies (equipment)	25%
Electronic office equipment (other assets)	20%
Office furniture and machinery (other assets)	12%
Vehicles (other assets)	25%

There are no property, plant and equipment held for sale.

5.2.2 Intangible assets

The following table shows the changes in intangible assets:

Historical Cost	31/12/2017	Increases	Decreases	Write-downs	Other changes	31/12/2018
Industrial patent and original work rights	25,227	2,282	0	0	0	27,509
Intangible assets under construction	1,204	0	(1,132)	0	0	72
Total	**26,431**	**2,282**	**(1,132)**	**0**	**0**	**27,581**

Amortisation Fund	31/12/2017	Amortisation	Use	Write-downs	Other changes	31/12/2018
Industrial patent and original work rights	22,697	2,172	0	0	0	24,869
Total	**22,697**	**2,172**	**0**	**0**	**0**	**24,869**

Net Value	31/12/2017	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2018
Industrial patent and original work rights	2,530	2,282	0	(2,172)	0	0	2,640
Intangible assets under construction	1,204	0	(1,132)	0	0	0	72
Total	**3,734**	**2,282**	**(1,132)**	**(2,172)**	**0**	**0**	**2,712**

Historical Cost	31/12/2018	Increases	Decreases	Write-downs	Other changes	31/12/2019
Industrial patent and original work rights	27,509	194	0	0	0	27,703
Intangible assets under construction	72	1,017	0	0	0	1,089
Total	**27,581**	**1,211**	**0**	**0**	**0**	**28,792**

Amortisation Fund	31/12/2018	Amortisation	Use	Write-downs	Other changes	31/12/2019
Industrial patent and original work rights	24,869	1,944	0	0	0	26,813
Total	**24,869**	**1,944**	**0**	**0**	**0**	**26,813**

Net Value	31/12/2018	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2019
Industrial patent and original work rights	2,640	194	0	(1,944)	0	0	890
Intangible assets under construction	72	1,017	0	0	0	0	1,089
Total	**2,712**	**1,211**	**0**	**(1,944)**	**0**	**0**	**1,979**

Amortisation of intangible assets totalled EUR 1,944 thousand, and was calculated using the annual rates shown below.

Industrial patent rights and intellectual property rights	20%
Concessions, licences, trademarks and similar rights	5% - 33%
Other intangible assets	6% - 33%

The main items are set out in detail below.

Industrial patent and original work rights

The balance of this item mainly relates to the costs incurred to acquire software licences.

Fixed assets under construction and payments on account

The item includes investments underway to purchase software licences.

There are no discontinued indefinite life intangible fixed assets.

5.2.3 Right-of-use of leased assets

Changes in the rights to use leased assets are shown in the following tables:

Historical Cost	31/12/2018	Increases	Decreases	Write-downs	Other changes	31/12/2019
Leased land and buildings	0	7,887	0	0	0	7,887
Other leased assets	0	1,556	0	0	0	1,556
Total	**0**	**9,443**	**0**	**0**	**0**	**9,443**

Amortisation Fund	31/12/2018	Amortisation	Use	Write-downs	Other changes	31/12/2019
Leased land and buildings provision	0	1,567	0	0	0	1,567
Other leased assets	0	609	0	0	1	610
Total	**0**	**2,176**	**0**	**0**	**1**	**2,177**

Net Value	31/12/2018	Increases	Decreases	Amortisation	Write-downs	Other changes	31/12/2019
Leased land and buildings	0	7,887	0	(1,567)	0	0	6,320
Other leased assets	0	1,556	0	(609)	0	(1)	946
Total	**0**	**9,443**	**0**	**(2,178)**	**0**	**(1)**	**7,266**

The balance at 31st December 2019, for EUR 7,266 thousand, relates to the first application of the new standard IFRS 16 - Leases. Booking essentially refers to the following types of contracts:

1) Leases of buildings to be used as management and commercial premises.

2) Company car fleets: these are long-term lease contracts on company cars used by employees in various administrative and commercial sites.

For further details, please see the comments in paragraph 2.2 (New accounting standards, interpretations and amendments adopted by the Group) on the adoption of the new international financial reporting standard, IFRS 16 - Leases.

5.2.4 Equity investments

5.2.4.1 Equity investments measured at cost

The table below shows the list of equity investments as at 31st December 2018, indicating the main information relating to subsidiaries at the same date:

List of fixed financial assets							
Name	Registered office	Currency	Share Capital	Amount owned	Holdings	Assets net	Carrying value in Saras SpA
Deposito di Arcola Srl	Arcola (SP)	EUR	1,000,000	100%	Subsidiary	2,291,050	0
Sardeolica Srl	Uta (CA)	EUR	56,696	100%	Subsidiary	104,584,190	33,613,000
Sarint SA	Luxembourg	EUR	50,705,314	99.9% (*)	Subsidiary	8,598,507	6,918,584
Sartec Srl	Assemini (CA)	EUR	3,600,000	100%	Subsidiary	17,140,122	17,382,989
Saras Trading SA	Geneva (Switzerland)	USD	981,547	100%	Subsidiary	3,627,035	923,446
Sarlux Srl	Sarroch (CA)	EUR	100,000,000	100%	Subsidiary	885,560,555	638,395,086
Total							**697,233,105**

(*) The subsidiary Deposito di Arcola Srl owns the remaining 0.1% share of Sarint SA

A comparison with the figures for the previous year is shown below.

	Registered office	% ownership	31/12/2019	31/12/2018
Deposito di Arcola Srl	Arcola (SP)	100%	0	0
Sardeolica Srl	Uta (CA)	100%	33,613	33,613
Sarint SA	Luxembourg	99.9%	6,919	6,919
Sartec Srl	Assemini (CA)	100%	17,383	17,383
Saras Trading SA	Geneva (Switzerland)	100%	923	923
Sarlux Srl	Sarroch (CA)	100%	638,395	638,395
Total			**697,233**	**697,233**

Changes in the carrying amount are as follows:

	31/12/2018	Payments	Revaluations	Other changes	Impairment	31/12/2019
Deposito di Arcola Srl	0	0	0	0	0	0
Sardeolica Srl	33,613	0	0	0	0	33,613
Sarint SA	6,919	0	0	0	0	6,919
Sartec Srl	17,383	0	0	0	0	17,383
Saras Trading SA	923	0	0	0	0	923
Sarlux Srl	638,395	0	0	0	0	638,395
Total	**697,233**	**0**	**0**	**0**	**0**	**697,233**

As at 31st December 2019, there was no impairment indicator with reference to the investments held by the Company. None of the direct and indirect subsidiaries of Saras SpA is listed on the regulated market.

5.2.4.2 Other investments

This item includes the 4.01% stake in Sarda Factoring SpA of EUR 495 thousand.

5.2.5 Deferred tax assets

Deferred tax assets at 31st December 2019 are shown as a decrease in the item "deferred tax liabilities", which you are referred to.

5.2.6 Other financial assets

At 31st December 2019, this item amounts to EUR 3,678 thousand (EUR 3,677 thousand at 31st December 2018) and mainly relates to medium-/long-term receivables.

5.3 Current liabilities

5.3.1 Short-term financial liabilities

The following table provides a breakdown of short-term financial liabilities.

Short-term financial liabilities	31/12/2019	31/12/2018	Change
Short term bank loans	70,017	0	70,017
Financial payables from Group companies	67,151	185,176	(118,025)
Bank current accounts	7,969	8,606	(637)
Financial derivatives	26,554	24,185	2,369
Other short-term financial liabilities	41,574	62,219	(20,645)
Total	**213,265**	**280,186**	**(66,921)**

The item "Short-term bank loans" includes a EUR 50 million loan taken out by Saras SpA, subject to the following restrictions:

- of a financial nature (requiring compliance with the parameters below): (i) Net Financial Indebtedness/EBITDA <at 3.5 and Net Financial Indebtedness/Shareholders' Equity <at 1.5, both calculated on the basis of the results of the Group's Consolidated Financial Statements at 31st December of each year;

- in corporate terms, mainly in relation to the Company's ownership structure, a ban on changing business activities, reducing the share capital, selling the majority of its significant shareholdings or selling a significant portion of its non-current assets.

Failure to comply with these covenants will give the banking syndicate the right to demand early repayment of the loan.

A EUR 20 million "hot money" loan was also taken out by the Parent Company with a leading credit institution, maturing on 30th April 2020.

"Loans from Group companies" include the balances of Group Company loans: the decrease on the previous year reflects the lower amount of borrowings, obtained essentially from the subsidiary Sarlux Srl.

5.3.2 Trade and other payables

The table below shows a breakdown of this item:

Payables to suppliers	31/12/2019	31/12/2018	Change
Customers advances account	63,211	4,923	58,288
Payables to current suppliers	1,029,639	566,127	463,512
Trade payables to group companies	141,331	206,860	(65,529)
Total	**1,234,181**	**777,910**	**456,271**

"Advances from customers" relate to payments on account received from customers for the supply of oil products.

"Trade payables to Group companies" essentially include payables to Sarlux Srl and Saras Trading SA amounting to EUR 24,762 thousand and EUR 116,377 thousand, respectively.

The balance of "Trade payables" essentially includes payables for crude oil supplies; the increase compared to the previous year is mainly due to the higher purchases of crude oil and petroleum products at the end of the year, compared to 2018, and with settlement at the beginning of 2020.

5.3.3 Tax liabilities

This item breaks down as shown below:

Tax liabilities	31/12/2019	31/12/2018	Change
Payables for VAT	831	9,801	(8,970)
IRAP payables	0	908	(908)
Other tax payables	59,918	52,998	6,920
Total	**60,749**	**63,707**	**(2,958)**

"Other tax payables" mainly include payables for excise duties on products released for consumption totalling EUR 58,631 thousand).

5.3.4 Other liabilities

The breakdown of other liabilities is shown below:

Other current liabilities	31/12/2019	31/12/2018	Change
Payables employee benefit and social security	3,184	3,024	160
Payables due to employees	3,684	8,528	(4,844)
Payables to subsidiaries for transfer of taxes	22,794	22,610	184
Other current payables	3,085	4,507	(1,422)
Accrued liabilities	220	1,121	(901)
Total	**32,967**	**39,790**	**(6,823)**

"Payables due to employees" include the December remuneration yet to be paid, the portion of additional monthly payments accrued and performance bonuses for the achievement of business targets.The item "Payables to subsidiaries for tax transfers" includes the payable to subsidiaries for taxes transferred pursuant to the aforementioned tax consolidation agreements. The balance is essentially due to the taxes transferred by the subsidiary Sarlux Srl.

5.4 Non-current liabilities

5.4.1 Long-term financial liabilities

This item breaks down as shown below:

Long-term financial liabilities	31/12/2019	31/12/2018	Change
Non-current bonds	198,994	198,675	319
Non-current bank loans	0	49,393	(49,393)
Other long-term financial liabilities	15,428	7,933	7,495
Total	**214,422**	**256,001**	**(41,579)**

It comprises the medium/long-term portions of the bank loans taken out by the Company and renegotiated in the previous year. These are summarised as follows (values in millions of euros):

Values expressed in millions of euro	Commencement / Renegotiation	Original amount	Rate base	Residual at 31/12/2018	Residual at 31/12/2019	Maturities	
						1 year	beyond 1 year to 5 years
Saras SpA							
Unicredit	April 2017	50	6M Euribor	49.4	50.0	50.0	
Bond	December 2017	200	1.70%	198.7	199.0		199.0
Total liabilities to banks for loans				**248.1**	**249.0**	**50.0**	**199.0**

Long term financial liabilities" include a bond, whose nominal value amounts to 200 Euro million, expiring on December 28th, 2022 and yealy fixed yield 1,70%. Such bond is a private placement listed on Austrian Third Market (Wiener Borse AG).

On the last verification date, all financial covenants had been met.

The Parent Company Saras also has a Revolving Credit Facility credit line with maturity 2020 for a maximum amount of EUR 255 million: the amount used as at 31st December 2019 was zero.

5.4.2 Provisions for risks and charges

Provisions for risks and charges may be analysed as follows:

Provisions for risks and charges	31/12/2018	Provision	Use	Other changes	31/12/2019
Other funds for risks and charges	3.134	0	(1.438)	0	1.696
Total	**3.134**	**0**	**(1.438)**	**0**	**1.696**

"Other risk provisions" mainly refer to provisions accrued in respect of tax and legal contingent liabilities. The use is essentially due to the definition, during the year, of the dispute with the Municipality of Sarroch relating to the TARSU.

5.4.3 Provisions for employee benefits

The balance breaks down as follows:

Provisions for employee benefits	31/12/2019	31/12/2018	Change
Post-employment benefits	2,356	2,310	46
Total	**2,356**	**2,310**	**46**

Employee end-of-service payments are governed by Art. 2120 of the Italian Civil Code and reflect the estimated amount that the company will be required to pay employees when they leave their employment. The liability accrued as at 31 December 2006 was determined using actuarial methods.

The following table shows the changes in "Post-employment benefits":

31/12/2017	**2,510**
Provision part for defined contributions	1,627
Interest	39
actuarial (income)/charges	(71)
Utilisations/ Contributions to supplementary funds or INPS Treasury	(1,796)
31/12/2018	**2,310**
Provision part for defined contributions	1,484
Interest	17
actuarial (income)/charges	(54)
Utilisations/ Contributions to supplementary funds or INPS Treasury	(1,401)
31/12/2019	**2,356**

5.4.4 Deferred tax liabilities

Deferred tax assets (EUR 1,781 thousand as at 31st December 2019 and EUR 12,681 thousand as at 31st December 2018) are shown net of deferred tax liabilities, and break down as follows:

	Balance at 31/12/2018	Provision	Uses	Balance at 31/12/2019
Deferred tax assets				
Expenses deductible in future years	958	*513*	*557*	914
Provisions for risks and charges (taxed)	476	-	*476*	0
Tax assets tax loss transferred to National Consolidated	10,036	*0*	*10,036*	0
Provision for bad debts	1,032	-	-	1,032
Other	179	*247*	*179*	247
Total prepaid taxes	**12,681**	**761**	**11,248**	**2,193**

	Balance at 31/12/2018	Provision	Uses	Balance at 31/12/2019
Deferred tax liabilities				
Other	946	*3,974*	*946*	3,974
Total deferred taxes	**946**	**3,974**	**946**	**3,974**
Total net	**11,734**	**(3,214)**	**10,302**	**(1,781)**

The following table shows deferred tax assets/liabilities broken down into the current and non-current portions:

	Short Term	Medium-long Term	Balance at 31/12/2019
Deferred tax assets			
Bad debt provision		1,032	1,032
Other	247		247
Expenses deductible in future years	561	353	914
Total prepaid taxes	**808**	**1,385**	**2,193**
Deferred tax liabilities			
Other	3,974		3,974
Total deferred taxes	**3,974**		**3,974**

5.5 Shareholders' equity

Shareholders' equity comprises the following:

Total equity	31/12/2019	31/12/2018	Change
Share capital	54,630	54,630	-
Legal reserve	10,926	10,926	-
Other reserves	535,736	432,781	102,955
Net profit (loss) for the year	77,503	176,820	(99,317)
Total	**678,795**	**675,157**	**3,638**

Share capital

At 31st December 2019, the fully subscribed and paid-up share capital of EUR 54,630 thousand comprised 951,000,000 ordinary shares with no par value.

