Annual Report
at 31 December 2012

iren

Contents

NOTICE OF CALL OF THE ORDINARY SHAREHOLDERS' MEETING

The shareholders are called to the ordinary meeting to be held at the Sala Campioli, Via Nubi di Magellano 30, Reggio Emilia on 27 June 2013 at 11 a.m., on first call, to discuss and resolve the following

AGENDA:

1) Financial statements at 31 December 2012 and Directors' Report: inherent and consequent resolutions.

2) Remuneration Report (section 1, pursuant to Art. 123-ter, paragraph 3, of the Consolidated Law on Finance): inherent and consequent resolutions.

3) Appointment of the Board of Directors and relative company officers within the competence of the shareholders' meeting as per the Articles of Association, for the 2013-2014-2015 three-year period (expiry: date of approval of the 2015 financial statements): inherent and consequent resolutions.

4) Determination of the annual fees to be paid to members of the Board of Directors: inherent and consequent resolutions.

16 May 2013

The Chairman of the Board of Directors
(Roberto Bazzano)

KEY FIGURES OF THE IREN GROUP

	2012	2011 Restated	% Change
Income statement figures (*millions of euro*)			
Revenue	4,328	3,521	22.9
Gross operating profit	630	592	6.3
Operating profit	341	309	10.5
Pre-tax profit	247	11	(*)
Consolidated profit/(loss) for the period	162	(102)	(*)
Statement of financial position figures (*millions of euro*)	*At 31/12/2012*	*At 31/12/2011*	
Net invested capital	4,509	4,497	0.3
Equity	1,954	1,845	5.9
Net financial position	(2,555)	(2,653)	(3.7)
Financial/economic indicators	*2012*	*2011*	
GOP/Revenue	14.55%	16.82%	
Debt/Equity	1.31	1.44	
Technical and trading figures	*2012*	*2011*	
Electrical energy sold (GWh)	17,053	13,816	23.4
Heat energy produced (GWht)	2,931	2,572	14.0
District heating volume (mln m^3)	76	72	5.5
Gas sold (mln m3)	3,169	3,108	2.0
Water distributed (mln m^3)	179	181	(0.9)
Waste handled (tons)	954,450	1,017,312	(6.2)

(*) Change of more than 100%

The figures as at 31 December 2011, shown for comparison purposes, were restated due to the early adoption of the revised version of IAS 19 *Employee benefits*.

Iren is a multiutility company listed on the Italian Stock Exchange, established on 1 July 2010 as a result of the merger of IRIDE and ENÌA. It operates in the sectors of electrical energy (production, distribution and sale), heat (production, carriage and sale), gas (distribution and sale), integrated water services, waste management services (collection and disposal of waste) and services for public administration.

Iren is structured as an industrial holding with main corporate offices in Reggio Emilia, operating units in Genoa, Parma, Piacenza, and Turin, and it has other companies in charge of the individual business lines. The holding company handles strategic, development, coordination and control activities, while the five operating companies ensure the coordination and development of business lines as follows:

- Iren Acqua Gas operates in the integrated water cycle sector;
- Iren Energia operates in the electrical and heat energy production and technological services sector;
- Iren Mercato manages the sale of electrical energy, gas and district heating;
- Iren Emilia operates in the gas sector, handles waste collection, environmental health and the management of local services;
- Iren Ambiente handles the design and management of waste treatment and disposal plants and operates in the renewable energy sector.

Electrical energy production: thanks to a considerable number of electrical energy and heat energy plants for district heating production, the overall production capacity is over 7,700 GWh/year, including the portion ensured by Edipower.

Gas distribution: through its 9,000 km network, Iren serves over one million customers.

Electrical energy distribution: with over 7,439 km of low, medium and high voltage networks, the Group distributes electrical energy to over 691,000 customers in Turin and Parma.

Integrated water cycle: with over 14,100 km of aqueduct networks, over 8,000 km of sewerage networks and 813 treatment plants, Iren provides services to over 2,400,000 residents.

Waste management cycle: with 123 equipped ecological stations, 2 waste-to-energy plants, 1 landfill, 11 treatment plants and 2 composting plants, the Group serves 116 municipalities for a total of more than 1,139,000 residents.

District heating: through 825 km of dual-pipe underground networks the Iren Group supplies heating for an overall volume of around 76.5 million m^3, equivalent to a population served of over 750,000 individuals.

Sales of gas, electrical energy and heat energy: each year the Group sells over 3.2 billion cubic metres of gas, around 17,053 GWh of electrical energy and 2,980 GWht of heat for the district heating networks.

COMPANY OFFICERS

Board of Directors

Chairman	Roberto Bazzano [1]
Deputy Chairman	Luigi Giuseppe Villani [2] [13]
CEO	Roberto Garbati [3]
General Manager	Andrea Viero [4]
Directors	Franco Amato [5] [14]
	Paolo Cantarella [6]
	Gianfranco Carbonato [7]
	Alberto Clò [8]
	Marco Elefanti [9]
	Ernesto Lavatelli [10]
	Ettore Rocchi
	Alcide Rosina [11]
	Carla Patrizia Ferrari [15]

Board of Statutory Auditors

Chairman	Paolo Peveraro[16]
Standing auditors	Aldo Milanese [16]
	Anna Maria Fellegara [16]
Substitute auditors	Alessandro Cotto[16]
	Emilio Gatto[16]

Manager in charge of financial reporting

Massimo Levrino

Independent Auditors

PricewaterhouseCoopers S.p.A. [17]

[1] [2] [3] [4] Members of the Executive Committee
[5] Member of the Remuneration Committee
[6] Chairman of the Remuneration Committee
[7] Member of the Supervisory Body
[8] [11] Member of the Internal Control Committee
[9] Chairman of the Supervisory Body
[10] Member of the Remuneration Committee and of the Supervisory Body
[13] Resigned on 19 January 2013. Lorenzo Bagnacani was appointed via co-optation on 6 February 2013.
[14] Following the resignation of Mr. Salza as an Iren director and, therefore, as a member of the Internal Control Committee, on 27/7/2012, the Board of Directors supplemented the committee by appointing Mr. Franco Amato who, on 28/08/2012, was elected Chairman of the committee itself.
[15] Co-opted on 18/6/2012 following the resignation of Enrico Salza from the position of director
[16] Appointed by the shareholders' meeting on 14 May 2012 for the 2012-2014 three-year period
[17] Office assigned by the shareholders' meeting on 14 May 2012 for the 2012-2020 nine-year period

MISSION AND VALUES OF THE IREN GROUP

For the Iren Group, sustainable development, energy efficiency and protection of the environment, together with technological innovation and a particular focus on the territories in which it operates, constitute fundamental characteristics.

Protecting the environment, limiting energy consumption, innovation, promoting economic and social development in its operating territories, guaranteeing customer satisfaction, creating value for shareholders and enhancing and increasing staff skills and know-how are specific values that the Iren Group intends to pursue.

LETTER TO THE SHAREHOLDERS

Dear shareholders,
The 2012 financial statements bring to an end the first three-year period of operations of your company, and the term of office of the current Board of Directors.
A period characterised by increasing difficulties in the economic-financial context, an energy market scenario which has witnessed a constant decrease and a legislative context which has heavily altered the utilities sector.

Economic weakness and legislative uncertainty which we believe your company has managed to handle, in particular, thanks to the business combination process which led to its formation in 2010.
Thanks to the significant positioning in each of its business segments, the balanced mix of regulated and free market activities, integration between upstream and downstream energy activities and the local presence, the Iren Group has retained adequate levels of operating profitability, recording highly positive results in 2012: consolidated revenues of Euro 4,328 million, up 22.9% compared to 2011, EBITDA of Euro 630 million, growth of 6.3%, and net profit of Euro 152 million.

In the aforementioned three-year period, investments exceeded Euro 1,290 million, Gross operating profit increased by Euro 603 million in 2010 to Euro 630 million in 2012, and total dividends distributed reached Euro 200 million.

We defined a new 2015 Business Plan for your company, which focuses on development activities in the segments in which the Iren Group enjoys a position which offers a significant competitive advantage - waste management, integrated water cycle and district heating - with particular attention to the reference areas, while the objective in the deregulated sectors is to expand the current customer base as regards the supply of energy carriers (gas and electricity).
Strategic development guidelines are to be pursued by maintaining financial equilibrium, also through the setting up of specific partnerships, and are to be supplemented by the reduction in indebtedness and completion of the Group's integration and rationalisation process in order to generate additional operational efficiencies.

The guidelines of the new Business Plan have already seen the first significant steps taken, in the form of the extraordinary transactions completed by the Iren Group in 2012.
The established presence of the Iren Group in the Piedmont area, and its significant domestic position in waste management, were further strengthened and supplemented with the acquisition of stakes in Amiat and TRM; the Iren Group participated in the tender called by the Municipality of Turin, as part of a Temporary Association of Companies, along with F2i Fondi Italiani per le Infrastrutture Sgr S.p.A. and Acea Pinerolese Industriale S.p.A.
In addition, the continuation of construction of the Parma Integrated Environmental Hub, which will enter operations in 2013, and the extension of widespread and home waste collection systems, which made it possible to reach a figure of 60% of separate waste collection in the basin served, will help consolidate the Iren Group's position at the top of the domestic sector.

The year 2012 also saw the completion of the restructuring of the Edison Group, which involved, for your company, the transfer of the investment in Edison and the consolidation, with a 21% share, of the investment in Edipower, a company wholly owned by Italian shareholders.
This restructuring has allowed the Iren Group to acquire, to offset the investment in Edipower, the combined cycle, high-efficiency Turbigo thermoelectric plant (800 MW of installed power) and the Tusciano hydroelectric hub (annual production capacity of roughly 250 GWh); plants that allow the Group to avail itself directly of a combined cycle thermoelectric capacity of 2,000 MW and a hydroelectric capacity of more than 600 MW, allowing it to obtain more strategic flexibility and make it possible to realise greater synergies from the direct management of the plants acquired, integrating them with Iren's plant network.

The objective to reduce indebtedness and pursue development goals while maintaining financial equilibrium has already saw the first results achieved in 2012, with a decrease of around Euro 100 million in the NFP compared to 2011, also thanks to the disposals of certain non-strategic investments during the year, in addition to the conferment of part of the real assets, deemed non-core with respect to the development of industrial activities, to the Fondo Core MultiUtilities managed by Ream SGR SpA. These transactions freed up financial resources of Euro 137 million in 2012.

Other industrial development activities carried out by your company also recorded significant progress. In terms of energy production, the full operational start-up of the new Torino Nord plant reinforced the Iren Group's position as domestic leader in the urban district heating sector, at the same time, generating significant benefits in terms of energy savings and an improvement in air quality, in line with the principles of sustainable development which distinguish the Group.

The water sector saw a continuation of network and plant development activities, the reduction in water leaks, increase in energy efficiency and treatment and purification plant improvement to ensure environmental compatibility with the standards set by European directives, Area Plans and the improvement objectives defined by the Group, consistent with its approach to social and environmental responsibility. The new tariff regulation issued by AEEG was applied, which should represent a stable reference point for investors in the future.

On the commercial front, the customer base was increased further, up by around 4% over 2011, also thanks to the activities carried out to promote electrical energy and gas supply contracts and the development of a range of offers able to satisfy the needs of the different customer segments.

The diversification of energy procurement sources also produced significant results in 2012, which allowed the Group to contain the impact of market overcapacity. Furthermore, the project to construct the Livorno regasification terminal, which is forecast to be completed in 2013, will allow further diversification of sources and technologies in a sector which is now subject to frequent changes.

On the whole, proof of the quality of the services offered by the Iren Group, at the end of 2012 too, comes in the form of the high levels of customers' satisfaction.

We believe that this three-year period has concluded having steered the Iren Group towards future development that is consistent and compatible with the economic scenario and changes in the regulatory framework, with the objective of ensuring high service quality standards and an adequate return for shareholders.

On behalf of the Board of Directors, I would like to thank all employees who, with professionalism and commitment, have allowed the Iren Group to achieve significant results that will need to be built upon in coming years.

Finally, I would like to pay thanks to all members of the Board of Directors and the Board of Statutory Auditors for the valuable contribution of skills, ideas and the dedication shown in this field over the three years.

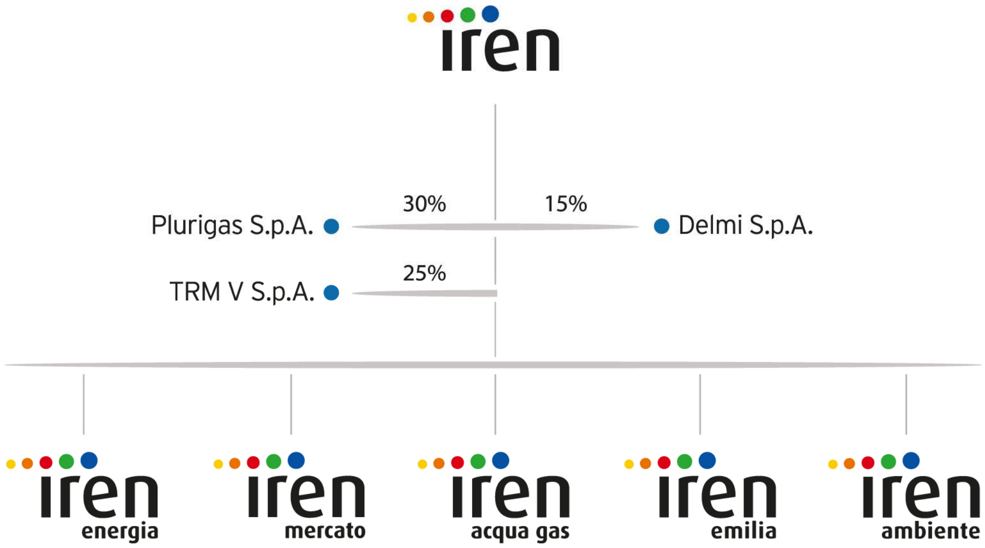
The Chairman of the Board of Directors
(Roberto Bazzano)

Iren S.p.A.
Via Nubi di Magellano, 30 - 42123 Reggio Emilia
Share capital fully paid-in 1,276,225,677.00
Reggio Emilia Companies Register no. 07129470014
Tax Code and VAT no. 07129470014

Directors' report

at 31 December 2012

IREN GROUP: CORPORATE STRUCTURE



At 31 December 2012, Delmi controls 70% of the share capital of Edipower, which in turn is 10% controlled by Iren Energia. The reverse merger of Delmi in Edipower took effect on 1 January 2013.
TRM V has a controlling interest in TRM S.p.A, with an 80% stake.

The flowchart illustrates the main investee companies of Iren Holding.

IREN ENERGIA

Cogeneration electrical energy production and heat energy
Iren Energia's installed capacity totals approximately 2,700 MW, of which around 1,800 MW is generated directly and around 900 MW through the investees Edipower and Energia Italiana. Specifically, Iren Energia owns 20 electrical energy production plants: 12 hydroelectric plants and 8 thermoelectric cogeneration plants, for a total capacity of approximately 1,800 MW of electrical energy and 2,300 MW of heat energy, of which 900 MW through cogeneration. All primary energy sources used – hydroelectric and cogeneration – are completely eco-compatible. The hydroelectric production plant plays a particularly important role in environmental protection as it uses a renewable and clean resource which does not emit pollutants. Hydroelectric energy reduces the need to turn to other forms of production that have a greater environmental impact. Environmental protection is a corporate priority for Iren Energia, which has always maintained that the development of hydroelectric production systems, in which it invests heavily each year, is one of the main ways to safeguard the local environment. Iren Energia's total heat production capacity is equal to 2,300 MWt, of which 40% is generated by Group-owned cogeneration plants, while the remainder comes from conventional heat generators. Heat production was in the region of 2,931 GWh_t in 2012, with district heating volumes of approximately 77 million m^3.

Electrical energy distribution
Through its subsidiary AEM Torino Distribuzione, Iren Energia distributes electrical energy to the entire metropolitan areas of Turin and Parma (around 1,094,000 residents). In 2012, the electrical energy distributed was equal to 4,241 GWh, of which 3,313 GWh in Turin and 928 GWh in Parma.

Gas distribution and District Heating

The district heating and gas distribution activities in the city of Turin are carried out by AES Torino (51% controlled by Iren Energia), which owns one of the largest district heating networks in the whole of Italy (approximately 474 km of dual-piping at 31 December 2012). In 2012, the gas network extended over 1,333 km, serving approximately 500,000 end customers.

Iren Energia also owns the district heating network of Reggio Emilia, covering around 216 Km, of Parma with roughly 84 Km and Piacenza which covers approximately 19 km.

Lastly, Nichelino Energia - in which Iren Energia holds a 67% stake and AES Torino a 33% one, aims to develop district heating in the town of Nichelino.

Services to Local Authorities and Global Service

Iride Servizi provides Turin with street lighting services, traffic light management, heating and electrical systems management for municipal buildings, global technology service management of the Turin Court House and facility management for the Group. The electronic infrastructures and connections in the cities of Turin and Genoa are managed by the subsidiaries AemNet and SasterNet, respectively. SasterNet was sold last year as commented on in the paragraph below, “Significant events of the year”.

IREN MERCATO

Through Iren Mercato the Group operates in electrical energy, gas and heat marketing, acts as fuel provider to the Group, performs energy efficiency certificate, green certificate and emission trading, provides customer management services to Group investees and supplies heat services and heat sales through the district heating network.

Iren Mercato operates at national level with a higher concentration of customers served in the North of Italy. The company supplies electrical energy directly, through associates where present in the area, and through agency contracts with brokers for customers associated with certain sector categories and for large customers connected with a number of Industrial Associations.

The main power sources available to Iren Mercato operations are the thermoelectric and hydroelectric plants of Iren Energia S.p.A.. Through tolling agreements Iren Mercato also has access to electrical energy produced by Edipower plants. Note that until 23 May 2012 the share available to Iren Mercato was 10%, whereas this rose to 23% from 24 May 2012.

The Group also sells heat management services and global services both to private entities and public authorities. Development has focused on the chain related to the management of air conditioning systems in buildings for residential and service use by means of energy service agreements, also through subsidiaries and investee companies. This contractual model guarantees long-term customer loyalty, with consequent maintenance of the natural gas supplies which constitute one of the core businesses of Iren Mercato.

Sale of natural gas

Total volumes of natural gas procured in 2012 were approximately 3,169 million m^3 of which approximately 1,719 million m^3 were sold to customers outside the Group, 191 million m^3 were used in the electrical energy production through tolling agreements with Edipower and 1,214 million m^3 were used within the Iren Group both for the electrical energy production and heat energy and for the provision of heating services, whilst 45 million m^3 of gas remained in storage.

At 31 December 2012 gas retail customers managed directly by Iren Mercato totalled around 756,000, spread throughout the traditional Genoa catchment area and surrounding development areas, the Turin catchment area and the traditional Emilia Romagna catchment areas.

Sale of electrical energy

The volumes sold in 2012, net of distribution losses, amounted to 17,053 GWh.

Electrical energy retail customers managed totalled more than 734,000 at the end of 2012 (of which 344,000 on the free market and 373,000 on the protected market), distributed mainly in the traditionally-served catchment areas of Turin and Parma, and in areas covered by company marketing.

A cluster analysis of end customers is provided below.

Free market and power exchange
Total volumes sold to end customers and wholesalers amount to 11,145 GWh, while the volumes used on the power exchange net of energy bought/sold amounted to 2,159 GWh. In 2012, the availability of electrical energy from internal Iren Group production (Iren Energia) amounted to 6,308 GWh. Edipower tolling volumes amounted to 1,321 GWh. Use of external sources totalled 2,139 GWh for purchases on the power exchange net of energy bought/sold (purchases including energy bought/sold amounted to 4,174 GWh) and 4,132 GWh for purchases from wholesalers. The remaining part of sold volumes mainly refers to infragroup transactions and distribution losses.

Former non-eligible market
Total customers managed by Iren Mercato in the higher protection segment were around 373,169 in 2012. The total volumes sold amounted to 998 GWh.

Sale of heat energy through the district heating network
Iren Mercato manages heat sales to customers receiving district heating from the municipality of Genoa through the CAE, Turin, Nichelino and in the provinces of Reggio Emilia, Piacenza and Parma.
This entails the supply of heat to customers already on the district heating network, customer relations management and the control and management of substations powering the heating systems in buildings served by the network. The heat sold to customers is supplied by Iren Energia S.p.A. under trading conditions that guarantee adequate remuneration.
In 2012, the total district heating volume exceeded 76 million cubic metres, marking an increase of 4 million cubic metres over the previous year.

Heat service management
As regards energy service management activities performed ATIs in Local Health Authorities in the Lazio region (San Filippo Neri in Roma, ASL E and ASL F in Rome and ASL in Viterbo), which will be completed in June 2014, the management and supply of gas and electrical energy continued.
The management of the Global Service contract of the Ligurian health authority carried out through the CSI consortium was instead concluded in October with the sale of all of the consortium’s contracts and works to Siram.

LNG regasification plant
Through the company OLT Offshore LNG, the Group is committed to the project to construct an off-shore regasification terminal off the coast of Livorno, by converting the gas carrier Golar Frost. The contractor Saipem continued to carry out conversion works in 2012 in the Dubai site.
The plant will be fully operational in the third quarter of 2013.

The Group conducted an analysis of investment recoverability in line with impairment testing, based on the expected cash flows during the foreseeable period of use of the platform, the guarantee factor and the trend in gas prices considered prudential.
In relation to the cash flows considered, it should be noted that any future forecast is based on assumptions, quantified by the Group with the help of external sources and data, and determined using information available at the time the forecast is made.

OLT Offshore LNG challenged resolution no. 451/2012/R/GAS of the Italian Authority for Electrical energy and Gas dated 31 October 2012, which suspended the application of the guarantee factor for regasification terminals that will enter operations between 6 November 2012 and 31 December 2013, during which the OLT terminal off the coast of Livorno is expected to become operational. As a result of the application for the precautionary suspension of the resolution contested, the Milan TAR (regional administrative court) examined OLT’s position at the hearing on 7 February, reaching the conclusion that the “needs of the applicant appear to have reasonable grounds and are adequately protectable with the prompt formulation of a judgment on the merit”: the Milan regional administrative court therefore set 13 June as the date for discussing the merits of the appeal. The Authority also made itself available to meet with the company for an in-depth discussion of the costs and benefits of the terminal in order to assess the possibility of eliminating this suspension. The strategic importance of the OLT plant was also confirmed by a special letter sent by the Ministry of Economic Development and also by the contents of the National Energy Strategy document.

IREN ACQUA GAS

Integrated Water Services

Iren Acqua Gas manages the water services in the provinces of Genoa, Parma, Reggio Emilia and Piacenza, both directly and through the operating subsidiaries Mediterranea delle Acque and Idrotigullio and through the investee Am.Ter. In particular, from July 2004 it assumed the role of market operator for the Genoa ATO [Ambito Territoriale Ottimale], and from 1 July 2010 management of the water division for the Reggio Emilia and Parma areas was granted to Iren Acqua Gas as part of the Iride-Enìa merger.
From 1 October 2011, as a result of transfer of the water division from Iren Emilia, Iren Acqua Gas extended its management to the Piacenza District.
Through its own organisation, Iren Acqua Gas reaches a total of 177 municipalities serving over 2 million residents through its managed ATOs (Genoa, Reggio Emilia, Parma and Piacenza).
In 2012, Iren Acqua Gas sold, directly and through its subsidiaries, approximately 179 million m^3 of water in the areas managed, through a distribution network of over 14,100 km. In regards to waste water, it manages a sewerage network spanning approximately 8,000 km.

Gas Distribution

Through its subsidiary Genova Reti Gas, Iren Acqua Gas distributes methane gas in the municipality of Genoa and in another 19 surrounding municipalities, for a total of around 350,000 end customers. The distribution network comprises about 1,800 km of network of which about 418 km is medium pressure and the rest low pressure. The area served covers around 571 sq. km and is characterised by an extremely complex chorography with considerable changes in altitude. Natural gas arriving from the domestic transport pipelines transits through 7 interconnected methane reception cabins owned by the company and is introduced into the local distribution network. Thanks to innovative technologies for the laying and maintenance of networks, ordinary maintenance can be performed while reducing time, costs and inconvenience to residents to a minimum.
Up until the end of 2012, the time of the transfer of the investment, Iren Acqua Gas also provided the gas distribution service in the municipalities of Grosseto and Campagnatico, through subsidiary Gea S.p.A..
Through its subsidiary Genova Reti Gas, Iren Acqua Gas distributed 378 million m^3 of gas during 2012.

Special technological services/research

Through its Saster and SasterPipe Divisions, Genova Reti Gas is able to offer network engineering services to the market (IT, modelling, simulation) and upgrading of technological networks with no-dig technologies, of which the company has exclusive know-how. In order to specifically promote and organise scientific and cultural initiatives to safeguard environmental and water resources and to provide optimum network management services, in 2003 the Fondazione AMGA Onlus was also created. The foundation promotes and implements research, training and information projects, and provides support for initiatives implemented by other entities in relation to environmental protection and the organisation of public utility services.

IREN EMILIA

Iren Emilia operates in the gas distribution, waste collection and waste management sectors and coordinates the operations management activities of Emilia Romagna area companies for the integrated water cycle, electrical energy and district heating networks and other minor businesses (public lighting, public parks management, etc.).
Iren Emilia manages the natural gas distribution for 72 of the 140 municipalities in the provinces of Reggio Emilia, Parma and Piacenza. The company manages almost 5,900 km of high, medium and low pressure distribution networks with a designed maximum withdrawal capacity of 726,879 Smc/h.
Iren Emilia is active in the waste management service sector in the Piacenza, Parma and Reggio Emilia provinces, serving a total 116 municipalities and 1,139,000 inhabitants in these areas. In line with its sensitive approach to environmental protection and sustainable development, Iren Emilia has implemented differentiated and widespread waste collection systems which, also thanks to the

management of over 123 equipped ecological stations, has allowed the basin served to achieve results near 60%.
In particular, the company performs urban waste collection, street and pavement cleaning, snow clearing, cleaning and maintenance of parks and urban green areas, and dispatches recyclable waste to the correct chains for transformation into raw materials or renewable energy. Through Iren Ambiente, an Iren Group company, it ensures that waste collection takes place in such a way as to preserve and safeguard the environment and studies aspects of the waste collection problem, increasing its knowledge of technologies that are more innovative and “environmentally safe” than those used at present.
Iren Emilia also carries out operations management of the integrated water cycle (aqueduct, purification and sewerage) in the provinces of Parma, Piacenza and Reggio Emilia. This activity refers to a total network of 12,200 km of aqueduct networks, 6,900 km of sewerage networks, 449 waste water pumping systems and 794 purification plants, both biological treatment plants and Imhoff tanks, distributed across 110 Municipalities.
The operations management of the district heating network is carried out in the cities of Reggio Emilia, Parma and Piacenza and refers to a total network spanning 320 km that serves a total volume of 18,909,600 cubic meters.
On 20 September 2012, an agreement was signed for the transfer of the “district heating plant management activities” business unit from Iren Ambiente to Iren Emilia, the latter subsequently taking over existing legal and contractual relations. This activity is based on specific contracts with Iren Energia S.p.A., in the district heating sector for the operation, extraordinary maintenance and construction of thermal and cogeneration plants owned by the aforementioned Group company in the three provinces of Emilia Romagna: Parma, Reggio Emilia and Piacenza. Maintenance of Iren Ambiente cogeneration plants located at proprietary landfills also continued.
Operations management of the electrical energy distribution network is carried out in the city of Parma and concerns 2,370 km of network and more than 123,000 delivery points to end customers.

IREN AMBIENTE

Waste Management sector

Whether directly or through investees, Iren Ambiente performs the treatment, disposal, storage, recovery and recycling of urban and special waste, energy recovery (heat and electrical energy) through waste-to-energy (WtE) transformation and the operation of plants for the production of biogas in the provinces of Parma, Reggio Emilia and Piacenza. Iren Ambiente manages a significant customer portfolio to which it provides services for the disposal of special waste and it performs the treatment, selection, recovery and final disposal of urban waste collected by Iren Emilia S.p.A.
The non-separated portion of waste collected is disposed of in various ways as part of research into the best use of waste through an industrial process involving preventive mechanical selection to reduce the percentage destined for the WtE plant and disposal in landfills.
Iren Ambiente handles over 1,000,000 tons of waste per year in 12 treatment, selection and storage plants, 2 waste-to-energy plants (Piacenza and Reggio Emilia), 1 landfill (Poiatica - Reggio Emilia) and 2 composting plants (Reggio Emilia). A new Parma Integrated Environmental Hub (IEH) is under construction, due to become operational in the first half of 2013, that will include a selection and WtE plant. On 12 May, the expiry date of the related authorisation, the waste-to-energy plant in Reggio Emilia ceased operations as planned.

Electrical energy production from renewable sources

Iren Ambiente is also active in the electrical energy production from renewable sources through various projects focusing mainly on the photovoltaic sector. Plants totalling 5 MW have been constructed in Puglia (through the subsidiary Enia Solaris), a 1 MW plant constructed on the roof of a company building and another 29 lower capacity plants installed in headquarters of companies and municipal buildings. Through the subsidiary Iren Rinnovabili S.r.l., marketing continued in the photovoltaic sector under the logo “Raggi & Vantaggi”, though this slowed heavily due to regulatory changes approved that significantly reduced the level of sector incentives.
The above subsidiary also operates in the hydroelectric sector, following the construction and start-up of the 2 MW hydroelectric plant in Fornace (Baiso – province of Reggio Emilia) with energy production and sales of approximately 7,000 MWh in 2012.

Particular attention was also paid to the development of biomass and biomethane plants. On 29 November 2012, a project proposal was put forward for the construction of a biomass plant in the province of Reggio Emilia.

On 29 November 2012 an Iren Rinnovabili/CCPL Group joint venture also became operational as a result of the subscription of the first share capital increase following the transfer of 49% of the share capital of PFM S.p.A., holder of a photovoltaic plant under a leasing agreement. The general agreement requires, through the subsequent transfer of companies operating in the photovoltaic plant sector, the CCPL Group to increase its stake further, which stood at 9.815% as at 31 December 2012. The two shareholders' objective is the joint development and increase in value of the respective photovoltaic assets, also through the entry of financial partners.

Management of district heating plants

Up until 30 September 2012 (the date of transfer of the relative business unit to Iren Emilia S.p.A), Iren Ambiente also operated on the basis of specific contracts with Iren Energia S.p.A., owner of the plants, in the district heating sector for the operation and extraordinary maintenance of thermal and cogeneration plants in the three provinces of Emilia Romagna: Parma, Reggio Emilia and Piacenza.

INFORMATION ON THE IREN SHARE IN 2012

Iren share performance on the Stock Exchange

In 2012, the stock markets, particularly in the Eurozone, continued to suffer from the prolonged negative trend in the international financial scenario, heightened by the financial crisis in certain European sovereign states. The trend reversed in July when the ECB expressed its intention to take decisive action, through new tools, not just in favour of countries in difficulty but also to ensure the stability of the Euro.

These measures also alleviated financial tensions in Italy: July saw a constant decrease in the values of the spread with the subsequent recovery of the financial markets, with the All Shares index increasing by 5.9% in 2012.

However, the real economy in Italy was characterised by negative growth trends in 2012, brought about, in particular, by the continued application of strict fiscal policies targeted at rebalancing the budgetary parameters established at EU level.

In this context, the Iren share fell by around 40% in 2012: the negative performance of the Iren share was influenced not only by the macroeconomic factors mentioned above, but by specific factors, including the high level of debt and exposure of the assets portfolio to the energy generation and sales market in a national context characterised by overcapacity and low energy prices.

After reaching a high of Euro 0.85 per share in February, the Iren share recorded a decreasing trend, culminating in a low of Euro 0.24 per share at the end of July (following the communication of the figures recorded in the first quarter, characterised by a high level of debt), then gradually recovered, sustained by the positive periodic results and an improvement in the financial situation, which resulted in the share closing the year at Euro 0.46 per share.

Average trading volumes of the Iren share in 2012 stood at around 2.7 million per day, with an average price of Euro 0.49 per share.

STOCK EXCHANGE DATA	euro/share in 2012
Average price	0.49
Highest price	0.85
Lowest price	0.24
Number of shares ('000)	1,276,226

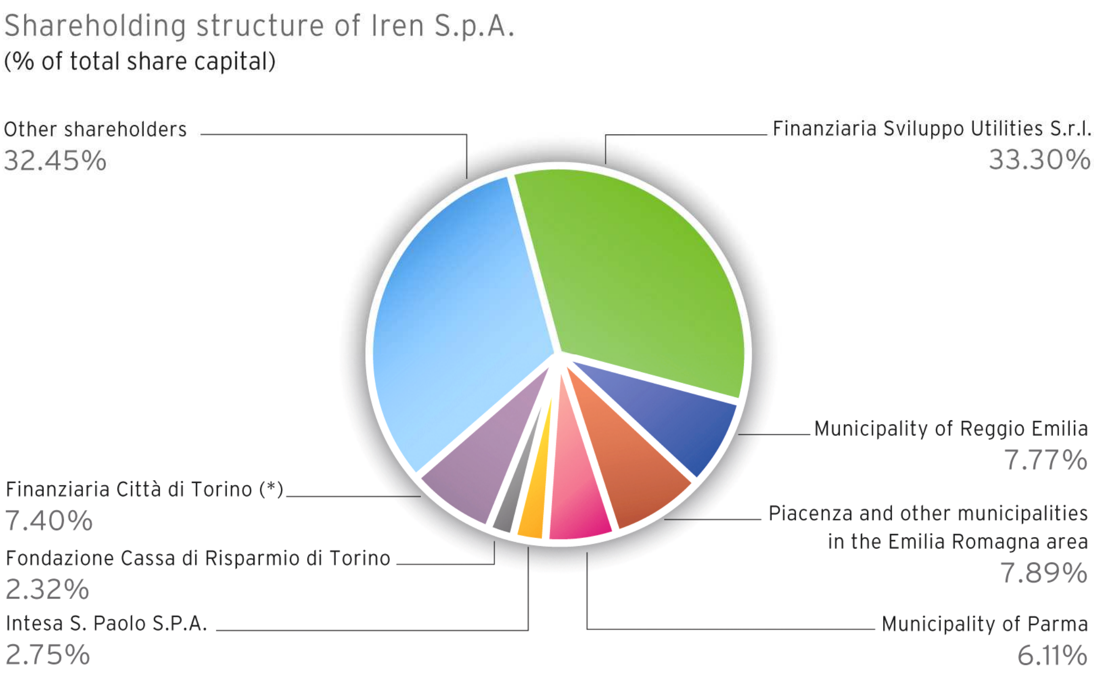
IREN SHARE PRICE AND TRADING VOLUME PERFORMANCE

Share coverage

The Iren Group is currently covered by eleven brokers: Banca IMI, Kepler, Centrobanca, Cheuvreux, Equita, Intermonte, Deutsche Bank, Mediobanca, Banca Akros, Bnp Paribas and Banca Aletti which began coverage in February 2012.

