***SUSTainability of financial performance of energy companies***

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## Overview

The European energy market has undergone profound transformations since the mid-1990s as a result of the implementation of the European directives of the sector. The first aim of this paper is draw an overall picture of the structure and functioning of the European energy markets, as a case of the changes of the European energy markets.

The second objective is to carry out an analysis of the main international literature on the subject. To this end, the main aspects considered as determining the aforementioned performances will be highlighted, constructing a related synthesis framework with possible further and future research guidelines.

Then we highlight that the financial performance of energy companies has become a significant object of investigation in the most recent international literature following the processes of privatization, liberalization and deregulation that have characterized these enterprises since mid-2000s. Hence, the third aim of us is to perform an analysis of the main financial metrics of Italian energy companies, as an important European energy markets. In this way, it is possible to draw the main and first conclusions about the liberalization processes.

## Methods

The Methodology used in this paper is based on the analysis of financial statements from 2008 to 2017 which is a method of comparing data from multiple Balance Sheets and Income Statements using the longitudinal (firms across time) analytical nature of the analysis as opposed to past cross-sectional analysis. Thus, a trend analysis has been performed. By delving into detailed financial performances it can be effectively assessed what impact changes in asset and liability composition may have had on the utility’s financial performance and survivability. This paper simultaneously analyse both electricity and gas companies and our sampled companies are inclusive of almost all the Italian energy companies rather than a limited sample. The AIDA database, Bureau Van Dyck, was used to carry out the analysis of this work. A period of about 10 years, from 2008 to 2017, has been analyzed.

In this way, it was possible to construct a general picture of the financial performance of Italian energy companies in the 10 years following the liberalization of the related markets.

It made it possible to draw initial conclusions on the sustainability of financial performance for Italian electricity and gas companies.

## Results

## The main indicators analyzed showed a certain stability in the trend of financial performance over the period considered.

## Furthermore, the differences between the electricity and gas business are confirmed for incumbent companies. In fact, the incumbent gas business seems to be more solid, as it has the prevalence of non-current assets and also greater net profitability. Instead, the incumbent electricity business appears to be more risky, as the current items in both assets and liabilities are around 90%. Instead, among Big-10 compenies and minor companies there is a lower difference between current and non current assets. Moreover, net profitability is very low for both markets, as most of the revenues deriving from the core business are absorbed by the costs and charges of operating, financial and tax management.

## Conclusions

Overall, the financial performance of Italian energy companies appears to be quite weak, particularly with reference to net profitability. Moreover, the investments made in the purchase of other companies with the payment of the corresponding goodwill, has been eroded over time both by low profitability; of these companies both from the nature of the assets, the latter mainly consisting of current elements, in particular for the electric companies.

As a conclusion we can see that the liberalisation resulted in many companies entering the market which are based on current assets with thin profit margins and no visible transformation of the cash extraction out of capital. There are some exceptions but the overall “feeling” is that the market and especially the “micro-companies” face challenges which question their business model.

## References

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