Legal reserve

The legal reserve, which is unchanged from the previous year-end balance, is equal to one-fifth of the share capital.

Other reserves

This caption totals EUR 535,736 thousand, up by a net EUR 102,955 thousand compared with the previous year-end balance. The net increase was the combined result of:

- an increase due to the allocation of the previous year's profit, of EUR 176,820 thousand;
- decrease due to the allocation of dividends, as approved by the shareholders at the meeting of 16th April 2019 (EUR 75,310 thousand);
- increase of EUR 1,658 thousand in the reserve for the bonus issue to all employees under the Company's stock grant plans;
- decrease of EUR 213 thousand, due to the effect of IAS 19 discounting;

Net result

The net result for the year amounts to EUR 77,503 thousand.

Restrictions on the distribution of equity reserves

The table below breaks down equity reserves as at 31st December 2019 into the available portion, the non-distributable portion and the distributable portion:

Equity captions	Amount	Possibility of use	Amount available	Summary of uses performed in the three previous years: for loss coverage	for other reasons
Share Capital	**54,629,667**				
Capital reserves:					
Share premium reserve	338,672,775	A - B - C	338,672,775		
Profit reserves:					
Revaluation reserve	0		0	64,037,748	
Legal reserve	10,925,934	B			
Profit (loss) carried forward	85,133,420	A - B - C	85,133,420		
Other reserves:					
Extraordinary reserve	208,881,487			169,789,234	
Treasury shares in portfolio	(25,035,523)				
Transition effect IFRS on undistributed profits	(71,280,549)				
	112,565,415	A - B - C	112,565,415 (*)		
Employee ownership reserve	1,167,675				
Non-distributable reserve pursuant to Art. 7, paragraph 6 of Legislative Decree 38/05	0		0	19,658,569	
Merger surplus	0		0	85,068,436	
Other reserves	(1,802,873)	A - B - C	(1,802,873)	102,722,648	
TOTAL	**601,292,013**		**534,568,737**		
Non-distributable amount			0		
Residual distributable share			534,568,737		

Legend: A – for capital increase / B – for covering losses / C – for distribution to shareholders / (*): of which subject to deferred taxation

On 16th April 2019, in their ordinary meeting called to approve the financial statements as at 31st December 2018, Saras SpA shareholders resolved to pay a dividend of EUR 0.08 for each of the 936,010,146 outstanding ordinary shares, for a total of EUR 75,310 thousand, from the profit for the year 2019.

With regard to the financial year ended 31st December 2019, the Board of Directors proposed to the Shareholders' Meeting called on 21st April 2020 to distribute a dividend of EUR 0.04.

The average number of shares outstanding was 939,724,844 in 2019.

As at 31st December 2019, Saras SpA held 9,220,216 treasury shares as a result of the bonus allocation of shares to the management of Group companies.

6. Notes to the income statement

During 2019, Saras continued to study further possible refinements to the way in which the Group's economic performance is represented, reflected in GAAP and non-GAAP indicators. In particular, it has started an analysis to verify the existence of the requirements for the application of the hedge accounting treatment, in accordance with IFRS 9 "Financial Instruments" to the portfolio of derivative financial instruments.

On the basis of the analyses carried out and the results obtained, the Group has decided to revise its accounting policy with regard to the rules for the accounting classification of derivative financial instruments as from 2019, without applying hedge accounting rules. This has made it possible to represent the hedging transactions conducted to mitigate the risks on changes in the price of crude oil, semi-finished products, petroleum products and CO_2 quotas in the ordinary course of business. Such classification is supported by the Group risk and IT systems and is coherent with the results of the underlying physical transactions. Non-hedging transactions in derivatives are classified, as before, in the financial incomes and expenses.

This restatement provides for the recognition of the net result of hedging transactions under "Services and other costs"; the results of derivatives not directly related to physical transactions are classified, as in the past, in the financial results.

In accordance with IFRS, the figures for 2018 impacted by this reclassification have been restated to allow their comparability with those of the current year.

6.1 Revenue

6.1.1 Revenues from ordinary operations

Revenue from sales and services (EUR 8,462,671 thousand compared with EUR 9,200,810 thousand in the previous year) rose by EUR 738,139 thousand. The decrease in "Revenues from sales and services" is essentially due to the trend in the price of oil products during the year and to the slight decrease in volumes sold.

Revenues from ordinary operations are broken down by geographical area in paragraph 4 above.

6.1.2 Other income

The following table shows a breakdown of "Other income":

Other operating revenues	31/12/2019	31/12/2018	Change
Compensation for storage of mandatory stocks	10,129	8,848	1,281
Sale various materials	5	27	(22)
Ship tanks hire	8,018	6,718	1,300
Recovery for claims and compensation	777	1,354	(577)
Other revenues	36,564	51,311	(14,747)
Total	**55,493**	**68,259**	**(12,765)**

The item "Other revenues" essentially comprises charges to the subsidiary Sarlux Srl for services provided under contracts that expire in 2020.

6.2 Costs

The following table shows a breakdown of the main costs.

6.2.1 Purchases of raw materials, consumables and supplies

Purchases of raw materials, replacement parts, consumables	31/12/2019	31/12/2018	Change
Purchase of raw materials	5,901,403	6,171,850	(270,447)
Purchase semi-finished products	342,960	246,268	96,692
Purchase supplies and consumables	545	384	161
Purchase finished products	1,653,596	1,933,532	(279,936)
Change in inventories	(188,995)	46,568	(235,563)
Total	**7,709,509**	**8,398,602**	**(689,093)**

The negative change in costs for the purchase of raw, ancillary and consumable materials totalled EUR 270,447 thousand compared to the previous financial year; this change is essentially attributable to the trend in the prices of petroleum products and the quantities purchased during the year.

6.2.2 Cost of services and sundry costs

Services and sundry costs	31/12/2019	31/12/2018	Change
Costs for services	590,810	556,333	34,477
Derivatives on crude oil and petroleum products	57,730	(32,617)	90,347
Costs for use of third-party goods	3,242	5,401	(2,159)
Provisions for risks	0	705	(705)
Other operating costs	3,379	996	2,383
Total	**655,161**	**530,818**	**124,343**

Service costs mainly comprise the processing costs paid to the subsidiary Sarlux Srl. The change compared to the previous year is mainly due to the increase in transport and freight costs.

The aforementioned effect of the reclassification of derivatives (-EUR 57,730 thousand for 2019 and +EUR 32,617 thousand for 2018) is also worth mentioning.

"Other operating costs" mainly comprise membership fees, non-income taxes and contingencies.

6.2.3 Personnel costs

The breakdown of "Personnel costs" is as follows:

Personnel costs	31/12/2019	31/12/2018	Change
Salaries and wages	22,958	25,698	(2,740)
Social security contributions	6,315	6,117	198
Post-employment benefits	1,484	1,628	(144)
Other costs	566	547	19
Remuneration to the Board of Directors	2,070	2,787	(717)
Total	**33,393**	**36,777**	**(3,384)**

It should be noted that the item also includes the valuation of the amount for the financial year relating to the stock grant plans.

The Plan for the free assignment of shares of the Company to the management of the Saras Group (the "2016/2018 Stock Grant Plan" or the "Plan") was launched in 2016 by assigning the maximum number of shares for the recipients of the Plan. The cost for the year, relating to the plan, amounted to EUR 491 thousand.

The new Plan for the free assignment of shares of the Company to the management of the Saras Group (the "2019/2022 Stock Grant Plan" or the "Plan") was launched in June 2019 by assigning the maximum number of shares for the recipients of the Plan. The cost for the year, relating to the plan, amounted to EUR 954 thousand.

6.2.4 Depreciation/amortisation and write-downs

Amortisation, depreciation and write-downs of fixed assets" are shown below:

Depreciation/amortisation and write-downs	31/12/2019	31/12/2018	Change
Amortisation of intangible assets	1,944	2,172	(228)
Depreciation of tangible assets	1,910	1,605	305
Impairment (Reversal of impairment)	0	3,377	(3,377)
Total	**3,854**	**7,154**	**(3,300)**

"Amortisation, depreciation and write-downs" break down as follows:

Amortisation of leased items	31/12/2019	31/12/2018	Change
Amortisation of leased tangible fixed assets	2,176	0	2,176
Total	**2,176**	**0**	**2,176**

This item represents the effect of the entry into force of IFRS 16.

6.3 Net income (charges) from equity investments

Net income (charges) from equity investments	31/12/2019	31/12/2018	Change
Income from equity investments	2,682	0	2,682
Value adjustments to assets	0	(2,000)	2,000
Total	**2,682**	**(2,000)**	**4,682**

Income from equity investments is attributable to dividends received during the year from the subsidiary Sartec Srl.

6.4 Financial income and charges

A breakdown of financial income and charges is shown below:

Financial income	31/12/2019	31/12/2018	Change
Bank interest income	1,391	644	747
Unrealised differences on derivatives	173	312	(139)
Realised differences on derivatives	43	892	(849)
Interest from subsidiaries	6,731	3,359	3,372
Profit on exchange rates	53,231	76,488	(23,257)
Total	**61,569**	**81,695**	**(20,126)**

Financial charges	31/12/2019	31/12/2018	Change
Unrealised differences on derivatives	(3,206)	(77)	(3,129)
Realised differences on derivatives	(3,535)	(21,557)	18,022
Interest expenses on loans	(5,271)	(4,834)	(437)
Interest expenses on bonds	(3,663)	(3,761)	98
Interest from subsidiaries	(602)	321	(923)
Other (interest on mortgages, etc.)	(6,287)	(6,629)	342
Interest on rights of use on leases	(79)	0	(79)
Other financial charges	0	(6,948)	6,948
Exchange rate losses	(48,947)	(85,940)	36,993
Total	**(71,589)**	**(129,424)**	**57,835**

The summary table below provides an analysis of the main changes during the year:

Financial income e Financial charges	31/12/2019	31/12/2018	Change
Net interest	(7,700)	(10,900)	3,200
Result of derivative instruments, of which:	(6,525)	(20,430)	13,905
Realised	*(3,492)*	*(20,665)*	*17,173*
Fair value of open positions	*(3,033)*	*235*	*(3,268)*
Net exchange rate differences	4,284	(9,452)	13,736
Other	(79)	(6,948)	6,869
Total	**(10,020)**	**(47,730)**	**37,710**

The fair value of derivative instruments outstanding at 31st December 2019 refers entirely to exchange and interest rate hedging transactions as well as speculative transactions.

As shown, the changes mainly refer to net exchange rate differences, as well as gains/losses on derivative financial instruments. In this regard, please note that the derivative financial instruments being considered relate to hedging transactions for which hedge accounting has not been adopted.

6.5 Income tax

Income taxes are shown below:

Income tax	31/12/2019	31/12/2018	Change
Current taxes	15,714	72,618	(56,904)
Net deferred tax liabilities (assets)	13,516	(3,450)	16,966
Total	**29,230**	**69,168**	**(39,938)**

Current taxes comprise IRES (EUR 13,031 thousand) and IRAP (EUR 2,683 thousand) for the year.

Prepaid/deferred taxes amounted to EUR 13,516 thousand and refer to changes during the year in temporary differences between the values recorded in the financial statements and those recognised for tax purposes; as better described in paragraph "5.4.4 Deferred tax liabilities"

Differences between the theoretical and effective tax rates for the two periods compared are shown below (figures in EUR million):

IRES	2019	2018
PRE-TAX RESULT [A]	106.7	245.9
IRES THEORETICAL TAX [A*24%] [B]	25.6	59.0
THEORETICAL TAX RATE [B/A*100] %	24.0%	24.0%
EFFECTIVE INCOME TAX [C]	24.9	59.4
EFFECTIVE TAX RATE [C/A*100] %	23.4%	24.2%

	2019		2018	
	TAX	TAX RATE	TAX	TAX RATE
Theoretical tax	**26**	**24.0%**	**59.0**	**24.0%**
Valuations investments and receivables from holdings	0.0	0.00%	0.5	0.20%
Dividends from subsidiaries	(0.6)	-0.57%	0.0	0.00%
Effect of concession pursuant to Art. 1 of Dec-Law 201/2011 (ACE)	(1.2)	-1.16%	(1.0)	-0.42%
Super amortisation facilitation	0.0	0%	0.0	0.00%
Other permanent differences	1.2	1.09%	0.9	0.37%
Actual taxes	**24.9**	**23.4%**	**59.4**	**24.2%**

IRAP	2019	2018
DIFFERENCE BETWEEN PRODUCTION VALUE AND COSTS	114	266.5
TOTAL PERSONNEL COSTS [only in 2014]		
DIFFERENCE BETWEEN ADJUSTED PRODUCTION VALUE AND COSTS (A)	114	266.5
IRAP THEORETICAL TAX [2.93%] FOR 2018 [3.9%] FOR 2017 [B]	3.3	7.8
THEORETICAL TAX RATE [B/A*100] %	2.9%	2.9%
EFFECTIVE INCOME TAX [C]	4.3	10.6
EFFECTIVE TAX RATE [C/A*100] %	3.8%	4.0%

	2019		2018	
	TAX	TAX RATE	TAX	TAX RATE
Imposte teoriche	**3.3**	**2.9%**	**7.8**	**2.93%**
IRAP effect on foreign companies with positive Production Value	0.0	0%	0.0	0.00%
Personnel costs	0.08	0.07%	0.1	0.04%
Effect of different regional rates on production value	0.40	0.35%	2.2	0.83%
Other permanent differences	0.5	0.42%	0.5	0.18%
Actual taxes	**4.3**	**3.77%**	**10.6**	**4.0%**

7. Other information

7.1 Main legal actions pending

The company was subject to a tax audit by the tax authorities which led, in some cases, to disputes pending before tax courts.