Shareholding structure

At 31 December 2012, according to information available to the company, the Iren shareholding structure was as follows:



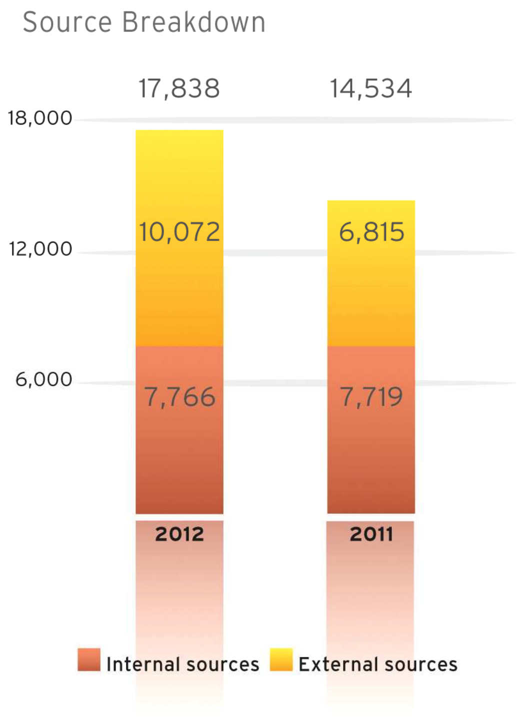
(*) savings shares without voting rights

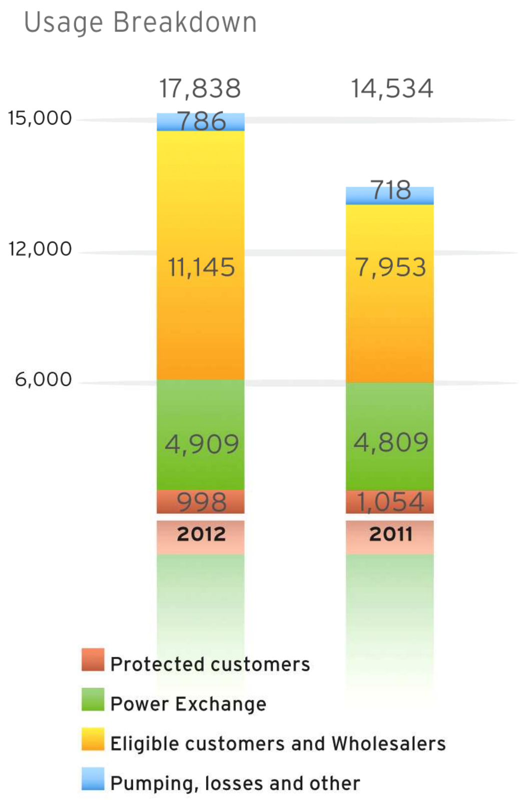
OPERATING DATA

Electrical energy production

GWh	2012	2011	% Change
SOURCES			
Gross production	7,766	7,719	0.6
a) Thermoelectric	*5,248*	*5,024*	*4.5*
b) Hydroelectric	*1,075*	*978*	*9.9*
c) WTE plant and renewable sources production	*122*	*131*	*(6.9)*
d) Edipower plant production	*1,321*	*1,309*	*0.9*
e) Tirreno Power plant production	*-*	*277*	*(*)*
Purchases from Acquirente Unico	1,051	1,088	(3.4)
Energy purchased on the Power Exchange	4,889	4,647	5.2
Energy purchased from wholesalers and imports	4,132	1,080	(*)
Total Sources	**17,838**	**14,534**	**22.7**
APPLICATION			
Sales to protected customers	998	1,054	(5.3)
Sales on the Power Exchange	4,909	4,809	2.1
Sales to eligible end customers and wholesalers	11,145	7,953	40.1
Pumping, distribution losses and other	786	718	9.5
Total Application	**17,838**	**14,534**	**22.7**

(*) Change of more than 100%

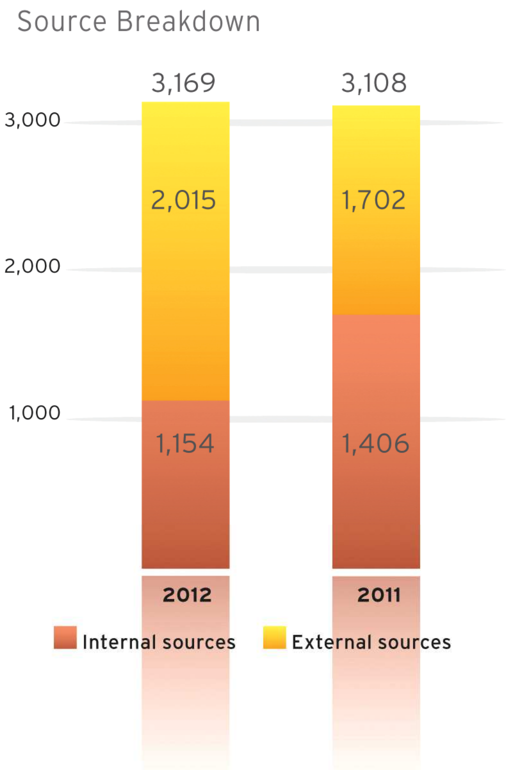


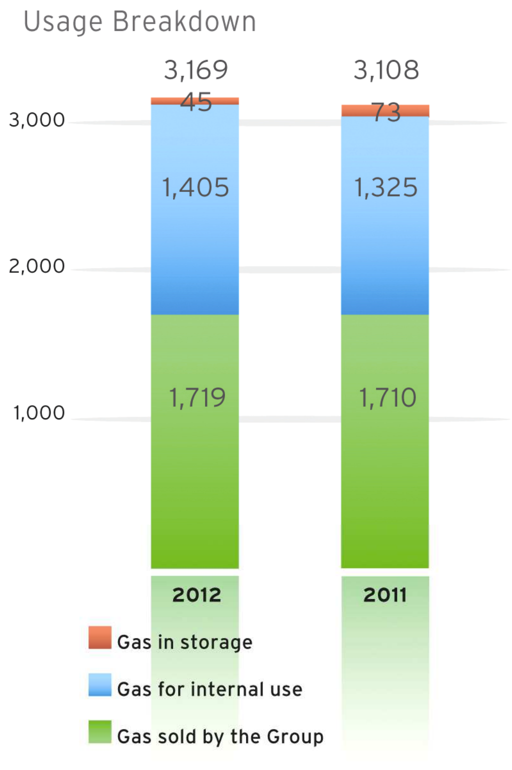


Gas Production

Millions of m³	2012	2011	% Change
SOURCES			
Internal sources	1,154	1,406	(17.9)
External sources	2,015	1,702	18.4
Total Sources	**3,169**	**3,108**	**2.0**
APPLICATION			
Gas sold by the Group	1,719	1,710	0.5
Gas for internal use (1)	1,405	1,325	6.0
Gas storage	45	73	(38.4)
Total Application	**3,169**	**3,108**	**2.0**

(1) Internal use involved thermoelectric plants, tolling, use in the generation of heat services and internal consumption.





Network services

	2012	2011	% Change
ELECTRICAL ENERGY DISTRIBUTION			
Electrical energy distributed (GWh)	4,241	4,263	(0.5)
No. of electronic meters	687,477	677,504	1.5
GAS DISTRIBUTION			
Gas distributed by AES Torino (mln m³)	*580*	*594*	*(2.3)*
Gas distributed by Iren Acqua Gas (mln m³)	*397*	*388*	*2.3*
Gas distributed by Iren Emilia (mln m³)	*952*	*967*	*(1.6)*
Total Gas distributed	1,929	1,949	(1.0)
DISTRICT HEATING			
District heating volume (mln m³)	76	72	5.5
District heating network (Km)	825	759	8.8
INTEGRATED WATER SERVICE			
Water volume (mln m³)	179	181	(0.9)

MARKET CONTEXT

Macroeconomic performance

According to IMF forecasts, in 2012 global GDP growth was around 3.2%, down on the 2011 figure (3.9%). The different geographic areas showed considerable differences. In particular, the gap remains between the advanced economies, which in 2012 recorded 1.3% growth (compared to 1.6% in 2011), and emerging economies that continue to grow at a steady rate (+5.1%) albeit slower than in 2011 (+6.3%). Of these, Asia confirms its position as driver of world economic development with 6.6% growth in 2012, this too down on the previous year's figure (8.0%). Followed by the Middle East and North Africa, whose forecast growth in 2012 was 5.5%, the only one to record an increase, up 3.2% over 2011.

As regards Italy, although GDP growth recorded at the end of the third quarter of 2012 was -2.0% (source: ISTAT), initial forecasts point to a further slowdown in the fourth quarter of the year. The industrial production index over the twelve months of 2012 also recorded considerable negative growth of -6.7% when compared to the previous year. Among the declining sectors, December figures show that decreases tended to be greater in intermediate goods (-9.4%) and consumer goods (-7.7%), while smaller decreases were recorded for energy (-3.7%) and operating assets (-2.5%). On a YoY basis, the sectors hit hardest were the manufacturing of rubber products and plastic materials, other products from the processing of non metal-bearing minerals (-16.8%), the wood, paper and printing industry (-11.4%), extraction activities (-10.8%) and coke manufacturing and refined oil products (-10.7%).

Natural gas production in Italy

The economic crisis and mild temperatures caused a huge decrease in domestic energy consumption in 2012. According to the initial estimates, on the basis of currently available provisional data (1), primary energy demand fell by around 4.3% compared to 2011 (from 184.2 Mtep to around 176.5 Mtep), bringing consumption levels in the country back to 1997-1998 levels.

In this context, gas recorded a significant fresh decrease. At the close of the year, the provisional figures of Snam Rete Gas showed consumption of 74.3 Bln m³, -4.1% compared to 2011, equivalent to -3.2 Bln m³. A fall which, following the reductions of 2009 and 2011, brings national gas consumption to below 2003 levels (77.3 Bln m³).

When compared to 2011, withdrawals for thermoelectric use contributed greatly to the decrease: weak electrical energy demand (-2.8% compared to 2011), competition from renewable sources (photovoltaic production +7.7 TWh, wind power up 3.3 TWh (2)) and increased use of coal, affected power plant consumption, which recorded a decrease of 11% (around 3 Bln m³).

Industrial consumption was 2% lower than the previous year (-0.27 Bln m³), but remains well below the pre-crisis levels. The withdrawals of the distribution network system, were a little higher (+0.8%, equal to 0.26 Bln m³).

Since 2007, consumption for thermoelectric use has decreased by some 9 Bln m³ (-26.8%); use by plants connected to the transport network fell by 2.2 Bln m³ (-14.5%), in addition to uses by small-medium plants connected to the distribution networks, whose 2012 figures are still not available.

([1])processing of SNAM, MSE and TERNA figures.
([2]) Provisional Terna figures.

Application/sources of natural gas in 2012 and comparison with previous years

Bln m³	2012	2011	2010	2009	2008	2007	% change '12/'11	% change '12/'10	% change '12/'09	% change '12/'08	% change '12/'07
NATURAL GAS USE											
Distribution plants	33.9	33.6	36.5	34.0	33.4	32.4	0.8%	-7.2%	-0.3%	1.5%	4.4%
Industrial use	13.3	13.5	13.3	12.1	14.6	15.5	-2.0%	-0.4%	9.4%	-8.8%	-14.5%
Thermoelectric use	24.7	27.7	29.8	28.7	33.5	33.7	-11.0%	-17.2%	-13.9%	-26.3%	-26.8%
Third party network and system consumption (*)	2.4	2.5	3.0	2.9	3.1	2.9	-3.5%	-19.5%	-16.5%	-22.1%	-15.0%
Total withdrawn	**74.3**	**77.4**	**82.7**	**77.7**	**84.5**	**84.5**	**-4.1%**	**-10.2%**	**-4.4%**	**-12.2%**	**-12.2%**
NATURAL GAS SOURCES											
Domestic production	8.2	8.0	8.1	8.2	9.1	9.8	1.6%	0.1%	-0.9%	-10.6%	-16.6%
Imports	67.6	70.3	75.2	68.7	76.5	73.5	-3.8%	-10.1%	-1.6%	-11.7%	-8.0%
Storage	-1.51	-0.90	-0.6	0.8	-1.1	1.2	68.8%	136.3%	-294.8%	34.8%	-221.2%
Total input	**74.3**	**77.4**	**82.7**	**77.7**	**84.5**	**84.5**	**-4.1%**	**-10.2%**	**-4.4%**	**-12.2%**	**-12.2%**

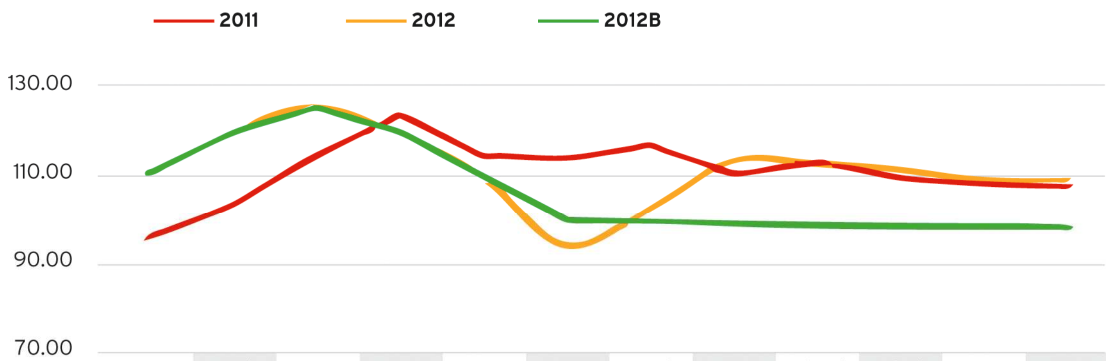
(*) Includes: transport, exports, transport company redeliveries, reservoir/widening changes, losses, consumption and gas not accounted for.
Source: processing of Snam Rete Gas figures. Provisional figures for 2012.

In terms of sources, total imports in 2012 stood at 67.6 Bln m³, down -3.8% (-2.7 Bln m³); 88.5% of imports were via gas pipelines and 11.5% through the two LNG terminals in Panigaglia and Rovigo.
Also in 2012, the nominal technical capacity of the import infrastructures was significantly underutilised (average rate of use = roughly 54%), increasing the overcapacity of previous years. Domestic production increased slightly by 1.6% (+0.13 Bln m³) to around 8.2 Bln m³, however 16.6% lower than in 2007 (-1.6 Bln m³).

Electrical energy production in Italy
2012 saw a net reduction in the demand for electrical energy, which started to decrease again, compared to growth in the previous year (-2.8% vs. 1.3% in 2011), falling from 334,640 GWh to 325,259 GWh.
The fall in demand is therefore estimated at -9.3 TWh. A decrease that follows the biggest recorded in 2009 (-19.2 TWh) and confirms the 2008-2012 five-year period as the first in the history of the electrical energy sector with such a prolonged reduction/stagnation in demand, where said demand is not, therefore, able to recover the gap recorded in the time elapsed.
A total of 86.8% of the demand for electrical energy was met from domestic production (-2.3% compared to 2011) and the remaining 13.2% from foreign production (-5.8%). Compared to 2011, geothermal, wind and photovoltaic energy production saw a 42.2% increase, whilst hydroelectric energy production fell by 8.2%. Thermoelectric production recorded a 6.3% decrease from 2011.

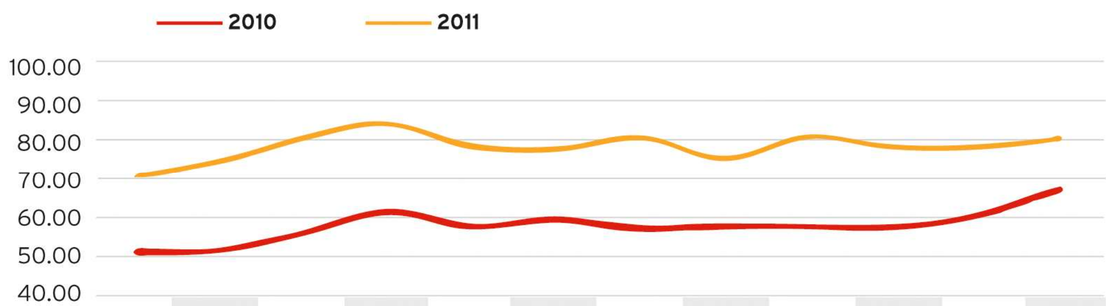
Oil products

BRENT $/BBL



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2011	96.54	103.76	114.60	123.49	114.56	114.04	116.89	110.37	113.12	109.44	108.04	107.84
2012	110.58	119.55	125.33	119.54	110.20	94.84	102.59	113.37	112.86	111.60	109.11	109.35
2012B	110.58	119.56	125.33	119.54	110.20	100.35	99.96	99.57	99.23	99.03	98.83	98.63

BRENT €/BBL

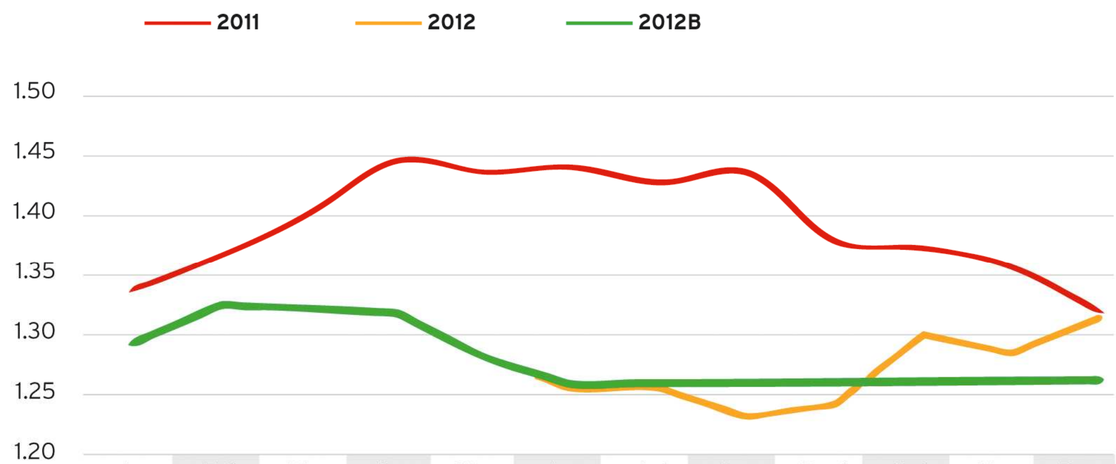


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2010	53.39	53.79	58.14	63.30	59.80	61.30	59.23	59.83	59.53	59.54	62.46	69.10
2011	72.26	76.02	81.86	85.51	79.84	79.26	81.95	76.95	82.15	79.84	79.70	81.82

Source: RIE/REF statistics

The monthly average of the Brent Dated was essentially stable, standing at 109.4 USD/barrel in December, compared to 109 USD/barrel in the previous month. Despite a multitude of criticalities which affected the global economy, 2012 closed with an annual value of 111.6 USD/barrel, in line with the 2011 figure (111.8), which was an absolute record in terms of prices on a YoY basis. It should be noted that the stability in annual prices in dollars is set against an increase of 9% in euro/barrel (up from 81 to 88). In 2012, the Brent fluctuated within a range of approximately 30 dollars, between a daily low of 89 dollars and a high of 128. However, these significant changes only characterised the first half of the year, while after the summer in particular, the price settled at a balanced level of 109-112 USD/barrel.
Prices showed a certain staying power in December, with a rising trend recorded in the last few days of the year and at the start of January 2013. This trend can be attributed to an easing off of tensions on the global economy front thanks: to the partial resolution of the fiscal cliff problem in the United States; to the FED declarations in support of the US economy; to the positive signs coming from China, with figures on growth in manufacturing activities showing considerable improvement at the end of the year; to the strengthening of the Euro and less likely scenario of an implosion of the Eurozone.

$/€ EXCHANGE RATE

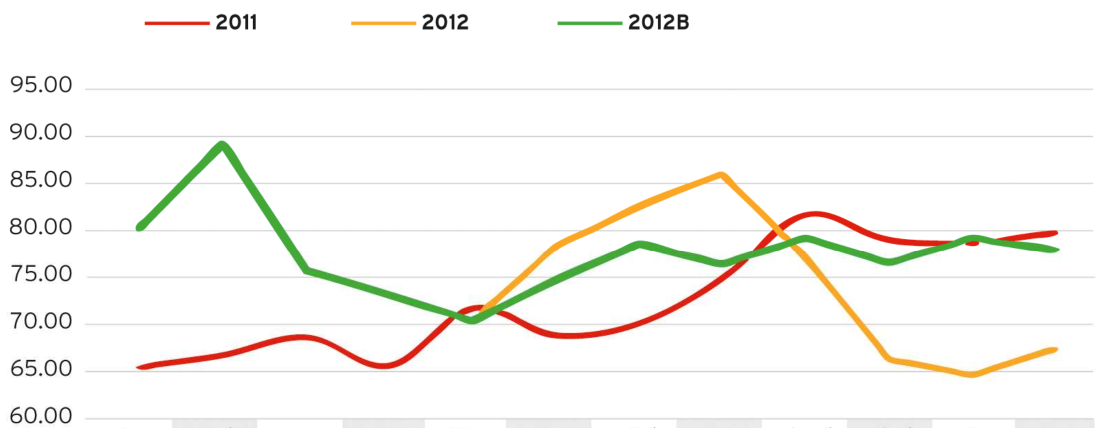


	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2011	1.34	1.36	1.40	1.44	1.43	1.44	1.43	1.43	1.38	1.37	1.36	1.32
2012	1.29	1.32	1.32	1.32	1.28	1.25	1.25	1.23	1.24	1.30	1.28	1.31
2012B	1.29	1.32	1.32	1.32	1.28	1.26	1.26	1.26	1.26	1.26	1.28	1.26

Source: RIE/REF statistics

In 2012 the EUR/USD exchange rate settled at a rate 3.7% lower than the 2011 average, 1.29 vs. 1.34. However, the Euro appreciated against the US dollar in the first half of the year, reaching a high of 1.32 in February 2012 and a low of 1.23 in July. In the second half the year, the Euro appreciated against the US dollar again to 1.31 in December 2012. The trend is, however, mainly attributable to the weakness of the dollar rather than the strength of the Euro, which continues to be faced with the sovereign debt emergency in the PIIGS countries. In fact, the US dollar is affected by the fluctuation in macroeconomic figures that are either better or worse than the expectations or forecasts of the Federal Reserve for economic recovery.

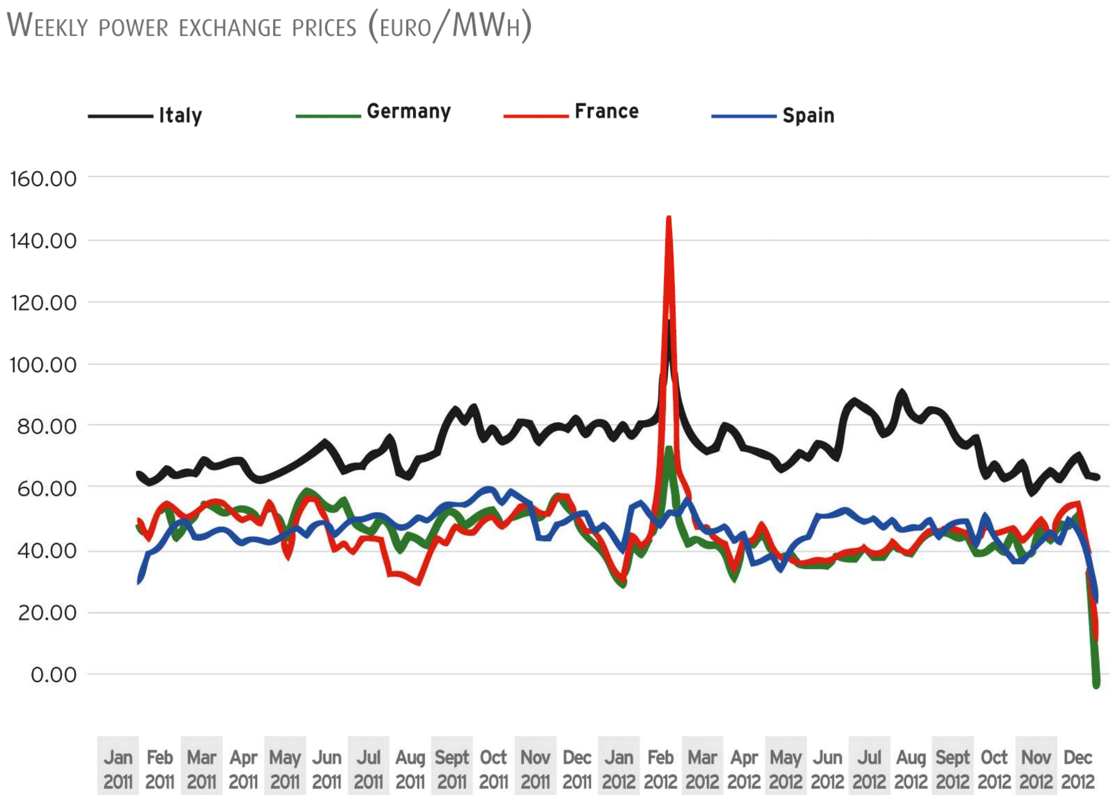
PUN – SINGLE NATIONAL PRICE



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sept	Oct	Nov	Dec
2011	65.00	66.29	65.18	65.18	71.28	68.41	69.74	74.51	81.31	78.61	78.47	79.37
2012	79.85	89.04	75.31	72.72	69.96	77.88	82.20	85.64	76.77	65.86	64.09	66.99
2012B	79.85	89.04	75.31	72.72	69.96	74.34	78.20	76.00	78.79	76.22	78.79	77.53

Source: GME

The average purchase price (PUN - national single price) on the Italian power exchange was 75.5 Euro/MWh, up +4.6% on 2011 (72.2 Euro/MWh).
The spread between the national single price and the purchase price on other European power exchanges, which in 2011 was around 22 Euro/MWh, increased by almost a further 8 Euro/MWh in 2012. Two contrasting spikes were recorded in the year, the sharp and general increase in February due to weather factors and the low at the end of the year, with the German power exchange recording negative values in December.



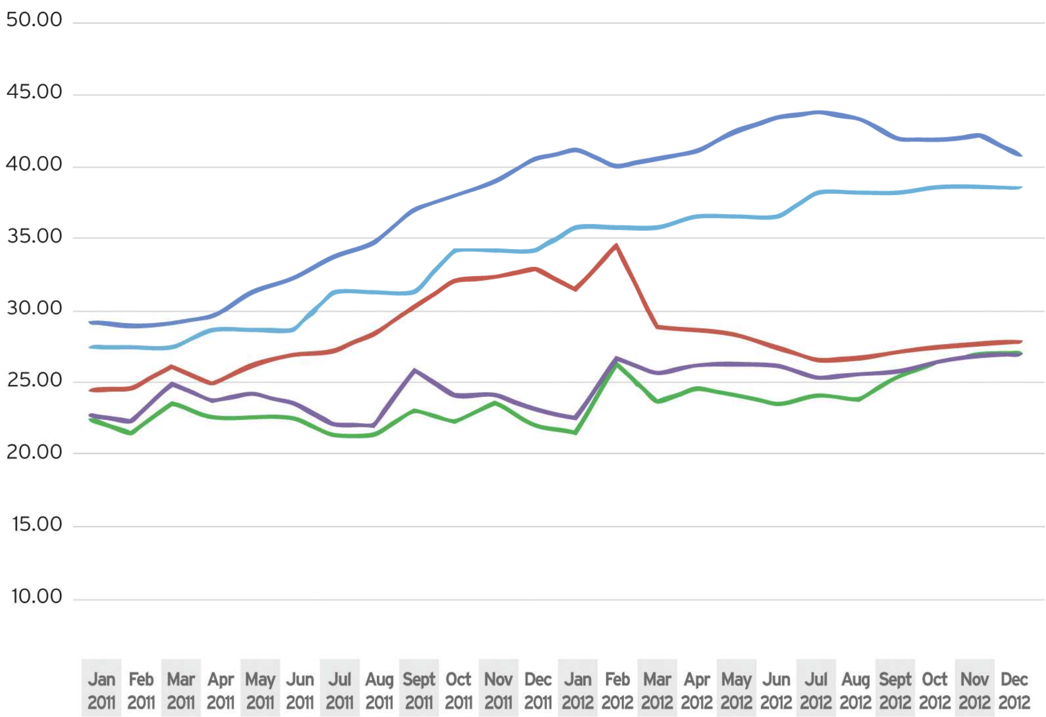
Source: RIE processing of IPEX, EEX, Powernext and Omel figures

Gas prices
Continued weak demand in Italy and Europe (EU consumption -2% in the first six months of 2012[(3)]), the situation of oversupply and strong competition in the spot market led to persistent pressures on gas markets during the year and problems for vertically integrated operators with the procurement portfolio exposed to long-term Take or Pay (ToP) contracts. Wholesale prices and prices for industrial and thermoelectric customers were increasingly less linked to the prices of these import contracts. Renegotiations and arbitration proceedings characterised 2012, as with the previous two years.
Nonetheless, the negotiations seem to be a long way off bridging the gap between the ToP and short-term prices. During the course of the year, spot prices on the European hubs remained well below (roughly 20%) those of renegotiated long-term contracts. The process to strengthen hubs continued, as an increasingly important reference of the market, boosted by the launch and initial application of the new European regulations regarding the management of contractual congestion on transnational gas pipelines.
A severe reduction was recorded in 2012 in the spread between the Italian hub (PSV - virtual exchange point), which saw prices fall from 31.7 Euro /MWh in January to 28.0 Euro/MWh in December, and the prices of the Northern European hubs which increased, on a trend basis, from around 22 Euro/MWh to roughly 27 Euro/MWh at the end of the year. In particular, when compared to the Dutch TTF - considered the most liquid and significant hub in continental Europe - the spread fell from around 10 Euro/MWh in January (+49%) to roughly 1 Euro/MWh in the last quarter (+3.4%). With respect to the Austrian hub of

[3] Source: Eurogas

Baumgarten, physically connected to the Italian system by the TAG gas pipeline, while the first quarter recorded differences of around 6.7 Euro/MWh (+32%) with highs of up to 9 Euro/MWh, the last few months recorded a change of only 0.8 Euro/MWh (+3%).
In a "long" market context, the reduction in the differences on "physiological" values connected to the cost of transporting gas between the hubs is presumably supported by both the initial application of EU regulations and guidelines targeted at reducing congestion (determining greater access to available capacity and lower costs), and the introduction of the national balancing market which contributed to providing greater accessibility to storage and improved liquidity). These measures were able to impact an environment made productive by the persistent situation of oversupply that has characterised the markets for some years. 2013 will reveal whether or not said relations between prices will confirm the structural nature they seem to have taken on.
In Italy, in the last quarter of 2012, while the average 2007 Gas Release value (entirely oil-linked formula) was 41.75 Euro/MWh (44.2 Eurocents per cubic metre) and the CCI (Wholesale Marketing Component) average value - defined by AEEG (Italian Authority for Electrical energy and Gas) with a formula linked predominantly (95%) to ToP contracts - was 38.76 Euro/MWh (41.5 Eurocents per cubic metre), the VEP recorded an average price of 27.88 Euro/MWh.
The balancing market (PB-Gas), which became fully operative in April 2012, in the last quarter of 2012, recorded an average value of 27.58 Euro/MWh, essentially in line with the Virtual Exchange Point trading price. Pending the launch of the segment for the trading of long-term contracts, it should be noted that M-Gas (Gas Exchange) remained a barely used market in 2012, with insignificant or even zero trading volumes, as in the last three months of the year. Apart from the balancing market for which supply obligations are in force, the majority of short-term trading therefore occurs on a bilateral basis.

GAS PRICE TRENDS



Note: the Gas Release and CCI prices were transferred into Euro/MWh on the basis of heating power of 38.1 Mj/Sm³ and 38.52 Mj/Sm³ respectively
Source: RIE processing of Platts, APX-Endex, GME, CEGH and AEEG data

A summary of the main energy indicators is illustrated below:

	2012	2011	CHANGE	% CHANGE
Brent U$D/barrel	111.58	111.49	0.09	0.1%
U$D/euro	1.29	1.34	-0.05	-3.7%
Brent euro/barrel	86.79	83.49	3.30	4.0%
Gas demand (Bcm)	74,300	77,500	-3,200	-4.1%
Gas Release 2, cents/scm	44.49	35.75	8.74	24.4%
CCI, cents/scm	48.09	39.26	8.83	22.5%
Electrical energy Demand (TWh)	325.26	334.64	-9.38	-2.8%
EE nat. single price (Euro/MWh)	75.5	72.2	3.30	4.6%

Source: statistics: RIE/ REF

Sale of heat energy through the district heating network in Italy
The table below illustrates the main figures on the development of district heating in Italy:

	2011
Total volumes heated (million m³)	260.3
Heat energy supplied to users (GWht)	7,322
Energy savings (TOE)	404,922
Carbon dioxide emissions avoided (t)	1,323,601

Source: AIRU yearbook - 2011 figures

The number of district heated towns and cities in Italy increased from 27 in 1995 to 104 in 2011.
The first Italian City to obtain a district heating system at the beginning of the 1970s was Brescia, followed in the 1980s by Turin which currently has the most extensive district heating network in Italy.
The situation of networks concentrated in Northern Italy and almost all district heated volumes (over 97% of total volume) located in the North is now consolidated, extending across seven regions: Lombardy, Piedmont, Emilia Romagna, Veneto, Trentino Alto Adige, Liguria and Valle d'Aosta.

Green certificates
At system level, the market continued to present a "long" situation as in the previous year, given supply exceeded demand.
The mandatory percentage (injection of energy from renewable sources and/or delivery of green certificates) of production from non-renewable sources in 2012 is 7.55%.
The price of withdrawal, by GSE, of green certificates issued in 2012 and which will be unsold in March 2013, is 80.3 Euro/MWh.
The average price of Green certificates (excluding those for district heating) identified in GME market trading sessions in 2012 is 76.3 Euro/MWh.
GSE will also be able to withdraw "District heating" green certificates relating to 2011 production; the withdrawal price is equal to the average market price recorded in 2010.
Due to the reform of the system of incentives for renewable energy sources, the Green Certificate arrangement will gradually be phased out by 2015.

CO^2
2012, the year in which phase 2 of the ETS concluded and which signals the transfer, for the majority of plants subject to free allocation, to the auction mechanism, registers a further decrease in the prices of EUA authorisations, which closed with a quota of 6.44 Euro/ton (-7% compared to 2011). The average value in the year was 7.37 Euro/ton. International receivables recorded a genuine dip, reporting further losses of more than 90% (0.18 Euro/ton at the end of December).
The main reasons for this trend are the persistence of the economic and financial crisis of the peripheral economies of the Eurozone and the increase in liquidity due to the introduction to the market of authorisations relating to the latest auctions for phase 2 and to the anticipated auctions for phase 3, and

to the quantity of international receivables reversed on ETS to pre-empt the limits imposed by the Commission on receivables deriving from industrial gas destruction projects starting in May 2013.
In order to restore market confidence and push prices up, the European Commission put itself forward as a candidate to supervise the ETS market, with the power to influence the calendar of auctions and, at the same time, to reduce the number of authorisations for sale (Euro 900 million). However, final approval of the document has been put back to early 2013.
2012 also saw a connection agreement signed between the European and Australian systems for the exchange of emission quotas. In fact, as of July 2015, 300 Australian energy eating plants will be able to acquire EUA authorisations to fulfil their emission obligations. From 2018, the system should be fully operational, also offering European plants the possibility of using Australian emission authorisations.

White certificates
Energy efficiency certificates (EEC) are issued by GME to distributors, the subsidiaries of said distributors and to companies operating in the energy services sector (ESCO), in order to certify the reduction of consumption achieved through measures and projects to increase energy efficiency. The EEC market permits the sale of certificates obtained by independent projects by ESCOs (energy services companies) that, given not required to comply with any obligation, have the possibility of realising profits on the market.
The certificates can be traded on the GME (Electrical energy Market Operator) platform.
Ministerial Decree dated 28 December 2012 set out the “national quantitative energy saving objectives” that must be pursued by electrical energy and gas distribution companies for the years 2013-2016, and introduced provisions to reinforce the white certificates mechanism”.

SIGNIFICANT EVENTS OF THE PERIOD

Parma Integrated Environmental Hub (IEH)

On 4 April 2012, the judgment issued by the Parma section of the Regional Administrative Court became final, confirming that the authorisation procedure adopted for the Parma Integrated Environmental Hub was compliant with regulations and that the building permit was issued within the authorisation procedure and the VIA (Environmental Impact Assessment). Therefore, the order for suspension of works issued by the Municipality of Parma was declared groundless and therefore cancelled.

In the first few days of September 2012, Iren Ambiente learned of the investigation of the Public Prosecutor's Office of Parma and of the alleged offences regarding the construction of the Integrated Environmental Hub (IEH).

The Public Prosecutor's Office opened criminal proceedings against certain natural persons of Iren Ambiente, of the Province, the Municipality of Parma and of the ATO of Parma and, at the same time, requested the seizure of the IEH site. The GIP (Preliminary Investigations Judge) rejected the claim for seizure.

The Public Prosecutor's Office launched an appeal against the decision of the GIP before the Court of Review. The Parma Court of Review rejected the appeal presented by the Public Prosecutor's Office by means of order dated 5 December 2012.

The Public Prosecutor's Office submitted an appeal before the Court of Cassation against the order of the Court of Review, requesting it to be quashed with adjournment. A hearing is due to be set to discuss the matter.

Appointment of the new Board of Statutory Auditors and Independent Auditors' assignment

At the same time as approval of the financial statements for the year ended as at 31 December 2011, the Shareholders' Meeting of 14 May 2012 appointed, for the 2012-2014 three-year period, Anna Maria Fellegara and Aldo Milanese as standing auditors and Emilio Gatto as substitute auditor from the list filed by Finanziaria Sviluppo Utilities S.r.l. and 73 public shareholders in the provinces of Reggio Emilia, Parma and Piacenza, and Paolo Peveraro as standing auditor and Alessandro Cotto as substitute auditor from the list filed by the shareholder Equiter S.p.A. The shareholders' meeting appointed Paolo Peveraro as Chairman of the Board of Statutory Auditors.

Pursuant to art. 13, Legislative Decree no. 39 of 27 January 2010, the Shareholders' Meeting also assigned the statutory audit of the company's separate and consolidated financial statements to PricewaterhouseCoopers S.p.A. for the nine-year period 2012-2020.

Reorganisation of the Edison Group

On 24 May 2012 - in execution of the agreements signed on 15 February 2012 and later amended on 5 May 2012 between A2A, Delmi and EDF and between A2A, Delmi, Edison and Alpiq - Delmi sold 50% of Transalpina di Energia to WGRM 4 Holding S.p.A., a fully owned subsidiary of EDF, for the price of Euro 783,748,900, and acquired 70% of Edipower from Edison (50%) and Alpiq (20%) for a total price of Euro 883,748,900.

Agreements were also signed between A2A, Iren, Iren Energia (currently a shareholder of Edipower) and other shareholders of Delmi regarding governance and the operating model of Edipower and the eventual exit of minority shareholders.

Change in membership of the Board of Directors of Iren S.p.A. and of the Internal Control Committee

On 18 June 2012, the Iren S.p.A. Board of Directors co-opted Carla Patrizia Ferrari as member of the Board of Directors to replace Enrico Salza, who resigned on 22 May 2012 following his commitment accepted as Chairman of Banca Fideuram.

In the meeting on 27 July 2012, the Board of Directors appointed Franco Amato, who meets the independence requirements, as a member of the Internal Control Committee, replacing Carla Patrizia Ferrari, who waived her office in consideration of the commitments fulfilled and activities performed outside the Iren Group.

Disposal of the investment in Sasternet S.p.A.

Iride Servizi and F2i Reti TLC completed the transfer of the investment held by the Iren Group in Sasternet S.p.A on 30 October. (85% of share capital). The price collected on said date, subject to any subsequent adjustments by 2012 to the actual accounting amounts as at 30 October, stood at Euro 14.9 million, for 85% of share capital. A further price addition can be realised through a 5-year earn out component for a maximum of Euro 3 million based on performance and the future value of the company.

Amendments to the Articles of Association

At the meeting held on 14 November 2012, Iren's Board of Directors approved the adjustment of the Articles of Association into line with the new legal provisions governing equal access to the administration and control bodies of listed companies and shareholders' rights.

Award of Amiat-Trm tender

On 20 December 2012, the Group was notified of the definitive award of the tender called by the Municipality of Turin for the identification of a private partner (operational or industrial) and for the assignment of the waste management service for the city and of the management and maintenance service of the WTE plant serving the southern area of the province of Turin.

The Iren Group took part in the tender, under a Temporary Association of Companies, together with F2i Fondi Italiani per le Infrastrutture Sgr S.p.A. and Acea Pinerolese Industriale S.p.A.

As regards the transfer of 49% of the shares of Amiat S.p.A., the award favoured the Temporary Association of Companies, in which an SPV was established, composed of Iren S.p.A., Iren Emilia S.p.A. (that will hold the majority stake) and Acea Pinerolese Industriale S.p.A. The transfer price awarded is Euro 28.8 million.

As regards the transfer of 80% of TRM S.p.A., as part of the Temporary Association of Companies, a partnership was established between Iren S.p.A. and the other companies in the Iren Group (Iren Emilia S.p.A., Iren Ambiente S.p.A., Iren Energia S.p.A.) and F2i, which holds the majority stake. The transfer price awarded is Euro 126 million.

Conferment of part of the real estate assets of the Iren Group to Fondo Core MultiUtilities established and managed by Ream SGR S.p.A.

On 21 December 2012, the Iren Group concluded the conferment of part of its real estate assets, deemed to be non-core with respect to the development of industrial activities, to the mutual real estate fund established and managed by Ream SGR S.p.A., known as the Fondo Core MultiUtilities, with the simultaneous placement of 51% of the shares of the latter with qualified third party investors identified beforehand by the Fund management company. The remaining 44% will be placed in 2013. The Iren Group will retain a share of 5% in the Fondo Core MultiUtilities for at least 5 years, and will be entitled to elect a representative in the Advisory Committee.

The transaction will result in a total collection for the Iren Group of around Euro 92 million with the generation of operating capital gains of roughly Euro 28 million.

Agreement for the transfer of Iren's equity investment in GEA S.p.A. to E.S.TR.A. S.p.A.

On 28 December 2012, Iren Acqua Gas S.p.A. and E.S.TR.A. S.p.A. signed an agreement for the transfer of the entire stake held by the Iren Group in GEA S.p.A., a company operating in the gas distribution service for the Municipalities of Grosseto and Campagnatico.

The agreement, signed following a public tendering procedure, makes provision for the transfer of the 59.34% stake held in GEA S.p.A. by the Iren Group to E.S.TR.A. S.p.A., corresponding to an agreed price of Euro 19,060,000.

FINANCIAL POSITION, RESULT OF OPERATIONS AND CASH FLOWS OF THE IREN GROUP

Presented below are the income statement, statement of financial position and statement of cash flows for the Iren Group on which the comments regarding business performance are based.

Income Statement

IREN GROUP CONSOLIDATED INCOME STATEMENT

thousands of euro

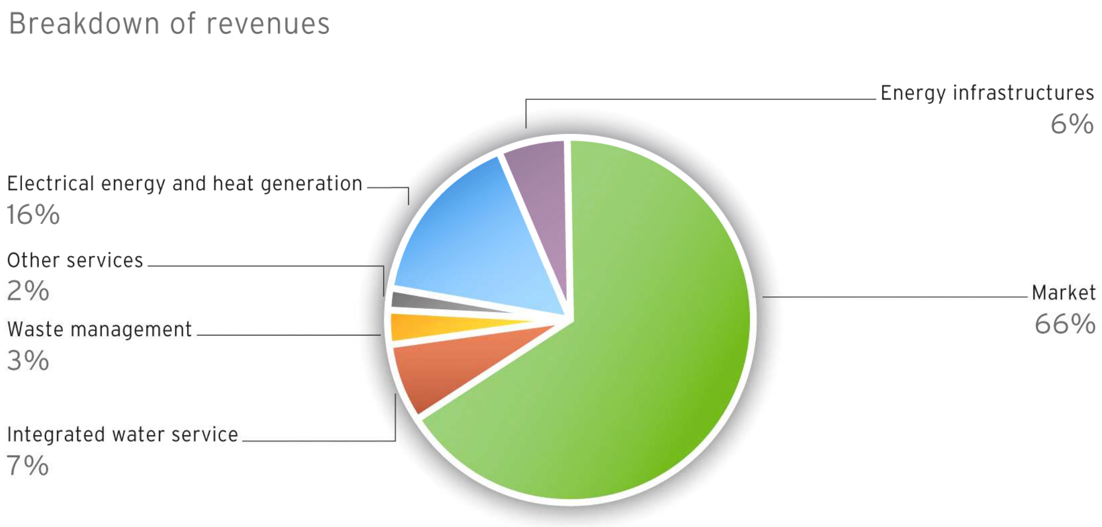
	2012	2011 Restated	% change
Revenue			
Revenue from goods and services	4,003,654	3,254,248	23.0
Change in work in progress	669	632	5.9
Other revenue and income	323,518	265,719	21.8
- of which non-recurring	*23,015*	-	*(*)*
Total revenue	**4,327,841**	**3,520,599**	**22.9**
Operating expense			
Raw materials, consumables, supplies and goods	(2,116,257)	(1,682,008)	25.8
Services and use of third-party assets	(1,236,254)	(940,605)	31.4
Other operating expense	(105,250)	(71,563)	47.1
- of which non-recurring	*(14,644)*	-	*(*)*
Capitalised expenses for internal work	20,667	28,208	(26.7)
Personnel expense	(261,142)	(262,565)	(0.5)
Total operating expense	**(3,698,236)**	**(2,928,533)**	**26.3**
Gross Operating Profit (EBITDA)	**629,605**	**592,066**	**6.3**
Amortisation, depreciation, provisions and impairment losses			
Amortisation/depreciation	(205,495)	(209,293)	(1.8)
Provisions and impairment losses	(83,179)	(74,140)	12.2
- of which provisions relating to non-recurring transactions	*(7,631)*	-	*(*)*
Total amortisation, depreciation, provisions and impairment losses	**(288,674)**	**(283,433)**	**1.8**
Operating profit (EBIT)	**340,931**	**308,633**	**10.5**
Financial income and expense			
Financial income	26,533	23,783	11.6
Financial expense	(129,610)	(93,704)	38.3
Net financial expense	**(103,077)**	**(69,921)**	**47.4**
Share of profit of associates accounted for using the equity method	9,673	(3,806)	(*)
Impairment losses on investments	(105)	(224,308)	(100.0)
- of which non-recurring	-	*(217,466)*	*(100.0)*
Profit before tax	**247,422**	**10,598**	**(*)**
Income tax expense	(85,251)	(113,013)	(24.6)
Profit/(loss) for the year from continuing operations	**162,171**	**(102,415)**	**(*)**
Profit/(loss) from discontinued operations	-	-	*(*)*
Net profit (loss) for the year	**162,171**	**(102,415)**	**(*)**
attributable to:			
- Profit (loss) - Group	152,559	(110,970)	(*)
- Profit (loss) - non-controlling interests	9,612	8,555	12.4

(*) Change of more than 100%

The figures for 2011, shown for comparison purposes, were restated due to the early adoption of the revised version of IAS 19 *Employee benefits*.

Revenue

In 2012, the Iren Group achieved revenue of Euro 4,327.8 million, up by 22.9% compared to the Euro 3,520.6 million in 2011. The increase in revenue is attributable to both higher quantities sold in the energy sectors, due to greater availability of electrical and heat energy (Torino Nord plant became operational), to the development of the customer portfolio and of trading activities in the electrical energy sector, and to an increase in the prices of energy commodities.



Gross Operating Profit

Gross operating profit (EBITDA) amounted to Euro 629.6 million, up by 6.3% compared to the Euro 592.1 million of 2011.

All business sectors contributed to the increase in GOP, with the sole exception of waste management, which reported a slight decrease in margins compared to the same period in 2011.

In particular, the electrical energy production and District Heating sector, with higher volumes of electrical energy and heat produced and the positive contribution of the reimbursement of stranded costs regarding the Telessio hydroelectric plant and the positive result of the development of the district heating networks, absorbed the negative trend caused by the persisting production overcapacity, which led to a reduction in unit margins on the electrical energy production using thermoelectric power.

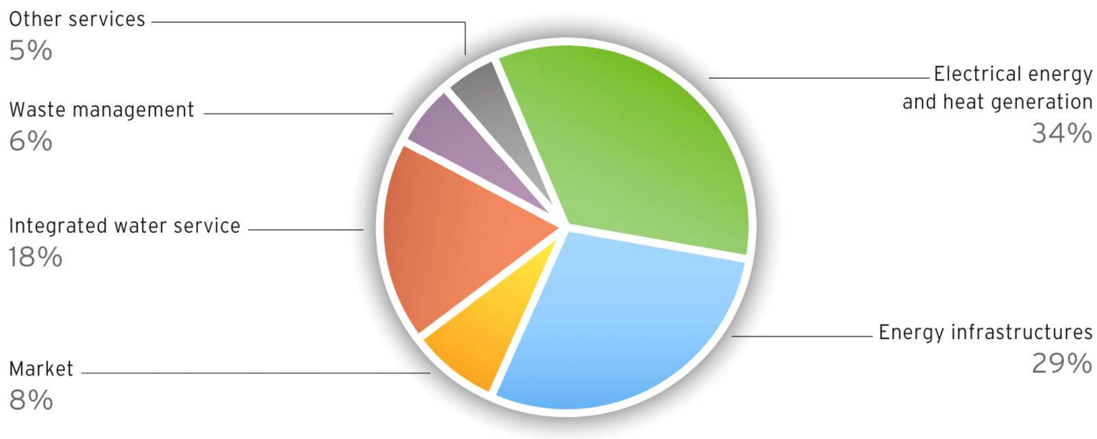
The Market sector recorded a total margin in line with 2011, thanks to the strong performance of Gas sales attributable to the combined effect of procurement and trading activities and the management of stored gas, in an essentially stable context in terms of volumes sold to end customers, and this made it possible to absorb the decrease in electrical energy sales characterised by expenses deriving from the management of the tolling contract on Edipower plants (of which Euro 20 million as an additional charge deriving from the assessment, up until expiry in 2013, of Edipower tolling as an “onerous contract”).

The Energy infrastructures sector also recorded a positive result, despite diverse trends registered by Gas networks distribution, which has improved considerably, and electrical energy distribution, down when compared to 2011.

The Integrated water cycle sector also registered slight growth, due to the positive effect of the increase in tariffs, partially offset by higher electrical energy and plant maintenance costs.

The Waste Management sector recorded a decrease, as the extraordinary recovery on waste management tariffs was no longer applicable, which had characterised 2011.

Breakdown of EBITDA



Operating profit

Operating profit (EBIT) totalled Euro 340.9 million, a 10.5% increase compared to Euro 308.6 million in 2011 (up Euro 32.3 million). The positive contribution of gross operating profit was partially absorbed by the significant increase in allocations to the allowance for impairment (up Euro 20.5 million over 2011), compared to a reduction in amortisation/depreciation and allocations to the provisions for risks.

Financial income and expense

Net financial expense totalled a negative Euro 103 million. In particular, financial expense amounted to Euro 130 million. The increase over 2011 is due mainly to the rise the average cost of borrowing and increase in average financial debt in 2012, when compared to 2011. Financial income amounted to Euro 27 million (+11.6%).

The results of associates accounted for using the equity method was positive by around Euro 10 million, up compared to the same period in 2011, mainly due to the positive results of Edipower and the other investees Plurigas, ASA and Delmi. In 2012, the negative impact of Sinergie Italiane came to Euro 10 million, while in 2011 the impairment was roughly Euro 26 million.

Profit before tax

As a result of the trends indicated above, the consolidated profit before tax reached Euro 247 million, a considerable increase compared to Euro 11 million in 2011, which had been adversely impacted by the impairment loss on the investments in Delmi, Edipower and Sinergie Italiane.

Income tax expense

Income taxes for 2012 amounted to Euro 85 million, down by 24.6% compared to 2011.

In 2012, the adjusted tax rate stood at 43.83% and mainly excludes the capital gains generated by the conferment of certain properties to the Fondo Core MultiUtilities real estate fund, the transfer of investments and sale of the property on Via Bertola in Turin, as well as IRES (corporate income tax) for which a refund was requested due to the deduction of IRAP (regional business tax) on personnel costs pursuant to art. 2, par. 1 quater of Law Decree 201/2011 (equal to approximately Euro 13.6 million). The tax rate also decreased due to a lower incidence of the IRES surcharge due to a change in the scope of application.

Net profit (loss) for the year

A profit of Euro 162 million was recorded in the year, compared to loss of Euro 102 million in 2011, largely due to the impairment losses of the investees Delmi, Edipower and Sinergie Italiane.

Segment reporting

The Iren Group operates in the following business segments:

- Electrical Energy Production and District Heating(Hydroelectric energy, cogeneration of electrical energy and heat, district heating networks and production from renewable sources);
- Market (Sale of electrical energy, gas, heat);
- Energy Infrastructures (electrical energy distribution networks, gas distribution networks, LNG regasification plants);
- Integrated Water Service (sale and distribution of water, water treatment and sewerage);
- Waste Management (Waste collection and disposal);
- Other services (Telecommunications, Public Lighting, Global Services and other minor services).

These operating segments are disclosed pursuant to IFRS 8. Under this Standard, the disclosure about operating segments should be based on the elements which the executive committee and management use in taking operational and strategic decisions.
For a proper interpretation of the income statements relating to individual businesses presented and commented on below, revenue and expense referring to joint activities were fully allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers.
Given the fact that the Group mainly operates in the North-West area, the following segment information does not include a breakdown by geographical area.
Net invested capital and income statements (up to the operating performance) are presented below by segment and include a comparison with 2011 figures.
With regard to non-current assets the Group's investments are represented in the column "Non-allocable". Furthermore, with a view to restructuring and developing the district heating business, the decision was taken to also include activities relating to the management of the heat energy distribution network in the Generation sector which, therefore, from 2012, assumed the name Generation and District heating; in order to allow a homogeneous comparison, the 2011 figures were also reclassified.

Segment results at 31 December 2012

millions of euro

	Generation	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,621	51	1,287	950	296	36	494	4,735
Net working capital	161	48	(20)	106	(25)	(43)	8	235
Other non-current assets and liabilities	(77)	3	(55)	(264)	(46)	(11)	(12)	(461)
Net invested capital (NIC)	**1,705**	**102**	**1,212**	**792**	**225**	**(17)**	**490**	**4,509**
Equity								1,954
Net financial position								2,555
Own funds and net financial indebtedness								**4,509**

Segment results at 31 December 2011 - Restated

millions of euro

	Generation	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,658	45	1,258	952	265	69	406	4,653
Net working capital	120	142	(37)	72	5	(28)	13	288
Other non-current assets and liabilities	(80)	(8)	(61)	(246)	(40)	8	(15)	(443)
Net invested capital (NIC)	**1,698**	**179**	**1,160**	**778**	**230**	**49**	**404**	**4,497**
Equity								1,845
Net financial position								2,653
Own funds and net financial indebtedness								**4,497**

Segment results at 31 December 2012

millions of euro

	Generation	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	983	4,052	385	432	211	131	(1,867)	4,328
Total operating expense	(773)	(3,999)	(205)	(316)	(172)	(99)	1,867	(3,698)
Gross Operating Profit (EBITDA)	**210**	**52**	**180**	**116**	**39**	**32**	**-**	**630**
Net am./depr., provisions and impairment losses	(82)	(39)	(54)	(76)	(23)	(15)	-	(289)
Operating profit (EBIT)	**129**	**14**	**126**	**40**	**16**	**17**	**-**	**341**

Segment results at 31 December 2011 - Restated

millions of euro

	Generation	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	840	3,072	382	438	217	112	(1,542)	3,521
Total operating expense	(643)	(3,020)	(211)	(326)	(175)	(96)	1,542	(2,929)
Gross Operating Profit (EBITDA)	**197**	**53**	**171**	**113**	**42**	**16**	**-**	**592**
Net am./depr., provisions and impairment losses	(105)	(18)	(51)	(77)	(27)	(7)	-	(283)
Operating profit (EBIT)	**93**	**35**	**120**	**36**	**15**	**10**	**-**	**309**

Below are the main income statement items with relative comments broken down by operating segment.

Electrical Energy Production and District Heating

At 31 December 2012 revenue for the segment amounted to Euro 983.0 million, up 17.0% compared to Euro 839.9 million in 2011.

		2012	2011 Restated	Δ %
Revenue	€/mln.	983.0	839.9	17.0%
Gross Operating Profit (EBITDA)	€/mln.	210.3	197.3	6.6%
Ebitda Margin		*21.4%*	*23.5%*	
Operating profit (EBIT)	€/mln.	128.6	92.7	38.7%
Investments	€/mln.	68.9	197.8	-65.1%
Electrical energy produced	GWh	6,338.9	6,012.4	5.4%
from hydroelectric sources	*GWh*	1,075.3	978.0	10.0%
from thermoelectric sources	*GWh*	5,247.8	5,023.8	4.5%
from renewable sources	*GWh*	15.8	10.6	49.3%
Heat produced	GWh_t	2,931.5	2,571.7	14.0%
from cogeneration sources	GWh_t	2,232.1	2,001.9	11.5%
from non-cogeneration sources	GWh_t	699.4	569.8	22.7%
District heating volumes	Mln m^3	76.5	72.5	5.5%

Electrical energy production in the period totalled 6,338.9 GWh, up 5.4% on the 6,012.4 GWh in 2011, due to the effect of higher hydroelectric production (+10.0%) and higher cogeneration production (+4.5%).
Specifically, hydroelectric production was around 1,075.3 GWh, up 10.0% compared to 978 GWh in 2011, due to the higher production of the Pont Ventoux plants and the entry into operation, post-repowering activities, of the Rosone and Telessio plants. This performance bucks the trend in national figures for production from hydroelectric sources, which saw a decrease of 8.2% compared to 2011.
Thermoelectric production totalled 5,247.8 GWh, up 4.5% on the 5,023.8 GWh recorded in 2011, as a result of the contribution from the new Torino Nord plant, which became operational in October 2011. This growth bucks the trend in national figures for production from thermoelectric sources, which saw a decrease of 6.3% compared to 2011.

Heat production totalled 2,931.5 GWh_t an increase of 14% compared to 2,571.7 GWh_t in 2011, due to higher consumption linked to weather conditions (lower average temperatures), and to significant growth in volumes served, up around 4 million m^3 (+3.5 million m^3 in the Turin area and +0.5 million m^3 in the Emilia area). Volumes of district heating exceeded 76 million m^3, of which 54.2 million in Turin, 3.4 million in Genoa and 18.9 million in the Emilia area.

Gross operating profit (EBITDA) amounted to Euro 210.3 million, up by 6.6% compared to Euro 197.3 million in 2011.
The higher GOP is attributable to greater volumes of both electrical energy and heat produced and the positive impact of the reimbursement of “stranded costs” regarding the Telessio hydroelectric plant, partially offset by less green certificates, by a reduction in profitability on the electrical energy production and by higher costs connected to plant maintenance.

Operating profit totalled Euro 128.6 million, a 38.7% increase on the 2011 figure of Euro 92.7 million. The improvement is attributable to both the increase recorded in gross operating profit and less amortisation/depreciation on transferable assets relating to hydroelectric concessions (up Euro 14 million).
Investments carried out relating to the Cogeneration and District Heating sector amounted to Euro 58.2 million, of which around Euro 34.3 million relating to Cogeneration and Euro 23.8 million relating to development of the district heating networks.
Investments carried out in the hydroelectric sector came to approximately Euro 10.3 million, while investments in the renewable energy sector totalled Euro 0.5 million.

Market
The turnover in the Market segment amounted to Euro 4,051.9 million, up by 31.9% compared to Euro 3,072.4 million in the previous year. The gross operating profit (EBITDA), equal Euro 52.4 million, was essentially unchanged compared to 2011.

		2012	2011	Δ %
Revenue	€/mln.	4,051.9	3,072.4	31.9%
Gross Operating Profit (EBITDA)	€/mln.	52.4	52.5	-0.2%
Ebitda Margin		*1.3%*	*1.7%*	
from electrical energy	*€/mln.*	-27.7	-4.4	(*)
from gas	*€/mln.*	74.4	48.9	52.2%
from heat	*€/mln.*	5.7	8.1	-29.5%
Operating profit (EBIT)	€/mln.	13.8	35.0	-60.6%
Investments		8.1	5.4	50.3%
Electrical energy sold	GWh	17,052.6	13,816.0	23.4%
Electrical energy sold net of Power Exchange purchases/sales	GWh	14,302.9	10,713.0	33.5%
Gas purchased	Mln m³	3,168.9	3,108.0	2.0%
Gas sold by the Group	Mln m³	1,718.9	1,709.7	0.5%
Gas for internal use	Mln m³	1,404.8	1,325.4	6.0%
Gas storage	Mln m³	45.2	72.8	-38.0%

(*) Change of more than 100%

Sale of electrical energy
Volumes sold net of energy bought/sold on the power exchange amounted to 14,302.9 Gwh (gross electrical energy totalled 17,052.6 Gwh), marking an increase of 33.5% compared to 10,713 Gwh in 2011.
Volumes sold to end customers and wholesalers amount to 11,145 GWh (7,953 GWh in 2011), up 40.1% (+3,192 GWh), while the volumes used on the power exchange net of energy traded on the power exchange amounted to 2,159 GWh (1,706 GWh in 2011).
Regarding the number of protected customers managed, the total volumes sold in 2012 amounted to 998 GWh, a slight decrease on the previous year (1,054 GWh), due to deregulation of the market to which the company responded with marketing development initiatives that led to transfer of a significant percentage of non-eligible market customers to the free market.

In 2012, the availability of electrical energy from internal Iren Group production (Iren Energia) increased by approximately 5.4% over the previous year, amounting to 6,308 GWh (5,986 GWh in 2011). Volumes from Edipower tolling agreements amounted to 1,321 GWh, versus the 1,309 GWh in the previous year.

Net power exchange transactions totalled 2,139 Gwh (electrical energy gross of purchases/sales totalled 4,174 GWh), compared to 1,543 GWh in 2011, while purchases from wholesalers came to 4,132 GWh, compared to 1,357 GWh in 2011, around 2,000 GWh supplied by ERG. In addition, 1,051 GWh was purchased from the Acquirente Unico (Single Buyer).
The gross operating profit from sales of electrical energy amounted to Euro -27.7 million, down by Euro -23.3 million compared to the previous year (Euro -4.4 million in 2011). This decrease is due mainly to the negative operating result of the tolling agreements relating to Edipower plants. In particular, it should be pointed out that said tolling agreement was assessed, for the purposes of IAS 37, and up until expiry in 2013, as an “onerous contract” , with the allocation of an extraordinary expense in 2012.

Sale of natural gas
Total volumes of natural gas procured in 2012 amounted to 3,168.9 million m^3 (around 3,108 million m^3 in the same period of 2011), of which 1,718.9 million m^3 were marketed to customers outside the Group (1,714 million m^3 in the previous year), 191 million m^3 were used in the electrical energy production through Edipower tolling contracts (189 million m^3 in 2011) and 1,214 million m^3 were used within the Iren Group for both the generation of electrical energy and the supply of heat services (1,136 million m^3 in 2011). The inventories of gas in storage amount to 45 million m^3 (73 million m^3 in 2011).
The higher volumes sold compared to 2011 (+60.9 million m^3) are mainly attributable to the increase in trading and the increase in volumes for use in thermoelectric production (the operational start-up of the Torino Nord plant). Volumes destined for the retail market were essentially in line with the volumes in 2011.
The gross operating profit, amounting to Euro 74.4 million, increased compared to the Euro 48.9 million in 2011, mainly due to the effects of the favourable procurement terms associated with the use of gas in storage and to the optimisation of trading.

Market development
During 2012, the activities relating to customer loyalty schemes in areas traditionally managed and development initiatives in the Group’s reference areas were further enhanced compared to previous periods.
2012 again saw a strong increase in competitors’ activities, who further intensified their promotion initiatives in areas traditionally managed by the Group. In order to respond adequately to the market, the promotion channels were reinforced (agencies and telesales operators), as was the range of products offered, by defining targeted proposals for the various customer segments.
At 31 December 2012, the gas customers directly managed by Iren Mercato totalled around 756,000 (+1.6%) in the Genoa, Turin and Emilia Romagna areas. Electrical energy customers managed numbered more than 734,000 (+6.3%), these too distributed mainly in the area traditionally served, i.e. Turin and Parma.

Sale of heat through the district heating networks
The gross operating profit for 2012 amounted to Euro 5.7 million, compared to Euro 8.1 million in the previous year, a decrease of Euro 2.4 million (-29.5%).

In 2012, the district heating volumes in the Piedmont area amounted to around 54 million m^3, corresponding to over 450,000 residents, i.e. 40% of Turin’s inhabitants, whilst in the Emilia area the district heating volumes amounted to around 18.9 million m^3 and roughly 3.4 million m^3 in the Genoa area.

Energy infrastructures
As of 31 December 2012, the Energy Infrastructure segment, including distribution of gas, electrical energy and LNG regasification plants, recorded revenues of Euro 385.2 million, essentially in line with the Euro 382.5 million registered in 2011.
Gross operating profit (EBITDA) amounted to Euro 179.8 million, up by 4.9% compared to Euro 171.3 million in 2011.

Operating profit (EBIT) amounted to Euro 126.2 million, up by 4.8% compared to Euro 120.4 million in 2011. The main trends in the segments concerned are illustrated below.

		2012	2011 Restated	Δ %
Revenue	€/mln.	385.2	382.5	0.7%
Gross Operating Profit (EBITDA)	€/mln.	179.8	171.3	4.9%
Ebitda Margin		*46.7%*	*44.8%*	
from electrical energy networks	*€/mln.*	67.4	76.1	-11.5%
from gas networks	*€/mln.*	113.2	96.2	17.6%
from regasification plant	*€/mln.*	-0.8	-1.0	21.1%
Operating profit (EBIT)	€/mln.	126.2	120.4	4.8%
Investments	€/mln.	102.2	100.2	2.1%
in electrical energy networks	*€/mln.*	15.3	24.0	-36.3%
in gas networks	*€/mln.*	42.2	55.0	-23.2%
in regasification plant	*€/mln.*	44.7	21.2	(*)
Electrical energy distributed	GWh	4,241.0	4,263.4	-0.5%
Gas distributed	Mln m³	1,928.8	1,949.0	-1.0%

(*) Change of more than 100%

Electrical energy distribution networks
Gross operating profit (Ebitda) amounted to Euro 67.4 million, down by 11.5% compared to Euro 76.1 million in 2011.
The decrease in the GOP of more than Euro 8 million compared to 2011 is attributable to the negative equalisation balance of previous years (2007-2009) and to the redefinition of distribution tariffs based on the revisions envisaged by AEEG for the 2012-2015 regulatory period.

In 2012, investments for around Euro 15.3 million were made, mainly related to new connections, the construction of new MV/LV substations and HV/MV stations.

Gas Distribution Networks
The gross operating profit from Gas Network distribution amounted to Euro 113.2 million, up Euro 17 million compared to Euro 96.2 million in 2011 (+17.6%). The increase recorded is due to the operating gain from the transfer of the subsidiary GEA for around Euro 11 million, the increase in carriage revenues in the Genoa and Turin areas and lower operating costs.

Technical investments made in the segment amounted to approximately Euro 42.2 million and concern the provisions of the AEEG resolutions; in particular, the 10-year network redevelopment plan through the replacement of grey cast iron pipes and the development initiatives for the distribution network (remote meter reading) and connections in the main areas served by the Group.