Although the decisions made by the tax courts were contradictory with regard to the alleged violations, the company assumes that probability of any liability is remote; where instead the liability was deemed probable, appropriate accruals were made to the provisions for risks.

7.2 Related party transactions

The transactions carried out by Saras with related parties mainly concern the exchange of goods, the provision of services and arrangements of a financial nature. For information on guarantees given to and received from related parties, see section “7.6 Commitments” below.

The figures for commercial, miscellaneous and financial transactions with related parties are set out below, and information is provided on the largest transactions.

The effects on the statement of financial position of transactions or positions with related parties are summarised in the table below.

Description	Absolute value (Euro/000) and % on balance sheet 31/12/2019			Absolute value (Euro/000) and % on balance sheet 31/12/2018	
Related party transactions involving Saras Group’s majority shareholders					
Current financial assets	150,843	188,073	80.20%	3,629	3.86%
Trade receivables	113,199	326,645	34.66%	243,899	72.18%
Short-term financial liabilities	67,151	213,265	31.49%	185,176	66.09%
Other current liabilities	141,332	1,234,181	11.45%	207,003	26.61%
Other non-current liabilities	22,794	32,967	69.14%	22,610	56.82%
Revenues from ordinary operations	911,793	8,462,671	10.77%	1,987,196	21.60%
Other operating revenues	34,596	55,493	62.34%	60,766	89.02%
Purchases of raw materials, replacement parts, consumables	1,721,765	7,709,509	22.33%	1,573,145	18.73%
Cost of services and sundry costs	334,750	655,161	51.09%	333,259	59.15%
Net income (charges) from equity investments	2,682	2,682	100.00%	(2,000)	100.00%
Financial income	6,731	61,569	10.93%	3,439	1.07%
Financial charges	354	71,589	0.49%	1,667	0.50%
Other related parties					
Liquid assets	17	271,637	0.01%	18	0.01%

With regard to the above-mentioned transactions, in the interests of the Company, the agreements governing sales of raw materials and products reflect market conditions; where a market price is not directly available, the price is established using market prices for similar materials or products. Where services are provided, the prices are aligned as far as possible with market conditions; expenses passed on in relation to seconded personnel are charged at cost, without the application of any margin and interest on loans is charged at market rates. Related parties include both the directors and auditors, whose remuneration is stated in 7.5.1 “Remuneration paid to directors and auditors, officers and key management personnel”.

The effects of transactions or positions with related parties on the statement of financial position and the income statement are summarised in the table below:

	Absolute value (Euro/000) and % on balance sheet 31/12/2019			Absolute value (Euro/000) and % on balance sheet 31/12/2018		
	Related parted	Total	Incidence %	Related parted	Total	Incidence %
Liquid assets	17	271,637	0.01%	18	244,023	0.01%
Current financial assets	150,843	188,073	80.20%	3,629	93,970	3.86%
Trade receivables	113,199	326,645	34.66%	243,899	337,903	72.18%
Other assets	0	4,447	0.00%	290	7,036	4.12%
Short-term financial liabilities	67,151	213,265	31.49%	185,176	280,186	66.09%
Trade and other payables	141,332	1,234,181	11.45%	207,003	777,910	26.61%
Other current liabilities	22,794	32,967	69.14%	22,610	39,790	56.82%
Other non-current liabilities	0	0		–	–	
Revenues from ordinary operations	911,793	8,462,671	10.77%	1,987,196	9,200,810	21.60%
Other operating revenues	34,596	55,493	62.34%	60,766	68,259	89.02%
Purchases of raw materials, replacement parts, consumables	1,721,765	7,709,509	22.33%	1,573,145	8,398,602	18.73%
Cost of services and sundry costs	334,750	655,161	51.09%	333,259	563,435	59.15%
Net income (charges) from equity investments	2,682	2,682	100.00%	(2,000)	(2,000)	100%
Financial income	6,731	61,569	10.93%	3,439	321,373	1.07%
Financial charges	354	71,589	0.49%	1,667	336,486	0.50%

The main cash flows with related parties are shown in the table below:

	31/12/2019	31/12/2018
Net income (charges) from equity investments	2,682	(40)
Dividends from invest. in subsidiaries	0	0
Decrease in trade receivables	130,700	(43,726)
Increase (Decrease) in trade and other payables	(65,671)	134,505
Change other current assets	290	9,321
Change other current liabilities	184	0
Change other non-current liabilities	0	(3,099)
Interest received	6,731	2,600
Interest paid	(354)	(350)
Cash flow from (for) activities in the year	**74,561**	**99,211**
Dividends from invest. in subsidiaries	0	0
Cash flows from (used in) investing activities	**0**	**0**
Increase (Decrease) in financial liabilities	(118,025)	34,991
Cash flow from (for) financial activities	**(118,025)**	**34,991**
Total cash flows from/to related parties	**(43,464)**	**134,203**

The effects of cash flows with related parties are shown in the table below:

	Absolute value (Euro/000) and % on balance sheet 31/12/2019			Absolute value (Euro/000) and % on balance sheet 31/12/2018		
	Related parted	Total	Impact	Related parted	Total	Impact
Cash flow from (for) activities in the year	74,561	328,551	nd	(156,202)	65,655	nd
Cash flow from (for) investment activities	0	(466,655)	0,00%	0	68,071	0,00%
Cash flow from (for) financial activities	(118,025)	165,462	-71,33%	(65,817)	(265,077)	24,83%

7.3 Information pursuant to IFRS 7 and 13 – Financial instruments: Disclosures

To the extent that it is applicable to Saras SpA, the disclosure on financial instruments to be provided in financial statements and interim reports is mainly set out in IFRS 7 and 13.

IFRS 7 – Financial Instruments: Disclosures, requires entities to provide supplementary disclosures in financial statements that make it possible to evaluate:

a) the value of financial instruments with respect to the financial position and results of operations;

b) the nature and extent of the risks deriving from financial instruments to which the company is exposed during the year and at the reporting date, and the way in which this is managed.

IFRS 13 – Fair Value Measurement, which is applicable from 1st January 2013, requires supplementary disclosures on fair value, some of which is also required for interim reports. In general, the standard clarifies how fair value should be calculated for the purposes of financial statements, and it applies to all IFRS standards that require or permit fair value measurement or the presentation of information based on fair value.

Fair value hierarchy

Sub-paragraphs a) and b) of paragraph 93 of the standard in question require the submission of the amount of assets and liabilities measured at fair value broken down by fair value hierarchy. To this end, IFRS 13 defines a precise three-tier fair value hierarchy. The criterion used concerns the actual degree

to which inputs used for the estimate can be observed. As such, the hierarchy establishes the various levels of reliability of fair value, depending on whether it is based on:

(a) unadjusted quotations taken from an active market – as defined by IFRS 9 – for the assets and liabilities being measured (level 1);

(b) measurement techniques based on factors other than the quoted prices referred to above, which can either be observed directly (prices) or indirectly (derived from prices) on the market (level 2);

(c) measurement techniques that are not based on observable market data as a reference (level 3).

Based on the above, the following table shows assets and liabilities measured at fair value by the Company as at 31st December 2019:

Type of Operation	31/12/2019 Assets	Fair value level 1	Fair value level 2	Fair value level 3	31/12/2019 Liabilities	Fair value level 1	Fair value level 2	Fair value level 3
Interest rate swaps					(100)		(100)	
Fair value derivatives on commodities	14,313	14,313			(23,171)	(23,171)		
Fair value forward purchases and sales on exchange rates					(3,283)		(3,283)	
Total	**14,313**	**14,313**	**0**	**0**	**(26,554)**	**(23,171)**	**(3,383)**	**0**

The Company's criterion specifies that the transfer of financial assets and liabilities measured at fair value from one hierarchy to another is recognised on the date that the event that causes the transfer takes place.

Pursuant to sub-paragraph c) of paragraph 93, there were no reclassifications among the various levels of the fair value hierarchy during the year.

Measurement techniques

As shown in the table in the section above, financial instruments measured at fair value largely consist of derivatives entered into to hedge the currency and interest rate risks, and the fluctuating price of oil and crude products.

Specifically, the fair value measurement of these instruments is carried out:

- for interest and exchange rate derivatives, based on regular official statements received from counterparties (financial intermediaries) with which the instruments were created;

- for commodity-based derivatives, based on the account statements of open positions that are periodically received from the clearing broker through which these instruments are agreed.

For all types of derivatives described above, the fair value measurements received from the counterparties in open positions are verified by comparing them to the fair value measurement carried out within the Company for the same positions. These internal measurements are carried out using reference parameters observable on markets (spot and forward interest rates, exchange rates, and crude oil and oil product prices available in active regulated markets).

The valuation does not consider the counterparty risk as the effect is not significant considering the existing security deposits.

Saras SpA has no financial assets or liabilities that are measured at fair value level 3 pursuant to IFRS 13.

With regard to the remaining financial assets and liabilities that are not directly measured at fair value, their carrying amount is close to their fair value.

The criteria contained in the standard supplement those set out for the recognition, measurement and disclosure in the financial statements of the financial assets and liabilities listed in IAS 32 (Financial Instruments: Disclosure and Presentation) and in IAS 39 (Financial Instruments: Recognition and Measurement).

The standard applies to all entities and all types of financial instrument, except for shareholdings in subsidiaries, associates and joint ventures accounted for in accordance with IAS 27, 28 or 31, employers' rights and obligations arising from employee benefit schemes (IAS 19), contracts relating to business combinations (IFRS 3), insurance contracts (IFRS 4) and financial instruments, contracts and obligations relating to share-based payments (IFRS 2).

7.3.1 Information on the Statement of Financial Position

With reference to the Statement of Financial Position, Sections 8 - 19 of the standard in question state that the carrying value of all financial instruments belonging to the categories set out in IAS 39 must be provided by the Company, as well as detailed information where the Company has opted to record financial assets or liabilities at fair value through profit and loss, or where it has reclassified financial assets or derecognised them from the accounts. Following is the financial position and operating results of Saras SpA as at 31st December 2019 and 31st December 2018, with a breakdown of the financial instruments:

31/12/2019	Accounting value of financial derivatives categories, defined according to IFRS 9				
	FVTPL	Amortised cost	FVOCI (debt securities)	Others	Balance at 31/12/2019
ASSETS					
Current financial assets	**636,996**	**150,842**	**0**	**928,976**	**1,716,815**
Cash and cash equivalents	271,637				271,637
Other financial assets	37,230	150,842			188,073
Derivative instruments (FV, realised and guarantee deposits)	*37,230*				
Loans to third parties		*0*			
Payables to group companies		*150,843*			
Trade receivables from third parties	326,645				326,645
Receivables from clients	*213,290*				
Trade receivables from group company	*113,355*				
Inventories				858,904	858,904
Current tax assets				67,109	67,109
Other assets	1,484			2,963	4,447
Sundry receivables	*1,484*			*2,963*	
Non-current assets	**3,678**	**0**	**0**	**22,486**	**723,397**
Property, plant and equipment				12,746	12,746
Intangible assets				1,979	1,979
Right-of-use of leased assets				7,266	7,266
Equity investments at cost				697,233	697,233
Other investments				495	495
Deferred tax assets					0
Other financial assets	3,678				3,678
Loans to subsidiaries					
Sundry receivables	*3,678*				
Total active financial instruments	**640,674**	**150,842**	**0**	**951,462**	**2,440,212**
LIABILITIES					
Current liabilities	**26,554**	**1,420,892**	**0**	**93,716**	**1,541,162**
Short-term financial liabilities	26,554	186,711			213,265
Bonds loans					
Bank loans		*7,969*			
C/a advances					
Financial receivables from group companies		*137,169*			
Derivative instruments	*26,554*				
Other financial payables		*41,574*			
Trade and other payables		1,234,181			1,234,181
Tax liabilities				60,749	60,749
Other liabilities				32,967	32,967
Other payables				*32,967*	
Non-current liabilities	**0**	**214,422**	**0**	**5,833**	**220,255**
Long-term financial liabilities		214,422			214,422
Bank loans					
Bonds loans		*198,994*			
Financial payable IFRS 16		*8,386*			
Other		*7,042*			
Risk funds				1,696	1,696
Provisions for employee benefits				2,356	2,356
Other liabilities				1,781	1,781
Total passive financial instruments	**26,554**	**1,635,314**	**0**	**99,550**	**1,761,417**

Financial instruments recorded at fair value in the income statement comprise derivatives held by the company, as described in paragraph 5.4.1 above. The derivatives contracts on commodities, interest rates and exchange rates were entered into to mitigate the risks inherent in the business in which it operates, arising from changes in the price of crude and oil products (futures, options and swaps), to hedge interest rate risk on loans taken out and to hedge exchange rate risk relating to its currency positions.

All trade receivables and most other current and non-current receivables are classed as “Loans” since they consist of non-derivative financial assets with fixed or determinable payments that are not quoted on any active market. The carrying amount is close to fair value.

Other financial liabilities valued at amortised cost include all the Company’s financial liabilities and trade payables arising from the Company’s contractual obligations to deliver cash or other financial assets to another entity.