Regasification plant
Investments during the period amounted to approximately Euro 44.7 million.
The current works schedule envisages that the Terminal will finish the testing phase and begin operations by September 2013.

Integrated water service

As at 31 December 2012, the Integrated Water Service recorded revenue of Euro 431.8 million, down 1.5% on the Euro 438.4 million of 2011.
The tariff increases resolved by the ATOs in the geographical areas served generated revenue increases of around Euro 12 million, partly offset by lower consumption (-0.9%).
Lower capitalised costs were also recorded as a result of fewer investments in assets under concession which, due to application of IFRIC 12, were recorded under revenue (Euro -16.7 million).

		2012	2011	Δ %
Revenue	€/mln.	431.8	438.4	-1.5%
Gross Operating Profit (EBITDA)	€/mln.	115.7	112.6	2.8%
Ebitda Margin		*26.8%*	*25.7%*	
Operating profit (EBIT)	€/mln.	39.6	36.0	9.9%
Investments	€/mln.	74.4	94.7	-21.4%
Water sold	Mln m³	179.0	180.5	-0.9%

Gross operating profit (EBITDA) amounted to Euro 115.7 million, up by 2.8% compared to Euro 112.6 million in 2011. The tariff increases resolved were partially offset by the reduction in quantities sold, the rise in operating costs for network maintenance and, in particular, the electrical energy used in aqueduct and purification management systems. Lower revenue was also recorded for the connections.
Operating profit (EBIT) totalled Euro 39.6 million, a 9.9% increase compared to Euro 36 million in 2011. The increase in amortisation/depreciation in the year, partly due to a review of rates in line with those set by AEEG, absorbed the positive effect of lower allocations to the provision for risks of around Euro 7 million in 2011.

Technical investments in the segment in the year amounted to Euro 74.4 million, a decrease compared to Euro 94.7 million in 2011. These investments concern the construction of infrastructures envisaged in the ATO plans for maintenance and development of the distribution networks and systems, the sewerage network and water treatment plants.

Waste Management

At 31 December 2012 revenue for the segment amounted to Euro 211.2 million, down 2.7% compared to Euro 217.0 million in 2011. The reduction in revenues is due mainly to the change in the scope of consolidation relating to the transfer of the subsidiary and lower revenues on the waste management tariff. The tariff increases resolved for 2012 do not determine an increase in total revenues given that, in 2011, a previous non-recurring tariff recovery had been realised for around Euro 3 million. The fall in revenues also concerns special waste treatment activities, the sale of materials from the recovery of separate waste collection and electrical energy.

			2012	2011	Δ %
Revenue		€/mln.	211.2	217.0	-2.7%
Gross Operating Profit (EBITDA)		€/mln.	38.9	41.8	-6.9%
Ebitda Margin			*18.4%*	*19.3%*	
Operating profit (EBIT)		€/mln.	15.8	14.7	7.5%
Investments		€/mln.	60.9	70.4	-13.5%
Waste handled		ton	954,450	1,017,312	-6.2%
	Urban waste	ton	728,225	767,896	-5.2%
	Special waste	ton	226,225	249,416	-9.3%

Gross operating profit (EBITDA) amounted to Euro 38.9 million, down by 6.9% compared to the Euro 41.8 million of 2011. The decrease in GOP is a consequence of the reduction in revenues and, in particular, revenues deriving from the sale of recovered materials, electrical energy and green certificates, plus lower tariff revenues due mainly to the loss of one-off tariff recoveries achieved in 2011.

Operating profit (EBIT) totalled Euro 15.8 million, a 7.5% increase on the 2011 figure of Euro 14.7 million. This improvement is primarily due to a lower incidence of provisions and to the release of certain provisions concerning the post-closure management of landfills.

Investments for the period amounted to Euro 60.9 million and mainly relate to construction of the Parma Integrated Environmental Hub and, secondarily, to extraordinary maintenance on the disposal plants and to collection service equipment and transport.

Services

		2012	2011	Δ %
Revenue	€/mln.	131.4	112.1	17.2%
Gross Operating Profit (EBITDA)	€/mln.	32.5	16.4	98.2%
Ebitda Margin		*24.7%*	*14.6%*	
Operating profit (EBIT)	€/mln.	17.1	9.8	74.5%
Investments	€/mln.	25.2	24.8	1.6%

Revenue totalled Euro 131.4 million, up by +17.2% compared to the Euro 112.1 million in 2011.
The gross operating profit (EBITDA) amounted to Euro 32.5 million, up on the Euro 16.4 million recorded in the corresponding period of 2011.
The increase in GOP is attributable to the capital gains connected with extraordinary transactions involving the sale of the Turin headquarters in Via Bertola and the transfer of other company offices to the Fondo Core MultiUtilities, partially offset by lower margins for service contracts for the management of public lighting systems, buildings and other items.

Statement of Financial Position

RECLASSIFIED STATEMENT OF FINANCIAL POSITION FOR THE IREN GROUP AS AT 31 DECEMBER 2012 (1)

thousands of euro

	31.12.2012	31.12.2011	% change
Non-current assets	4,734,916	4,652,774	1.8
Other non-current assets (liabilities)	(116,258)	(118,297)	(1.7)
Net working capital	235,106	287,974	(18.4)
Deferred tax assets (liabilities)	105,197	60,412	74.1
Provisions for risks and employee benefits	(457,291)	(416,909)	9.7
Assets (Liabilities) held for sale	7,718	31,427	(75.4)
Net invested capital	**4,509,388**	**4,497,381**	**0.3**
Equity	1,954,257	1,844,706	5.9
Non-current financial assets	*(116,168)*	*(132,299)*	*(12.2)*
Non-current financial indebtedness	*2,197,827*	*2,051,413*	*7.1*
Non-current financial indebtedness	2,081,659	1,919,114	8.5
Current financial assets	*(301,591)*	*(421,993)*	*(28.5)*
Current financial indebtedness	*775,063*	*1,155,554*	*(32.9)*
Net current financial indebtedness	473,472	733,561	(35.5)
Net financial indebtedness	2,555,131	2,652,675	(3.7)
Own funds and net financial indebtedness	**4,509,388**	**4,497,381**	**0.3**

(1) For a reconciliation of the reclassified statement of financial position with that of the financial statements, please refer to the attachment to the consolidated financial statements (paragraph XI).

The main changes in the statement of financial position at 31 December 2012 are commented below.

Fixed assets increased slightly compared to 31 December 2011, given the progress of investments made in the year was slightly higher than amortisation/depreciation for the period and disposals. For further details on investments in the year, reference should be made to the section “Segment Reporting”.

The decrease in net working capital was affected by the changes in trade receivables and payables and in tax items.

The higher deferred taxes are essentially due to increases in the allowance for impairment and provisions for risks.

The decrease in assets held for sale was affected by the deconsolidation of associate Gesam Gas due to the completion of disposal of associated shares and the reclassification of subsidiary GPO under continuing operations.

The increase in Equity derives mainly from profit for the period.

The statement of cash flows presented below provides an analytical breakdown of the changes in 2012.

Cash Flows Statement

CASH FLOWS STATEMENT FOR THE IREN GROUP

thousands of euro

	2012	2011 Restated	% change
A. Opening cash and cash equivalents	**44,758**	**144,112**	**(68.9)**
Cash flow from operating activities			
Profit/(loss) for the year	162,171	(102,415)	(*)
Adjustments:			
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	205,495	209,293	(1.8)
Capital gains (losses) and other equity changes	(33,073)	(11,975)	(*)
Net change in post-employment benefits and other employee benefits	818	(4,399)	(*)
Net change in provision for risks and other charges	33,538	40,348	(16.9)
Change in deferred tax assets and liabilities	(30,683)	(30,073)	2.0
Change in other non-current assets/liabilities	1,392	(623)	(*)
Dividends received	(656)	(558)	17.6
Share of profit (loss) of associates	(9,673)	3,806	(*)
Impairment losses on non-current assets and investments	(1,784)	230,553	(*)
B. Cash flows from operating activities before variations in NWC	**327,545**	**333,957**	**(1.9)**
Change in inventories	(21,321)	(22,704)	(6.1)
Change in trade receivables	(18,269)	(124,495)	(85.3)
Change in tax assets and other current assets	(3,540)	(59,029)	(94.0)
Change in trade payables	98,154	84,338	16.4
Change in tax liabilities and other current liabilities	(3,998)	(29,044)	(86.2)
C. Cash flows from changes in NWC	**51,026**	**(150,934)**	**(*)**
D. Cash flows from operating activities (B+C)	**378,571**	**183,023**	**(*)**
Cash flows from investing activities			
Investments in intangible assets, property, plant and equipment and investment property	(339,749)	(493,254)	(31.1)
Investments in financial assets	(60,285)	(46)	(*)
Proceeds from the sale of investments and changes in assets held for sale	157,775	38,369	(*)
Dividends received	9,417	11,137	(15.4)
Other changes in financial assets	131	-	(*)
E. Total cash flows used in investing activities	**(232,711)**	**(443,794)**	**(47.6)**
F. Free cash flow (D+E)	**145,860**	**(260,771)**	**(*)**
Cash flows from financing activities			
Dividends paid	(22,282)	(121,297)	(81.6)
Other changes in equity	-	1,042	(100.0)
New non-current loans	440,250	655,758	(32.9)
Repayment of non-current loans	(503,133)	(109,518)	(*)
Change in financial assets	118,438	(43,927)	(*)
Change in financial liabilities	(195,850)	(220,641)	(11.2)
G. Total cash flows from financing activities	**(162,577)**	**161,417**	**(*)**
H. Cash flows for the year (F+G)	**(16,717)**	**(99,354)**	**(83.2)**
I. Closing cash and cash equivalents (A+H)	**28,041**	**44,758**	**(37.3)**

(*) Change of more than 100%

The figures for 2011, shown for comparison purposes, were restated due to the early adoption of the revised version of IAS 19 *Employee benefits*.

The following table shows the change in the Group's consolidated net financial indebtedness for the relevant years.

thousands of euro

	2012	2011 Restated	% change
Free cash flow	145,860	(260,771)	(*)
Dividends paid	(22,282)	(121,297)	(81.6)
Other changes in equity	-	1,042	(100.0)
Variation in fair value of hedging derivatives	(26,488)	(11,499)	(*)
Financial assets (liabilities) held for sale	454	-	(*)
Change in net financial indebtedness	**97,544**	**(392,525)**	**(*)**

(*) Change of more than 100%

The figures for 2011, shown for comparison purposes, were restated due to the early adoption of the revised version of IAS 19 *Employee benefits*.

Net financial indebtedness at 31 December 2012 amounted to Euro 2,555 million, down by Euro 98 million compared to 31 December 2011.
In particular, the free cash flow, a positive Euro 146 million, derives from the combined effect of the following cash flows:
- cash flows from operating activities were positive by Euro 379 million and include Euro 328 million in cash flows from operating activities before changes in net working capital and Euro 51 million in cash flows deriving from changes in net working capital;
- cash flows used in investing activities, amounting to Euro 233 million, were generated from investments in property, plant, equipment, investment property and intangible assets of Euro 340 million (including investments for the construction of infrastructures under concession pursuant to IFRIC 12), investments in financial assets for Euro 60 million, proceeds from the disposal of operating assets for Euro 158 million euro and from the collection of Euro 9 million in dividends.

FINANCIAL POSITION, RESULTS OF OPERATIONS AND CASH FLOWS OF IREN S.p.A.

Income Statement

INCOME STATEMENT OF IREN S.p.A.

thousands of euro

	2012	2011 Restated	% change
Revenue			
Revenue from goods and services	13,320	13,250	0.5
Other revenue and income	18,542	2,403	(*)
Total revenue	**31,862**	**15,653**	**(*)**
Operating expense			
Raw materials, consumables, supplies and goods	(12)	(17)	(29.4)
Services and use of third-party assets	(16,870)	(15,602)	8.1
Other operating expense	(5,368)	(2,931)	83.1
Capitalised expenses for internal work	166	-	-
Personnel expense	(19,905)	(19,728)	0.9
Total operating expense	**(41,989)**	**(38,278)**	**9.7**
Gross Operating Profit (EBITDA)	**(10,127)**	**(22,625)**	**(55.2)**
Amortisation, depreciation, provisions and impairment losses			
Amortisation/depreciation	(114)	(545)	(79.1)
Provisions and impairment losses	(3,772)	(342)	(*)
Total amortisation, depreciation, provisions and impairment losses	**(3,886)**	**(887)**	**(*)**
Operating profit (EBIT)	**(14,013)**	**(23,512)**	**(40.4)**
Financial income and expense			
Financial income	180,649	183,938	(1.8)
Financial expense	(110,273)	(96,614)	14.1
Net financial expense	**70,376**	**87,324**	**(19.4)**
Impairment losses on investments	-	(136,126)	(100.0)
- of which non-recurring	*-*	*(136,126)*	*(100.0)*
Profit before tax	**56,363**	**(72,314)**	**(*)**
Income tax expense	13,948	15,021	(7.1)
Profit/(loss) for the year from continuing operations	**70,311**	**(57,293)**	**(*)**
Profit/(loss) from discontinued operations	-	-	-
Net profit (loss) for the year	**70,311**	**(57,293)**	**(*)**

(*) Change of more than 100%

The figures for 2011, shown for comparison purposes, were restated due to the early adoption of the revised version of IAS 19 *Employee benefits*.

Revenue
Total revenue for Iren S.p.A. was Euro 32 million, primarily relating to the capital gain of approximately Euro 15 million generated by the sale of the headquarters building on Via Bertola 48 in Turin, and services provided to Group companies.

Operating expense
Operating expense amounted to Euro 42 million and includes services and use of third-party assets (Euro 17 million), other operating expense (Euro 5 million) and personnel expense (Euro 20 million).

Amortisation, depreciation and provisions
Amortisation, depreciation and provisions amounted to Euro 4 million.

Financial income and expense
The balance between financial income and expense was positive at Euro 70 million. Financial income, amounting to Euro 181 million, amongst other things includes dividends from subsidiaries and associates (roughly Euro 100 million) and interest income from subsidiaries (Euro 78 million). Income from investments includes the extraordinary distribution of a total of Euro 78 million by the first-level companies Iren Acqua Gas, Iren Energia and Iren Ambiente, drawn from distributable reserves. Financial expense totalled Euro 110 million.

Impairment losses on investments
At 31 December 2012, this item was nil. As a result of the impairment loss recognised on the investment in Delmi, the total recognised as at 31 December 2011 was Euro 136 million.

Profit before tax
Profit before tax is Euro 56 million.

Income tax expense
Income taxes were positive at Euro 14 million and consist mainly of income from consolidation. In fact, the company opted for participation in the national consolidation tax scheme pursuant to Art. 118 of the new Consolidated Income Tax Act (TUIR) and Iren S.p.A. therefore calculates IRES on the sum of taxable profits/losses of each company included in the consolidation area.
In return for the taxable income earned and transferred to the parent, the consolidated company commits to pay “tax settlements” to the parent equal to the amount of taxes owed on the income transferred, net of the IRES tax credits transferred.

Profit/(loss) for the year
Net of taxes for the year, the company recorded a profit of Euro 70 million.

Statement of Financial Position

RECLASSIFIED STATEMENT OF FINANCIAL POSITION OF IREN S.P.A. (1)

thousands of euro

	31.12.2012	31.12.2011	% change
Non-current assets	2,412,370	2,383,709	1.2
Other non-current assets (liabilities)	1,826	368	(*)
Net working capital	5,967	12,983	(54.0)
Deferred tax assets (liabilities)	24,803	22,942	8.1
Provisions for risks and employee benefits	(30,261)	(29,348)	3.1
Net invested capital	**2,414,705**	**2,390,654**	**1.0**
Equity	1,504,872	1,463,488	2.8
Non-current financial assets	*(1,453,795)*	*(984,121)*	*47.7*
Non-current financial indebtedness	*2,076,087*	*1,855,587*	*11.9*
Non-current financial indebtedness	622,291	871,466	(28.6)
Current financial assets	*(278,988)*	*(996,033)*	*(72.0)*
Current financial indebtedness	*566,530*	*1,051,733*	*(46.1)*
Net current financial indebtedness	287,542	55,700	(*)
Net financial indebtedness	909,833	927,166	(1.9)
Own funds and net financial indebtedness	**2,414,705**	**2,390,654**	**1.0**

(*) Change of more than 100%

(1) For a reconciliation of the reclassified statement of financial position with that of the financial statements, please refer to the attachment to the separate financial statements (paragraph X).

Non-current assets

Intangible assets, property, plant and equipment, investment property and financial assets totalled Euro 2,412 million.

Net working capital

Net working capital was positive by Euro 6 million. Deferred tax assets totalled Euro 25 million, whereas provisions for risks amounted to Euro 30 million.

Equity

2012 closed with equity of Euro 1,505 million.

Net financial indebtedness

At the end of 2012 net financial indebtedness amounted to Euro 910 million. Specifically, non-current indebtedness, equal to Euro 622 million, includes non-current financial liabilities of euro 2,076 million and non-current financial assets of Euro 1,454 million. The latter mainly refer to loans to subsidiaries. Current financial indebtedness totalled Euro 288 million and comprises current payables due mainly to banks for Euro 567 million, current financial receivables largely from Group companies for Euro 274 million and cash and cash equivalents amounting to Euro 5 million.

Cash Flows Statement

CASH FLOWS STATEMENT OF IREN S.P.A.

thousands of euro

	2012	2011 Restated	% change
A. Opening cash and cash equivalents including cash pooling balance	**457,742**	**405,178**	**13.0**
Cash flow from operating activities			
Profit/(loss) for the year	70,311	(57,294)	(*)
Adjustments:			
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	114	545	(79.1)
Capital gains (losses) and other equity changes	(14,780)	-	(*)
Net change in post-employment benefits and other employee benefits	(434)	(99)	(*)
Net change in provision for risks and other charges	(220)	698	(*)
Change in deferred tax assets and liabilities	3,962	(1,404)	(*)
Change in other non-current assets/liabilities	(1,458)	46	(*)
Dividends received	(93,194)	(157,003)	(40.6)
Impairment losses on non-current assets and investments	(2,458)	136,126	(*)
B. Cash flows from operating activities before variations in NWC	**(38,157)**	**(78,385)**	**(51.3)**
Change in trade receivables	4,808	(6,723)	(*)
Change in tax assets and other current assets	1,563	8,558	(81.7)
Change in trade payables	4,358	(16,625)	(*)
Change in tax liabilities and other current liabilities	(3,713)	(9,495)	(60.9)
C. Cash flows from changes in NWC	**7,016**	**(24,285)**	**(*)**
D. Cash flows from/(used in) operating activities (B+C)	**(31,141)**	**(102,670)**	**(69.7)**
Cash flows from investing activities			
Investments in intangible assets, property, plant and equipment and investment property	(324)	(155)	(*)
Investments in financial assets	(31,214)	(67,137)	(53.5)
Sale of investments	20,000	-	(*)
Dividends received	93,194	157,003	(40.6)
E. Total cash flows from investing activities	**81,656**	**89,711**	**(9.0)**
F. Free cash flow (D+E)	**50,515**	**(12,959)**	**(*)**
Cash flows from financing activities			
Dividends paid	(16,591)	(108,479)	(84.7)
New non-current loans	402,000	525,000	(23.4)
Repayment of non-current loans	(458,085)	(97,651)	(*)
Change in financial assets	(110,593)	(71,808)	54.0
Change in financial liabilities	(245,360)	(181,539)	35.2
G. Total cash flows from/(used in) financing activities	**(428,629)**	**65,523**	**(*)**
H. Cash flows for the year (F+G)	**(378,114)**	**52,564**	**(*)**
I. Closing cash and cash equivalents including cash pooling balance (A+H)	**79,628**	**457,742**	**(82.6)**
L. Cash-pooling balance with subsidiaries	**(74,998)**	**(440,336)**	**(83.0)**
M. Closing cash and cash equivalents (I + L)	**4,630**	**17,406**	**(73.4)**

(*) Change of more than 100%

The figures for 2011, shown for comparison purposes, were restated due to the early adoption of the revised version of IAS 19 *Employee benefits*.

The following table summarises the changes in net financial indebtedness of the parent, Iren S.p.A. for the years under review.

thousands of euro

	2012	2011 Restated	% change
Free cash flow	50,515	(12,959)	(*)
Dividends paid	(16,591)	(108,479)	(84.7)
Variation in fair value of hedging derivatives	(16,591)	(18,330)	(9.5)
Change in net financial indebtedness	**17,333**	**(139,768)**	**(*)**

(*) Change of more than 100%

The figures for 2011, shown for comparison purposes, were restated due to the early adoption of the revised version of IAS 19 *Employee benefits*.

The following table reconciles equity and the result of the parent Iren S.p.A. at 31 December 2012 with those of the consolidated financial statements.

thousands of euro

	Equity	Profit for the year
Equity and profit for the year of the Parent	**1,504,872**	**70,311**
Difference between the carrying amount and associates measured using the equity method	27,165	17,964
Higher value from consolidation compared to the carrying amount of consolidated equity investments	295,363	165,563
Elimination of dividends from subsidiaries/associates	-	(101,608)
Elimination of infragroup margins	(88,239)	6,107
Other	694	(5,778)
Group equity and profit for the year	**1,739,855**	**152,559**

"Elimination of infragroup margins" refers to the elimination of capital gains from the disposal of business units or companies within the Group. In particular, the transaction relating to the Genoa integrated water cycle carried out by the former AMGA (positive effect of Euro 4 million on the income statement and negative by Euro 65 million on equity).

EVENTS AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

EVENTS AFTER THE REPORTING PERIOD

Exercise of the put option for the exit from Edipower

Iren S.p.A.'s Board of Directors resolved, on 16 January 2013 to exercise the put option for the exit from Edipower, envisaged in the agreements, and to start the formal procedure according to the methods and timescales provided for by said agreements.

Change in membership of the Board of Directors of Iren S.p.A.

On 6 February 2013, Iren S.p.A.'s Board of Directors appointed Lorenzo Bagnacani as Director, Deputy Chairman and member of the Executive Committee, replacing Luigi Giuseppe Villani, who resigned on 19 January 2013, as a result of ongoing investigations which led to the application of restrictive measures against, among others, the former Chairman of Iren Emilia S.p.A., Angelo Buzzi. Iren S.p.A. is already the civil party in proceedings originating from the "Green Money" investigation, from the which the "Public Money" operation derived, in which circumstances emerged that confirmed the company's position as injured party. The company fully cooperated with the investigating bodies, as with the "Green Money" investigation, which led to the dismissal of two employees involved in the inquiry at the time. In expressing its full confidence in the actions of the Magistrature, Iren S.p.A. reasserted that it was completely uninvolved in the cases disputed against the parties involved and, believing itself to be the injured party, appointed its legal representatives to protect its interests and its image.
It should also be noted that the internal checks performed by Internal Auditing did not identify any instances of company liability pursuant to Legislative Decree 231/2001.

Presentation of update to the 2015 Business Plan

The Iren Group presented the financial community with the update to the 2015 Business Plan on 6 February 2013. The Plan makes provision for the achievement of an EBITDA in 2015 of around Euro 670 million, with average annual growth of 3.2%, a net financial position down around Euro 700 million on 2011, and end-of-plan figures Euro 2 billion lower.
Accumulated investments for the 2013 - 2015 stand at roughly Euro 800 million.
The strategic guidelines for growth are:

- consolidation and growth for the areas in which the Iren Group operates and the segments where the Group is one of the leaders: Waste Management, Integrated water cycle and District heating.
- the achievement of operational full potential, completing the process of integration and rationalisation within the Group and realising significant additional operational efficiencies.
- an increase in the customer base in the areas the Group operates in, with particular reference to the retail and small business brackets.
- a reduction in the level of indebtedness through the containment of investments, disposal of non-core assets and decrease in working capital.
- the establishing of financial partnerships, to grasp new development opportunities by maintaining the financial equilibrium.
- growth in the value of the Group and maintenance of an adequate return for shareholders.

Loan of Euro 100 million from CDP

On 25 February 2013, Iren S.p.A. took out a loan of Euro 100 million with Cassa Depositi e Prestiti S.p.A. (CDP), with a term of 15 years, to support the implementation of the 2013-2015 Business Plan, especially as regards investments in the Energy infrastructures segment.

BUSINESS OUTLOOK

The macroeconomic scenario in the Eurozone envisages, following a phase of stagnation in the first quarter of 2013, a small recovery in GDP (+0.2%) in the second quarter, driven by the acceleration in global demand due to more dynamic emerging markets and the recent “fiscal cliff" agreement in the United States, which should limit the potential adverse impact on the recovery of the US economy. The easing of tensions on the financial markets tied to the sovereign debt crisis will help to gradually stabilise investments. However, at present, the forecasts are still, on the whole, negative.
The scenarios in Italy are extremely variable due to the developments in the sovereign debt crisis and its effects on banks’ lending capacity, and whether ongoing reforms resulting from the complex political-institutional phase following the elections in February 2013 are implemented or not.
Private energy consumption will continue to be adversely impacted by the tax consolidation process and the deterioration in the job market. In terms of energy demand from the industrial segment, negative growth rates are still envisaged, intensifying the repercussions on thermoelectric production, which will also continue to feel the effects of competition from renewable sources, which are expected to show a countertrend.
However, Iren Group results will be affected by developments in the energy context, reference legislation and the seasonality of the sectors in which it operates, with particular reference to climate trends.
In addition to the full operational start-up of the new 390 MW “Torino Nord” cogeneration plant, the completion of the Livorno regasification plant and operational start-up of the Parma Integrated Environmental Hub are confirmed.

REGULATORY FRAMEWORK

Regulations relating to local public services of economic importance
Below are the main new regulations issued during 2012 which influence the segments in which the Group operates.
On 12 and 13 June 2011, referendums were held which repealed Art. 23-bis of Decree Law no. 122 of 25 June 2008, converted to law with amendments by Art. 1, paragraph 1, Law no. 133 of 6 August 2008, as later amended by Decree Law no. 135 of 25 September 2009 converted to Law no. 166 of 20 November 2009, which had introduced substantial changes to the law on local public services of general economic interest (SGEIs), and repealed Art. 154, paragraph 1 (integrated water service tariff) of Legislative Decree no. 152 of 13 April 2006 "Determination of the integrated water service tariff limited to the element "based on adequate remuneration of invested capital".
As the quorum of voters required by law was reached, and as the majority of voters voted in favour of repeal, the above regulations ceased to be effective. From the same date, Italian Presidential Decree no. 168 of 7 September 2010 (regulation on local public services of general economic interest, pursuant to art. 23-bis of Decree Law no. 112/2008) became null and void.

Art. 4, Decree Law no. 138 of 13 August 2011, converted to Law no. 148 of 14 September 2011, has provided new adaptation regulations governing local public services to comply with the public referendum and EU regulations. The aforementioned regulation was further amended by the Stability Law no. 183 of 12 November 2011 and by Decree Law no. 1 of 24 January 2012.

The Constitutional Court, with judgment no. 199 of 17-20 July 2012, (Official Journal no. 30 of 25 July 2012, - First special series), declared art. 4 of Decree Law no. 138 of 13 August 2011 to be constitutionally illegitimate, converted, with amendments, from Law no. 148 of 14 September 2011, both as regards the original text and the test after the subsequent amendments, given that it violated the prohibition to restore the repealed legislation by popular demand as per art. 75 of the Constitution. The aforementioned art. 4 (entitled "adaptation of regulations governing local public services to comply with the public referendum and EU regulations"), adopted after the repeal had been declared, by means of Presidential Decree no. 113 of 18 July 2011, as a result of the public referendum, of art. 23-bis of Decree Law no. 112 of 2008 containing the previous regulations of local public services of economic relevance, laid down new regulations for local public services of economic relevance, which are characterised not only by the same ratio as the repealed regulations, given that it brought about a drastic reduction in in-house assignments, over and above the provisions of EU legislation, but which literally reproduce, to a large extent, the diverse provisions of the repealed art. 23-bis and many provisions of the enacting regulation of said art. 23-bis contained in Presidential Decree no. 168 of 2010. Despite the exclusion from the field of application of the new integrated water service regulations, the similarity, and at times connection, is evident between the regulations in art. 4 and the regulations in repealed art. 23-bis of the Decree Law no. 112 of 2008 and the identity of the spirit of the regulations.

The regulations of local public services which currently derive from the complex regulatory framework stated above are contained in conversion law of Decree Law no. 179 of 18/10/2012, containing additional urgent measures for country growth, art. 34 as per conversion law - Law no. 221 of 17/12/2012, second annex, which contains "amendments made on conversion to Decree Law no. 179 of 18 October 2012" and are shown below:

"20. For local public services of economic relevance, in order to ensure compliance with European regulations, operator equality, cost efficiency of management and to guarantee adequate information to the community, the service is assigned on the basis of the proper report, published on the website of the granting entity, which gives an account of the reasons and existence of the requirements set forth by European law for the pre-established form of the assignment, and which defines the specific contents of public service and universal service obligations, indicating the fees, if necessary.

21. Assignments in place on the date of entry into force of this decree that are not compliant with the requirements set forth by EU legislation must be adjusted before the deadline of 31 December 2013, by publishing, by said date, the report set out in paragraph 20. For assignments for which no expiry date is envisaged, the competent bodies simultaneously insert an assignment expiry date in the service contract

or other documents that regulate the relationship. Non-compliance with the obligations set out in this paragraph causes the assignment to cease at 31 December 2013.

22. Direct assignments authorised on 1 October 2003 to public companies listed on the stock exchange at that date or to its subsidiaries pursuant to art. 2359 of the Italian Civil Code, cease on the expiry date set out in the service contract or other documents that regulate the relationship; assignments which do not envisage an expiry date shall cease, without extension option and without the need for resolutions from the granting entity, on 31 December 2020.

23. After par. 1 of art. 3-bis of Decree Law no. 138 of 13 August 2011, converted with amendments, from Law no. 148 of 14 September 2011, and subsequent amendments, the following was inserted:

"1-bis. The functions of organisation of local public network services of economic relevance, including those belonging to the urban waste sector, of deciding on the form of management, of the determination of the relevant utility tariffs, of management assignment and the associated control, are performed exclusively by the government bodies within optimal, standardised geographic areas, established or designated in accordance with par. 1 of this article".

24. Under art. 53, par. 1, of Decree Law no. 83 of 22 June 2012, converted, with amendments, from Law no. 134 of 7 August 2012, letter b) is repealed".

Code on public works contracts

In 2012, the text of Legislative Decree 163/2006 (Code on public works contracts) was subject to frequent additions and amendments by the Monti government, which, with a succession of Decree Laws then converted to laws, repeatedly affected the well-structured legislation. The changes with the greatest impact in the public works contracts sector are shown below.

Law no. 134/2012: amendment to art. 38, par. 1, letter a) of the code, setting forth, for companies taking part in tenders, that declaration of 'concordato preventivo c.d. in continuità' (arrangement with creditors aimed at ensuring the continuity of an insolvent debtor as a going concern) is not cause for exclusion, (art. 186-bis of bankruptcy law of Royal Decree 267/1942 and subsequent amendments and additions, a figure introduced by the development decree to help companies in temporary financial difficulties.

Law no. 135/2012: adds par. 1-bis to art. 2 of the Code, requiring, in compliance with EU regulations on public contracts, in order to promote access to small and medium companies, commissioning bodies, where possible and economically cost-effective, to subdivide the contracts into functional lots. The tender participation criteria must ensure that small and medium companies are not excluded. In addition, for the benefit of small and medium companies, the Law amends art. 41, par. 2, establishing that criteria which fix access limits connected to company turnover, without a suitable reason, are unlawful.

Law no. 35/2012: inserts art. 6-bis into the Code, establishing the NATIONAL PUBLIC WORKS CONTRACTS DATABASE. The National Database will gradually become mandatory in 2013 and will allow commissioning bodies to verify general, technical and economic-financial capacity requirements, through direct access by commissioning bodies to the central database, permitting the quick and certain acquisition of information and documents. Also see the implementing resolution of AVCP (Authority for the Supervision of Public Works Contracts) of 24/12/2012.

Law no. *122/2012*: amends par. 13 of art. 11 (contract form) establishing that "*The contract is stipulated, under pain of invalidity, by means of an electronic public notarial deed, or, in digital format according to the applicable regulations for each commissioning body, in the form of a contract governed by public law under the responsibility of the certifying officer of the awarding authority or through a private deed*".

AVCP (Authority for the Supervision of Public Works Contracts) resolution no. 4 of 10/10/2012: General indications for the drafting of calls for tender pursuant to articles 64, par. 4-bis and 46, par. 1-bis, of the Code on Public Works Contracts for so-called STANDARD CALLS FOR TENDER.

Law no. 221/2012: requires, for calls for tender published from 1 January 2013, that the publication expenses pursuant to the second sentence of par. 7 of art. 66 and the second sentence of par. 5 of art. 122 of Legislative Decree 163/2006 (expenses for the publication of calls for tender in GURI (Official Journal of the Italian Republic and in newspapers) are reimbursed to the commissioning body by the contractor within sixty days from the tender award. The provision is coordinated with Law no. 69 of 18 June 2009, which establishes that, from 1 January 2013, advertising in newspapers is no longer mandatory.

Lastly, *Law no. 190/2012* should be noted (anti-corruption law), which introduces new advertising obligations for public administrations, including investee companies of public administrations, limited to activities in the public interest; it replaces art. 241 of Legislative Decree 163/2006 governing ARBITRATION, making it possible only where authorised and establishes the so-called "White list" at each prefecture, i.e. a list of suppliers, service providers and works providers not subject to attempted mafia infiltration. The list, which is periodically checked, will only be established for given activities that are more exposed to the risk of mafia infiltration, such as the transport of material to landfills, waste transportation and disposal, extraction and transportation of earth and other activities listed under par. 53 of art. 1 of the Law.

Anti-mafia Code

Legislative Decree no. 159 of 6 September 2011 approved the code on anti-mafia laws and prevention measures, which consolidates all provisions of the fight against organised crime into one law.

Legislative Decree no. 218 of 15 November 2012 anticipates the entry into force of the anti-mafia code on 12/02/2013. In particular, the following should be highlighted: elimination of the so-called "atypical information", annual validity of anti-mafia information, rather than half-yearly, and obtainment of anti-mafia communications solely from the Prefecture, and no longer from the Chamber of Commerce through the Chamber's certificate.