No financial assets valued at amortised cost were restated at fair value or vice versa; nor were any financial assets transferred and derecognised, with the exception of trade receivables sold

31/12/2018	Accounting value of financial derivatives categories, defined according to IFRS 9				
	FVTPL	Amortised cost	FVOCI (debt securities)	Others	Balance at 31/12/2018
ASSETS					
Current financial assets	**667,186**	**10,372**	**0**	**693,972**	**1,371,530**
Cash and cash equivalents	244,023				244,023
Other financial assets	83,599	10,372			93,970
Derivative instruments (FV, realised and guarantee deposits)	*83,599*				
Loans to third parties		*6,743*			
Payables to group companies		*3,629*			
Trade receivables from third parties	337,903				337,903
Receivables from clients	*183,290*				
Trade receivables from group company	*154,613*				
Inventories				680,058	680,058
Current tax assets				8,539	8,539
Other assets	1,661			5,374	7,036
Sundry receivables	*1,661*			*5,374*	
Non-current assets	**3,677**	**0**	**0**	**27,477**	**728,387**
Property, plant and equipment				11,589	11,589
Intangible assets				2,712	2,712
Right-of-use of leased assets					0
Equity investments at cost				697,233	697,233
Other investments				495	495
Deferred tax assets				12,681	12,681
Other financial assets	3,677				3,677
Loans to subsidiaries					
Sundry receivables	*3,677*				
Total active financial instruments	**670,863**	**10,372**	**0**	**721,449**	**2,099,917**
LIABILITIES					
Current liabilities	**24,185**	**1,033,911**	**0**	**103,498**	**1,161,594**
Short-term financial liabilities	24,185	256,001			280,186
Bonds loans					
Bank loans		*8,606*			
C/a advances					
Financial receivables from group companies		*185,176*			
Derivative instruments	*24,185*				
Other financial payables		*62,219*			
Trade and other payables		777,910			777,910
Tax liabilities				63,707	63,707
Other liabilities				39,791	39,791
Other payables				*39,791*	
Non-current liabilities	**0**	**256,001**	**0**	**7,165**	**263,166**
Long-term financial liabilities		256,001			256,001
Bank loans		*49,393*			
Bonds loans		*198,675*			
Financial payable IFRS 16					
Other		*7,933*			
Risk funds				3,134	3,134
Provisions for employee benefits				2,310	2,310
Other liabilities				1,721	1,721
Total passive financial instruments	**24,185**	**1,289,912**	**0**	**110,663**	**1,424,760**

on a 'without recourse' basis. An analysis of the contractual terms and conditions confirmed that the receivables in question could be derecognised.

All financial assets are booked on the trade date.

During the year, the company met all its obligations with respect to the scheduled repayment of loans in place at the end of the period.

7.3.2 Information on the Statement of Comprehensive Income

Paragraph 20 of the standard in question requires companies to state the net gains or losses generated by financial assets and liabilities, broken down according to the various income statement items. This information may be provided in either the financial statements or the notes to the accounts. To avoid overloading the accounting statements with information, the Company has opted for the second alternative, as advised in the Appendix to the accounting standard itself. The following tables therefore show details of income statement items for the current and the previous year.

31/12/2019	Net profits and losses, active and passive interests, fees and expenses generated from:				
	FVTPL	Amortised cost	FVOCI (debt securities)	Others	Balance at 31/12/2019
Revenues from ordinary operations				8,462,671	8,462,671
Other income				55,493	55,493
Total returns				**8,518,164**	**8,518,164**
Purchases of raw materials, consumables and supplies				(7,709,509)	(7,709,509)
Cost of services and sundry costs	(57,730)			(597,431)	(655,161)
Personnel costs				(33,393)	(33,393)
Depreciation/amortisation and write-downs				(6,030)	(6,030)
Total costs				**(8,346,362)**	**(8,404,093)**
Operating result					**114,071**
Net income (charges) from equity investments				2,682	2,682
Other financial income (charges)	(2,241)	(7,779)			(10,020)
from titles held for the purpose of trading					
- of which:					
Realised differentials					
FV change					
from interest on current accounts		*1,391*			
from loans made to Group companies		*6,377*			
from derivative instruments	*(6,525)*				
- of which:					
Realised differentials	*(3,492)*				
FV change	*(3,033)*				
from Other financial assets	*4,284*				
from Interest on bank loans		*(12,069)*			
from Interest on loans from Group companies		*(3,478)*			
from other credits/debts					
Result before taxes					**106,733**
Income tax					(29,230)
Net result					**77,503**

The fair value of derivative instruments outstanding at 31st December 2019 refers entirely to exchange and interest rate hedging transactions as well as speculative transactions.

As shown, the changes mainly refer to net exchange rate differences, as well as gains/losses on derivative financial instruments. In this regard, it should be noted that the derivative financial instruments in question consist of hedging transactions against which hedge accounting has not been adopted; in this regard, it should be noted that during the year the results in derivatives described in point 6 - Notes to the Income Statement were reclassified, and that the figures for 2018 were also restated.

Financial liabilities measured at amortised cost generated losses of EUR 12,069 thousand (EUR 17,965 thousand in the previous year), mainly due to interest on loans.

7.3.3 Additional information

7.3.3.1 Accounting for hedging transactions

As described above, the Company enters into derivative contracts on commodities to hedge risks arising from changes in the price of crude oil and oil products, and on interest rates to hedge the interest rate risks relating to the loans obtained.

At 31st December 2019. the derivative contracts in existence were essentially represented by:

- futures, options and swaps on oil products, classified as financial instruments held for trading;
- Interest Rate Swaps;
- Forwards on the EUR/USD exchange rate.

Derivative instruments linked to hedging transactions on oil products, as already mentioned in point 6 - Notes to the Income Statement, have been shown, following the change in accounting policy, in revenues and costs from ordinary operations.

In accordance with IFRS, the figures for 2018 impacted by this reclassification have been restated to allow their comparability with those of the current year.

All other financial instruments (interest rate swaps and Forwards on exchange rates) not linked to the hedging of petroleum products are recorded at fair value: changes in fair value, as well as realised differentials, are recorded in the income statement under financial income or financial expenses.

Most outstanding positions on commodities and on foreign exchange at the reporting date are expected to be closed out by the end of the first quarter of 2019, while the interest

31/12/2018	Net profits and losses, active and passive interests, fees and expenses generated from:				
	FVTPL	Amortised cost	FVOCI (debt securities)	Others	Balance at 31/12/2018
Revenues from ordinary operations				9,200,810	9,200,810
Other income				68,259	68,259
Total returns				**9,269,069**	**9,269,069**
Purchases of raw materials, consumables and supplies				(8,398,602)	(8,398,602)
Cost of services and sundry costs	32,617			(563,435)	(530,818)
Personnel costs				(36,777)	(36,777)
Depreciation/amortisation and write-downs				(7,154)	(7,154)
Total costs				**(9,005,968)**	**(8,973,351)**
Operating result					**295,718**
Net income (charges) from equity investments				(2,000)	(2,000)
Other financial income (charges)	(29,882)	(17,848)			(47,730)
from titles held for the purpose of trading					
- of which:					
Realised differentials					
FV change					
from interest on current accounts		*644*			
from loans made to Group companies		*3,038*			
from derivative instruments	*(20,430)*				
- of which:					
Realised differentials	*(20,665)*				
FV change	*235*				
from Other financial assets	*(9,452)*				
from Interest on bank loans		*(17,965)*			
from Interest on loans from Group companies		*(3,565)*			
from other credits/debts					
Result before taxes					**245,988**
Income tax					(69,168)
Net result					**176,820**

rate swaps have the same duration as the underlying loans to which they refer.

The fair value of instruments is determined on the basis of the statements that are periodically sent by the counterparties with which these instruments are stipulated.

7.3.3.2 Fair value

Financial assets and liabilities, with the exception of derivatives, are recognised at amortised cost. As these assets and liabilities mainly relate to positions underlying trade agreements due to be settled in the short term, or, subject to interest rates in line with current market rates, the amortised cost does not differ significantly from the fair value as at 31st December 2019.

The bond carries a fixed rate and market values from the relevant stock market are not available. The value of the related cash flows, discounted to present value at the market rate, does not differ significantly from the value recorded in the financial statements.

In accordance with the amendment to IFRS 7 transposed in Europe by means of Regulation (EC) No 1165/2009 of 27th November 2009, all financial instruments booked at fair value are calculated based on valuation methods that use observable market parameters other than the prices of these instruments as their reference, except for forex and commodities futures classified under "Other current assets" or "Short-term financial liabilities", which are valued based on prices in an active market; moreover, during the year there were no changes in valuation methods compared with the previous year.

7.3.4 Risks arising from financial instruments

Risks deriving from financial instruments to which the Company is exposed are:

a. Credit risk: i.e. the risk that the Company will incur a loss in the event that a counterparty to a financial instrument defaults;

b. Liquidity risk: i.e. the risk that the Company will be unable to service payment obligations arising from the agreed maturities of its financial liabilities;

c. Market risk: i.e. the risk relating to the performance of markets in which the Company operates, which incorporates foreign exchange risk, interest rate risk and the price risk of crude and oil products.

For information on risk management policies concerning the above, please refer to the relevant section of the Report on Operations.

7.3.4.1 Credit risk

The company's exposure to credit risk relates mainly to trade receivables, other current and non-current receivables, assets held for trading and cash and cash equivalents.

The information required by sections 36-38 is shown in the tables below.

	Accounting value at 31/12/2019		Credit risk		Analysis of maturities by financial asset, pursuant to par. 37 b) IFRS 7						Value impairment loss	
	Total	of which financial instruments	Maximum exposure at credit risk without consideration of guarantees or other similar instruments	Guarantees	Current	Expired				Total	Determined in the year	Progressive
						0-30 days	31-60 days	61-90 days	beyond 90 days			
Current financial assets	**1.716.816**	**791.473**	**791.473**		**591.835**	**140.556**	**36.378**	**386**	**22.317**	**791.473**	**0**	**(5.117)**
Cash and cash equivalents	271.638	271.638	271.638		271.638					271.638		
Other financial assets held for trading	188.073	188.073	188.073		188.073					188.073		
Trade receivables from third parties	331.762	331.762	331.762	50.409	132.125	140.556	36.378	386	22.317	331.762		
Bad debt provision	(5.117)											(5.117)
Inventories	858.904											
Current tax assets	67.109											
Other assets	4.447											
Non-current assets	**723.397**	**4.173**	**4.173**		**0**	**0**	**0**	**0**	**0**	**0**		
Property, plant and equipment	12.746											
Intangible assets	1.979											
Right-of-use of leased assets	7.266											
Equity investments at cost	697.233											
Other investments	495	495	495									
Deferred tax assets	0											
Other financial assets	3.678	3.678	3.678									
Total assets	**2.440.212**	**795.646**	**795.646**		**591.835**	**140.556**	**36.378**	**386**	**22.317**	**791.473**		

	Accounting value at 31/12/2018		Credit risk		Analysis of maturities by financial asset, pursuant to par. 37 b) IFRS 7						Value impairment loss	
	Total	of which financial instruments	Maximum exposure at credit risk without consideration of guarantees or other similar instruments	Guarantees	Current	Expired				Total	Determined in the year	Progressive
						0-30 days	31-60 days	61-90 days	beyond 90 days			
Current financial assets	**1,371,530**	**681,015**	**681,015**		**508,784**	**131,713**	**24,413**	**328**	**15,776**	**681,015**	**0**	**(5,117)**
Cash and cash equivalents	244,023	244,023	244,023		244,023					244,023		
Other financial assets held for trading	93,970	93,970	93,970		93,970					93,970		
Trade receivables from third parties	343,021	343,021	343,021	92,762	170,790	131,713	24,413	328	15,776	343,021		
Bad debt provision	(5,117)											(5,117)
Inventories	680,058											
Current tax assets	8,539											
Other assets	7,036											
Non-current assets	**728,387**	**4,172**	**4,172**		**0**	**0**	**0**	**0**	**0**	**0**		
Property, plant and equipment	11,589											
Intangible assets	2,712											
Right-of-use of leased assets	0											
Equity investments at cost	697,233											
Other investments												
Deferred tax assets	495	495	495									
Other financial assets	12,681											
Total assets	3,677	3,677	3,677									
Total assets	**2,099,917**	**685,186**	**685,186**		**508,784**	**131,713**	**24,413**	**328**	**15,776**	**681,015**		

Guarantees on receivables are represented by letters of credit obtained by the Company in relation to deliveries to certain customers, guaranties obtained from customers and credit insurance.

7.3.4.2 Liquidity risk

The company's exposure to liquidity risk relates mainly to trade payables and bank loans. The significant self-financing capacity, together with the low level of debt, suggests that the liquidity risk is moderate.The company met all its obligations with respect to the scheduled repayment of loans in place at the end of the period.

The comparative quantitative disclosures required by section 39 of the relevant accounting standard are set out in the tables below:

	Accounting value at 31/12/2019		Liquidity risk		Analysis of maturities for financial liabilities, pursuant to par. 39 a) IFRS 7					
	Total	of which financial instruments	Nominal value of the financial liabilities	Guarantees	2019	2020	2021	2022	2023	beyond 5 years
LIABILITIES										
Current liabilities	**1,541,162**	**1,541,162**	**1,472,444**	**70,000**	**1,403,271**	**70,440**	**0**	**0**	**0**	**0**
Short-term financial liabilities	213,265	213,265								
Bank loans		*70,018*	*70,018*	*70,000*		*70,000*				
C/a advances		*7,969*								
Financial receivables from group companies		*67,151*	*67,151*		*67,151*					
Interest rates (final average rate = 1.257%)					*844*	*440*				
Derivative instruments		*26,554*	*26,554*		*26,554*					
Other financial payables		*41,574*	*41,574*		*41,574*					
Trade and other payables	1,234,181	1,234,181	1,234,181		1,234,181					
Tax liabilities	60,749	60,749								
Other liabilities	32,967	32,967	32,967		32,967					
Non-current liabilities	**220,255**	**214,422**	**200,000**	**0**	**3,765**	**3,765**	**3,765**	**3,765**	**201,882**	**0**
Long-term financial liabilities	214,422	214,422	200,000							
Bank loans						*0*				
Bonds loans		*198,994*	*200,000*						*200,000*	
Financial payable IFRS 16		*8,386*			*0,08*	*0,07*	*0,1*	*0,08*	*0,06*	
Other		*7,042*								
Amount interest medium-long term loan rates (rate = 1.257%)										
Amount interest bonds					*3,765*	*3,765*	*3,765*	*3,765*	*1,882*	
Risk funds	1,696									
Provisions for employee benefits	2,356									
Other liabilities	1,781									
Total liabilities	**1,761,417**	**1,755,584**	**1,672,444**	**70,000**	**1,407,035**	**74,205**	**3,765**	**3,765**	**201,882**	**0**

	Accounting value at 31/12/2018		Liquidity risk		Analysis of maturities for financial liabilities, pursuant to par. 39 a) IFRS 7					
	Total	of which financial instruments	Nominal value of the financial liabilities	Guarantees	2019	2020	2021	2022	2023	beyond 5 years
LIABILITIES										
Current liabilities	**1,161,594**	**1,161,594**	**1,097,888**	**0**	**1,100,166**	**0**	**0**	**0**	**0**	**0**
Short-term financial liabilities	280,186	280,186								
Bank loans										
C/a advances										
Financial receivables from group companies		*185,176*	*185,176*		185,176					
Interest rates (final average rate = 1.23%)					*2,278*					
Derivative instruments		*24,185*	*24,185*		*24,185*					
Other financial payables		*70,826*	*70,826*		*70,826*					
Trade and other payables	777,910	777,910	777,910		777,910					
Tax liabilities	63,706	63,706								
Other liabilities	39,791	39,791	39,791		39,791					
Non-current liabilities	**263,166**	**256,001**	**250,000**	**0**	**4,380**	**54,072**	**3,765**	**3,765**	**201,882**	**0**
Long-term financial liabilities	256,001	256,001	250,000							
Bank loans		*49,393*	*50,000*			50,000				
Bonds loans		*198,675*	*200,000*						*200,000*	
Financial payable IFRS 16										
Other		*7,933*								
Amount interest medium-long term loan rates (rate = 1.23%)					*615*	*308*	*0*	*0*	*0*	*0*
Amount interest bonds					*3,765*	*3,765*	*3,765*	*3,765*	*1,882*	*0*
Risk funds	3,134									
Provisions for employee benefits	2,310									
Other liabilities	1,721									
Total liabilities	**1,424,760**	**1,417,595**	**1,347,888**	**0**	**1,104,545**	**54,072**	**3,765**	**3,765**	**201,882**	**0**

The fair value of derivatives recognised in the financial statements mainly relates to current positions.

The hedging derivative instruments included in current financial liabilities include interest rate swaps on the Company's loans: the nominal future interest flows thereon are already included in "Interest on medium/long term loans" in the "Non-current liabilities" section of the table.

7.3.4.3 Market risk

As stated previously, the market risks to which the Company is exposed via its financial instruments relate to:

- the EUR/USD exchange rate, which affects the value of cash and cash equivalents and the receivables and payables recorded at the reporting date, and which determines the exchange rate gains and losses recorded under "Financial income" or "Financial charges" as well as the fair value of derivatives held at the reporting date;
- the Euribor interest rate, to which the interest rates paid by the Company on its loans are indexed, as well as the fair value of derivative instruments held at the reporting date;
- prices of crude oil and oil products, which affect the fair value of the derivatives in place at the reporting date.

As required by section 40 of IFRS 7, a sensitivity analysis for every type of risk to which the Company is exposed at the reporting date has been prepared, which shows the effects of these risks on the income statement and equity. The ranges used in the sensitivity analysis (exchange rate, interest rate and crude price) are in line with management's forecasts. The results of the analysis are shown in the tables below.

Euro/US dollar exchange rate

With reference to the EUR/USD exchange rate, at the reporting date, the Company had financial instruments denominated in the latter currency recorded mainly under trade receivables and payables.

The simulation of the impact on net profit and equity, was carried out assuming a change of +/- 10% in the Euro/US dollar exchange rate at the end of the year, which was used to translate currency positions in the preparation of the statement of financial position.

2019					
EUR/US dollar EXCHANGE RATE				Reference parameter change	
Balance sheet item	Amount in currency	EUR/USD Exchange rate	Amount in (thousands of €)	-10%	+10%
Currency net position	1,301,960	1.123	1,165,974		
Effect on result before tax				129,553	(105,998)
Effect on net result (and equity)				88,873	(72,714)

2018					
EUR/US dollar EXCHANGE RATE				Reference parameter change	
Balance sheet item	Amount in currency	EUR/USD Exchange rate	Amount in (thousands of €)	-10%	+10%
Currency net position	794,522	1.145	696,020		
Effect on result before tax				77,336	(63,275)
Effect on net result (and equity)				53,052	(43,406)

To hedge the effects of sensitivity to the EUR/USD exchange rate, the Company also enters into forward exchange rate contracts, which are recorded in the financial statements at their fair value on the reporting date.

As the fair value is inevitably affected by the underlying exchange rate, a simulation was carried out of the impact on net profit and consequentially equity, assuming a change of +/-10% in the benchmark parameters based on this year's exchange rate trends; the results obtained from such a variation are reported at a 99.55% confidence level.

The details and results of the simulation are shown in the tables below:

2019			
		Reference parameter change	
Derivatives on:	**Fair Value at 31/12/2019**	**-10%**	**+10%**
Crude and oil products	(3,283)	45,159	(36,931)
	(3,283)	**45,159**	**(36,931)**
Effect on result before tax		**45,159**	**(36,931)**
Effect on net result (and equity)		**32,740**	**(26,775)**

2018			
		Reference parameter change	
Derivatives on:	**Fair Value at 31/12/2018**	**-10%**	**+10%**
Crude and oil products	(77)	25,978	(21,296)
	(77)	**25,978**	**(21,296)**
Effect on result before tax		**25,978**	**(21,296)**
Effect on net result (and equity)		**18,834**	**(15,440)**

Interest rate

The Company has medium/long-term as well as short-term exposure to variable interest rates indexed to Euribor.

A simulation of the impact of this variable on net profit and equity was carried out, assuming a change of +/- 25 bps in rates and only taking into account the portion of variable-rate funding.

The following table shows the simulation as at 31st December 2019:

2019				
VARIABLE INTEREST RATES			Reference parameter change	
	Average annual rate of interest 2019	Passive interest annual	-50 bps	+50 bps
Short and medium-long term financial liabilities	1.28%	(7,700)		
Effect on result before tax			**3,020**	**(3,020)**
Effect on net profit (and equity)			**2,189**	**(2,189)**

2018				
VARIABLE INTEREST RATES			Reference parameter change	
	Average annual rate of interest 2019	Passive interest annual	-50 bps	+50 bps
Short and medium-long term financial liabilities	1.23%	(16,548)		
Effect on result before tax			**6,727**	**(6,727)**
Effect on net profit (and equity)			**4,877**	**(4,877)**

In addition, the fair value of the Interest Rate Swaps (IRS) and interest rate options outstanding at the reporting date relating to the Company is affected by the fluctuations in the Euribor rate: a simulation of the impact of this variable on the profit for the year and equity was carried out, assuming a change of +/- 25 basis points in rates, which was considered appropriate given potential rate fluctuations (the simulation for the previous year was adjusted).
The details and results of the simulation are shown in the tables below:

2019			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2019	-25 bps	+25 bps
Fair value of Interest rate swaps	(100)	100	(100)
	(100)	**100**	**(100)**
Effect on result before tax		**100**	**(100)**
Effect on net result (and equity)		**73**	**(73)**

2018			
		Reference parameter change	
Derivatives on:	Fair Value at 31/12/2018	-25 bps	+25 bps
Fair value of Interest rate swaps	(272)	(145)	(400)
	(272)	**(145)**	**(400)**
Effect on result before tax		**(145)**	**(400)**
Effect on net result (and equity)		**(105)**	**(290)**

Prices of crude and oil products

Oil prices affect the fair value of derivatives outstanding at the reporting date and the relevant differences recognised in the income statement: derivatives as at 31st December 2018 consisted of futures, swaps and options on oil products, and the fair value recorded in the statement of financial position was derived from the market prices of the relevant underlying assets at that date.
A simulation of the impact of this variable on net profit and consequentially, on equity, was therefore carried out assuming a change of +/- 20%.

The details and results of the simulation (comparative) are shown in the tables below:

2019			
		Reference parameter change	
Derivatives on:	Fair Value al 31/12/2019	-20%	+20%
Crude and oil products	(8,858)	19,978	(19,848)
	(8,858)	**19,978**	**(19,848)**
Effect on result before tax		**19,978**	**(19,848)**
Effect on net result (and equity)		**14,484**	**(14,390)**

2018			
		Reference parameter change	
Derivatives on:	Fair Value al 31/12/2018	-20%	+20%
Crude and oil products	47,495	120,099	(9,388)
	47,495	**120,099**	**(9,388)**
Effect on result before tax		**120,099**	**(9,388)**
Effect on net result (and equity)		**87,072**	**(6,806)**

The above analysis of the Company's exposure to risks relating to financial instruments shows that there are no significant concentrations of risk in terms of counterparty, geographical area or market; the concentration risk relating to exposure to US dollars is mitigated by the hedging policies implemented.

7.4 Average number of employees

The average number of employees broken down by category is as follows:

Average staff numbers	2019	2018
Top management	36	38
White collars	232	223
Total	**268**	**261**

Employees went from 261 at the end of 2018 to 268 as at 31st December 2019.

7.5 Tables showing the shareholdings of directors and auditors, general managers and managers with strategic responsibilities

The following tables provide information on remuneration and shareholdings of directors and statutory auditors, the general manager and senior managers with strategic responsibilities, i.e. the Chief Financial Officer.

7.5.1 Remuneration paid to directors, statutory auditors, general managers and managers with strategic responsibilities

(A)	(B)	(C)		(D)	(1)	(2)	(3)	(4)
Name and surname	Position	Period of office		Expiry of office	Fees for the position in the company	Non-monetary benfits	Bonus and other incentives	Other remunera-tions
The Board of Directors							(*)	(*)
Massimo Moratti	Chairman	01/01/19	31/12/19	approved 2020 financial statements	1,545,000			
Dario Scaffardi	CEO and General Manager	01/01/19	31/12/19	approved 2020 financial statements	45,000		510,000	880,000
Angelo Moratti	Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			200,000
Giovanni Emanuele Moratti	Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			80,333
Gabriele Moratti	Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			90,357
Angelo Mario Moratti	Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			204,267
Laura Fidanza	Independent Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			
Adriana Cerretelli	Independent Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			
Gilberto Callera	Independent Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			
Harvie-Watt Isabelle	Independent Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			
Francesca Luchi	Independent Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			
Leonardo Senni	Independent Director	01/01/19	31/12/19	approved 2020 financial statements	45,000			
(*) employment responsibilities								
Board of Statutory Auditors								(**)
Giancarla Branda	Chairman	01/01/19	31/12/19	approved 2020 financial statements	60,000			-
Simonelli Paola	Statutory Auditor	01/01/19	31/12/19	approved 2020 financial statements	40,000			20,000
Giovanni Luigi Camera	Statutory Auditor	01/01/19	31/12/19	approved 2020 financial statements	40,000			30,917
Pinuccia Mazza	Deputy Auditor	01/01/19	31/12/19	approved 2020 financial statements				
Andrea Perrone	Deputy Auditor	01/01/19	31/12/19	approved 2020 financial statements				
(**) auditing remunerations from other Group's companies								
Compliance Committee								(***)
Giovanni Luigi Camera	Member	01/01/19	13/05/19		8,333			22,583
Simonelli Paola	Member	14/05/19	31/12/19	approved 2020 financial statements	15,580			9,535
Simona Berri	Member	01/01/19	31/12/19	approved 2020 financial statements	-			193,293
Ferruccio Bellelli	Member	01/01/19	31/12/19	approved 2020 financial statements	-			146,699
Marco Tonellotto	Member	01/01/19	31/12/19	approved 2020 financial statements				25,000
(***) including the remuneration from other group companies								
Risk and control committee								
Gilberto Callera	Chairman	01/01/19	31/12/19	approved 2020 financial statements	40,000			
Adriana Cerretelli	Member	01/01/19	31/12/19	approved 2020 financial statements	35,000			
Harvie-Watt Isabelle	Member	01/01/19	31/12/19	approved 2020 financial statements	35,000			
Fidanza Laura	Member	01/01/19	31/12/19	approved 2020 financial statements	35,000			
Leonardo Senni	Member	01/01/19	31/12/19	approved 2020 financial statements	35,000			
Remuneration Committee								
Gilberto Callera	Chairman	01/01/19	31/12/19	approved 2020 financial statements	40,000			
Fidanza Laura	Member	01/01/19	31/12/19	approved 2020 financial statements	35,000			
Francesca Luchi	Member	01/01/19	31/12/19	approved 2020 financial statements	35,000			
Senior personnel with strategic responsibility							**210,000**	**443,253**

7.5.2 Equity investments held by directors, statutory auditors, general managers and managers with strategic responsibilities

Name and surname	Position	Company	Number of shares owned at the end of the previous financial year	Number shares purchased	Number shares sold	Number of shares owned at the end of the current financial year
Massimo Moratti	Chairman	Saras SpA	-	-	-	-
Dario Scaffardi	CEO and General Manager	Saras SpA	146,370	1,566,150	50,000	1,662,520
Angelo Moratti	Director	Saras SpA	-	-	-	-
Angelomario Moratti	Director	Saras SpA	-	-	-	-
Gabriele Moratti	Director	Saras SpA	-	-	-	-
Giovanni Emanuele Moratti	Director	Saras SpA	-	-	-	-
Gilberto Callera	Independent Director	Saras SpA	-	-	-	-
Adriana Cerretelli	Independent Director	Saras SpA	-	-	-	-
Laura Fidanza	Independent Director	Saras SpA	-	-	-	-
Isabelle Harvie-Watt	Independent Director	Saras SpA	-	-	-	-
Francesca Luchi	Independent Director	Saras SpA	-	-	-	-
Leonardo Senni	Independent Director	Saras SpA	-	-	-	-
Giancarla Branda	Chair of the Board of statutory auditors	Saras SpA	-	-	-	-
Giovanni Luigi Camera	Standing auditor	Saras SpA	-	-	-	-
Paola Simonelli	Standing auditor	Saras SpA	-	-	-	-
Pinuccia Mazza	Deputy auditor	Saras SpA	-	-	-	-
Andrea Perrone	Deputy auditor	Saras SpA	-	-	-	-
Dirigenti con Responsabilità Strategiche		Saras SpA	-	694,425	-	694,425

7.6 Commitments

At 31st December 2018 and 2019 there were no irrevocable commitments in existence for the purchase of materials or the provision of services over a period of several years.