Robin Hood Tax

Art. 7, of Decree Law no. 138 of 13 August 2011, converted to Law no. 148 of 14 September 2011, raised the "Robin Hood Tax", i.e. the additional IRES tax rate for companies operating in the energy sector, by four percentage points (from 6.5% to 10.5%) for the tax years 2011 to 2013 and extended it to operators that transmit/dispatch/distribute electrical energy and transport/distribute gas, and to companies that produce electrical energy through the predominant use of biomass and solar/photovoltaic and wind power.

Art. 4 of the same decree law lowered the limit envisaged in art. 49, Legislative Decree no. 231 of 21 November 2007 to Euro 2,500, above which transfers in cash, by bank or post office savings book payable to the bearer are not permitted. This limit was further reduced to Euro 1,000 by art. 12, Decree Law no. 201 of 6 December 2011, converted to Law no. 214 of 22 December 2011.

Gas distribution

By Decree of 19 January 2011 the Ministry of Economic Development announced the district authorities for the natural gas distribution sector, pursuant to art. 46-bis, Law no. 222 of 29 November 2007, which converted Decree Law no. 159 of 1 October 2007. To complete the regulatory procedure envisaged in the aforementioned art. 46-bis, Ministry of Economic Development Decree no. 226 of 12 November 2011, published in Official Journal no. 22 of 27 January 2012, approved the regulation on public tender criteria and the assessment of bids for the assignment of gas distribution services. This regulation established that the chief Municipality in the Province acts as awarding party for management of the tender to assign new distribution concessions at district level. The dates are also indicated, within which the Province, in the absence of the chief Municipality, calls the area municipalities to identify the commissioning body or from which the period for the replacement of the Region takes effect. The deadline is set as six months from entry into force of the regulation (11 February 2012) for the Parma, Reggio Emilia, Turin 1 and Turin 2 ATOs, 24 months for the Genoa 2 ATO, 30 months for the Genoa 1 ATO and 36 months for the Piacenza 2 East ATO.

The related tenders must be launched within 15 months of the above deadlines by the chief Municipality in the province (if part of the district authority), or within 18 months by an entity identified by the Municipalities covered by the district authority (if this does not include the chief Municipality).

Decree Law no. 83 of 22 June 2012 then ruled on the matter (so-called "Development Decree"), published in Official Journal no. 147 of 26 June 2012, converted with amendments from Law no. 134 of 7 August 2012, published in Official Journal no. 187 of 11-08-2012.

By means of Resolution 532/2012/R/gas, the Authority implemented the provisions in art. 4, par. 7 of Ministerial Decree Mse 226/2011, preparing technical sheets for the transmission in paper format of data on the consistency status, fixing the electronic media format and establishing the effective date of the obligation to use said electronic format.

In implementation of the provisions of art. 8, par. 1, of Ministerial Decree Mse 226/2011, resolution 407/2012/R/gas defines the criteria for the calculation of the one-off consideration to cover tender expenses relating to the assignment of the natural gas distribution service.
By means of resolution 382/2012/R/gas, the standard service contract layout was published for natural gas distribution.

Resolution 315/2012/R/gas introduced amendments to the regulation of gas distribution and metering service tariffs for the 2009-2012 regulatory period on conclusion of the procedure started in order to ensure compliance with judgment no. 2521/12 of the Council of State and, tariffs relating to the distribution and metering service tariffs for the years 2009 and 2010 were also approved.

Resolution 553/2012 R/gas determined the reference tariffs, the mandatory tariffs for natural gas distribution and metering services and tariff options for gas distribution and metering services other than natural gas, with reference to 2013, in line with the transitory provisions defined in resolution 436/2012/R/GAS, which extended the applicable period of the tariff regulation and of the quality of gas distribution and metering services contained in the RTDG and in the RQDG as at 31 December 2013.

Gas metering service
By means of provision 28/2012/R/gas, the tariff regulation of the metering service was reviewed, modifying the obligations, set forth under resolution ARG/gas 155/08, for the introduction of remote reading/remote management of gas meters.
By means of resolution 193/2012/R/gas, urgent measures were also adopted, regarding the obligations to install electronic gas meters, starting from 1/3/2012, and to start a procedure for the revision of standard costs connected to the commissioning of said meters.
Under resolution 246/2012/R/gas, the standard costs for class G10-G40 meters were recalculated, and the validity of transitory provisions governing the obligations to install gas meters in the distribution network was maintained until 31/12/2012, pursuant to resolution 193/2012/R/gas.
Resolution 575/2012/R/gas amended the obligations for the promotion of installation of intermediate meters to remote management and remote reading requirements in the coming years, making the relevant adjustments to the related tariff regulations.

Default service
By means of resolution ARG/gas 99/11, the authority had introduced provisions for the natural gas retail sale market, with particular reference to the purchase methods and loss of responsibility for withdrawals, to regulation of non-fulfilment of payment obligations by end customers (default) and to completion of the envisaged structure regarding last resort services, regulating, among other things, in accordance with art. 7, par. 4, letter c), of Legislative Decree 93/11, the default service, aimed at ensuring the balancing of the distribution network in relation to withdrawals of gas made directly by the end customer (without a supplier), that owns the supply point for which the conditions are not met for the commissioning of a supplier of last resort, or it is, in any case, impossible to commission a supplier of last resort. By means of resolution 166/2012/R/gas, the Authority had suspended the date of entry into force of the provisions contained in resolution ARG/gas 99/11 with reference to the default service, also envisaging that said date was identified in the provision that governs the default service remuneration method.
Through resolution 352/2012/R/gas, provisions were adopted to complete the regulation of the default service, establishing the remuneration of the distribution company that provides the default service and the entry into force of the regulations governing the remuneration of the default service, fixed at 1 January 2013, taking into account Ministerial Decree of 3 August 2012, which aimed to include, under end customers entitled to use a supplier of last resort, also customers that have remained without a supplier based on personal choice and that are owners of supply points that cannot be disconnected.
By means of judgment no. 3296 of 29/12/2012 of section III of the Regional Administrative Court of Lombardy, resolution 99/11 was deemed unlawful given that, in breach of the EU and national principle of unbundling, including functional, of distribution activities and gas supply activities, it introduced the default service, making gas distribution companies responsible for it.
AEEG submitted an appeal with an application for monocratic precautionary measures against the judgment of the Regional Administrative Court. On 28 January 2013, the Council of State upheld AEEG's appeal on a preventive basis, and suspended the effects of the judgment of the Regional Administrative Court of Lombardy, setting the hearing on the merits of the case for 19 February. Following the suspension decision handed down, AEEG saw fit to publish resolution 25/2013/R/gas on 30 January 2013,

“Urgent provisions, in implementation of the monocratic decrees of the Council of State on 28 January 2013, concerning the default service on natural gas distribution networks”.

Other provisions to note which had an impact on gas distribution activity:
Resolution 62/2012/R/gas, recognition of higher expenses deriving from the presence of concession fees for natural gas distribution.
Resolution 103/2012/R/gas, which determines the improvement objectives relating to the recovery of gas distribution safety, for the 2010-2012 period, for natural gas distribution companies with more than 50,000 end customers and for the 2011-2012 period for natural gas distribution companies with end customers of between 10,000 and 50,000.

Resolution 368/2012/R/gas determined incentives and penalties relating to recoveries of safety concerning the natural gas distribution service, for the year 2010, for 45 natural gas distribution companies with more than 50,000 end customers.
Resolution 83/2012/E/gas the telephone check service was launched, relating to compliance with the regulations governing the gas call-out service, for the year 2012.

Electrical energy distribution
2012 is the first year of the fourth regulatory period (2012-2015), in which the provisions that regulate the main electrical energy distribution activities are applicable, which apply to a market that is now fully deregulated.
These activities are:
1) transmission, distribution and metering service tariffs (resolution ARG/elt 199/11)
2) social tariff (resolution ARG/elt 117/08)
3) service quality (resolution ARG/elt 198/11)
4) default (resolution ARG/elt 4/08)
5) switching (resolution ARG/elt 42/08)
6) regulation of physical and economic items of the settlement dispatching service (resolution ARG/elt 107/09)
7) unbundling (resolution ARG/elt 11/07)
8) compensation system (resolution ARG/elt 191/09)

With regard to point 1), resolution ARG/elt 199/11 (preceded by various consultations with operators) contains the integrated code on transport (TIT), integrated code on metering (TIME) and integrated text on connection (TIC) for electrical energy for the 2012-2015 period.
With respect to the regulations in force up until 2011, from 2012 the mechanism of the average national tariff supplemented by equalisation (general and company-specific) will be replaced by a single tariff per individual distributor which:
a) recognises with a parameter-based criteria, the medium and low voltage capital invested by the company up to 2007;
b) accurately recognises the actual high voltage capital per company and increases from 2008;
c) recognises the operating expense of the company according to an average national cost modulation ratio established with AEEG parameters related to 2010 scale variables of the company;
d) maintains metering equalisation;
e) cancels the equalisation of sales costs, covering average national costs between distributors that have set up a separate sales company and those that have not differently;
f) confirms the regulations for the update of invested capital, increasing the WACC (weighted average cost of capital) from 7% in 2008-2011 to 7.6% for capital invested as at 31 December 2011 and to 8.6% for subsequent capital increases (1% more aims to compensate the 2-year delay in the tariff recognition of capital increases);
g) confirms regulations for the update of operating expense with efficiency recovery mechanisms (x-factor) set at 2.8% for distribution and 7.1% for metering;
h) identifies a metering component which covers electromechanical meters still not fully depreciated but replaced (for resolution 292/06) and makes it possible to request the advance of said revenues for the entire regulatory period;
i) confirms and extends the types of investment with greater incentives, which are:
    - low loss transformers in MV/LV transformation stations: +1.5% for 8 years;

- pilot projects (smart grid): +2% for 12 years;
- upgrading and enhancement of MV networks in established centres: +1.5% for 12 years;
- increase in the transformation capacities of primary transformation stations in critical areas, identified according to criteria established by AEEG: +1.5% for 12 years;
- pilot projects relating to storage systems: +2% for 12 years;

j) modifies the structure of the reference tariff, from which variable parts disappear (energy quota for non-domestic customers and energy quota plus power quota for domestic customers) and the fixed part remains (for supply point): therefore a unit cost per supply point is reached (POD), with the sole exception of Public Lighting (tariff composed solely of the energy quota).

With regard to point 2), in order to protect domestic customers with financial and physical problems, in 2008, interministerial decree 28/12/2007 introduced mechanisms for the compensation of expenses incurred by financially and/or physically vulnerable customers (with the medical-therapeutic equipment needed for life support) which would have been repaid by electrical energy customers (domestic and non-domestic) and subsequent AEEG resolution 117/08:

a) launched the compensation system in the first quarter of 2009, making provision for the retroactive disbursement, from 1/1/2008, of compensation to applicants before 29/2/2009;
b) established, in October 2008, the new AS tariff component to cover compensation expenses and applicable to all users;
c) allowed distributors to retain the AS within the limits of compensation disbursed;
d) made provision for a centralised information system (SGATE) for the structured and standardised management of relations between Municipalities (that collect compensation applications) and distributors;
e) made provision for the coverage of distributor costs with ordinary distribution tariff update mechanisms.

In 2012, resolution 350/2012/R/eel introduced, effective from 2013, new measurements for the physical problem bonus, including:

a) a new mechanism correlated to electrical energy consumption of life support equipment, which defines, for similar categories of equipment, average consumption depending on the intensity of use;
b) 3 brackets (minimum, average, maximum) of bonus amounts, depending on the sum of average consumption values of the equipment used by the customer;
c) new forms for the request for bonuses due to physical problems and a different minimum content of ASL (local health authority) certifications;
d) further verification by the distributor of the contractually committed power (lower or higher than 3 kW);
e) the possibility of presenting applications for the new bonus from 1/1/2013 and of obtaining a supplement (retroactive portion) for 2012 for applications submitted between 1/1/2013 and 30/4/2013 for customers holding the bonus for physical problems in 2012.

As regards point 3), resolution 198/2011 (TIQE - integrated code on electrical energy quality) regulates the commercial and technical quality for 2012-2015.
As regards developments in commercial quality, the “rapid quote” mechanism entered into force in 2013 and new indicators for the replacement of faulty meters and for the restoration of the correct value.
By contrast, as regards technical quality, the following should be noted:

a) new second level causes for outages without warning;
b) additional information in the list of reports and telephone calls (voice recording, code of the line involved, etc..);
c) new specific levels of continuity for MV customers, defined on long outages plus short annual outages;
d) penalties/indemnities for MV users calculated by using the actual power interrupted, starting from 2013;
e) CTC for non-certified customers calculated on the basis of available power;
f) incentive for the reduction of the number of MV customers with the number of outages above specific levels;
g) incentive for the reduction of the number of MV customers with delivery via pole-mounted equipment and available power for withdrawal equal to or lower than 100 kW;

h) new minimum and maximum levels of LV and MV supply;
i) monitoring of the voltage quality on MV semi-bus bars of the primary substation and registration of voltage leaks.

With regard to point 4), the system defined by resolution 4/08 continued to apply, which regulated the dispatching, transport and metering of electrical energy in cases of end customer default or non-fulfilment of obligations by the vendor. In summary:

a) the resolution aims to protect the receivables of vendors and default providers;
b) defines specific regulations for the management of the suspension of supply in the event of the default of end customers, connected to the low voltage network, and not equipped with electronic meters, making provision for disclosure obligations for distributors.

As regards point 5), resolution 42/08 regulated the dispatching, transport and metering of electrical energy in the event of a change of vendor at the same active supply point, or assignment of a new or previously deactivated supply point to a vendor (switching). Resolution 42/08 envisages that:

a) the switching takes effect on the first day of the second month after the one in which the distributor receives the request;
b) the outgoing vendor informs the distributor of the termination of the sale contract and the methods and times said entities use to communicate
c) the protected category supplier communicates the loss or absence, by one of its customers, of the requirements for inclusion in the protected category service;
d) the times for commissioning a supplier and those for switching are consistent.

Resolution 396/2012/R/eel recently amended both the regulations on default (previous point 4) and on switching, in order to:

a) improve communications with customers on their possible choice of alternative vendors from the non-compliant vendor;
b) take into consideration the interim payment of the non-compliance vendor;
c) explains to customers the activation times of the higher protection/safeguarding category and ways of returning to the free market.

As regards switching, resolution 153/2012/R/com should be noted, which provides protection as of June 2012 in order to prevent contracts not requested by end customers and which launches the study of the concept of “default switching”, i.e. a future procedure to restore the situation prior to switching for electrical energy/gas supplies not requested by the end customer. Monitoring is currently underway which will require distributors and vendors to send communications to AEEG from 2013.

As regards point 6), annex A to resolution ARG/elt 107/09 summarises in a single document all provisions regarding settlement, i.e. the settlement of the physical and economic items of dispatching (monthly settlement, annual adjustments, metering corrections,..) in order to obtain:

a) the correct accounting and economic valuation of energy withdrawn by each dispatching user;
b) the reduction of the economic and administrative impact for dispatching users due to metering corrections (they affect both the dispatching user that owns supply points with corrected measurements and other dispatching users through the residual area withdrawal and the sign of aggregate zonal unbalancing);
c) the accounting and administrative simplification for Terna and distributors of the handling of adjustments and determination of the associated economic items.

As regards point 7), the “Integrated code of provisions of the Italian Authority for electrical energy and gas concerning administrative and accounting unbundling obligations for companies operating in the electrical energy and gas sectors and the associated publication and communication obligations (Integrated Code or TIU - Integrated Code on Unbundling) established the obligation of functional unbundling for vertically integrated companies - i.e. the company or group of companies that, in the electrical energy or gas sector, performs at least one activity under a concession agreement (e.g. the electrical energy distribution and/or gas) and at least one deregulated activity (e.g. the sale of electrical energy and/or gas) - essentially acknowledging the content of EU directives 2003/54/EC (for the electrical energy sector) and 2003/55/EC (for the gas sector).

The objective is to promote competition, efficiency and adequate levels of quality in the provision of services:

a) ensuring the neutrality of management of essential infrastructures for the development of a competitive market;
b) preventing discrimination between market operators regarding the access to sensitive information and the use of infrastructures;
c) separating activities carried out in a competitive scenario from regulated activities (management of infrastructures), avoiding the cross transfer of resources and costs.

As regards functional unbundling, first and foremost, within the domain of a vertically integrated company, each regulated activity must be assigned to an Independent Operator, that must manage it with decision-making and organisational autonomy and by pursuing the objectives of efficiency, cost-effectiveness, neutrality and non-discrimination.
The Independent Operator nominates a guarantor for the correct management of commercially sensitive information (so-called Data Protection Authority), which monitors the proper management of information (intended to mean commercially sensitive, i.e. relevant for market competition).
In order to achieve these objectives the Independent Operator is equipped with a plan of obligations, a document containing a series of organisational and managerial measures whose minimum requirements are set by the Authority.
Furthermore, on an annual basis, the Independent Operator drafts an Annual Report on the Measures Adopted and sends it to the Authority.
As regards point 8), resolution ARG/elt 191/09 defined the “Compensation System”, which guarantees compensation (Cmor) to the outgoing vendor in the event of the non-collection of amounts due for the invoices issued in the last few months of supply, before the effective date of switching for the service provided.
Subsequent resolution ARG/elt 219/10 (which fully replaces the previous resolution) issues the provisions for the functioning of the Compensation System, contained in the various annexes and Technical Specifications published by the Acquirente Unico (Single Buyer).
This system allows all vendors to claim compensation on the end customer, regardless of the change of vendor requested by said end customer. The distributor is among the main entities, given that it must apply the Cmor component to the incoming vendor (the new vendor selected by the same defaulting end customer).
In 2012, first resolution 99/2012/R/eel, and then resolution 195/2012/R/eel, set out additional provisions on the management of the all-round functioning of the compensation system (methods and deadlines of the Cmor invoicing process, information flows for the management of compensation requests, new simplified regulations...).

Sale of electrical energy

Resolution 36/2012/E/com
Introduces measures, regarding the payment of compensation by the Cassa conguaglio per il settore elettrico (Equalisation Fund for the Electrical energy Sector), in the event of non-compliance with the obligations set out in the Integrated Code on Unbundling (Annex A to resolution 11/07) concerning unbundling.

Resolution 99/2012/R/eel
The provision modifies the current regulation of the compensation system in order to define specific procedures in the case of non-payment by the end customer of the consideration relating to previous situations of default (CMOR). The provision also establishes the appropriate management of end communications concerning the application of said consideration.

Resolution 195/2012/R/eel
Approves the simplified regulations for the functioning of the compensation system pursuant to resolution ARG/elt 191/09, as amended for the purposes of acknowledging the new procedures set forth in the event of non-payment of the CMOR component by the end customer. The provision also makes some amendments to the compensation system in order to acknowledge the observations received on consultation of the simplified regulations.

Resolution 122/2012/R/eel
The provision extends the term for the completion of the regulation relating to the reimbursement of expenses for the supply of electrical energy (electrical energy bonus) for customers with serious health problems, pursuant to interministerial decree of 28 December 2007, in application of the decree of the Ministry of Health dated 13 January 2011.

Resolution 153/2012/R/com
The provision introduces measures for the prevention of contracts and activations of supplies of electrical energy and/or natural gas not requested by the end customer, and to allow the restoration of the situation prior to the unrequested activation.

Resolution 194/2012/R/com
The provision updates the Glossary of the main terms used in invoicing documents, to take account of the change of terminology introduced by the new regulatory provisions.

Resolution 258/2012/R/com amends and supplements the TIMR (integrated code on retail monitoring) in order to make some clarifications, and to modify some of the indicators relating to the collectability of receivables, taking into account that the basic data concerning said indicators have still not been requested from obligated parties pursuant to art. 3 of the TIMR.

Resolution 260/2012/E/com
Installation of the energy customers settlement service and approval of the regulations to be initially implemented.

Resolution 301/2012/R/eel
This resolution makes provision for the textual coordination of the TIV (Integrated Sales Code) and of the new regulations introduced by TIT (Integrated Transmission and Distribution Code) regarding tariffs and the simplification of the TIV in light of the legislative changes concerning electrical energy sale services in the higher protection and safeguarded categories.

Resolution 350/2012/R/eel
The provision introduces amendments to the regulation relating to the reimbursement of expenses for the supply of electrical energy (electrical energy bonus) for customers with serious health problems, pursuant to interministerial decree of 28 December 2007, in application of the decree of the Ministry of Health dated 13 January 2011.

Resolution 441/2012/R/eel
The provision introduces urgent measures regarding the provision of the higher protection service to domestic users that have been mistakenly treated as safeguarded customers.

Resolution 475/2012/E/com
The provision supplements resolution 260/2012/E/com of 21 June 2012, establishing a list of operators that adhere to settlement procedures.

Resolution 548/2012/E/com
The provision approved the new Branch Regulations for energy consumers for the carrying out of complaint handling activities and modifies the regulations governing the methods of coverage of branch-related expenses.

Gas sales

Resolution 260/2012/E/com and subsequent resolution 475/2012/E/com
With reference to the provisions of art. 7, par. 6 and art. 44, par. 4 of Legislative Decree 93/2011, the energy customers settlement service was established.

Resolution 548/2012/E/com
The provision approved the new Branch Regulations for energy consumers for the carrying out of complaint handling activities.

Resolution 16/2012/R/gas
In implementation of Decree Law 1/2012, regarding reference prices of natural gas for vulnerable customers, the resolution aims to supplement the procedure started with resolution ARG/gas 77/11, targeted at defining a reform of the economic conditions of natural gas supply for protected customers.

Resolution 19/2012/R/gas
The provision envisages the recognition, to the supplier of last resort, of economic conditions for the provision of the relative service, in the 2010-2011 thermal year. This recognition is set out in resolution ARG/gas 131/10, which defined the criteria for carrying out the process of selecting the supplier of last resort, with reference to the aforementioned thermal year.
The recognition aims to provide economic coverage of the difference between the amount offered during the selection process and the economic conditions actually applied to end customers, to whom the service was provided. Volumes supplied by the supplier of last resort in the 2010-2011 thermal year are estimated at around 8,000,000 Smc.

Resolution 90/2012/R/gas
Extends to 31 May 2012 the term for communicating data on the amounts of compensation, paid by distributors to sellers of natural gas and transferred to end customers, with reference to the consumption of parties that benefit from gas bonuses for the year 2010.

Resolution 153/2012/R/com
Introduction of measures for the prevention of contracts and activations of supplies of electrical energy and/or natural gas not requested by the end customer, and to allow the restoration of the situation prior to the unrequested activation.

Resolution 194/2012/R/COM
Updating of the Glossary of the main terms used in invoicing documents, to take account of the change of terminology introduced by the new regulatory provisions.

Resolution 353/2012/R/gas (art. 22 of Legislative Decree 164/00 as amended by art. 7 of Legislative Decree 93/11 – Ministry of Economic Development Decree dated 3 August 2012)
The Resolution defines the public tendering procedures for identifying suppliers of last resort for the 2012-2013 thermal year. In the provision, in light of the increase in the number of entitled customers, the conditions for the supply of the service are also amended and the reintegration mechanism defined for customers that cannot be disconnected.

Major hydroelectric shunt concessions
Constitutional Court sentence no. 205 of 4 July 2011 pronounced the illegal nature of the provisions of Decree Law no. 78 of 31 May 2010, converted to Law no. 122 of 30 July 2010, which extended major shunt concessions for the electrical energy production by five years, with the option of extension by a further seven years if a combined private/public company was established by certain provinces.
As a result of the declaration of constitutional illegitimacy, the concessions expiring on 31 December 2010, according to current regulations are subject to continued management by the operator until takeover by the new operator, which must be chosen through a public tender.

Decree Law no. 83 of 22 June 2012, converted, with amendments, to Law no. 134 of 7 August 2012, introduced certain amendments to the legislation on concessions. The duration of future concessions, to be issued following a tender process, will vary between twenty and thirty years, in accordance with criteria to be established in an interministerial decree in the process of being issued in agreement with the State-Regions Conference, in relation to the investments deemed necessary. The choice of the best bid for assignment of the concession will be based predominantly on the economic bid for the acquisition of water resources and increase in energy produced or installed power. For concessions already expired or those due to expire by 2017, the tender will be called within two years from the date of entry into force of the interministerial decree that will establish the criteria and the new concession will take effect from the fifth year after the original expiry and, in any case, no later than 31 December 2017. Ownership of the business unit relating to the exercise of the concession is transferred from the outgoing concession holder to the new concession holder, including all pertinent legal relations. For property, plant and equipment included in the business unit, the consideration for the outgoing concession holder will be determined on the basis of the market value of property, plant and equipment intended as the new-for-old value less normal deterioration, except with regard to transferable assets, for which an amount is due calculated on the basis of the revalued historical cost method, calculated net of any grants related to assets, these also revalued, received by the concession holder, less normal deterioration.

Integrated water service

The reform process of the integrated water service, which began with Law no. 36/94 (the Galli Law) was revised with the approval of Legislative Decree no. 152 of 3 April 2006, as amended by Legislative Decree no. 219 of 10 December 2010 and subsequent amendments and additions.

Law no. 42/2010 (by adding paragraph 186-bis to Law no. 191 of 23 December 2009) provided for elimination of the Optimal District Authorities (ATOs) one year after its entry into force. The deadline was extended to 31 March 2011 by the "Milleproroghe" [thousand extensions] decree (Decree Law no. 225 of 29 December 2010), and again extended to 31 December 2012 by the "Milleproroghe" Decree Law no. 216 of 29 December 2011.

Following the elimination of the AATOs, introduced by Parliament at the time of conversion of Decree Law no. 2 of 25 January 2010, after a short pause during which water service management and monitoring activities were assigned to the National Authority for the Supervision of the Use of Water Resources, the functions concerning the regulation and control of water services were transferred to the Italian Authority for Electrical energy and Gas by means of Decree Law 201/2011, converted with Law no. 214 of 22/12/2011, which also clarified that these functions "are exercised with the same powers assigned to said Authority by Law no. 481 of 14 November 1995".

Therefore, the following should be mentioned:

- Resolution 585/2012/R/idr - Approval of the temporary tariff method for the calculation of tariffs for the years 2012 and 2013 for all water service operations, excluding CIPE (Interministerial Committee for Economic Planning) operators and the autonomous regions/provinces Valle d'Aosta, Trento and Bolzano. The proposed method does not determine the tariffs, but defines criteria for their quantification and anticipates the general guidelines of the definitive version, expected in 2014. The Authority required a tariff structure by operator/area similar to the pre-existing one to be maintained during the temporary phase;
- Resolution 586/2012/R/idr, which approved a directive regarding the minimum contents and transparency of the integrated water service bill, with the objective of making it easier to read and understand.

On 1 February 2012, the Italian Authority for Electrical energy and Gas also approved a specific provision for the definition of the criteria for the calculation of the amounts to be repaid to end users, corresponding to the return on invested capital and paid in the water bills in the post-referendum period from 21 July until 31 December 2011. The decision is the result of the judgment the Authority had requested from the Council of State on the precise start date of applicability of its water tariff powers.

In order to identify the portion of the tariff to be returned to end users with reference to the 21 July-31 December 2011 period, the Authority intends to adhere to the criteria already used to defined the so-called Temporary Tariff Method, provided for in aforementioned resolution 585/2012, which covers the 2012-2013 two-year period, which already incorporates the effects of the repeal referendum. These criteria are also confirmed in judgment 267/13 of the Council of State which affirms that, as regards the amounts to be repaid, the full cost recovery principle must be observed.

Waste Management Service

Law Decree no. 216 of 29 December 2011 (the "Milleproroghe" decree) provided for the postponement to 31 December 2012 of the elimination of the ATOs responsible for integrated water service management and the waste management cycle.

Integrated Waste Management means the total activities carried out to optimise the management of waste, these being the transportation, treatment and disposal of waste, including street sweeping and the management of these operations.
The general regulation applicable to the Integrated Waste Management services sector is established at national level in Decree Law 138/2011 converted to Law no. 148 of 14 September 2011, later amended by Decree Law no. 1 of 24 January 2012, the Environmental Code (Legislative Decree 152/2006 and subsequent amendments and additions) and at regional level by Emilia Romagna Regional Laws 25/99, 10/2008 and 23/2011.
Given that the ATOs responsible for the management of water resources and integrated management of urban waste pursuant to articles 148 and 201 of Legislative Decree 152/2006 (the Environmental Code) will be eliminated as at 31/12/2012, the regions were given the task of legally assigning the functions previously carried out by these organisations, in accordance with the principles of subsidiarity, differentiation and suitability.
In this respect, the Emilia Romagna Region has already arranged the issue of Law no. 23 of 23 December 2011, "Regulations on the territorial organisation of functions relating to local public environmental services", and has established the Emilia Romagna District Authority for water and waste management services in which all the municipalities and provinces in the region responsible for governing the entire regional area are members. This agency (ATERSIR) became operational in 2012.
It should also be noted that the end of the operational start-up period of the Sistri system, already deferred under the Milleproroghe Decree (Decree Law 216/2011) to 31.12.2012, was suspended until 30.06.2013, due to the effect of Decree Law 83/2012 converted to Law no. 134 of 7 August 2012, also arranging for the suspension of the payment of contributions for the year 2012.

Tariff system for waste management services

Pursuant to art. 238 of the Environment Decree, anyone owning or holding under any capacity, premises or uncovered areas used privately or publicly and which are not accessories or annexes to the premises themselves, located in the municipal area and producing urban waste, are required to pay a tariff.
The tariff is the consideration paid for the collection, treatment and disposal of solid urban waste.
The waste management tariff is commensurate with the average ordinary quality and quantity of waste produced per unit of surface area, in relation to the uses and type of activities carried out, also taking account of the profit indicators per usage and territorial bracket.
The tariff is set by the District Authority and it is applied and collected by the entities entrusted with the integrated management service.
Accessory costs relating to urban waste management, e.g. street cleaning expense, are taken into account in calculating the tariff.
The tariff consists of:
- a portion calculated in relation to the essential components of the service costs, which mainly involve investments for works and related depreciation; and
- a portion dependent on the quantity of waste handled, the service provided and the extent of operating expense, so as to ensure total coverage of the investment and operating costs.

In 2009, as a result of appeals submitted by certain members of the public, the waste tariff issue pursuant to art. 49 of Legislative Decree 22/1997 (TIA 1) was subject to a ruling by the Constitutional Court, which established that the TIA (waste management tariff) had a tax nature like the TARSU (Urban solid waste tax), and was not a genuine tariff due to the lack of consistency between the service provided and the amount due; therefore, it could not be subject to VAT.
Decree Law 78/2010 established, for the purposes of interpretation, that the tariff was an capital entry and, therefore, subject to VAT, with reference, however, to TIA 2 (pursuant to art. 238 of Legislative Decree 152/2006).
The latter position was also reasserted by the Department of Tax Policies by means of circular no. 3/2010, which confirmed that VAT applied to both TIA 1 and TIA 2, due to the same calculation criteria. By means of ruling 3756/2012, the Court of Cassation refuted the thesis of the Department of Tax Policies, establishing the tax nature of both TIA 1 (pursuant to art. 49 of Legislative Decree 22/1997) and of TIA 2 (according to art. 238 of Legislative Decree 152/2006).
Art. 14 of Decree Law 201/2011, converted to Law no. 214 of 22/12/2011 establishes the new tax (TARES - waste services tax) in all municipalities, effective as of 1 January 2013, to cover the costs of urban and similar waste disposal services performed through the assignment of exclusive rights by the municipalities, and costs relating to the municipalities' indivisible services.

The tax in question is payable by anyone owning, occupying or holding, in any capacity, premises or uncovered areas, used for any purpose, which are capable of producing urban waste.
The tax is paid on the basis of the tariff commensurate with the average ordinary quality and quantity of waste produced per unit of surface area, in relation to the uses and type of activities carried out.
Consequently, as of 1 January 2013, all applicable withdrawals relating to the management of urban waste, both of a capital nature and of a tax nature - TIA (waste management tariff) or TARSU (Urban solid waste tax), were eliminated.
Therefore, legal ownership of the tariff revenue rests with the Municipalities, as with the assessment and collection methods. The tax, also as an exception to art. 52 of Legislative Decree no. 446 of 15/12/97, must be paid by the user to the Municipality.
Following the amendment to par. 35 of art. 14 mentioned above, replaced by art. 1, par. 387, letter f), Law no. 228 of 24 December 2012, effective from 1 January 2013, it is established that:
"The municipalities, as an exception to art. 52 of Legislative Decree no. 446 of 15 December 1997, may assign, up until 31 December 2013, the management of the tax or of the tariff pursuant to par. 29, to entities that, as at 31 December 2012, perform, including separately, the waste management service and assessment and collection of TARSU, TIA 1 or TIA 2".