As part of its normal activities, the parent company Saras issued sureties totalling EUR 162,702 thousand as at 31st December 2019, mainly in favour of subsidiaries and bodies, such as Customs Agencies and the Ministry of Defence.

7.7 Other

No atypical and/or unusual transactions were carried out during the year.

7.8 Subsequent events

For information on subsequent events, reference should be made to the relevant section in the Report on Operations.

8. Miscellaneous

Pursuant to Article 2428 of the Italian Civil Code, the company's other offices are:

General and Administrative Headquarters - Milan

Pursuant to Art. 149-duodecies of the Consob Issuers' Regulation, the table below provides details of the fees relating to 2018 paid to the independent auditors for the provision of audit and other non-audit services and the services provided by the network companies.

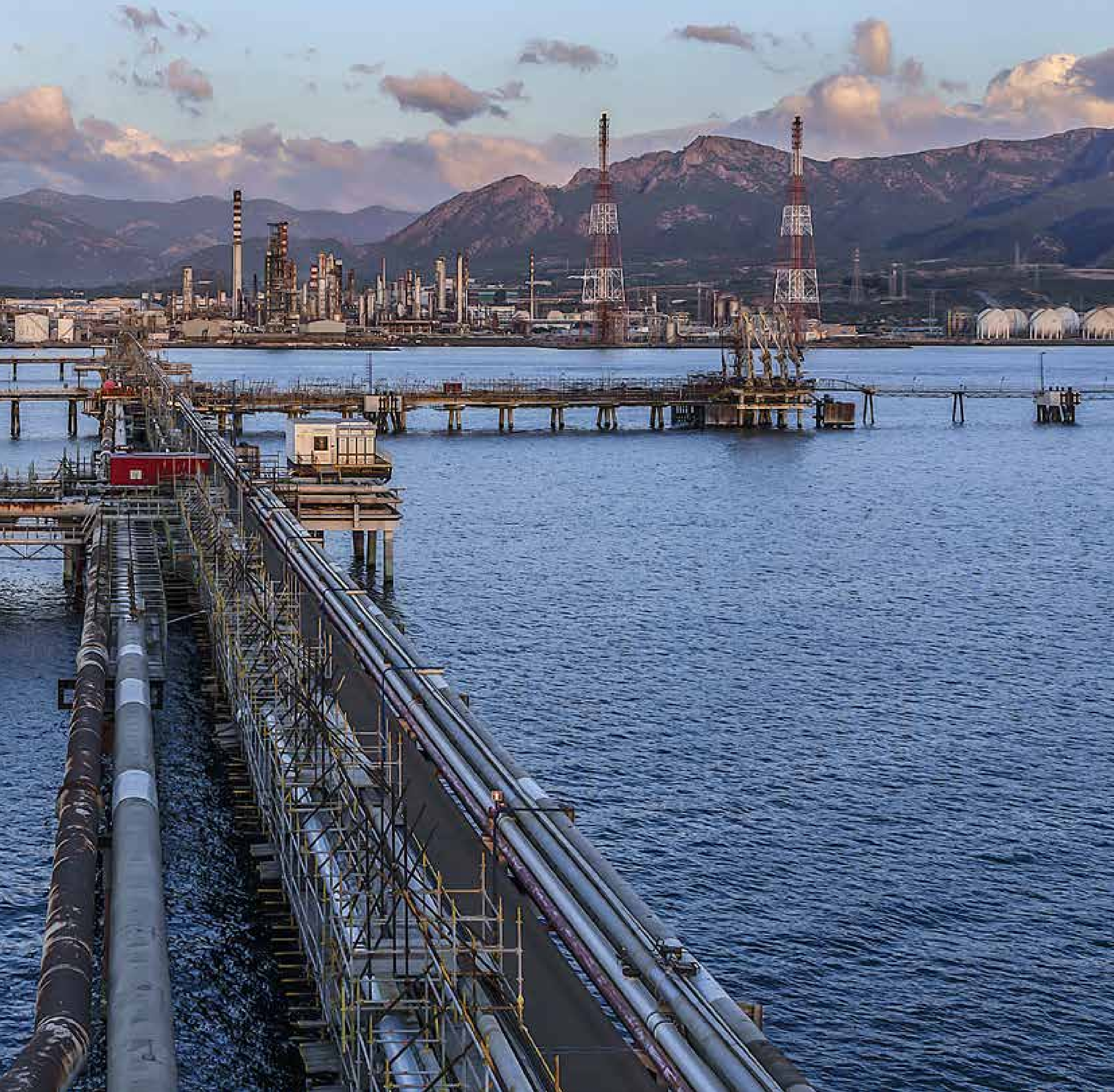
Types of services	Provider	Recipient	Consideration of competence of the 2019 financial year
Audit	EY SpA	Saras SpA	491
Certification services	EY SpA	Saras SpA	35
Other services	EY SpA	Saras SpA	84
Totale			**610**

9. Publication of the Financial Statements

In its meeting on 2nd March 2020, Saras' Board of Directors authorised the publication of the Consolidated Financial Statements. At the same meeting, the Board vested the Chairman and the CEO with separate powers to include in the Report on Operations and/or the Notes to the accounts any further detailed information deemed necessary or appropriate to provide a clearer picture of operations to shareholders.

For the Board of Directors
The Chairman
Massimo Moratti

REPORTS ON THE 2019 FINANCIAL STATEMENTS



STATEMENT OF SARAS GROUP'S MANAGER IN CHARGE OF FINANCIAL REPORTING

Saras SpA

Declaration in respect of the consolidated accounts pursuant to article 81-*ter* of Consob regulation 11971 of 14 May 1999 and subsequent amendments and additions thereto

1. The undersigned, Massimo Moratti, Chairman of the Board of Directors, Dario Scaffardi, CEO, and Franco Balsamo, the Director responsible for drawing up the accounting statements of Saras S.p.A., hereby attest, pursuant also to the provisions of article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:

- the appropriateness in respect of the type of company and
- the effective application of the administrative and accounting procedures for the preparation of the consolidated accounts for the period 1 January 2019 to 31 December 2019.

In this respect, it should be noted:

a. The adequacy of the administrative and accounting procedures for the preparation of the Consolidated Annual Report as of 31 December 2019 was verified through the evaluation of the internal control system on financial report. This evaluation was fulfilled taking as reference the criteria established by the model Internal Controls - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") which represents a reference framework generally accepted at international level.

b. No relevant aspects were detected during the evaluation of the internal control system on the financial report.

2. In addition, the undersigned declare that:

2.1 the consolidated accounts to 31 December 2019:

a) were prepared in accordance with the applicable international accounting standards recognised in the European Union pursuant to European Parliament and Council Regulation (EC) 1606/2002 of 19 July 2002

Saras SpA

b) accurately represent the figures in the company's accounting records
c) were drafted in compliance with Consob Resolution 15519 of 27 July 2006, the regulations adopted by Consob with Resolution 11971 of 14 May 1999, as subsequently amended, and with Consob Communication DEM/6064293 of 28 July 2006, and give a true and fair view of the assets, and financial position, operating performance and cash flows of Saras S.p.A. and all consolidated companies.

2.2 the report on operations includes a reliable analysis of the performance, operating profit and current position of Saras S.p.A. and of all companies included in consolidation together with a description of the main risks and uncertainties to which they are exposed.
This declaration is made pursuant to article 154-*bis*, paragraphs 2 and 5, of Legislative Decree 58 of 24 February 1998.

Milan, 2 March 2020

Signature: delegated authority

(Massimo Moratti)

Signature: director responsible for drawing up the accounting statements

(Franco Balsamo)

(Dario Scaffardi)

INDEPENDENT AUDITORS' REPORT ON THE CONSOLIDATED FINANCIAL STATEMENTS

EY S.p.A.
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Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Saras S.p.A.

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Saras Group (the Group), which comprise the consolidated statement of financial position as at 31 December 2019, and the consolidated statement of income, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of Saras S.p.A. in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were the most significant for our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and so we do not provide a separate opinion on these matters.

We identified the following key audit matters:

EY S.p.A.
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Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Key Audit Matter	Audit Response
Valuation of fixed assets, inventories and derivative instruments	
The economic and financial performance of the Group is significantly influenced by the volatility of market factors, including the cost and the availability of crude oil and the world demand for finished products compared to the processing capacity, which determine the margins achievable from refining, the main activity of the Group. The trend of market factors in the foreseeable future represents one of the critical assumptions for the evaluation of fixed assets and of the recoverable amount of inventories as well as for the volatility of fair values of derivative instruments. Management assesses, at least annually, the existence of impairment indicators for fixed assets, and, in case, performs an impairment test; in addition, they verify the recoverable amount at the end of the year of inventory and the fair value of derivative instruments. These estimates involve evaluation processes, even complex, which depend on external industry factors, highly volatile, and they are based on assumptions which, by their nature, involve the use of high degree of judgment by Management. Considering the complexity of the assumptions used by Management in its valuation, and in particular the possible impacts on future cash flows from changes in market conditions, we considered that this area represents a key audit matter. The disclosure related to this issue is included in notes 3.6 "Most significant accounting policies requiring a greater degree of subjectivity" of the explanatory note to consolidated financial statements.	The audit procedures performed in response to this key audit matter, included, among others, the analysis of the economic and sector scenarios considered by Management in preparing such plans, the verification of consistency with the external sources used in developing them, their continuance of their use over time, the analysis of procedure and controls implemented by the Group for the identification of any impairment indicators, as well as the analysis of the valuation models of the recoverability of fixed assets, the recoverable value of inventories and the fair value of the derivative instruments at the end of the year. In performing our procedures, we have also leveraged on the support of our experts in evaluation techniques. Lastly, we reviewed the adequacy of the disclosures provided in the notes to the consolidated financial statements in relation to this key audit matter.

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Key Audit Matter	Audit Response
Complexity of the regulatory environment and related emerging litigations concerning the energy sector	
The energy sector is regulated by highly complex regulations and authorization procedures, which already led to involvement of the subsidiary Sarlux S.r.l. in administrative claims, whose outcome could influence in the future year, for significant amounts, the valuation of liabilities to be accrued to "Provisions for risks and charges" and other contingent assets related to the late recognition of rights claimed by the Group and not yet accounted for in the consolidated financial statement. Management, supported by their lawyers, have provided update information in the group consolidated financial statement about their expectation of the outcome of these administrative procedures and litigations, on the basis of the most recent developments. We considered that this area represents a key audit matter due to the complexity in evaluating the relevant regulatory environment, as well as the significance and the uncertainties involved in the valuation of the outstanding administrative procedures and litigations. The disclosures related to this matter are included in note 7.1 "Main legal actions pending" to the consolidated financial statements.	Our audit procedures in response to this key audit matter included, among others, the understanding, through discussions with Management of the assessment of the applicable regulations and recent developments in pending litigations, also supported by the information received from lawyers who assist the Group, the examination of the main supporting documents used by the Group, as well as how such determination are included in the consolidated financial statements. Lastly, we reviewed the adequacy of the disclosure provided in the notes to the consolidated financial statements in relation to this key audit matter.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The Directors are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Group's ability to continue as a going concern and, when preparing the consolidated financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the consolidated financial statements on a going concern basis unless they either intend to liquidate the Parent Company Saras S.p.A. or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Group's financial reporting process.

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

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

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

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

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Saras S.p.A., in the general meeting held on 28 April 2015, engaged us to perform the audits of the consolidated financial statements for each of the years ending 31 December 2015 to 31 December 2023.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Group in conducting the audit.

We confirm that the opinion on the consolidated financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Saras S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Group Saras as at 31 December 2019, including their consistency with the related consolidated financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the consolidated financial statements of Saras Group as at 31 December 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the consolidated financial statements of Saras Group as at 31 December 2019 and comply with the applicable laws and regulations.

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

Statement pursuant to article 4 of Consob Regulation implementing Legislative Decree n. 254, dated 30 December 2016

The Directors of Saras S.p.A. are responsible for the preparation of the non-financial information pursuant to Legislative Decree n. 254, dated 30 December 2016. We have verified that non-financial information have been approved by Directors.

Pursuant to article 3, paragraph 10, of Legislative Decree n. 254, dated 30 December 2016, such non-financial information are subject to a separate compliance report signed by us.

Milan, March 18, 2020

EY S.p.A.
Signed by: Alberto Romeo, Auditor

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

STATEMENT OF SARAS'S MANAGER IN CHARGE OF FINANCIAL REPORTING

Saras SpA

Declaration in respect the annual accounts pursuant to article 81-*ter* of Consob regulation 11971 of 14 May 1999 and subsequent amendments and additions thereto

1. The undersigned, Massimo Moratti, Chairman of the Board of Directors, Dario Scaffardi, CEO, and Franco Balsamo, the Director responsible for drawing up the accounting statements of Saras S.p.A., hereby attest, pursuant also to the provisions of article 154-*bis*, paragraphs 3 and 4 of Legislative Decree 58 of 24 February 1998:

- the appropriateness in respect of the type of company and
- the effective application of the administrative and accounting procedures for the preparation of the annual accounts for the period 1 January 2019 to 31 December 2019.

In this respect, it should be noted:

a. The adequacy of the administrative and accounting procedures for the preparation of the Annual Report as of 31 December 2019 was verified through the evaluation of the internal control system on financial report. This evaluation was fulfilled taking as reference the criteria established by the model Internal Controls - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO") which represents a reference framework generally accepted at international level.

b. No relevant aspects were detected during the evaluation of the internal control system on the financial report.

2. In addition, the undersigned declare that:

2.1 the annual accounts to 31 December 2019:

a) were prepared in accordance with the applicable international accounting standards recognised in the European Union pursuant to European Parliament and Council Regulation (EC) 1606/2002 of 19 July 2002

b) accurately represent the figures in the company's accounting records

Saras SpA

c) were drafted in compliance with Consob Resolution 15519 of 27 July 2006, the regulations adopted by Consob with Resolution 11971 of 14 May 1999, as subsequently amended, and with Consob Communication DEM/6064293 of 28 July 2006, and give a true and fair view of financial position, operating performance and cash flows of Saras S.p.A. and all consolidated companies

2.2 the Directors' Report includes a reliable analysis of the performance, operating profit and current position of Saras S.p.A. and all companies included in consolidation together with a description of the main risks and uncertainties to which they are exposed.
This declaration is made pursuant to article 154-*bis*, paragraphs 2 and 5, of Legislative Decree 58 of 24 February 1998.

Milan, 2 March 2020

Signature: delegated authority	Signature: director responsible for drawing up the accounting statements
(Massimo Moratti)	(Franco Balsamo)

(Dario Scaffardi)

BOARD OF STATUTORY AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS OF SARAS SPA

SARAS S.p.A.

Registered office in S.S. Sulcitana 195 km. 19° - Sarroch (CA)

Share capital EUR 54,629,666.67 fully paid-up

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

pursuant to Article 2429 of the Italian Civil Code and Article 153 of Legislative Decree No. 58/1998

Dear Shareholders,

The Board reports on the monitoring activity carried out in the financial year ended 31 December 2019, pursuant to Articles 2429 et seq. of the Italian Civil Code and in compliance with the provisions of Legislative Decree No. 58/1998 (Consolidated Finance Act, TUF), to the recommendations expressed by the Rules of Conduct of the Board of Statutory Auditors of listed companies issued by the National Board of Chartered Accountants and Accounting Experts and taking into account the indications provided by Consob with the communication dated 6 April 2001 - DEM/1025564, amended and supplemented with the communication dated 4 April 2003 - DEM/3021582 and subsequently with the communication dated 7 April 2006 - DEM/6031329.

In this Report, the Board also reports on the monitoring activity carried out regarding the Company's compliance with the provisions set forth in Legislative Decree

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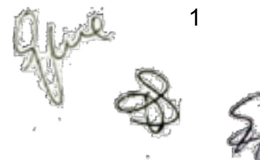

No. 254/2016, concerning the communication of non-financial information and information on diversity.

More specifically, as part of the performance of the functions assigned to it by law, as the supervisory body and also as the Internal Control and Audit Committee in public interest entities, pursuant to Article 19 of Legislative Decree No. 39/2010, the Board reports that:

a) it has monitored that the Company has complied with the law and the main and secondary regulations and the Company's Articles of Association, including the measures regarding safety in the workplace, respect for the environment and the processing of personal data;

b) it has obtained from the Directors, at the frequency established by Article 150 of Legislative Decree No. 58/1998 and according the procedures established by the Articles of Association in Article 22, information on general operating performance, the business outlook, as well as the activities pursued and regarding the economic, financial and equity transactions of major importance resolved and implemented by the Company and its subsidiaries during the financial year, and it can reasonably affirm, on the basis of the information made available, that the resolutions adopted and the actions undertaken comply with the law and the corporate Articles of Association and are not manifestly imprudent, risky, in potential conflict of interests, in contrast with the resolutions of the Shareholders' Meeting or such as to compromise the integrity of company assets. The aforementioned information is fully represented in the management report to which you are referred;

c) it has not detected the existence of any atypical or unusual transactions with Group companies, third parties or other related parties, and it has verified that the relations with the same have been settled at arm's length. To this end, we call your attention to the fact that in the Notes to the consolidated financial statements – under section 7.2. of Chapter 7 entitled “Other information” – the Directors analytically highlight and illustrate the existence of relationships involving the exchange of goods and services and/or of a financial nature with subsidiaries and other related parties, explaining the economic effects, specifying that the transactions ensuing from these relationships were settled at arm's length under the terms and conditions that would

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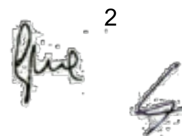

have applied to transactions of the same nature between unrelated parties and representing that they corresponded with the interests of the Company. In this regard, it is hereby noted that standing surety for subsidiary Companies does not constitute an atypical or unusual transaction, as this is part of the parent Company's normal course of business. This case is specifically illustrated in the same explanatory note in section 7.6. of the aforementioned Chapter 7;

d) it has positively evaluated the compliance of the Procedure applicable to transactions with Related Parties adopted by the Company (approved by resolution of 23 January 2007, amended by a subsequent resolution of 19 March 2014 and published on the website) to the principles contained in the *"Regulation on transactions with related parties",* adopted by Consob by Resolution No. 17221 of 12 March 2010, as amended, in implementation of Article 2391-bis of the Italian Civil Code and those provided by the Corporate Governance Code; as well as the consistency with the indications contained in Consob Communication No. DEM/10078683 of 24 September 2010; so much so that it can be concluded that the procedures adopted by the Board of Directors appropriately guarantee a correct and transparent regulation of transactions with related parties. In this regard, the Board monitored compliance with the adopted Procedure, obtaining adequate information from the relevant departments in this regard. Furthermore, the Board underlines that the main functions of the Related Parties Committee are assigned to the Control and Risk Committee that has been established within the Board of Directors, while complying with independence requirements set forth in the Corporate Governance Code; The Committee did not hold any meetings during 2019 as there were no transactions with related parties and therefore no need to convoke a meeting, in accordance with the Procedure adopted by the Company;

e) it has verified that, during the 2019 financial year, the Company did not purchase or sell treasury shares on the Italian Telematic Stock Market (MTA), although on 16 April 2019, the Shareholders' Meeting authorised a programme to purchase Saras S.p.A. ordinary shares pursuant to Articles 2357 of the Italian Civil Code and 132 of Legislative Decree No. 58/1998, to be implemented within 12 months starting from the authorisation resolution, i.e., by 16 April 2020;

f) it has been informed of and has monitored, to the extent of its authority, the adequacy of the organisational structure, in terms of structure, procedures, competences and responsibilities, the size of the Company, and the nature and methods of pursuing the corporate purpose;

g) it has monitored compliance with the principles of correct administration, through consistent participation in the meetings of the Board of Directors and the Board Committees, established in compliance with the Corporate Governance Code, and on the basis of the information acquired during these meetings, acknowledging that management decisions are inspired by the principle of correct information and reasonableness and that the Directors are aware of the risk and effects of the transactions carried out;

h) it has been informed and has monitored, pursuant to Article 149, paragraph 1, letter d) of Legislative Decree No. 58/1998, for the main companies subject to control, the adequacy of the instructions given by the Company to the subsidiaries pursuant to Article 114, paragraph 2 of the same Legislative Decree No. 58/1998, through:

   - ✓ the acquisition of information from the managers of the relevant corporate departments;
   - ✓ meetings and exchanges of information with the Chairpersons of the Boards of Statutory Auditors and with the Sole Auditor where provided;
   - ✓ meetings with the Company that is also in charge of the statutory audit of the subsidiaries;

   and to have no particular comments to raise in this regard;

i) it has assessed and monitored the adequacy of the internal control system and the administrative-accounting system, as well as the latter's reliability insofar as correctly representing the management facts, by means of:

   - ✓ examining the report of the Financial Reporting Manager regarding the internal audit covering the Company's internal Control system;

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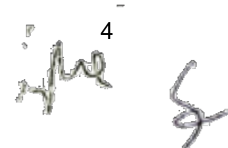

- ✓ examining the reports of the Internal Audit department and its information on the results of the monitoring activity concerning the implementation of the corrective actions identified from time to time;
- ✓ acquiring information from the managers of the respective departments;
- ✓ examining company documents;
- ✓ analysing the results of the work carried out by the Audit firm;
- ✓ exchanging information with the supervisory bodies of the subsidiaries pursuant to Article 151, paragraphs 1 and 2 of Legislative Decree No. 58/1958;

and to have no particular comments to raise in this regard;

j) it has monitored the process of certifying the reliability of the financial information and the ability of the process of preparing the financial statements to produce financial information that is consistent with accounting standards;

k) it has monitored the adequacy of the risk management policy in relation to the strategic, operational and financial areas;

l) it has read and obtained information on the procedural and organisational activities put in place, in implementation of the legislation relating to the "*Rules of the administrative responsibility of entities*" referred to in Legislative Decree No. 231/2001, as amended; it has received from the Supervisory Body the minutes of the relative meetings held during the 2019 financial year, acquired the periodic Reports presented to the Board of Directors and received from the same body assurance regarding the absence of facts or situations to be reported herein;

m) it has monitored, pursuant to Article 149, paragraph 1, letter c-bis of Legislative Decree No. 58/1998, this Board has monitored the actual implementation of the Corporate Governance Code for listed companies prepared by the Corporate Governance Committee, which the Company has resolved to uphold pursuant to the resolution of the Board of Directors of 11 November 2006; it has verified the correct application of the assessment criteria adopted by the Board of Directors regarding

the independence of the Directors and has verified the adoption of a self-assessment procedure on the composition and functioning of the Board and the Committees established within it;

n) it has verified, more specifically, the correct application of the criteria and assessment procedures adopted by the Board of Directors, pursuant to the application criterion 1.C.1. letter g) of the Corporate Governance Code, to assess the independence of its members, in accordance with the application criterion 3.C.5. at the end of Article 3 of the same Code;

o) it has assessed the adequacy of the criteria for defining the remuneration policy adopted by the Board and the Remuneration Committee established within it, including in the light of the recommendations of the Corporate Governance Committee. In this regard, it should be noted that after the closing of the 2019 financial year, at the meeting of the Board of Directors held on 2 March 2020, the Remuneration Policy was amended to take into account the changes introduced by the new Article 123-ter of the TUF, as amended by Legislative Decree No. 49 of 10 May 2019 in implementation of EU Directive 2017/828 (Shareholder Rights Directive II), identifying, in particular, specific sustainability objectives in the variable component of managers' remuneration;

p) it has verified the evolution of governance, including in the light of the considerations set forth in the corporate governance report on the recommendations contained in the letter of the Chair of the Corporate Governance Committee of 19 December 2019 and, in that scope, to have positively evaluated the attention given by the Company to sustainability issues. In this regard, it should be noted that, at the meeting held on 6 February 2020, the Board of Directors assigned to the Control and Risk Committee the task of supervising, assessing and monitoring the sustainability profiles related to the company's activities, without prejudice to the powers already assigned to the Steering and Strategies Committee;

q) it has conducted the periodic verification of the adequacy of the Board in terms of powers, operation and composition, taking into account the size, complexity and activities carried out by the Company, verifying the suitability of its members to perform the functions assigned in terms of the existence of the requisites of

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professionalism and respectability, availability of time and independence and also verifying compliance with the limits on the accumulation of positions held, also on the basis of the certifications and information provided by each statutory auditor;

r) it has received confirmation from the Audit firm regarding its independence pursuant to Article 6, par. 2) of EU Regulation No. 537/2014 and pursuant to paragraph 17 a) of International Auditing Standard (ISA Italy) 260;

s) it has issued the following favourable opinions during the 2019 financial year:

- ✓ on the supplement to the Audit Firm's fee;
- ✓ on the assignment to Ernst & Young to provide services other than auditing, including support in identifying areas of intervention to improve environmental and safety data to be monitored, with regard to Sarlux S.r.l., a subsidiary of Saras S.p.A.;
- ✓ on the assessment of compliance with the independence requirements applicable to independent directors, as per the Corporate Governance Code and Legislative Decree No. 58/1998;
- ✓ on the approval of the annual activity plan prepared by the Internal Audit department's manager, pursuant to Article 7, paragraph 7.C.1.c) of the Corporate Governance Code;
- ✓ on the assessment of the correct use of accounting principles and their consistency for the purposes of preparing the consolidated financial statements, carried out by the Control and Risk Committee, pursuant to Article 7, paragraph 7.C.2. a) of the Corporate Governance Code, in agreement with the Financial Reporting Manager;

t) it has not received complaints pursuant to Article 2408 of the Italian Civil Code;

u) it has received detailed information on the impairment tests carried out pursuant to IAS 36 in 2019 confirming the values of assets recorded in the financial statements of the Company and those of the subsidiaries;

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v) it has received analytical information regarding the most significant economic, financial and equity transactions carried out, including through subsidiaries. Of these transactions, examined and approved by the Board of Directors, the following are mentioned:

- ✓ the implementation, in the first quarter of the year, of an important multi-year maintenance cycle scheduled for the plants at the Sarroch refinery;
- ✓ the change in the company structure due to the full non-proportional demerger of MOBRO S.p.A. in favour of Angel Capital Management S.p.A. (ACM) and Stella Holding S.p.A. (Stella). Following the demerger, i.e., since 24 June 2019, Saras S.p.A. has been controlled by Massimo Moratti S.a.p.A. with 20.01%, Angel Capital Management S.p.A. with 10.005%, and Stella Holding S.p.A. with 10.005% of the share capital;
- ✓ the start of the direct marketing activity of naval fuels in specific dedicated areas in the ports of Sarroch and Cagliari;
- ✓ the expansion of the Ulassai wind farm, with the installation of 9 new turbines for an additional capacity of 30 MW, bringing the total installed capacity to 126 MW;
- ✓ the subscription, which took place on 5 February 2020, (i.e., after the end of the 2019 financial year), of a five-year revolving credit line totalling EUR 305 million, refinancing in advance the previous revolving credit line of EUR 255 million expiring in December 2020;
- ✓ the conclusion of a EUR 50 million financing contract that was signed on 12 February 2020, i.e., after the end of the 2019 financial year;

w) it has held five meetings during the financial year, pursuant to Article 150, paragraph 3 of Legislative Decree No. 58/1998, with representatives of the Company appointed to perform the statutory audit, following which no facts or critical issues emerged that require mention in this report;

x) it has received the draft consolidated financial statements of the Group and the separate financial statements as at 31 December 2019 prepared in accordance with

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international accounting standards, as well as the management report, within the deadline set out in Article 2429 of the Italian Civil Code, as well as the Sustainability Report containing the Consolidated Non-Financial Statement and diversity information, within the terms set out in Article 5 of Legislative Decree No. 254/16;

y) it has received, following the approval of the draft financial statements, a new version of the Management Report supplemented with the necessary information as a result of the spread, on a global scale, of the epidemiological emergency from COVID -19 ("coronavirus") and was informed that the Group, regarding the developments linked to the evolution of the pandemic - despite being aware of a slowdown in business activity and the contraction in margins - did not proceed to quantify the effects due to the objective uncertainties regarding the extent of the event's impact on the macroeconomic scenario. However, the Board of Statutory Auditors has verified that the Group took all necessary precautions to protect its employees, customers and the community, obtaining assurances in this regard also from the Supervisory Body. It also verified that the measures adopted by the Group in the continuation of its activities complied with the legislation;

z) it has received from the Audit firm the reports pursuant to Article 14 of Legislative Decree No. 39 of 27 January 2010 and Article 10 of EU Regulation No. 537/2014 respectively for the separate and consolidated financial statements for the year ended 31 December 2019. These reports, dated 18 March 2020, show that the Company's financial statements and consolidated financial statements provide a true and fair view of the statement of financial position, income statement and cash flows for the year ended 31 December 2019, in accordance with International Financial Reporting Standards adopted by the European Union as well as the provisions issued in implementation of Article 9 of Legislative Decree No. 38/2005; and that the management report and the information in the report on corporate governance and ownership structure indicated in paragraph 4 of Article 123-bis of Legislative Decree No. 58/1998 are consistent with the separate and consolidated financial statements;

aa) it has received, from the Audit firm EY S.p.A., the report required by Article 11 of Regulation (EU) No. 537/2014, dated 18 March 2020;

bb) it has received, from the Independent Auditors EY S.p.A., the limited audit report on the compliance of the non-financial information provided with regard to the rules contained in Legislative Decree No. 254 of 30 December 2016. From this report, dated 18 March 2020, it appears that there is no evidence to suggest that the Consolidated Non-Financial Statement has not been drafted, in all significant aspects, in accordance with the requirements of Articles 3 and 4 of the aforementioned Decree and the GRI Standards.