Green Certificates, Energy efficiency certificates and the ETS

Green certificates
In accordance with art. 11 of Legislative Decree no. 79/99, producers and importers of electrical energy generated from non-renewable sources must introduce electrical energy produced from renewable sources into the network, equal to a portion of the electrical energy produced from non-renewable and non-cogeneration sources. The mandatory portion, initially set at 2%, in the period 2004-2006 was increased each year by 0.35 percentage points (art. 4, par. 1, Legislative Decree 387/2003), whereas the annual increase for the period 2007-2012 was established as 0.75% by Law no. 244 of 24 December 2007 (2008 Finance Act).
This obligation can also be fulfilled by the purchase on the market and following return to GSE for the cancellation of a corresponding quantity of green certificates. These certificates are conferred to producers of electrical energy according to the electrical energy production from plants powered by renewable sources, which began operations or were repowered after 1 April 1999 and qualified as IAFR (plants powered by renewable sources) by GSE according to criteria set out by MAP decrees of 24 October 2005.
The eligible period to obtain recognition of green certificates, initially 8 years, was later extended to 12 years by Legislative Decree no. 152 of 3 April 2006 (Consolidated Environmental Act).
Law no. 244 of 24 December 2007 (2008 Finance Act) amended the regulation on green certificates, and the term of the recognition period for plants started up after 31 December 2007 was extended to 15 years. Differentiated rates were introduced according to the sources.
Plants considered waste to energy plants according to parameters set out by resolution no. 42/02 AEEG are exempt from the purchase of green certificates. Moreover, art. 1, par. 71, Law no. 239 of 24 August 2004 (Marzano) also conferred the right to recognition of Green Certificates for production to cogeneration plants combined with district heating (together with hydrogen and combustible cell plants). This paragraph was cancelled by art. 1, par. 1120, letter g, of Law no. 296 of 27 December 2006 (2007 Finance Act), but rights acquired by plants compliant with provisions set out by Art. 14 of Legislative Decree no. 20 of 8 February 2007 (especially regarding authorisation dates and/or operation start-up and the EMAS certification) are still valid. The Green Certificates assigned to cogeneration plants combined with district heating were however subject to certain limitations: the recognition period is 8 years (Law no. 244 of 24 December 2007) and can be used to cover up to 20% of the obligation (Legislative Decree no. 20 of 8 February 2007 – Art. 14, par. 3).
The Decree of the Ministry for Economic Development of 21 December 2007 approved and published the Technical Procedures which define the methods of submission of IAFR qualification applications. These procedures differ from renewable sources and the so-called similar sources (including cogeneration combined with district heating).
In accordance with the provisions of art. 2, par. 150 of the 2008 Finance Act, through the Ministerial Decree of 18 December 2008, the Ministry for Economic Development set out the transition method from the previous incentive mechanism to new mechanisms (provided for in art. 2, paragraphs 143 and 149 of

the 2008 Finance Act), and the method for extending on-site exchange to plants powered with renewable sources with an annual average nominal power not higher than 200 kW.
Amongst other things, the transition refers to the period 2009-2011 during which the GSE (at the request of the Green Certificates holder) will collect the Green Certificates issued for production for the whole of 2010 at the average market price of the previous three years.

Legislative Decree no. 28/2011 was issued on 3 March 2011, which implements Directive 2009/29/EC on renewable sources. The main impacts for Iren include those relating to Title V on support systems, i.e.:

- On the matter of electrical energy, under the decree, incentives will be provided for plants entering into operation after 31 December 2012, with a feed-in system diversified by source and capacity ranges for plants up to 5 MW, while those above this threshold will have the right to an incentive assigned through auctions for the lowest price managed by the GSE.
- Incentives are also envisaged for heat energy production from renewable sources;
- The plants in operation and those which enter into operation up to 31 December 2012 shall have the right to GCs. All plants benefiting from GCs will then be converted to the feed in system starting from 2016. For the implementation methods, refer to a decree of the Ministry for the Environment, having consulted with the Authority, to be adopted within six months from entry into force of the Legislative Decree.
- The GSE will collect all GCs (at 78% of the value determined using the current mechanism) until they are extinguished. The most important change is the fact that TRL GCs will also be collected by the GSE at a price equal to the 2010 average market price;
- The decree also intervenes on authorisations (with a simplified regime), whose application may also be extended to plants of up to 1 MW, technical regulations and the promotion of renewable energy sources in construction and biomethane in transportation. The decree also contains rules for the development of transmission and distribution networks, as well as for the connection of biomethane production plants to the gas network, up to the connection with the district heating/air-conditioning networks.
- In July, two significant, long-awaited Ministerial Decrees were published, in implementation of Legislative Decree 28/2011:
    - Ministerial Decree of 5 July 2012 - Incentives for energy from photovoltaic power
    - Ministerial Decree of 6 July 2012 - Incentives for energy from non-photovoltaic renewable sources (hydroelectric, geothermal, wind, biomass, biogas).

  The decrees lay the foundations for structured and sustainable development of renewable energies, bringing the incentives into line with European levels and adjusting them into line with the technology market costs (which have fallen drastically in recent years). A system for the control and governance of installed volumes and the associated total cost was also introduced (auctions for large plants and registers for medium size plants).

  In line with the provisions of the previous legislation, the new photovoltaic system entered into force 45 days after the threshold of Euro 6 billion in incentives for photovoltaic power was exceeded (registered on 13 July 2012 - entered into force on 27 August 2012), and on 1 January 2013 for non-photovoltaic power, for which a transitory period of 4 months is envisaged. In particular, provision is made for the following:
    - an increase in the spending budget, for a total of Euro 500 million per annum - equal to an additional Euro 10 billion in spending over 20 years - split between Photovoltaic power (Euro 200 million) and Non-Photovoltaic power (Euro 300 million);
    - greatly simplified procedures for the enrolment on registers;
    - increase in the register access thresholds for all relevant categories. In particular, for the photovoltaic sector, concentration plants, innovative plants and those constructed by public administrations are exempt from the registers, as well as those replacing asbestos up to 50 KW. In addition, plants with output between 12 and 20 KW that require a tariff reduced by 20% are exempt;
    - a bonus for photovoltaic plants realised to replace asbestos roofing and for those that predominantly use European components;
    - an increase in incentives for certain specific technologies that have a heavy impact on the national supply chain, e.g.: innovative geothermal technology, concentrator photovoltaic systems and innovative plants;
    - a restructuring of the payment terms of green certificates;
    - confirmation of the priority of access to the register for plants built by farms.

Lastly, the publication of Ministerial Decree 28/12/12, the so-called "Thermal Account" decree, saw the implementation of the support system introduced by Legislative Decree no. 28 of 3 March 2011 for incentivising small works to increase energy efficiency and for the production of heat energy from renewable sources

The Gestore dei Servizi Energetici – GSE S.p.A. is responsible for implementing and managing the mechanism, and disbursing the incentives to beneficiaries.

The incentive mechanism is targeted at two types of entity:

- Public administrations;
- Private entities, understood as natural persons, condominiums and entities that are the recipients of business income or agricultural income.

Activities that can be incentivised refer to:

A. increases in energy efficiency (streamlining of the envelope of existing buildings- insulation of walls and roofs, replacement of doors and windows and installation of solar screens)
B. small works relating to plants for the production of heat energy from renewable sources and high-efficiency systems (replacement of existing climate control systems with higher-efficiency systems - condensing boilers - both replacement or, in some cases, the new installation of plants powered by renewable sources - heat pumps, boilers, biomass stoves and chimneys, thermal solar plants also bundled with solar cooling technology for cold production).

Public administrations can request the incentive for both categories of activities (category A and category B). Private entities can only access the incentives for small works relating to plants for the production of heat energy from renewable sources and high-efficiency systems (category B).

For operations to increase energy efficiency the incentive consists of a contribution equal to 40% of the allowable expense incurred. For minor works involving the production of heat energy from renewable sources and of high-efficiency systems, the decree provides specific calculation schemes by technology, based on valuation coefficients of the energy produced and on the presumed production rate of heat energy of the plant/system installed, based on the size and climate zone.
Discussions are currently in progress with the Ministry for Economic Development and the Environment in support of the drafting of the ministerial enactment decree envisaged in Legislative Decree no. 28/2011, still not in place, which must define the distribution methods to support the development of district heating networks.
Resolution 11/2012/R/efr, for the purposes of the definition of the market placement price for green certificates for 2012, quantifies the average annual value for the electrical energy transfer price, recorded in 2011, at Euro 74.72 Euro/MWh.

Ministerial Decree of 6 July 2012 establishes the new methods for incentivising the electrical energy production from plants powered by non-photovoltaic renewable sources, with power of no less than 1 kW.

The incentives envisaged by the decree apply to new plants, fully reconstructed or reactivated plants, those subject to enhancements or upgrading, which enter into operations from 1 January 2013. In order to protect investments in the process of being completed, the decree envisages that plants which hold an authorisation certificate which dates back to before 11 July 2012 (date of entry into force of the decree) which enter operations before 30 April 2013 and solely plants powered by waste pursuant to art. 8, par. 4, letter c) that enter operations before 30 June 2013, can access incentives in accordance with the terms and conditions set out in Ministerial Decree 18/12/2008. Reductions on the all-inclusive tariff or on the multiplicative coefficients will be applied to these plants for the green certificates envisaged in art. 30, par. 1 of the decree.

The new decree also governs the methods with which plants already in operation, incentivised by Ministerial Decree 18/12/2008, will transfer from the green certificates mechanism to new incentive mechanisms starting in 2016.

Energy efficiency certificates
Legislative Decrees 79/99 and 164/00 introduced the obligation for electrical energy and gas distributors (with at least 100,000 customers at year end 2001) to increase the energy efficiency of end users of energy. Two Ministerial Decrees issued on 20 July 2004 fixed the Italian annual energy saving targets of the two sectors (quantified in TOE) for the years 2005-2009, and a Ministerial Decree of 21 December 2007 updated the 2008-2009 targets, fixing the new targets for 2010-2012 and also extending the obligation to distributors with at least 50,000 customers at 31 December on the two years preceding each year of obligation. Annual resolutions of the Italian Authority for Electrical Energy and Gas (AEEG) fix the targets of the single electrical and gas distributors (res. EEN 35/08 for 2009 targets and res. EEN 25/09, as amended by EEN 1/10, for 2010 targets).
The decrees dated 20 July 2004 set out that distributors who are required to achieve energy saving, shall deliver the Authority for Electrical energy and Gas a quantity of the so-called “energy efficiency certificates” (EEC) or “white certificates” equal to their energy saving obligation. The energy efficiency certificates, of a unit value of 1 TOE, are issued by the GME (after savings having been certified by the Authority) in favour of the distributors and their subsidiaries and in favour of companies operating in the energy service sector (ESCO, energy service companies) and, from 2008, also of companies with energy managers pursuant to Law 10/91, against the implementation of projects to improve energy efficiency. This type of project includes measures to reduce the quantities of primary energy required to meet the customers' energy demand or to reduce energy consumption of appliances employed by users and measures to replace appliances that use fossil fuels with appliances that use renewable sources. If the resulting energy efficiency certificates are not sufficient to fulfil the obligation, obligated distributors can purchase the remaining energy efficiency certificates on the market from other distributors, the distributors’ subsidiaries, ESCOs and companies with energy managers, pursuant to Law 10/91. The methods for assessing the energy saving achieved by the individual measures implemented, and the rules governing the procedures for recognition of the effects through projects previously implemented in the 2001-2004 period, are included in the Guidelines, issued by the Authority (no. 103/03, amended by resolutions nos. 200/04, 123/07 and EEN 1/09) in accordance with the ministerial decrees of 20 July 2004.
Following a series of consultations, during 2008, the Authority issued new resolutions amending certain energy saving reporting schedules (EEN 4/08), updating the value of the MWh/TOE conversion factor (EEN 3/08), establishing the minimum size of projects for new entities subject to the obligation and companies with energy managers (EEN 34/08), introducing the obligation to register bilateral energy efficiency certificate exchange agreements (EEN 5/08) and adopting a new formula for annual calculation of the amount of the grant to obligated entities (EEN 36/08). During 2009, the Authority established the value of the grant for 2010 (EEN 21/09) and, after consultation, issued resolutions to update (EEN 17/09) and introduce (EEN 2/10) the savings reporting schedules. With its resolution EN 09/10, the Authority approved three new technical drafts relating to centralised systems for air conditioning of buildings, small cogeneration plants and district heating systems for the civil sector.

In the 2010-2012 three-year period in particular, a steady increase was recorded in the annual obligations relating to the achievement of the energy saving objectives set for AEM Torino Distribuzione as electrical energy distributor. In consideration of the critical issues that operators have in fulfilling the obligations, repeatedly notified to the competent entities, several proposals of the AEEG have been submitted for consultation to modify the energy efficiency certificate mechanism (DCO 43/10 and the technical table envisaged in EEN 7/11) which led to the issuing of new guidelines (EEN 9/11, replacing Annex A of 103/03) and introduce new elements summarised as follows:
- the introduction of a durability ratio which takes into consideration cases in which the lifespan of the works exceeds its useful life as defined in current regulations (i.e. the energy efficiency certificate recognition period) and is used as a multiplier for the savings recognised during the useful life of the works so as to also focus on the savings generated beyond the certificate recognition period; the value of the lifespan and useful life and the durability ratio are indicated in Table 2 of the Guidelines on grouping the types of work and serve as a general reference (in special cases and with suitable justification, different references can be used in the project proposals and planning measures - PPPM);
- a reduction in the minimum size of projects to 20, 40 and 60 TOE, respectively, for standardised, analytical and finalised projects, regardless of the type of project owner;
- inclusion of a new category in the list in Table 2 of the Guidelines regarding efficiency improvements to electrical energy and natural gas networks;
- the option of applying a 2% bonus to certain types of standardised project if accompanied by information campaigns to end customers on the correct use of equipment and devices;

- the option of applying finalised evaluation methods also to projects comprising works for which standardised or analytical evaluation methods are available, provided the decision is justified and the projects involve works that can be assessed by different methods;
- mandatory RVC (requests for verification and certification) submission within 180 days of start-up of a standardised or analytical project;
- mandatory initial accounting of savings achieved by analytical or finalised projects by the end of the 24th month after initial activation (defined as the first date on which at least one participating customer begins to benefit from the energy savings);
- mandatory document archiving for a period equal to the lifespan of the works covered by the project.

The new rules will apply to all projects already submitted to the AEEG, with reference to savings achieved with effect from the date of entry into force of the new Guidelines. Specifically:
- for finalised projects, RVC submissions after entry into force of the guidelines must indicate the works category, the value of the lifespan and value of the durability ratio;
- for analytical projects, RVC submissions after entry into force of the Guidelines will be based on the updated technical sheets;
- for standardised projects, the increase in energy efficiency certificates deriving from application of the new Guidelines and the technical sheets updated with quarterly emissions still outstanding will be paid in a lump sum in advance (by 30 April 2012). This should significantly increase the quantities of energy efficiency certificates available on the market;
- lastly, the AEEG will integrate its website with the list of energy services companies that have achieved energy efficiency certificates in relation to the number of RVC submissions and the breakdown by type of energy efficiency certificates achieved, also indicating whether UNI-CEI 11352 certification has been obtained (ESCO requirements).

These new guidelines, in synergy with the provisions of Legislative Decree no. 28/2011 on renewable sources, could reduce the current gap between the obligations up to 2012 (very high) and the energy efficiency certificates available (limited), through the following measures:
  - approval of new standard sheets drawn up by ENEA (the Italian National Agency for Energy Efficiency);
  - periodic reconciliation of the right to certificates with the useful life of the measures;
  - rendering transportation savings equivalent to gas savings;
  - reducing obligations by way of savings from efficiency improvements to electrical energy and gas networks.

Lastly, Ministerial Decree dated 28 December 2012 (Official Journal of 2/1/2013) was published, regarding the "determination of national quantitative energy saving objectives" that must be pursued by electrical energy and gas distribution companies for the years 2013-2016, and for the reinforcement of the white certificates mechanism". In summary, the most significant changes of the Ministerial Decree (compared to Ministerial Decree of 27/12/2007 which defined the energy savings for the 2008-2012 period) are:

- the definition of "objectives" (national, in TOE) DIFFERENT from "obligations" (sector, in Energy Efficiency Certificates);
- the definition of a more contained trend in 2013 and 2014 obligations compared to the past;
- EECs due from distributors are TOE multiplied by the "TAU" (multiplier) ratio with an average value of 2.5;
- obligations are net of the EECs from CAR;
- possible theoretical increase in obligations due to excess EECs also at distributors;
- reduction in obligations thanks to network efficiency improvements;
- in the absence of new post-2016 obligations, GSE will continue to withdraw EECs at a standard price and they will no longer be restricted by new RVCs;
- new guidelines on EECs issued by the Ministry following consultation, applicable from 2014;
- from 2014, only projects still to be implemented or those in the process of being implemented will access white certificates (it will only be possible to recover the measures taken in the past up until 31 December 2013);
- increase in number of entities and less restrictions on accessing projects for companies that have recourse to Law 10/91 and ISO standard 50001;

- “major projects” will have a preferential channel and a potentially greater recognition of EECs in metropolitan areas;
- AEEG will define a maximum value for the tariff contribution;
- minimum obligation of 50% (no more than 60%) for 2013 and 2014;
- compensation of the residual amount will take place in two years (no longer just one) for 2013-2016;
- AEEG will define the penalty calculation methods;
- more checks, especially for projects involving more than 3,000 toe/year;
- from 2013, AEEG transfers operational management of the mechanism to GSE;
- approval of 18 new sheets.

Resolution 1/2013/R/efr made provision for the transfer to Gestore dei Servizi Energetici S.p.A. of energy saving evaluation and certification management activities relating to projects presented relating to the EEC mechanism, in implementation of Interministerial Decree of 28 December 2012.

Emission trading system
In accordance with the Kyoto Protocol, from 2008 to 2012 industrialised countries and transition economies are committed to reducing the global emission of greenhouse gases by an overall 5%, compared to the levels for 1990.
The reduction targets, different for each member country, are 8% for the European Union and 6.5% for Italy.
To meet the reduction obligations established by the Kyoto Protocol, Directive 2003/87/EC has defined a trading system for the emission allowances of greenhouse gases within the European Union, i.e. the “Emission Trading System” (ETS). The Italian law implementing Directive 2003/87/EC is Legislative Decree no. 216 of 4 April 2006.
The Emission Trading System provides that a maximum limit is established for emissions from industrial plants producing greenhouse gas, by allocating each plant (through the National Assignment Plans - NAP - to be approved by the Commission) a given number of emission quotas, which give the right to emit a corresponding quantity of tonnes of carbon dioxide into the atmosphere during the year to which the quotas refer.
Each year the operators of plants governed by Directive 2003/87/EC are required to return a number of quotas corresponding to the emissions actually produced.
Any surplus of quotas (positive difference between quotas assigned at the start of the year and actual emissions into the atmosphere) may be set aside or sold on the market, while any deficit may be covered through purchase of quotas. Member States must therefore ensure free circulation of the emission quotas within the European Community allowing real development of the European market for emission rights.
For the period 2008-2012, on 27 November 2008, the national committee for the management and implementation of Directive 2003/87/EC approved Resolution 20/2008, which executes the Decision on Assignment of CO2 quotas for 2008-2012, following the European Commission’s approval of the National Assignment Plan.

In April 2012, pursuant to art. 2, paragraph 1, Law no. 111/2010, the National Committee for the management of Directive 2003/87/EC approved Resolution no. 8/2012 which determined the CO2 quotas for “New Entry” plants which did not receive quotas free of charge. The list annexed to the Resolution indicates the CO2 quotas for 2010, 2011 and 2012 for the plant in Via Diete di Roncaglia, Piacenza, Authorisation no. 1617. By means of Resolution no. 563/2012/R/EFR, the Italian Authority for Electrical energy and Gas recognised, for the heat production plant in Via Diete di Roncaglia:
- 2,518 2010 quotas (equal to Euro 37,132.31 of receivables due);
- 10,245 2011 quotas (equal to Euro 134,004.60 of receivables due);

In relation to the collection of the data needed to determine the quantities of greenhouse gas quotas to be allocated free of charge for the post-2012 period, in accordance with Resolution 2011/278/EC, on 5 July 2012 the National Emission Trading Committee approved Resolution 18/2012 “*Launch of the public consultation on the national implementation measures pursuant to art. 11, paragraph 1, Directive 2003/87/EC*”. This resolution provided both the list of plants subject to Emissions Trading with related assignment of quotas free of charge, and the list of plants adopting the opt out (exclusion from the ETS system for small plants and under given conditions) clause and related emissions allowed. The paper was open to public consultation until 20 July 2012.

On 27 July 2012, the National Emission Trading Committee approved Resolution 20/2012, which approves and notifies the free assignments of CO_2 quotas for existing plants covered by the system in the 2013-2020 period. The list of plants, respective assignments and the list of plants opting out were sent to the European Commission which now has to assess Italy's proposal alongside those of the other EU Member States. The final decision regarding the quotas assigned free of charge for 2013-2020 to all EU plants rests with the European Commission. The actual release of the quotas will instead be performed annually by the Member States by 28 February as already envisaged under the current system.
Resolution 466/2012/R/eel of 08/11/2012 recognised, for CIP 6 producers, expenses deriving from directive 2003/87/EC for the year 2011.

CONCESSIONS AND ASSIGNMENTS

The Iren Group executes services under concessions/assignments in the following sectors:

- Natural gas;
- Electrical energy;
- Integrated water service.
- Environmental service management

Distribution of Natural gas

Genoa area

The natural gas distribution service in the municipality of Genoa and the neighbouring municipalities is carried out by Genova Reti Gas S.r.l. which is wholly owned by the first-level company Iren Acqua Gas S.p.A.. The relative assignment by the municipality of Genoa was issued on 29 December 1995 to the former AMGA S.p.A.
These concessions are currently operating under the extended regime pending the launch of public invitations to tender, the deadlines for which are 24 months for the Genoa 2 ATO - Province - and 30 months for the Genoa 1 ATO - Genoa City and System.

Turin area

The services regarding methane gas distribution in the municipality of Turin and district heating distribution in the municipalities of Turin and Moncalieri are, as of 27 January 2001 managed by AES TORINO S.p.A. following the contribution: (i) by ITALGAS of the business unit relating to the methane gas distribution service, (ii) by AEM Torino S.p.A. of the business unit relating to the heat distribution service.
The municipality of Turin, by resolution of its Municipal Council no. 63 of 23 January 2000, approved:
(i) the text of the agreement relating to the "Gas Service" and assignment of this service to Italgas and subsequent transferral to the newly established AES Torino S.p.A.;
(ii) authorisation to transfer to the newly established AES Torino S.p.A. the business unit of AEM Torino relating to district heating distribution, with related takeover by AEM Torino of the agreement entered into with the municipality on 28 November 1996 and expiring on 31 December 2036. Following the business unit contributions, effective from 31 October 2006, the heat sales business was transferred to Iride (now Iren) Mercato S.p.A and the heat production business was transferred to Iride (now Iren) Energia S.p.A..
These concessions are currently operating under the extended regime pending the launch of public invitations to tender, the deadline for which is six months from entry into force of the regulation (11 February 2012) for the Turin 1 ATO - City of Turin - and the Turin 2 ATO - Turin System. The public tenders have still not been called as yet.
By agreement dated 29 December 2008, the municipality of Nichelino (Turin) assigned the concession for use of the public soil and subsoil for the laying of networks, plants and infrastructures for the district heating service for a period of 30 years from the last connection made, to the temporary association of companies established between Iren Energia S.p.A., Iren Mercato S.p.A. and AES Torino S.p.A., which together established Nichelino Energia S.r.l..

Emilia Romagna area

The methane gas distribution service in Emilia Romagna provinces is managed by Iren Emilia S.p.A.. These assignments are currently operating under the extended regime pending the launch of public invitations to tender, the deadlines for which are established by Ministerial Decree 226/2011 (so-called Criteria Decree).

Other geographical areas

The Iren Group also operates in numerous other entities throughout Italy through assignments or concessions given by the competent municipalities to joint stock companies in which Iren Group companies have a direct or indirect investment.

The main assignments and concessions are:

- Province of Ancona / Macerata - ASTEA S.p.A. (21.32% owned by the Consorzio G.P.O. of which Iren Emilia holds 62.35%): Municipalities of Osimo (AN) Recanati (MC), Loreto (AN) and Montecassiano (MC).
- Municipality of Vercelli - ATENA S.p.A. (40% owned by Zeus S.p.A. which is a wholly-owned subsidiary of Iren Emilia): assigned in 1999 and expiring on 31 December 2010.
- Province of Livorno - ASA S.p.A. (40% owned by AGA S.p.A. which is 95.09% owned by Iren Emilia): Municipalities of Livorno, Castagneto Carducci, Collesalvetti, Rosignano Marittima and San Vincenzo – expiring 31 December 2010.

These concessions are currently operating under the extended regime pending the launch of public invitations to tender according to the deadlines established in Annex 1 to Decree no. 226 of 12 November 2011.

Natural gas sales

Pursuant to the Letta Decree on unbundling, i.e., the separation of gas distribution activity from gas sales, the Iren Group also sells natural gas mainly through Iren Mercato.

This activity is also carried out through direct or indirect investment in sellers including:

- Gea Commerciale S.p.A. and Salerno Energia Vendite S.r.l. for the Grosseto area and for Central Southern Italy;
- Astea Energia S.r.l. for the Marche area;
- Atena Trading S.r.l. for the Vercelli area;

Following the merger by incorporation of Enìa Energia S.p.A. into Iren Mercato (effective from 1 July 2010), the latter gained a customer base already served by the merged company in the Emilia Romagna area.

Electrical energy segment

AEM Torino Distribuzione S.p.A. manages the public electrical energy distribution service in the city of Turin pursuant to the ministerial concession issued by the Ministry of Trade and Industry to AEM Torino S.p.A. on 8 May 2001, transferred to AEM Torino Distribuzione S.p.A. pursuant to art. 38 of Law 340/00 by a decree authorising the transfer issued on 23 February 2004 by the Ministry of Productive Activities. This concession expires on 31 December 2030.

Through its local business combinations, the Iren Group distributes electrical energy in the following main areas:

- Marche area, with ASTEA S.p.A.
- Vercelli area, with ATENA S.p.A.

AEM Torino Distribuzione S.p.A. distributes electrical energy in the Municipality of Parma. Pursuant to the Bersani Decree, distributors must connect all applicants to their networks, without compromising service continuity and provided technical rules and the AEEG resolution issued on tariffs, contributions and costs are complied with. Distributors operating as at the date the Bersani Decree entered into force continue to provide distribution services on the basis of concessions granted by 31 March 2001 by the Ministry of Trade and Industry and expiring on 31 December 2030. By this deadline, the service will be assigned on the basis of invitations to tender - in compliance with national and EU laws on public tenders - announced no later than the fifth year prior to expiry. In order to rationalise the electrical energy distribution, only one distribution concession is granted per municipal area.

The concession for the electrical energy distribution in the Municipality of Parma, previously assigned to AMPS S.p.A. and subsequently to ENIA S.p.A., was transferred to AEM Torino Distribuzione S.p.A., retaining the expiry date of 31 December 2030, by Ministry of Economic Development Decree issued on 22 September 2010.

Integrated water service

Genoa area

Iren Acqua Gas holds the management assignment for the integrated water service (aqueduct, sewerage and purification) in the 67 municipalities of the province of Genoa, serving a total of 880,000 residents.
The assignment was granted by Decision no. 8 of the Genoa ATO Authority on 13 June 2003.
Liguria Regional Law no. 39 of 28/10/2008 governed the organisation of the integrated water service in compliance with the principles established by EU and national legislation, ATOs were identified for the Liguria Region, including that of Genoa, coinciding with the area of the respective province and district authorities were institutionalised for each area.
By means of subsequent Decision no. 9 of 17.12.2008, the Conference of Mayors of the A.A.T.O., on the request of IAG S.p.A., acknowledged that, pursuant to and in accordance with art. 4, par. 5 of Regional Law 39/2008, the concession - already assigned temporarily to IAG S.p.A., by means of the aforementioned Decision no. 8 of 13 June 2003, was deemed to exist at the moment of the entry into force of the aforementioned Regional Law and subsequently, at the Conference of Mayors, on 07.08.2009, assumed Decision no. 9 under which, in particular, it resolved:

- *to acknowledge, by approving it, the "Final report on the performance of the renegotiation of the contractual conditions with the market operator, Iride Acqua Gas S.p.A., pursuant to decisions no. 9 of 17.12.2008, no. 5 del 12.05.2009 and no. 7 of 26.06.2009 of the Conference of Mayors", drafted by the technical Secretary, signed due to the commitment of the Operator and attached to this decision of which it forms an integral and substantive part;*
- *to acknowledge that, subsequently, pursuant to art. 4, par. 5, of Regional Law 39/2008, the renegotiation of the agreement was concluded and that, therefore, the conditions envisaged by said art. 4, par. 5 of Regional Law 39/2008 were met;*
- *to determine, based on the repeatedly mentioned art. 4, par. 5 of Regional Law 39/2008, the date of termination of the existing concession, issued to A.M.G.A. s.p.a. (now Iride Acqua Gas S.p.a.), with decisions no. 8 of 13 June 2003 and no. 16 of 22 December 2003 made by the Conference of Mayors, expiring on 31 December 2032;*
- *to acknowledge that the management of the Integrated water service will continue in accordance with the current operational and organisational methods and through recourse to all companies already operating in the provincial area;*
- *to approve the Area Plan and technical regulations for the management of investments and works, attached to this document*
- (omitted.)"

Based on said Decision, an Additional Agreement was signed with IAG on 05.10.2009 which, retaining the contractual conditions already established in the previous agreement unchanged (the agreement stipulated on the basis of Decision no. 8 of 13 June 2013), acknowledges all the new contractual conditions.

The management of the integrated water service in the municipalities of the province of Genoa is carried out by IAG through operators that are protected and/or authorised with specific provisions by the Genoa ATO which were entered into starting from 2003. The authorised and/or protected operators in the Iren Group that perform the function of operator, and that signed specific agreements with IAG, are Mediterranea delle Acque S.p.A. (60% owned by Iren Acqua Gas), Idro-Tigullio S.p.A. (66.55% owned by Mediterranea delle Acque S.p.A.) and AMTER S.p.A. (49% owned by Mediterranea delle Acque S.p.A.).
In particular, Mediterranea delle Acque is the leading operator providing support to the first-level company Iren Acqua Gas as operator for the Genoa ATO, its services extending beyond the Municipality of Genoa to a further 37 municipalities (out of a total of 67) in the area covered by the ATO.

Emilia Romagna area
The Iren Group provides integrated water services based on a specific service assignment made by the respective Local Authorities, governed by agreements signed with the competent ATOs. The table below contains details of existing agreements in the Group's area of operations.

ATO	Regime	Agreement date	Expiry date
Reggio Emilia	ATO/Operator Agreement	30 June 2003	31 December 2011 (*)
Parma	ATO/Operator Agreement	27 December 2004	30 June 2025
Piacenza	ATO/Operator Agreement	20 December 2004	31 December 2011 (*)

(*) Service extended until new agreements are defined

Based on the laws of the Emilia Romagna Region (art. 10 of Regional Law 25/99 for water services, as amended by Regional Law 1/2003), the agreements provide for 10-year assignments, except for the agreement relating to the Parma ATO which, based on art. 113, paragraph 15-bis of the T.U.E.L., [consolidated law on local entities] sets the expiry of the assignment at 30 June 2025, by virtue of the disposal of 35% of the AMPS capital by the municipality of Parma in 2000 through a public offering.
By means of resolution no. 1690/11 of the regional council, adopted in implementation of Law no. 191 of 23/12/2009, art. 2, par. 186-bis of the provisions governing the subject of first-level companies, the Emilia–Romagna Region continued to manage the current assignments, retaining the level of quality and the possibility of developing the integrated water service and urban and similar waste management service for the 2012-2013-2014 period.
With regard to the ownership status of the water service assets, pursuant to applicable laws and concurrently with the merger process through which Enìa was established, AGAC, AMPS and TESA separating the assets of the respective Integrated Water Service, merging the entire investment of the Local Entity shareholders into Agac Infrastrutture S.p.A., Parma Infrastrutture S.p.A. and Piacenza Infrastrutture S.p.A. (the "asset" companies).
The asset companies make all the spun off assets relating to IWS management available to the Iren Group on the basis of a contract and payment of instalments by the Reggio Emilia, Parma and Piacenza ATOs.
Following the reorganisation planned as part of the merger of Enia S.p.A. into Iride S.p.A., the management of the IWS in the Parma and Reggio Emilia ATOs was transferred to Iren Acqua Gas with effect from 1 July 2010. The latter uses Iren Emilia premises for its operations, also through Iren Emilia subsidiaries.
IWS management in Piacenza was transferred from Iren Emilia to Iren Acqua Gas in September 2011.

Other geographical areas
The Iren Group also operates in numerous other entities throughout Italy in the IWS sector through assignments or concessions given by the competent municipalities to joint stock companies in which Iren Acqua Gas or other Iren Group companies have a direct or indirect investment. The main assignments and concessions are:
Toscana Costa ATO - ASA S.p.A. (40% owned by AGA S.p.A. which is 95.09% owned by Iren Emilia) integrated water service in the Municipality of Livorno and other municipalities in the province.
Marche Centro - Macerata ATO (ATO3). ASTEA S.p.A. (21.82% owned by Consorzio GPO which is in turn 62.35% owned by Iren Emilia) only for the municipalities of Recanati – Loreto – Montecassiano, – Osimo, Potenza Picena, Porto Recanati.
Biella-Casale-Vercelli ATO: ATENA S.p.A. (40% owned by ZEUS S.p.A. which is in turn a wholly-owned subsidiary of Iren Emilia) (for the Vercelli area).
Municipality of Ventimiglia: AIGA S.p.A. (49% owned by Iren Acqua Gas).
Municipality of Imperia: AMAT S.p.A. (48% owned by Iren Acqua Gas).
Alessandria ATO: ACOS S.p.A. (25% owned by Iren Emilia) for the Municipality of Novi Ligure – ASMT Servizi Pubblici S.p.A. (44.76% owned by Iren Emilia) for the Municipality of Tortona.

Waste Management Segment

Through Iren Emilia S.p.A. the Iren Group provides waste management services on the basis of assignments arranged by the Local Authorities, governed by agreements signed with the relevant ATOs. The table below contains details of existing agreements in the Group's area of operations.

ATO	Regime	Agreement date	Expiry date
Reggio Emilia	ATO/Operator Agreement	10 June 2004	31 December 2011 (*)
Parma	ATO/Operator Agreement	27 December 2004	31 December 2014
Piacenza	ATO/Operator Agreement	18 May 2004	31 December 2011 (*)

(*) Service extended until new agreements are defined

Based on the regulations for the Emilia Romagna region (for waste services, art. 16 of Regional Law 25/99 as amended by Regional Law no. 1/2003), the agreements provide for 10-year assignments. The expiries envisaged by the national legislator under Law 221/2012 and by the regional legislator, also apply to waste management services.

Services provided to the Municipality of Turin

On 31 October 2006, Iride Servizi S.p.A. took over the following from AEM Torino S.p.A. as a result of the business unit contribution arranged as part of the reorganisation process following the merger of AMGA S.p.A. into AEM Torino S.p.A.:

- the agreement signed with the Municipality of Turin on 28 November 1996, effective from 1 January 1997 for the assignment of street lighting and traffic light services in the Municipality of Turin, expiring on 31 December 2036;
- the management services assignment for the municipal heating plants (resolution of the Turin Municipal Council no. 111/94 and the ensuing Regulation of 30 November 2000), expiring on 31 December 2014;
- the management services assignment for the electrical and special systems in municipal buildings (resolution of the Turin Municipal Council on 29 November 1999 and the agreement signed on 21 December 1999, effective from 1 January 2000), expiring on 31 December 2014.