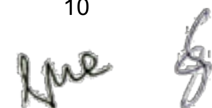
Consolidated Non-Financial Statement

The Board, in the context of the ordinary activity carried out in implementation of the current legislation, has monitored the Company's compliance with the provisions established by Legislative Decree No. 254/2016 on the disclosure of non-financial information and information on diversity.

The Company has prepared the Consolidated Non-Financial Statement in the broader form of the "*Sustainability Report*", including it in a separate document rather than in a section of the management report.

The above statement, prepared in accordance with the reporting principles identified in the "Global Reporting Initiative Sustainability Reporting Standards" (GRI Standard for short), presents the strategies adopted to ensure the economic growth of the Company and the development of its business in a sustainable manner. This statement covers environmental, social and personnel issues, respect for human rights, and the fight against active and passive corruption, which are relevant given the activity and characteristics of the Company, to an adequate extent in order to enable an understanding of the activity carried out by the Saras Group, its performance, its results and the related impact, in a manner consistent with the provisions contained in Article 3 of Legislative Decree No. 254/2016.

Based on the aforementioned statement, approved by the Board of Directors in the meeting of 2 March 2020 and made available to the Statutory Auditors on the same date, the Board carried out a brief audit on the systems and processes to ascertain compliance



with the law and proper administration. In actual terms, the audit covered the risk assessment matrix, the reporting methods for the information provided by the Group companies and the extent to which they correspond with the true facts, as well as the report's compliance with the provisions of the decree.

Upon completion of the activity carried out and in the light of the conclusions reached by the Audit firm in the specific report, the Board can attest to the adequacy of the organisational structures according to the strategic objectives in the social/environmental area that the Company has set itself, as well as the consistency of the statement produced with the provisions contained in Legislative Decree No. 254/2016.

Conclusions

To pursue the monitoring activities described above, the Board met fourteen times during the 2019 financial year; it attended a Shareholders' Meeting, five meetings of the Board of Directors; three meetings of the Remuneration and Appointments Committee and four meetings of the Control and Risk Committee.

The elements of knowledge necessary for the performance of the Board's responsibilities were acquired, apart from participation in the aforementioned meetings, also by means of direct investigations, as well as the collection of information from the heads of the relevant departments. The verifications and participation in the meetings indicated that the choices made by the Directors comply with the law, the Articles of Association, and the principles of proper administration, and are consistent and compatible with the company size and corporate assets.

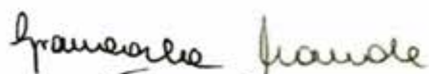
In the course of the monitoring activities and on the basis of information obtained by the Audit firm, no omissions and/or reprehensible facts and/or irregularities were observed, or any significant facts that would require reporting to the supervisory bodies or mentioning in this report.

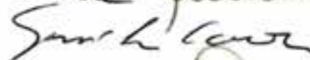
On the basis of the monitoring activity conducted during the year, and from the analysis of the draft financial statements presented, considering that on 18 March 2020 the Audit firm has issued its reports without comments, the Board does not find any impediment to approval of the financial statements for the year ended 31 December 2019.

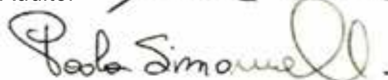
Moreover, considering that, on 24 February 2020, Mr Giovanni Luigi Camera resigned from his position as Statutory Auditor of the Company, effective from the date of the Shareholders' Meeting held to approve the Financial Statements as of 31 December 2019, shareholders are invited to resolve also regarding supplementing the Board of Statutory Auditors. On this occasion, the Chairman of the Board, Ms Giancarla Branda, Attorney at Law, and the other Standing Auditor, Ms Paola Simonelli, express their personal thanks to Mr Camera for the work done, always with great professionalism and sensitivity, and for the scrupulous attention paid in carrying out the office.

24 March 2020

The Board of Statutory Auditors

Giancarla Branda – Chairperson 

Giovanni Luigi Camera – Standing Auditor 

Paola Simonelli – Standing Auditor 

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LIST OF OFFICES HELD BY THE BOARD OF STATUTORY AUDITORS IN COMPANIES REFERRED TO IN BOOK V OF THE ITALIAN CIVIL CODE ON 02nd MARCH 2020

Avv. Giancarla Branda

COMPANY NAME	POSITION HELD
Saras SpA	Chairman Board of Statutory Auditors
GHC – Garofalo Health Care SpA	Statutory Auditor
Sara Vita SpA	Statutory Auditor
RFI - Rete Ferroviaria Italiana SpA	Statutory Auditor
ACI Progei SpA	Statutory Auditor
ACI Consult SpA (in liquidazione)	Statutory Auditor
Consorzio Studi e Ricerche Fiscali	Statutory Auditor
Centro Medico San Biagio Srl	Statutory Auditor
Banca Network Investimenti in liquidazione coatta Amministrativa	Member of the Monitoring Committee

Dott. Giovanni Luigi Camera

COMPANY NAME	POSITION HELD
Fondazione Cardinale Federico Borromeo	Chairman of the board of Auditors
M-I Stadio Srl	Statutory Auditor
Massimo Moratti SapA	Statutory Auditor
Mondini Cavi SpA	Chairman Board of Statutory Auditors
Saras SpA	Statutory Auditor
Sardeolica Srl	Sole Statutory Auditor
Sarlux Srl	Statutory Auditor
Shine Sim SpA	Sole Statutory Auditor

Dott.ssa Paola Simonelli

COMPANY NAME	POSITION HELD
Bruker Italia Srl	Chairman of Board of Statutory Auditors
Biotecnica Instruments SpA	Chairman of Board of Statutory Auditors
Chef Express SpA	Statutory Auditor
C&P Srl	Statutory Auditor
Consorzio Logistica Pacchi ScpA	Statutory Auditor
Bi-Qem SpA	Statutory Auditor
Bi-Qem Specialties SpA	Statutory Auditor
Cremonini SpA	Statutory Auditor
Emme Esse SpA in liquidazione	Statutory Auditor
Errevi SpA n liquidazione	Statutory Auditor
Fondo Pensione di Previdenza Bipiemme	Statutory Auditor
Fratelli Gotta Srl	Legal Auditor
GE.SE.SO Gestione Servizi Sociali Srl	Statutory Auditor
Intersider Acciai SpA in liquidazione	Statutory Auditor
MARR SpA	Statutory Auditor
Perani & Partners SpA	Statutory Auditor
Posa SpA	Statutory Auditor
Saras SpA	Statutory Auditor
Sarlux Srl	Statutory Auditor
Shine Sim SpA	Statutory Auditor
UBS Fiduciaria SpA	Statutory Auditor
Simonelli & Partners Srl	Director (without powers)

INDEPENDENT AUDITORS' REPORT ON THE SEPARATE FINANCIAL STATEMENTS OF SARAS SPA

EY S.p.A.
Via Meravigli, 12
20123 Milano

Tel: +39 02 722121
Fax: +39 02 722122037
ey.com

Independent auditor's report pursuant to article 14 of Legislative Decree n. 39, dated 27 January 2010 and article 10 of EU Regulation n. 537/2014
(Translation from the original Italian text)

To the Shareholders of
Saras S.p.A.

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Saras S.p.A. (the Company), which comprise the statement of financial position as at 31 December 2019, and the statement of income, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as at 31 December 2019, and of its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the regulations and standards on ethics and independence applicable to audits of financial statements under Italian Laws. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

We identified the following key audit matters:

EY S.p.A.
Sede Legale: Via Lombardia, 31 - 00187 Roma
Capitale Sociale Euro 2.525.000,00 i.v.
Iscritta alla S.O. del Registro delle Imprese presso la C.C.I.A.A. di Roma
Codice fiscale e numero di iscrizione 00434000584 - numero R.E.A. 250904
P.IVA 00891231003
Iscritta al Registro Revisori Legali al n. 70945 Pubblicato sulla G.U. Suppl. 13 - IV Serie Speciale del 17/2/1998
Iscritta all'Albo Speciale delle società di revisione
Consob al progressivo n. 2 delibera n.10831 del 16/7/1997

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Key Audit Matter	Audit Response
Valuation of fixed assets, inventories and derivative instruments	
The economic and financial performance of the Saras is significantly influenced by the volatility of markets factors, including the cost and the availability of crude oil and the world demand for finished products compared to the processing capacity, which determine the margins achievable from refining, the main activity of the Entity and Group. The trend of market factors in the foreseeable future represents one of the critical assumptions for the evaluation of fixed assets, and of the recoverable amount of inventories as well as for the volatility of fair values of derivative instruments. Management assesses, at least annually, the existence of impairment indicators for fixed assets, and, in case, performs an impairment test; in addition, they verify the recoverable amount at the end of the year of inventory and the fair value of derivative instruments. These estimates involve evaluation processes, even complex, which depend on external industry factors, highly volatile, and they are based on assumptions which, by their nature, involve the use of high degree of judgment by Management. Considering the complexity of the assumptions used by Management in its valuation, and in particular the possible impacts on future cash flows from changes in market conditions, we considered that this area represents a key audit matter. The disclosure related to this issue is included in notes 3.3 "Most significant accounting policies requiring a greater degree of subjectivity" of the explanatory note to statutory financial statements.	The audit procedures performed in response to this key audit matter, included, among others, the analysis of the economic and sector scenarios considered by Management in preparing such plans, the verification of consistency with the external sources used in developing them , their continuance of their use over time, the analysis of procedure and controls implemented by the Group regarding the identification of any impairment indicators, as well as the analysis of the valuation models of the recoverability of fixed assets, the recoverable value of inventories and the fair value of the derivative instruments at the end of the year. In performing our procedures, we have also leveraged on the support of our experts in evaluation techniques. Lastly, we reviewed the adequacy of the disclosures provided in the notes to the statutory financial statements in relation to this key audit matter.

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Responsibilities of Directors and Those Charged with Governance for the Financial Statements

The Directors are responsible for the preparation of the financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union and with the regulations issued for implementing art. 9 of Legislative Decree n. 38/2005, and, within the terms provided by the law, for such internal control as they determine is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Directors are responsible for assessing the Company's ability to continue as a going concern and, when preparing the financial statements, for the appropriateness of the going concern assumption, and for appropriate disclosure thereof. The Directors prepare the financial statements on a going concern basis unless they either intend to liquidate the Company or to cease operations, or have no realistic alternative but to do so.

The statutory audit committee ("Collegio Sindacale") is responsible, within the terms provided by the law, for overseeing the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

- we have evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

We have provided those charged with governance with a statement that we have complied with the ethical and independence requirements applicable in Italy, and we have communicated with them all matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we have determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We have described these matters in our auditor's report.

Additional information pursuant to article 10 of EU Regulation n. 537/14

The shareholders of Saras S.p.A., in the general meeting held on 28 April 2015, engaged us to perform the audits of the financial statements for each of the years ending 31 December 2015 to 31 December 2023.

We declare that we have not provided prohibited non-audit services, referred to article 5, par. 1, of EU Regulation n. 537/2014, and that we have remained independent of the Company in conducting the audit.

We confirm that the opinion on the financial statements included in this report is consistent with the content of the additional report to the audit committee (Collegio Sindacale) in their capacity as audit committee, prepared pursuant to article 11 of the EU Regulation n. 537/2014.

Report on compliance with other legal and regulatory requirements

Opinion pursuant to article 14, paragraph 2, subparagraph e), of Legislative Decree n. 39 dated 27 January 2010 and of article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998

The Directors of Saras S.p.A. are responsible for the preparation of the Report on Operations and of the Report on Corporate Governance and Ownership Structure of Saras S.p.A. as at 31 December 2019, including their consistency with the related financial statements and their compliance with the applicable laws and regulations.

We have performed the procedures required under audit standard SA Italia n. 720B, in order to express an opinion on the consistency of the Report on Operations and of specific information included in the Report on Corporate Governance and Ownership Structure as provided for by article 123-bis, paragraph 4, of Legislative Decree n. 58, dated 24 February 1998, with the financial statements of Saras S.p.A. as at 31 December 2019 and on their compliance with the applicable laws and regulations, and in order to assess whether they contain material misstatements.

In our opinion, the Report on Operations and the above mentioned specific information included in the Report on Corporate Governance and Ownership Structure are consistent with the financial statements of Saras S.p.A. as at 31 December 2019 and comply with the applicable laws and regulations.

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

Milan, March 18, 2020

EY S.p.A.
Signed by: Alberto Romeo, Auditor

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

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