By resolution of 3 November 2010, the Municipal Council of Turin appointed Iride Servizi S.p.A. as the assignee of the maintenance services for thermal plants and electrical and special systems for municipal buildings until 31 December 2017, pursuant to Art. 218 of the Public Works Contract Code (Legislative Decree 163/2006).

FINANCIAL MANAGEMENT

General framework

In 2012 the downward trend in interest rates which started in the second half of 2011 continued. After increasing the benchmark rate to 1.5%, the European Central Bank brought the benchmark back to the current rate of 0.75% by means of three decreases implemented in November and December 2011 and in July 2012.

Performance analysis of the 6-month Euribor rate shows a downward trend that began in the middle of 2011, which continued throughout 2012, and which led to the current level of 0.3%. In 2012, the quotations of fixed rates reflected in the values of 5- and 10-year IRSs fell, reaching new historic lows. However, the start of 2013 saw a brief phase of growth in forward rates.

Activities performed

During 2012, activities aimed at consolidating the financial structure of the Iren Group continued. The development of funding needs is monitored through careful financial planning, which enables requirements for new financial resources to be anticipated, taking into account the repayments of outstanding loans, the development of indebtedness as a result of carrying out the investment programme, the development of working capital and the balance of short-term and long-term sources.

The organisational model adopted by the Iren Group, with the goal of financial optimisation of all Group companies, provides for Iren's adoption of centralised treasury management, medium/long-term loans and financial risk monitoring and management. Iren has relations with the leading Italian and international banks, for the purpose of locating the types of loans best suited to its needs, and the best market conditions.

Moving on to discuss in detail the financing transactions completed in 2012, note that in June new medium-term loans were finalised for a total of Euro 120 million, specifically Euro 50 million with BBVA, Euro 30 million with Banca Popolare dell'Emilia Romagna and Euro 40 million with Mediobanca.

At the end of 2011 and the start of 2012, the European Investment Bank granted new 15-year loans for a total of Euro 440 million, for which the EIB requires guarantees from approved entities. A first tranche of Euro 100 million was used by the end of 2011 and a further Euro 282 million, in four tranches, was used in 2012. It is expected that the remaining Euro 58 million will be used in the first half of 2013.

Furthermore, in the first quarter of 2013, a new 15-year loan of Euro 100 million was stipulated with Cassa Depositi e Prestiti, and utilised.

The new loans were specifically granted in support of the investment programme and make it possible to maintain a proper balance between the Group's short and long term financial exposure. At 31 December 2012 the Group's mortgage and put bond debt represented 96% of the total net financial indebtedness, and the net non-current indebtedness accounted for 81%. This percentage takes into account the classification of receivables due from the Municipality of Turin under non-current financial assets.

Within the Group, in June 2012 AES Torino (51% consolidated) obtained a new bank loan of Euro 20 million. In addition, at the end of 2012, it finalised and utilised a loan of Euro 55 million from the European Investment Bank brokered by Intesa Sanpaolo. OLT Offshore LNG Toscana (41.7% consolidated) obtained new loans in 2012 from the shareholders Iren Mercato (financed by Iren within the Group cash pooling) and E.On in equal shares and for a total amount of Euro 81 million. The total shareholder loan to OLT to support investments is equal to Euro 601 million at 31 December 2012.

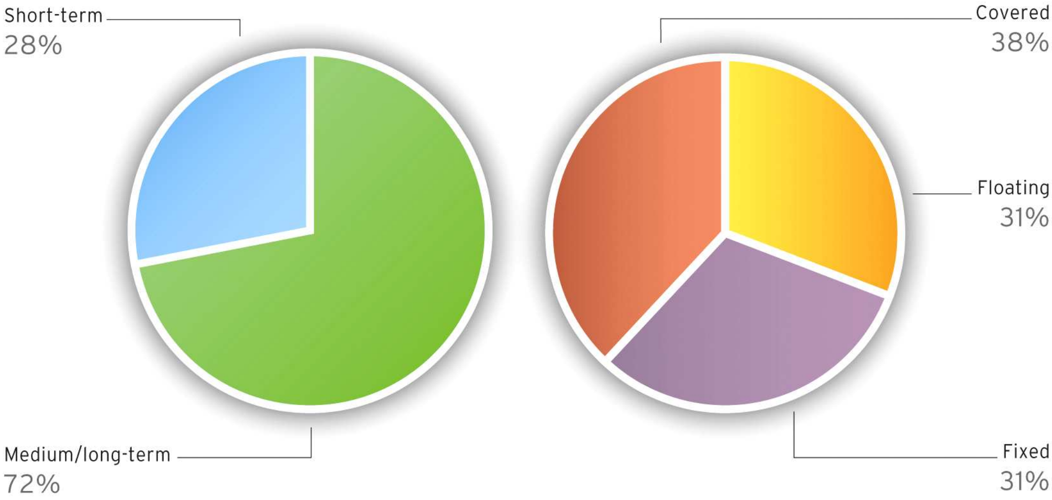
The Iren Group is exposed to various types of financial risks, including liquidity risk, interest rate risk, and currency risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit such risks. Further information can be found on the paragraph "Risk Management" in the Notes to the Financial Statements.

In 2012, a new Basis Swap agreement was stipulated for Euro 40 million, valid for 2013 and the first half of 2014. The purpose of these contracts is to swap two floating rates, in this case the 1-month Euribor rate with the 6-month Euribor rate. This swap completes existing interest rate hedges and reduces the year-on-year spread.
At 31 December 2012, the portion of variable rate debt which is not hedged with derivative instruments was 27% of the loan positions and 30% of the consolidated net financial indebtedness, in line with the target of the Iren Group which is to maintain a balance between fixed and variable interest rate positions or ones that are protected from significant increases in interest rates.

Net financial indebtedness by maturity

Net financial indebtedness by rate type

Position at 31/12/2011



Position at 31/12/2012

TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries and related parties are ruled by a transparent and fair approach. A sizeable part of these relations concern services provided to the customers in general (gas, water, electrical energy, heat, etc.) and are governed by contracts normally applicable to these situations.

Where they do not concern current services, the transactions are governed by specific contracts, whose terms are established in accordance with normal market terms. If these references are not available or significant, the various profiles will be defined in consultation with independent experts or professionals.

Information on transactions with related parties is included in the Notes to the consolidated financial statements.

IT SYSTEMS

In 2012, the Group continued to consolidate and optimise the applications and infrastructures of the different companies.
The most significant activities carried out by the Iren Group include those relating to the unification of IT systems in support of energy distribution, completing the integration of the Electrical energy network in Parma in compliance with the unbundling restrictions: the project will allow not only increases in efficiency due to the consolidation of applications, but better management of the electrical energy distribution processes, and benefits linked to better invoicing procedures.
It should also be noted that the system for the factoring of receivables on a revolving basis was completed and made operational, which will permit integrated and large-scale management of transfers to selected factors, providing a significant contribution to the management of the Group's financial position.

As regards the sales area, a new system was initiated for the management and administration of business customers in the Genoa area, achieving the first step towards amalgamating the associated applications.
In the waste management sector, collection centre automation initiatives were implemented (ecological islands) and the management, metering and billing of waste collected using the door-to-door method; the process of accepting and weighing collection vehicles was also improved, with the introduction of an automatic vehicle licence plate recognition system and the necessary initiatives put in place to adjust systems into line with the new tax arrangements set forth by the sector.
In 2012, the new fluid (gas and water) distribution network remote control system was completed with the integration in a single management platform of all types of peripherals present in plants and the essential amalgamation of the Remote Control System-Emergency Call Centre for the Emila Romagna area. The Group also continued with structural works on the Turin contact centre, to strengthen integration with the management of fault reporting.

Upgrade works were then performed on transnational systems in the Genoa area, to meet requirements regarding the standardisation of processes managed by Iren Acqua Gas, also for investee companies and in relation to the greater information needs of the Group and internal ones, also in light of the regulatory requirements set forth by AEEG for the water sector.
Solutions were also implemented both for personnel management, with the provision of web-based services to employees, and for cost monitoring and control, with the creation of a dedicated DWH.
Lastly, in terms of infrastructures, the Genoa data centre was enhanced and the data centres in Turin and Emilia Romagna area were consolidated and improved.

RISK MANAGEMENT

The management of business risks is an essential component of the Internal Control System of corporate governance in a listed company, and the Code of Conduct set forth by Borsa Italiana assigns specific responsibilities as regards this aspect. The Enterprise Risk Management, which is operative within the Group, includes methodological approach to the integrated identification, assessment and management of the Group risks.
For each of the following risk types:

- Financial risk (interest rate, currency, spread);
- Credit risk;
- Energy risk, associated with energy and/or financial markets, such as market variables or pricing options);
- Operational risks, associated with asset ownership, involvement in business activities, processes, procedures and information flows.

Specific “policies” have been defined with the primary goal of fulfilling strategic guidelines, organisational-managerial principles, macro processes and techniques necessary for the active management of related risks.
Reputational risks have also been integrated into the Group’s Enterprise Risk Management model, associated with maintaining trust and a positive image of the Group in the eyes of stakeholders.
The Group’s Enterprise Risk Management model also regulates the roles of the various parties involved in the risk management process, which is governed by the Board of Directors, and calls for specific Committees to manage each type of risk.
The “Risk Management” department, reporting to the CEO, was set up within the Iren Group. This department is formally entrusted with the following activities:

- coordinating the integrated management process of the Group's risks;
- signing and managing insurance policies, with the cooperation of the Legal department.

On a quarterly basis, the Risk Management Department also analyses losses in all the Group’s operating areas and defines the containment and reduction methods.
A summary of the Group risk management models is shown hereunder.

1. FINANCIAL RISKS

Iren Group's activity is exposed to various types of financial risks, including liquidity risk, currency risk and interest rate risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit currency risk and interest rate risk.

a) Liquidity risk

Liquidity risk is the risk that financial resources available to the company are insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.
The Group Finance Department was centralised in order to optimise the collection and use of financial resources. Specifically, the centralised management of cash flows in Iren, both through cash pooling and centralisation of all collection and payments within the Iren current accounts, make it possible to allocate Group-wide available funds according to the needs arising from time to time within the single companies. Cash movements are recognised in infragroup bank accounts along with infragroup interest income and expense.
Other investees have an independent financial management structure in compliance with the guidelines provided by the Parent.
Based on the cash pooling model, the accounts of all the companies are zeroed every day by means of a netting system that transfers the balances of currency transactions on the accounts of the Parent.
The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored. At 31 December 2012 the short-term credit facilities used by the Parent totalled Euro 269 million.
Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suitable to its needs, and the best market conditions.

In 2012, the Iren Group took out new medium/long-term loans totalling Euro 440 million, of which Euro 402 million for the Parent. Details of the activities carried out in this area and of the individual transactions are shown in the paragraph Financial income and expense.
At 31 December 2012, 42% of the residual amount payable for mortgages was contractualised at a fixed interest rate and 58% at a floating rate.

With regard to the liquidity risk potentially deriving from contractual clauses allowing counterparties to withdraw financing should certain events occur (default and covenant risk), the clauses in Iren loan agreements are fulfilled. In particular, for certain medium/long-term loan agreements Iren is committed to meeting financial covenants (such as net financial position/EBITDA, EBITDA/Financial expense ratios) with annual verification. Moreover, other covenants such as the Change of Control clause have been provided for, which makes provision for the maintenance of direct or indirect control of the Iren Group by Local Authorities, as well as clauses concerning negative pledges, under which the company undertakes not to give collateral beyond a specific limit, and the Pari Passu clause, which reserves an equal treatment to lending banks with respect to the treatment for other unsecured creditors.
The non-current loan agreements of certain Group companies also envisage the observance of financial covenants (Net Financial Position-EBITDA, Net Financial Position-Equity) which have been satisfied.

b) Currency risk

Except as indicated under the section on energy risk, the Iren Group is not particularly exposed to the currency risk.

c) Interest rate risk

The Iren Group is exposed to fluctuations in interest rates above all for financial charges regarding indebtedness. Iren Group's objective is to limit its exposure to interest rate increases while maintaining acceptable borrowing costs.
The risks associated with the increase in interest rates are monitored non-speculatively and, if necessary, reduced or eliminated by signing hedging swap and collar contracts with high credit standing financial counterparties, with the sole purpose of cash flow hedges. At 31 December 2012, all contracts to limit exposure to the interest rate risk were classified as cash flow hedges in that they satisfy requisites for the application of hedge accounting.
The fair value of the above-mentioned interest rate hedges was a negative Euro 59,767 thousand at 31 December 2012.

The hedging contracts agreed, together with fixed-rate loans, hedge approximately 70% of net financial indebtedness against interest rate risk, in line with the Iren Group target of maintaining a balance between floating rate loans and fixed rate loans or in any case hedged against significant increases in interest rates.
For a more complete understanding of the interest rate risks to which the Group is exposed, an analysis was conducted on the sensitivity of net financial expense and valuation components of financial derivative contracts to changes in interest rates, commented on in paragraph V, Risk Management in the notes to the consolidated financial statements.
At Financial Risk Committee meetings, compliance with the policy limits set was verified as regards the main metrics, and an analysis was conducted on the market situation, trend in interest rates, the value of the hedges stipulated and consistency with the conditions set by the covenants.

2. CREDIT RISK

The credit risk of the Iren Group S.p.A. is mainly related to trade receivables that show no particular concentration since the credit exposure is spread across a large number of counterparties, like retail and business customers and public entities. This risk is connected to the sale of electrical energy, district heating, gas and the provision of water and waste management services.
In conducting its business activities the Group is exposed to the risk that, as a result of the financial conditions of the payer in relation to the current general economic/financial crisis, receivables might not be paid on their due date and therefore the risks are attributable not only to an increase in the seniority of receivables, insolvency risk and an increase in receivables subject to bankruptcy proceedings but also could suffer impairment that could lead to full or partial cancellation from the financial statements.

In order to control credit risk, operating management of which is entrusted to individual regional functions, methodologies have been defined for monitoring and control of receivables in addition to the definition of strategies for reduction of credit exposure including Customer solvency analysis on acquiring receivables by means of thorough credit rating analysis to limit insolvency risk, the assignment of credit recovery to external credit recovery companies and the management of legal disputes regarding amounts receivable for services rendered, with the introduction of new recovery methods.
The trade receivable management policy and creditworthiness assessment tools, as well as monitoring and recovery activities differ in relation to the various categories of customers and the various consumption dimension levels.
Over the last few years in order to strengthen the analysis and monitoring capacities, new tools have been introduced for the acquisition of commercial information and customer payment records, operating management for the collection of overdue receivables, outsourcing the telephone inquiry activity for certain customer segments. The Group is also completing the “electronic meter” project with the aim of increasing the speed of customer disconnections and reducing costs.

Credit risk is hedged, for certain types of business customers, by appropriate forms of bank or insurance guarantees upon demand issued by first rate credit entities.
An interest-bearing guarantee deposit is provided for some types of services (water, natural gas, “protected customer” electrical energy) in compliance with regulations governing these activities. This deposit is reimbursed if the customer adopts the payment through bank/post current accounts.
Generally applied payment terms are compliant with regulations in force and are consistent with market standards. In the event of non payment, interest in arrears will be debited to the extent indicated in the supply contracts and as set out by regulations in force.
As a result of the persisting economic situation, the Group has improved credit risk control by strengthening its monitoring and reporting procedures, in order find counter-measures to combat the causes identified as quickly as possible.
Accruals to the allowance for impairment accurately reflect the effective credit risk through the targeted quantification of the accrual, involving the analysis of the individual receivable items recorded in the databases, specifically taking into account ageing, as well as comparison with historical impairment loss data and determination of the average non-payment rate.
A “receivable factoring” project was also launched in 2012, with the objective of implementing an application able to manage receivable disposal transactions in a structured manner.
On a quarterly basis the Risk Management Department gathers information to integrate the main data on trade receivables from the Group companies in relation to customers, business sector and ageing range. There is a particular focus on customers with the highest level of past due receivables, both among first level companies and for the Group as a whole.
The results are presented at the Committee meetings and agreed with the Credit Managers of first level companies which in operating terms are responsible for credit management and recovery.

3. ENERGY RISK

The Iren Group is exposed to the price risk, including the related currency risk, on the energy commodities traded, i.e. electrical energy, natural gas, coal, etc., as both purchases and sales are either directly impacted by fluctuations in the price of such energy commodities or through indexing formulae.
The Group's strategy is to minimise the need to turn to the financial markets for hedges, both by aligning the indexing of the commodities purchased and sold and by exploiting, vertically and horizontally, its various business segments.
For this purpose, the Group carries out production planning for its plants and purchases electrical energy, with the aim of reconciling energy self-production and market supply with demand from Group customers.

In November and December 2011, two commodity forward contracts (Commodity swaps on Gas Release 07 rate) were agreed upon as an energy portfolio hedge for 2012, for a total notional amount of 1.7 TWh and two average rate forward contracts were agreed upon for USD 105,000 thousand. Another forward contract was signed in February 2012 for USD 25,000 thousand covering the last four months of 2012.
In November and December 2012, two commodity derivative contracts (Commodity swaps on Gas Release 07 rate) were agreed upon as an energy portfolio hedge for 2013, for a total notional amount of 2 TWh. Also in December, additional swaps were then stipulated on Gas Release 07 rate for 0.5 TWh,

combined with PUN (single national price) swaps for an equal notional amount, that achieve the objective of stabilising the margin.
The fair value of agreements still in force on 31 December 2012 is a negative total of Euro 3,905 thousand.
Iren Mercato launched trading operations which involve the trading of physical and financial contracts on the electrical energy market and financial contracts directly on the underlying commodities. These contracts may refer to various indexes (PUN, ITEC, Itmix, BINE) and trading on the IDEX.
The contracts that give rise to these activities are classified in a specific Trading Portfolio, which had a total fair value of Euro -77 thousand at 31 December 2012.

At Energy Committee meetings, compliance with the policy limits set was verified as regards the main metrics, and an analysis was conducted on the market situation, sales volumes, exposure to currency risks and to risks linked to energy raw materials and the trend in the hedges entered into.

4. OPERATIONAL RISKS

This category includes all the risks not included in the previous categories, which may influence the achievement of operational targets, i.e. relating to the effectiveness and efficiency of business transactions, including the levels of performance, profitability and protection of the resources against losses.
The Enterprise Risk Management model applied at Group level is focused on the integrated and synergic management of risks, and adheres to a process that consists of the following stages:

- identification;
- assessment;
- treatment;
- control;
- reporting.

Each process stage is performed in accordance with standards and references defined at Group level.
The main risks in the above categories are assessed in terms of impact, event probability and level of control. These assessments are subject to periodic review. The indicators that allow the risk to be examined in terms of trends and critical points are also monitored.
The Group’s risk position is updated at least quarterly, indicating the extent and level of control of all risks monitored, including financial, credit and energy risks.
The main reputational risks are managed in addition to the operational risks.
The risk position and related indicators are submitted to top management and to the risk owners involved in mitigation and improvement activities.
Risk analysis is used as input in the preparation of planning tools.

The operational risk management process also aims at optimising the Group’s insurance profiles in the key “property” and “liability” areas.

a. Legal and regulatory risks

The legislation and regulatory framework is subject to possible future changes, and therefore is a potential risk. For this purpose, the Iren Group set up internal structures in charge of the continuous monitoring of reference legislation, in order to assess and, as far as possible, mitigate its impact.

b. Strategic risks

The local utilities sector is experiencing a phase of important development and consolidation. Deregulation and liberalisation mean companies have been forced to adopt a more decisive approach to competitive pressure, taking advantage of the opportunities for external and internal corporate growth offered by the new market scenarios.
The strategic development plan of the Iren Group provides for considerable investments, from the development of joint ventures of important regasification plants for the supply of gas, to the construction or upgrading of cogeneration plants to complete the district heating extension plan, and consolidation of the Group’s presence in the electrical energy and gas distribution sectors, and water and waste management sectors.

The above activities entail Group exposure to regulatory, technical, commercial, economic and financial risks (obtaining of licences, application of new technologies, compliance with commercial schedules, analysis of competition, etc.), which the Group has to tackle through specific processes and structures, focused on covering all phases, from assessment, to authorisation and realisation of said projects.
The Risk Management department performs specific quality-quantity assessments on strategic risks, indicating the main risk factors and management plans required.

c. Plant-related risks

As regards the compliance of Group production plants, plant-related risks are managed with the above-mentioned approach in order to correctly allocate resources in terms of control and preventive measures (preventive/predictive maintenance, control and supervisory systems, emergency and continuity plans, etc.).

For the more important plants the Risk Management department has recently completed a number of surveys, from which it has been able to accurately detail the events to which such plants could be exposed and subsequent preventive action.
Insurance instruments, specially created based on the specific needs of each single plant, were also created.

d. IT risks

The main IT risks are related to the availability of core systems, including interfacing with the Power Exchange by Iren Mercato.
The Company is, in fact, one of the leading Italian operators on the Power Exchange and any accidental unavailability of the system could have considerable economic consequences, connected with the non-submission of energy sale or purchase offers.
To mitigate such risks, specific measures have been adopted, such as the redundancy of parts of the system and appropriate emergency procedures ("Disaster recovery"), which are periodically subject to simulations, to ensure their effectiveness.

e. Economic risks

The difficult global economic situation in recent years, which has had a heavy impact on Eurozone countries, continues to have serious recessionary effects on Government and company finances.
In particular, the collapse in consumption and industrial production may have a severe impact on companies such as Iren that provide public utility services to the community and to businesses.
According to the Economic Bulletin of the Bank of Italy, in the first half of 2013 Italy is not showing any signs of a cyclical reversal of the trend; the return to growth, albeit modest, could happen in the second half. The trend in domestic demand for goods and services and credit conditions (cost and quality) constitute the biggest uncertainties regarding a forecast economic recovery.
Through the Enterprise Risk Management system, the Iren Group monitors the changes in the effects on company business units, taking any corrective action where necessary, in particular in the financial and commodity sectors.

RESEARCH AND DEVELOPMENT

Research and development performed within the Group in 2012 was mainly geared towards optimising and improving operating applications and the assessment of new opportunities connected with the use of innovative technologies. The initiatives are set out below.

Turin area

The research and development activities carried out by the Group in 2012 were mainly aimed at:
- developing, within the academic environment, of research projects in areas of strategic interest related to district heating;
- optimising and improving operating applications;
- the assessment of new innovative technology opportunities.

The main research and development activities carried out by the first-level company Iren Energia (and its subsidiaries) in 2012 are shown below.

COGENERATION AND DISTRICT HEATING RESEARCH AGREEMENTS

Following the series of Cogeneration and District Heating Committee meetings held in 2011, in 2012, 6 research agreements have been launched and developed with the Polytechnic, ICOOR and RIE targeted at the in-depth study of topics of strategic interest associated with district heating, in particular:
1. Storage systems and heat pumps;
2. Analysis, monitoring and modelling of user behaviour;
3. Logical schema of expert TLR (district heating) system;
4. Analysis of market potential for the provision of remote controlled air-conditioning services;
5. Strategic planning of TLR (district heating) networks;
6. Strategic marketing.

In 2012, Iren Energia cooperated in the development of activities related to the research agreements. The objective of all research agreements was to achieve the agreed macro objectives.

EUROPEAN PROJECTS

PROLITE

The project already won by the City of Turin was originally created with the goal of increasing the energy efficiency of traffic light systems: subsequently, following the city's decision to prepare the appropriate tender, the decision was taken to shift the focus of the work to lighting in school buildings and, therefore, the systems in at least 3 buildings will be upgraded.
Iride Servizi will carry out the works relating to electrical systems, for a consideration of around Euro 750,000.

ENERGY SAVINGS AND RENEWABLE SOURCES

Public lighting in Turin

A plan is in progress for the replacement of lights with mercury lamps, by installing HP sodium and metal halide bulbs: around 6,700 lights are expected to be replaced, with a power reduction of around 100 W for each one.
As at 31 December, 1,871 lights (28%) were replaced, 500 of which replaced in December 2011, while the remainder were replaced between May and November 2012.
Estimated energy savings in 2012 was 85 TOE.
On conclusion of the plan, expected by the end of 2013, the power reduction will be 700 kW.
Annual savings will be around 2.94 GWh, with an emissions reduction of roughly 550 TOE.
Evaluations are currently in progress to test special LED equipment with a small video camera mounted in the interior.
If this testing goes ahead, it will be carried out in an area of Parco del Valentino, a critical area due to its frequent attacks of vandalism.

Dynamic traffic lights management system

A total of 240 lights were installed in 2012, for an installed power of 9.32 kW.

The use of traditional lights would have involved installed power of 43.02 kW.

Taking into account the lighting hours and the alternation of traffic lights, annual savings come to 8.04 TOE.

Energy efficiency improvements in public buildings

In cooperation with an external company, the study continued on four of the more “energy eating” buildings owned by the City of Turin with a view to identifying the action necessary to improve the buildings’ energy performance.

Possible action takes into consideration the overall building-system combination and with regard to works specific to IRIDE Servizi, action can be taken that targets both the electrical and heating systems.

As regards buildings owned by the Group, the activities of the Work Group coordinated by the Energy Manager were finished, with the aim of identifying all possible works to improve the energy performance of the buildings. Some of these works will be budgeted for in 2013.

Energy efficiency

In terms of the Group’s energy efficiency, analyses were launched to attain the UNI CEI EN 50001 certification of Energy Management Systems and, as a preliminary activity, a systemic study commenced on energy consumption within the Group.

In order to spread a culture of energy savings and energy efficiency within the Group, a company communication project was launched through the local intranet in order to obtain the following objectives:

1) Spreading of a culture of energy savings within the company
2) Encouraging employees to carry out energy saving activities
3) Obtaining a significant energy saving

The project makes provision for the publication of articles on the energy manager and on related activities (on the intranet and in the “Iren Informa” periodical), posting of bills and the creation on the company INTRANET of an area dedicated to the ENERGY MANAGER in which the presentation of the role of the energy manager and the proposed initiatives find a cultural and motivational reference. Specifically, the following issues were dealt with:

1) Electrical energy consumption / savings
2) Water consumption / savings (viewed as an energy resource)
3) Heating energy consumption / savings
4) Waste consumption / savings (viewed as an energy resource)

For each branch, characterised by a “cartoon” (a fun graphical view) the following is proposed:

- questionnaire (multiple choice) to attract attention to the matter and arouse curiosity;
- quick answers to the questionnaire (within a few days) with links to the Sustainability Report;
- publication of practical tips for energy savings in the company environment and in private life and of links to dedicated websites and the industry experts considered;
- publication of dedicated material (considerations, technical explanations, etc.) on the specific subject of the branch;
- concrete actions to be implemented in the company;
- opening of a common area of communication with employees;
- insertion of a link to specific websites, publications, activities of other companies, etc.

MANAGEMENT OF SERVICE AND TELECOMMUNICATIONS NETWORKS AND INFRASTRUCTURES

Analysis and experimentation of zero electromagnetic impact electrical substations

The goal of the activity is to assess the feasibility of the realisation of the maximum reduction in the buffer zone of a distributor's electrical substation, with the objective of containing said buffer zone (under nominal load conditions of the substation) to a maximum distance of 10-20 cm from the walls of the substation.

Remote control of the district heating networks

The project for the remote control of the district heating network aims to provide the tools for effective management of consumption control, the configuration of the operating parameters, the technical maintenance and management of the SST (heat exchange substation) alarms in order to improve the services to the district heating customers. To this end the AEMNet technological platform has been designed, which is able to acquire the operating parameters from the substations, process the data and offer the necessary reporting and control tools. The project consists of setting up the entire technological platform and includes both the production, supply and installation of the peripheral hardware to be installed at 5,600 district heating substations, as well as the connection of the transmission data and central servers and development of processing software. In the 2011-2012 period, around 3,600 systems were installed (of which 3,000 already in operation), concentrated mainly in the Central Turin and Turin areas.

In 2012, a new portal was activated for the integrated management of meter readings, both for remote readings and for those collected by meter readers, in order to improve data collection processes and control of these.

Thanks to the almost complete installation of systems in the Central and Northern Turin areas, it is now possible to represent the functioning of centres of gravity, given that capacity and power data and all operating temperatures are constantly acquired; network pressures are also collected at the most significant points. This data will also be made available to the planning departments for further analysis.

Portal and integration of distributor's systems

Aem Torino Distribuzione (AEMD) launched a project for the integration of information systems between the Parma and Turin areas relating to commercial activities (receipt and final reporting of vendors' requests, preparation of quotes, metering management, billing, etc.).

This "transversal" project involves personnel from the departments of AEMD, Iren Mercato, Iren Emilia, Enia Parma and IT staff from Iren Emilia and Iren Energia, organised into work groups, coordinated by a distribution PM and a market PM; the project affects more than 10 different IT systems (SAP, CNRG, Reti, AMM, EDW, Portale Aemd (AEMD Portal), Repository Misure (Metering Repository), Load Profiling, etc.) and is structured into two phases:

- the first which saw the activation, in the middle of May 2012, of the vendor functionalities of the AEMD Portal also for customers connected to the Parma electrical energy network;
- the second for the completion of integration by the end of 2012.

The main objectives are:

- amalgamating the IT systems of the distributor with a subsequent reduction in the costs of managing and maintaining said systems,
- possibility of reorganising and centralising commercial activities, to exploit synergies,
- laying the foundations for the unification of systems also for the management of operations (fault reporting, Moby, etc.)
- effecting the unbundling of databases between AEMD and Iren Mercato also in relation to the Parma area, as envisaged in the provisions of the Italian Authority for Electrical energy and Gas on unbundling.

Voice-centric Warehouse Portal - Torino Nord Plant

The application allows maintenance personnel to directly pick materials from the unmanned warehouse of the Torino Nord thermoelectric plant for ordinary and extraordinary maintenance work.

The application's web interface makes it possible to select, from a tree structure, the technical premises involved in the maintenance, and display the bill of materials regarding the components present in the warehouse, so as to indicate their location and the available quantity.

The voice interface makes it possible, by calling a predefined telephone number, to pick the material from the warehouse, by following the instructions of a voice guide and entering the codes of the material picked and quantity of items using a numeric keypad.
Through the web interface, the warehouse manager can validate or invalidate the material picking performed by maintenance personnel, and confirm the task to the warehouse.
The application interfaces, through EAI (Enterprise Application Integration), Seeburger's BIS to SAP's PM (Plant Maintenance) module, where the technical premises are registered that constitute the plant and the handling of materials in the warehouse is managed.
The application's voice interface uses Waycom's Tempest system, equipped with IVR (Interactive Voice Response) modules for interaction via the DTMF, TTS (Text To Speech) keyboard for the voice synthesis of text messages and ASR (Automatic Speech Recognition) for the recognition of voice commands given via telephone.

Substation access control
The application makes it possible to constantly monitor access to AEM Torino Distribuzione's transformation substations and to send visual and audio alarms in the event a dangerous situation is identified.
Before accessing a substation, operators send an SMS message to a pre-established telephone number containing the access command, substation code and expected duration of visit.
The web application makes it possible to display substation accesses through a report and an interactive map which shows the substations in which an access has been logged.
The operator is automatically notified with an SMS message five minutes before the expected visit time elapses, so that he can, if necessary, send another SMS message to extend his stay at the substation.

If a substation exit SMS message is not received within the expected visit time, an alarm is generated which sends an SMS message to the substation operator and informs the personnel in charge of remote control with visual and audio warnings.
The application interfaces with Vodafone's MAM (Mobile Company Messaging) for the sending and receiving of SMS messages.
The interactive maps are created using Google Maps and with the associated services for the geolocation of the substations.
The reporting device is composed of a luminous column and a beeper controlled by an Arduino Ethernet microcontroller which queries a web service provided by the application which notifies users of situations of alarm.

Upgrading of contact centre platform - INTEGRATION WITH FAULTS
The project makes provision for the integration of the application that reports faults on the electrical network with the contact centre platform, to ensure each fault report is automatically accompanied by information on the call, i.e. date and time of receipt, caller telephone number, contact centre operator and audio recording of the call, as required by AEEG resolution 198/2011.

Genoa area

During the first half of 2012 Iren Acqua Gas continued to oversee hubs of technological innovation as part of the Research Project which has a priority focus on updating specific knowledge in the water sector from a technical/regulatory standpoint and the quality of the waters for human consumption.

To this end, the Group planned specific research projects in 2012, to be carried out in collaboration with its Foundation, Fondazione AMGA, Mediterranea delle Acque, Università degli Studi and national and international research centres.

More specifically, the research projects launched in 2012 concerned:

Models for estimating the elasticity of water demand in the presence of incomplete databases: The estimate of the elasticity of water demand with restricted confidence intervals made it possible to determine the impacts of regulatory policies on the quantities of water sold and, therefore, on total company revenues. Accordingly, the regulator needed to know the elasticity of water demand to determine the impacts that alternative regulatory policies can have on the wellbeing of the community, on company results and on the possibility of financing investments. As part of the project, it was possible to identify the most reliable procedures for the identification of the necessary data, implementing methods consistent with the econometric models used in a context characterised by a high number of missing values.

The investments in public utilities concern: Study targeted at analysing the implications and methods of implementation of investments by Water Utilities includes an analysis of the situation in Italy with particular reference to models for the management of the integrated water service and investment incentives connected to the different types of assignment. The work includes a review of the international experiences of sector financing, with particular attention to the financial instruments adopted in the American and European environments. The project report includes the following sections: object of the study, summary of the results and policy options; financing and regulation of the Italian water sector: emerging criticalities; analysis of European experiences (UK, the Netherlands, Germany, France and Spain); innovative financial instruments deriving from the American Model (Project finance, Revolving Funds, Water bonds).

The use of residual capacities of existing man-made lakes as a storage point for electrical energy: The objective of the project, still ongoing, is to increase awareness of the possibility of using man-made lakes as a storage point for electrical energy, identifying the areas best suited for investments, in contrast to alternative methods of energy production from wind and solar photovoltaic sources. These technologies are defined as non-governable in that the time and quantity produced at each hour of the day cannot be forecast, and variations in energy produced generates instability and congestion in electrical energy carriage networks.

Materials in contact with drinking water. Prospective legislation and regulations at European level: the repercussions on Italian industry: The project intends to create an opportunity for meetings at national level as part of the Mandate (M136 Rev 2) approved by the Committee in order to establish harmonised regulations (hEN) on materials and products in contact with drinking water, also by filling the gap in a Directive on water for human consumption. The IAG Group, through its Foundation, acted as a catalyst in the specific context for the various interested parties, in order to identify and protect the national industry, accredited laboratories, aqueduct operators and end users.

Purification systems and endocrine disruptors: On completion of the survey regarding the presence of endocrine disruptors in water destined for human consumption concluded in 2011, it emerged that to prevent the presence of these substances in water resources used for drinking water it is appropriate to verify the impact of effluent from treatment plants in the water cycle. To this end, the survey, involving the major Italian aqueducts, the University of Genoa and the Istituto Superiore di Sanità in Rome, aims to verify the level of IE present in the water of a number of treatment plants chosen on the basis of a questionnaire distributed to Italian water cycle operators. In order to measure the levels of endocrine disruptors in waste water, specific analysis methods have been developed, including the research of new compounds, such as drugs and flame retardants.

Algae microcystins in water destined for human consumption: the risk of intoxication from algal toxins is a problem that interests the scientific community, given that intoxications are increasingly more common and mainly caused by the eutrophication of coastal marine areas and lake basins. The latter are an important supply source for the production of water destined for human consumption, accounting for 30% of available resources at domestic level. Activities involved the drafting and circulation among aqueduct operators of a fact-finding questionnaire, implementation of a sampling method and analysis and planning of monitoring that will be carried out at domestic level in 2013.
The main Italian aqueducts are participating in the survey (Bari, Cagliari, Florence, Genoa, Como, Turin and Venice) with the University of Genoa and the Istituto Superiore di Sanità in Rome.
Pathogens in water resources affecting health: The project made provision for the expansion and supplementing of information on the hygiene-health problems of drinking water, with particular

reference to case studies identified among the resources used by operators in the Iren Group. Within this field, a work methodology that can be exported to any aqueduct was identified, making it possible to examine, in an appropriate and targeted manner, the criticalities tied to microbiological contamination throughout the entire treatment chain. In particular, the aspect related to the implementation of specific survey methods through the PCR technique was dealt with, which makes it possible to increase knowledge of the spread of pathogenic microorganisms in water destined for human consumption, by expanding the range of monitoring formats and completing the drafting of Guidelines for application of the Water Safety Plan (WSS) on microbiological aspects.

In 2012, Iren Acqua Gas continued to participate in the Water supply and sanitation Technology Platform (WssTP) established by the European Commission to monitor research in the water sector, has maintained contact with the US Water Research Foundation and has also continued its active participation in the **TICASS** Consortium (Innovative technologies for Environmental Control and Sustainable Development), the technology innovation centre of the Liguria Region. In this context numerous project proposals have been submitted which aim to finance research assignments on issues relating to water quality.

Project POR: March 2012 saw the official launch of the project financed by the Liguria Regional Government as part of the Regional Executive Programme: as part of the project an integrated environmental monitoring platform will be created where certain data and measurements obtained in real time will be made available, along with the results of simulations relating to the technological networks also represented by thematic maps created using automated procedures by the IAG Laboratorio Cartografico.

Iren Acqua Gas' participation in the following European projects also continued in 2012:

Project PREPARED: to define global, shared strategies to handle the impact of climate change on the integrated water cycle. The partnership's wealth of know-how, experience and technology in the various European countries will be used as a basis for the development of innovative solutions applied by operator companies to sample sites. The research results were presented at the progress meeting organised in Dublin from 14-17 May.

Project ROUTES: to define guidelines for the construction of an urban waste water and sludge treatment system. The partner in this project coordinated by the National Research Council's Water Research Institute is Mediterranea delle Acque.

@qua: participation in the European theme network to disseminate best practices and technological groups best suited to the efficient, sustainable management of water services. The results were presented at the Stakeholder event organised on 15 May in Brussels.

Project eLeanor: promoted by the LEONARDO Programme on ongoing training in the water segment.

Aquaknight: EU programme concerning the management of the transfer of knowledge and innovation for water savings in Mediterranean basins. Last May, Iren Acqua Gas organised the progress meeting and exchange visit in Reggio Emilia. The project results were presented at the International WaterLossEurope Conference 2012 organised in Ferrara as part of the Accadueo event.

TRUST: Transition to the Urban Water Services of Tomorrow 7th Framework Programme to define strategies and best practices for managing low environmental impact urban water services.

Emilia Romagna area

In 2012 the first level companies Iren Ambiente and Iren Emilia continued to focus their R&D activities on the issues of rationalising energy consumption, the use of renewable energy resources, the treatment of waste and processing residue and environmental well-being control.
As regards Iren RE-BUILD, a project coordinated by Iren RINNOVABILI for the development of a pilot initiative in the field of energy and performance upgrading of properties (and subsequent development of a new line of business), which forms part of the regulatory context outlined in Directive 2010/31/EU - Energy Performance of Buildings, research and development promoted by the Horizon 2020 Framework Programme for Research and Innovation and in the Strategic Energy Technology Plan (SET-Plan) to promote low-carbon technologies, the Group obtained UNI 11339 (Energy Management Expert)

certification, in order to meet the requirements for participation in competitions and tenders on energy efficiency and in the presentation of projects to AEEG for the obtainment of EECs. The project aims to integrate and enhance the role of renewable energies in efficient property upgrade strategies in order to promote their application, optimising impact with respect to needs.

During the course of the second half, the negotiation of 3 European Projects was managed, which concluded positively and led to the approval of:

- NRG4CAST-Fp7–2012-CT-EeB: budget Euro 188,580 of which Euro 100,260 financed.
- HOLIDES - Artemis JU: budget Euro 564,876 of which Euro 279,669.29 financed.
- EMPOWER - FP7-2013-ICT-GC: budget Euro 120,976 of which Euro 90,732 financed.

As part of NRG4CAST- ENERGY Forefasting a demonstration pilot will be set up in cooperation with European universities and CSI-Piemonte to improve public building energy efficiency in an urban context. Through the building and function testing of an IT system (software and hardware platform) a system will be made available to forecast energy needs via a Web SoA application. The system will be a generic analytical engine based on the aggregation and manipulation of data from the energy distribution network, sensory data sources (light, temperature, humidity, absorption, flow) and public data archives (e.g. weather, energy price trends, spark spreads, cap and trade emission trading, etc.) or forecasts (exchange rates, weather).

Data on building energy consumption in its various forms will be gathered and measured to build the time series necessary for providing the required input for the analytical and forecasting models.

The goal of the EMPOWER project is to increase energy efficiency in network services, with the priority objective of public service innovation in the water, energy and gas sectors and improving the quality and accessibility of such services, guaranteeing high standards of interoperability between different cloud systems and at the same time reducing the costs of adopting ICT technologies and increasing returns on investments;

By contrast, the HOLIDES project takes into consideration the human factors in critical cases to develop applications that can be adapted to the activities to be carried out, to operators and to available resources, in order to optimise processes and reduce the running costs of the service).

In our case, the following will actually be developed at the Parma control station for the management of emergency calls: method of management of emergency priorities and assistance with the calls received, and the associated allocation of the resources and activities to be carried out and possible changes with respect to the current system (Genesys) to allow reaction times to be reduced (with the related certification mechanism) and better management of activities, operators and resources.

The work will be divided into 4 project lines in cooperation with the CRUI (Italian University Rectors' Conference) and Federutility:

Project 1: Smart metering & smart grids, with the aim of developing technological solutions able to promote and strengthen the recycling, production and integrated management of the various renewable energy sources and related distribution and metering systems for the energy produced;

Project 2: Energy efficiency in network services, with the priority objective of public service innovation in the water, energy and gas sectors and improving the quality and accessibility of such services, guaranteeing high standards of interoperability between different cloud systems and at the same time reducing the costs of adopting ICT technologies and increasing returns on investments;

Project 3: Sludge disposal/treatment, with the aim of guaranteeing optimum management and recycling of local waste management resources by developing technologies and operating models also designed to recycle these resources (e.g. drinking water from leachate) and protect biodiversity. The project will focus particularly on the option of anaerobic treatment of liquid and solid waste (organic fraction) in co-digestion with excess sludge from the urban waste water treatment plants also with the aim of energy recovery (methane-content biogas production through anaerobic digestion);

Project 4: Smart logistics, culture and tourism with the aim of sustaining innovation through the development of technologies and solutions to improve interoperability of the regional and national logistics IT systems so as to achieve better use of the goods produced and network services, and - as a secondary step - through the support for system innovation and use of the cultural heritage and assets and tourism in the Cluster's reference area (to which this specific stage of Project 4 could be assigned

from the point where the contract calls specifically for involvement of the Regional Government of the Cluster reference area, which could intervene with complementary solutions and also sustain the related costs).
The outcomes of the other three projects presented and the evaluation of the project submitted as part of national CLUSTERS in the energy field are pending.
Activities continued in collaboration with the Municipality of Reggio Emilia, the Universities of Modena and Reggio, the CRPA and REI, as part of the Area Nord project and, more specifically, for the Tecnopolo initiative of Reggio Emilia for the development of projects attributable to the Green Economy.

PERSONNEL

At 31 December 2012, the employees working for the Iren Group totalled 4,567, down by 1.2% compared to the figure at 31 December 2011 which was 4,622 employees. The table below provides a breakdown of personnel at 31 December 2012, divided into Holding and First-level companies (with related subsidiaries).

Company	Personnel at 31.12.2012	Personnel at 31.12.2011
Iren S.p.A.	263	268
Iren Acqua Gas and subsidiaries	977	993
Iren Ambiente and subsidiaries	198	241
Iren Emilia and subsidiaries	1,672	1,668
Iren Energia and subsidiaries	1,008	1,018
Iren Mercato and subsidiaries	449	434
Total	**4,567**	**4,622**

The decrease which occurred in 2012 is the result of:
- further development of the workforce management policy, with recruitment restrictions and staff-leaving incentives, which has led to a decrease of 40 employees;
- the transfer of the Undis Servizi business unit with a workforce of 16 staff, of Gea S.p.A. with 8 staff and of Sasternet S.p.A. with 5 staff;
- the acquisition of a business unit from Erg S.p.A. with a total of 11 staff;
- development of activities in Olt Offshore LNG Toscana, which produced an increase of 3 members;

Training
Training within the Iren Group constitutes significant leverage in support of management policy, growth and development of human resources and is developed in line with organisational strategies and internal innovation processes.

The Group's 2012 training plan was drafted in accordance with the bottom-up approach, on the basis of the outcomes of surveys of requirements that involved Group Directors, Executives and Managers. The training plan included both technical, professional and managerial initiatives relating to consolidated activities, with a view to safeguarding and enhancing the existing experience and skills, and initiatives aimed at increasing skills to support the processes of change and integration of the Group and the individual Companies within it.

The final figures for 2012 show growth compared to the previous year, in terms of the number of employees participating in at least one training course, standing at 4,214, corresponding to 94.4% of the Group's workforce as at 31/12 (up 22% compared to 2011, when the total stood at 3,447). The man-hours linked to the various education and training initiatives organised by the Iren Group totalled around 83,500 hours (down 4.5% over the previous year), with average per capita, nonetheless, in line with the 2011 figure of roughly 19 hours.

The most significant initiatives organised in 2012 include:
- safety training in compliance with the provisions of the State/Regional Governments agreement as at 21/12/2012, targeted at
  - Group Executives, for which a 16-hour training course was developed, split into 4 modules, relating to legal-legislative responsibilities, safety management and organisation, risk identification and evaluation and worker communication, training and consultation;

- The personal details of employees, for whom a 4-hour training course was designed and taken by an in-house trainer, which not only fulfilled a legal obligation, but was focused, in particular, on promoting an active role in the management of workplace safety.

- Training on the Organisational Models adopted by Iren and the Group companies pursuant to Legislative Decree 231/2001, which involved around 600 Executives, Junior Managers and Managers in classroom-based training, in addition to more than 2,000 staff members (mainly employees) invited to participate in the light version in e-learning format, in order to ensure the widespread circulation in all areas;
- The managerial course targeted at Group Directors and Executives, with privileged meetings and discussions with entrepreneurs, managers and teachers and the course designed for Managers/Professionals and top management figures from the female population who were involved in “Management Profession” and “Women’s Leadership” courses – from Diversity Management to Diversity Leadership”.

Group guidelines were also issued on training and education, which allows the Group to optimise the allocation of training courses.

QUALITY, ENVIRONMENT AND SAFETY

Quality

All companies leading the Iren Group business segments have systems that are certified in accordance with international standards ISO 9001 (Quality), ISO 14001 (Environment), excluding Iren Mercato which does not intend to obtain ISO 14001 certification. Parent Iren and the Turin and Genoa companies also possess OHSAS 18001 standard certification (Safety).

Currently the Quality, Safety and Environment systems are managed in each first-level company by the respective departments; furthermore, they are in line with the Group policy, which is strongly focused on sustainable development of the company, both social and environmental.

Internal and independent audits were completed successfully for the certified companies in 2012 as scheduled.

EMAS Registration (EU Regulation 1221/2009 or the EMAS Eco-Management and Audit Scheme) was confirmed for 2012 for the Moncalieri thermoelectric production plants and the updated 2011 "Environmental Report" was approved, published on the Iren Energia S.p.A. website.

Preliminary activities also commenced for the obtainment of the EMAS registration for Iren ENERGIA's Torino Nord plants.

Iren Ambiente launched and developed a project to obtain the EMAS registration for the Poiatica landfill site.

Iren Energia and AEM Torino Distribuzione, each with regard to its own sphere of activities, in agreement with AICQ and the Turin Local Public Services Authority, were assessed positively by a team of specialised EFQM inspectors in order to evaluate the degree of maturity of the companies as regards their commitment to Excellence, according to the criteria of the new edition of the EFQM (European Foundation for Quality Management) model.

Iren Acqua Gas and Mediterranea delle Acque, Genova Reti Gas and Laboratori Iren Acqua Gas retained the Excellence certification from the certification organisation (already obtained in 2000 as AMGA and Genova Acque by Iren Acqua Gas and Mediterranea delle Acque respectively). Corporate excellence was achieved through control of all aspects relating to quality, environment and safety and the implementation of an integrated management system that makes it possible to constantly monitor and control these three operational aspects.

With regard to Laboratori Iren Acqua Gas, note that the Reggio Emilia and Imperia laboratories were successfully accredited for ISO 17025.

Safety

In this context, the policies of the Parent Iren S.p.A and the first-level companies have always aimed to comply with the relevant safety laws while also attaining constant improvement.

In 2012, the Parent Iren reached the objective of achieving the OHSAS 18001:2007 certification.

During the year, safety-related activities were carried out in compliance with BS OHSAS 18001:2007 regulations, allowing the Turin and Genoa companies to retain their certifications.

For Iren Energia, Iride Servizi and AEM Torino Distribuzione, the periodic management committees which handle and monitor safety aspects in general continued their work.

Training on workplace health and safety has begun as envisaged in the State-Regional Governments Agreement, involving all personnel of the companies Iren Energia, Iride Servizi and AEM Torino Distribuzione.

The risk assessment by job description and specific risk assessments relating to the Torino Nord plant (Iren Energia - Thermoelectric Production) have been issued, and the initial audit of plant safety is in progress.

Health supervision of personnel has continued through the use of equipped check-up rooms in the various company offices.

As regards the Genoa companies:
- Iren Acqua Gas' prevention and protection department continues to carry out the tasks for the Group's other companies located in Genoa.
- Internal prevention and protection department personnel appointed for each company retain the necessary prerequisites for carrying out the duties of RSPP (prevention and protection department manager) and ASPP (prevention and protection department supervisor).
- Annual safety meetings were duly held by all Genoa companies.
- General training on workplace health and safety has commenced, as envisaged in the State-Regional Governments Agreement, involving all Group companies' personnel.
- Followed by the adjustment of risk assessments by job description and specific risk assessments on sites.
- Activities were carried out to identify confined environments or those suspected of pollution, with associated employee training.
- At the same time, for subsequent employee training, activities were launched to identify those responsible for specific work equipment, as defined in the State-Regional Governments Agreement of February 2012.
- Health supervision of personnel in the Genoa companies is monitored in the various areas by seven MCs (qualified doctors) and coordinated by the Coordinating Qualified Doctor. This is performed regularly and concluded without the need for any particular prescriptive measure.

Iren Emilia has an internal Prevention and Protection Department with the requirements necessary for the tasks of the Prevention and Protection Service Manager (RSPP) and the Supervisors of the Prevention and Protection Service (ASPP). Iren Emilia's prevention and protection department carries out the tasks for the Group's other companies located in Emilia Romagna. The employer has appointed three qualified doctors to carry out health supervision tasks in the provinces of Parma, Piacenza and Reggio Emilia. The Prevention and Protection Department provides a safety training schedule for all the Group's Emilia Romagna companies and ascertains the effectiveness of the training.

Iren Emilia and its subsidiaries and Iren Ambiente are committed to:
- performing inspections on plants outside of scheduled audits and sample checks on the proper management of aspects related to workers' health and safety at all company plants;
- the training and qualification of certain representatives for each Technical Department to ensure the systematic execution of the aforementioned extra-audit checks on all company plants;
- the definition of additional indicators for monitoring the management of aspects related to workers' health and safety for the various company processes/activities.

The implementation of the safety management system also commenced during the year geared towards obtainment of the OHSAS 18001 certification. However, the safety management system, for the most part already implemented in previous years, was reviewed in order to establish common and standard methods in the Emilia Romagna area.
For the verification of contracted firms, inspection activities were identified, to be carried out by the Technical Departments and, where lacking, integrated in the relative procedures and/or better defined in general procedures. An on-site sample inspection of the contracted firms was then carried out by Safety Department personnel.

Environment
The Iren group's commitment continues as regards environmental protection in the various segments in which the Group operates. In particular, while performing their business activities, the first-level companies have focused on environmental protection principles, the rational use of natural resources and full compliance with regulations in force.

The following resources have been deployed in order to ensure sustainable corporate growth based on constant improvement:
- in the development of electrical energy from renewable resources (hydroelectric) or similar to renewable resources (cogeneration), as well as promotion and expansion of district heating as the energy saving technology and to improve the environment in urban areas, and adoption of the best plant technologies available on the market to ensure the lowest environmental impact from business

activities;
- improved use of water resources in terms of collection and utilisation as well as release and discharge;
- correct management of obligations regarding the special waste problem, as regards the phases linked to production, storage, transport and disposal/final recovery;
- dissemination of information on the impact of corporate activities on the external environment, through specific reporting, such as the Sustainability Report, the Environmental Statements, etc..

From an operational point of view, to ensure the lowest environmental impact of their activities, Iren Energia, Iren Acqua Gas, Mediterranea delle Acque, Laboratori Iren Acqua Gas, Genova Reti Gas, Iren Emilia, Iren Ambiente and their subsidiaries have focused particularly on:
- the maintenance of certification systems on a voluntary basis regarding certified environmental management systems in accordance with UNI EN ISO 14001:2004;
- monitoring of environmental performance through the use of special indicators for each significant environmental aspect;
- analytical control of the impact of plants on the environment, especially as regards emissions, air quality, waste water, noise and electromagnetic fields;
- performance of special internal audits aimed at checking the correct management of environmental issues in the company departments and plants involved in the certified environmental management systems;

In particular, to ensure the lowest environmental impact of their activities, Iren Energia, Iren Emilia, Iren Ambiente and their subsidiaries have attached importance to:
- the maintenance of certification systems on a voluntary basis regarding certified environmental management systems in accordance with the EMAS Regulation;
- compliance with administration tasks, especially as regards the monitoring and controls granted by the Environmental Integrated Authorisations (I.P.P.C. Directive) and the issue of greenhouse gas emissions (Emission Trading System) for the plants involved;
- continuous involvement of the company's staff, through specific reporting and training courses, scheduled on an annual basis and focusing on environmental issues and best practices for the management of plants, to ensure the lowest environmental impact;
- implementation of operational aspects in relation to "environmental" issues in the company organisational model adopted pursuant to Legislative Decree no. 231/01 on corporate administrative liability.

IREN AND SUSTAINABILITY

Iren continued on its path of CSR-Corporate Social Responsibility growth in 2012, a crucial element for our Group, that is attentive to issues with a social impact and to the development of the areas in which it operates.
The strategic guidelines pursued in 2012 and related Group investments are consistent with the sustainability commitment: expansion of the district heating network (following completion of the Torino Nord Project); production of clean energy; efficiency of the integrated water service; improved safety of the gas distribution network and procurement independence (Livorno OLT regasification terminal); growth in the waste management segment (Parma Integrated Environmental Hub).
As with other Iren Group assets, these investments contribute to the reduction of atmospheric emissions and improvement of the energy balance, objectives pursued by the company with a view to sustainable development. In energy terms, the Torino Nord District Heating project offers an annual saving of roughly 100,000 TOE (Tons of Oil Equivalent), in addition to the 200,000 TOE saved each year by the Moncalieri cogeneration plant.

In order to communicate to its stakeholders the actions, results and objectives, the Iren Group publishes a sustainability report each year. The report is a means of gaining awareness of the performance for the year, not just only in economic terms, compliance with current and future commitments and the company's ability to meet stakeholder expectations. The sustainability report is in any event a starting point on a path that envisages a series of actions taken with a view to Corporate Social Responsibility.
Drafted annually, the sustainability report in accordance with the "Sustainability Reporting Guidelines & Electric Utility Sector Supplement" defined by the Global Reporting Initiative (GRI); furthermore, the "principles for the preparation of the social report" prepared by the study group for social reporting [Gruppo di Studio per il Bilancio Sociale (GBS)] are taken into account as a reference for preparation of the report for the determination and distribution of added value. Subject to a limited audit in accordance with International Auditing and Assurance Standards Board criteria, the report achieved an A+ GRI rating.

In 2012, Iren also took part in the "CSR Online Awards Italy 100", international research on online communication of Corporate Social Responsibility promoted by Lundquist, achieving recognition of the "Best improver 2012" from the 100 biggest Italian companies involved in the research. In fact, Iren recorded the most significant growth in 2012 from the participants, rising 8 positions in the general standings. The creation of a section dedicated to Sustainability on the Group's website and the drafting of the Sustainability Report were of fundamental importance in reaching the result recorded. The new section of the Iren website highlights the effects of the activities carried out on the environment and on the social fabric, as well as the main economic aspects, in addition to the commitments to improving the performance results in the area, both in terms of the environmental impact and service quality.
In parallel, Iren took part in the "CDP Italy 100-Climate Change Report 2012", as part of the Carbon Disclosure Project, an international initiative launched in 2000 with the goal of increasing the awareness of investors, companies and institutions of the possible strategies that can be implemented to counteract the effects of climate change and greenhouse gas emissions. In its first year of participation, Iren obtained a score of 80 points out of a maximum of 100, regarding the quality and completeness of the answers provided to the questionnaire, above the average of the 100 Italian participants (62 points) and of the 500 global participants (76 points).

In 2012, Iren S.p.A. was included in the following rating indexes based on criteria linked to Sustainability (ESG- Environmental, Social, Governance):

- **FTSE ECPI Italia SRI Benchmark**, to which FTSE Italia All-Share companies that show strong ESG characteristics (top 100) have access;
- **ECPI Italy SME's Equity**, an index which selects the 30 listed companies with small/medium capitalisation (minimum of Euro 300 million), high liquidity and a positive ESG rating in accordance with ECPI Screening Methodology.

INFORMATION ON IREN'S CORPORATE GOVERNANCE

Iren S.p.A. was created, as is well-known, by the merger by incorporation of Enìa S.p.A. into Iride S.p.A. (taking the name of Iren S.p.A.) which took effect on 1 July 2010.
Iren S.p.A. operates as an industrial holding in the sectors of electrical energy (production, distribution and sale), heat energy for district heating (production and sale), gas (distribution and sale), integrated water services, waste management services (collection, transportation and disposal of waste), public lighting and additional minor services for public administration.
These activities are organised through a group of five first-level companies specialised in management of the various business areas, which operate directly or through their investees in the various segments.
This structure aims to enhance the Group's local presence and integrate the various business segments.
Management and coordination over subsidiaries is carried out by the Parent Iren S.p.A. as expressly provided and governed by the Articles of Association of Iren S.p.A. and in the Articles of Association of the first-level companies.
The Articles of Association of Iren S.p.A. also envisage that (i) the chairman is in charge of the coordination of first-level companies, Iren Acqua Gas and Iren Mercato, as well as their subsidiaries and/or investees and related assets (ii) the CEO is in charge of the coordination of the first-level company Iren Energia and its subsidiaries and/or investees and related assets; (iii) the General Manager is in charge of coordination of the first-level companies Iren Emilia and Iren Ambiente and their subsidiaries and/or investees and related assets.

Corporate Governance – postponement
The company operates under a traditional governance model the operating rules of which are dictated by the Articles of Association in addition to applicable primary and secondary laws.
In particular, with regard to management powers, the Board of Directors assumes a central role and, for issues that do not fall under the exclusive competence of this body, the Articles of Association provide for delegation by the Board of Directors to the Executive Committee which, in turn, is required to sub-delegate certain issues to the Chairman, CEO and General Manager.
With regard to the shareholders' meeting, the board of statutory auditors and the legally-required audit, subject to applicable laws, the Articles of Association establish tasks and operations.

With regard to Corporate Governance of the company, and specifically:
- adoption of the new Corporate Governance Code for listed companies issued by Borsa Italiana and the related implementation status;
- the report on corporate governance and ownership structures with information pursuant to art. 123-bis, Legislative Decree no. 58 of 24 February 1998, and subsequent amendments and additions (the Consolidated Law on Finance).
- the remuneration report in accordance with art. 123-ter, Legislative Decree no. 58 of 24 February 1998, and subsequent amendments and additions, introduced by art. 1 of Legislative Decree no. 259 of 30 December 2010.

reference should be made to (i) the "Report on corporate governance and ownership structures" drafted in accordance with art. 123-bis of the Consolidated Law on Finance and in compliance with Edition III of the Format issued by Borsa Italiana S.p.A. in February 2012, and (ii) to the remuneration report, both prepared in observance of disclosure obligations to Shareholders and to the market as envisaged by the new Corporate Governance Code and art. 89-bis of the Issuers' Regulation.
These report and related annexes, pursuant to art. 123-bis, paragraph 3 and art. 123-ter of the Consolidated Law on Finance are disclosed together with this Directors' Report and are available to the public from the company's registered office and Borsa Italiana S.p.A.. The documents are also available in the Investor Relations section of the website www.gruppoiren.it.

In order to conform its own corporate governance model to the recommendations set forth in the Corporate Governance Code, at its meeting of 30 August 2010, Iren's Board of Directors established:
- A remuneration committee (the "**Remuneration Committee**")
- An internal control committee (the "**Internal Control Committee**"). Following the introduction of a new Corporate Governance Code, on 18 December 2012, the Remuneration Committee was maintained with the powers envisaged by new art. 7, as well as the Internal Control Committee,

now called the Control and Risk Committee, whose functions and composition are established by new art. 8 of the Code.

Below is a brief description of the duties assigned to each committee and the related composition.

Remuneration committee

The Board of Directors contains a Remuneration Committee, composed of independent directors. Alternatively, the Committee may be composed of non-executive directors, the majority of whom are independent; in this case, the Chairman of the Committee is chosen by the independent directors. At least one member of the committee must have adequate knowledge and experience of financial matters and remuneration policies, to be assessed by the Board of Directors at the time of appointment.
On 30 August 2010, Iren'S Board of Directors appointed the following directors as members of the Remuneration Committee: Paolo Cantarella (independent), Ernesto Lavatelli and Franco Amato (independent).
The Remuneration Committee is a body that acts in a consulting and recommendation capacity, the main task of which is:

- periodically assessing the adequacy, overall consistency and actual application of the policy of remuneration of directors and key managers, by availing itself, in this last regard, of the information provided by delegated directors;
- formulating the relevant proposals to the Board of Directors;
- presenting proposals or expressing opinions to the Board of Directors on the remuneration of executive directors and other directors who hold special positions and establishing performance objectives relating to the variable component of said remuneration;
- monitoring the application of the decisions adopted by said Board by verifying, in particular, the actual achievement of the performance objectives.

The establishment of this committee aims to ensure the maximum amount of information and transparency on remuneration to executive directors and key managers, as well as the procedures used for the determination of this remuneration. The Remuneration Committee acts exclusively in a consulting and recommendation capacity, while the power to determine the remuneration of the directors and key managers, pursuant to art. 2389 paragraph 3 of the Italian Civil Code continues to rest with the Board of Directors, after consulting the Board of Statutory Auditors.
The interested parties are not present during the negotiation and adoption of Board of Directors' decisions regarding remuneration for Directors.
The Remuneration Committee also performs the functions of Independent Directors' Committee, limited to cases where the Remuneration Committee meets the minimum requirements set by Consob Regulations, in that it is composed of independent and unrelated directors, in cases where transactions regard the remuneration of directors and key managers of the company pursuant to art. 7.1-bis, of the applicable internal regulations governing related party transactions.
The Remuneration Committee reports to shareholders on the methods of exercising its functions; to this end, the Chairman or another committee member must be present at the annual shareholders' meeting.
The Chairman of the Board of Statutory Auditors or another auditor appointed by him can participate in the committee meetings; however, other auditors can also take part.

Control and Risk Committee

The Control and Risk Committee is composed of independent directors. Alternatively, the Committee may be composed of non-executive directors, the majority of whom are independent; in this case, the Chairman of the Committee is chosen by the independent directors. At least one member of the committee must have sufficient accounting and financial or risk management experience, to be assessed by the Board of Directors at the time of appointment.
On 30 August 2010, Iren'S Board of Directors appointed the following independent directors as members of the Committee: Enrico Salza, Alcide Rosina and Alberto Clò.
Following the resignation of Mr. Salza as an Iren SpA director on 22/05/2012 and, therefore, as a member of the Internal Control Committee, on 27/7/2012, the Board of Directors supplemented the committee by appointing Mr. Franco Amato as a member who, on 28/08/2012, was elected Chairman of the committee itself.

The Control and Risk Committee's job is to support, through adequate preliminary activities, the assessments and decisions of the Board of Directors relating to the internal control and risk management system, as well as those concerning the approval of periodic financial reports.
The Control and Risk Committee is in charge of the tasks and functions established by the new Corporate Governance Code.
The Control and Risk Committee, in assisting the Board of Directors:

a) assesses, together with the Manager in charge of financial reporting, and having consulted with the independent auditors and the Board of Statutory Auditors, the proper use of accounting policies, and in the case of groups, their consistency for the purpose of drafting the consolidated financial statements;
b) expresses opinions on specific aspects concerning Risk Policies, the identification of the main company risks and the Audit Plan;
c) examines the periodic reports, concerning the evaluation of the internal control and risk management system, and those of particular significance drafted by internal audit functions;
d) monitors the autonomy, adequacy, effectiveness and efficiency of the internal audit function;
e) can ask the internal audit function to perform checks on specific areas of operations, providing simultaneous communication to the Chairman of the Board of Statutory Auditors;
f) reports to the Board on its activity and the adequacy of the internal control and risk management system at least on a half-yearly basis, at the time of approval of the annual financial report and the interim report.

In carrying out its duties, the Internal Control Committee has access to information and company departments as necessary for these duties while it may also use external consultants under the conditions established by the Board of Directors.
Lastly, the Control and Risk Committee - as more amply detailed below - also performs the functions of Independent Directors' Committee as regards related party transactions, pursuant to art. 7 of the applicable Internal Regulations governing related party transactions approved by the Board of Directors.

Appointments Committee
Iren did not consider it necessary to establish an appointments committee within the Board of Directors, as it considers that the procedure for presentation of lists for the election of administrative bodies as established by the Articles of Association constitutes a guarantee of correctness and transparency in the system for the appointment of directors.
The Board of Directors may also resolve to establish an Appointments Committee, which must be composed of a majority of independent directors.
The Appointments Committee, where established, will be invested with the following functions:

a) formulating opinions to the Board of Directors regarding the size and composition of the same and expressing recommendations concerning the professional figures whose presence on the Board is deemed necessary, as well as on the maximum number of assignments of Director or Statutory Auditor in listed companies and on exceptions to the prohibition of competition pursuant to art. 2390 of the Civil Code;
b) proposing candidates for the office of director to the Board of Directors in the case of co-optation, where independent directors need to be replaced.

STATEMENT REGARDING COMPLIANCE WITH REGULATIONS ON CORPORATE GOVERNANCE

Iren'S system of corporate governance is in line with the provisions set forth in the Consolidated Law on Finance and the Corporate Governance Code. In particular, the Articles of Association are compliant with the provisions of the Consolidated Law on Finance and other provisions of the law or regulations applicable to listed companies.
In particular, the Articles of Association envisage that:

- Directors must fulfil the requirements of the law and the relevant regulations (Art. 147-quinquies, of the Consolidated Law on Finance);
- At least two members of the Board of Directors must possess the independence requirements established by applicable regulations (Art. 147–ter, paragraph four of the Consolidated Law on Finance);

- The appointment of all members of the Board of Directors must take place on the basis of lists (Art. 147-ter, paragraph one of the Consolidated Law on Finance);
- Minority shareholders are entitled to appoint at least two members to the Board of Directors (Art. 147-ter, paragraph three of the Consolidated Law on Finance);
- The gender balance is observed as regards the composition of corporate bodies (law no. 120 of 12 July 2011 regarding equal access to the administration and control bodies of listed companies);
- One standing and one substitute statutory auditor must be elected from the list presented by the minority shareholders (art. 148, paragraph 2 of the Consolidated Law on Finance);
- The Chairman of the Board of Statutory Auditors and a substitute auditor must be appointed by the minority shareholders (art. 148 paragraph 2-bis);
- One individual in charge of financial reporting must be appointed and the requirements for his/her professionalism and powers and tasks assigned must be established (art. 154-bis of the Consolidated Law on Finance).

Maximum number of roles in other companies

In accordance with the Iren Corporate Governance Code, the directors may accept office if they believe that they can dedicate the time necessary to carrying out their duties, also considering the number of directorships or statutory auditor roles they have in other companies listed on regulated markets (including foreign markets), in finance, banking, insurance companies, or companies of significant size.
In addition, in accordance with the commitment required of directors to carry out their Iren duties, the Board may express its opinion on the maximum number of director or statutory auditor offices the directors may hold in the companies referred to in the previous paragraph in order to be considered compatible with this commitment. To this end, the shareholders may introduce provisions to this effect to the Articles of Association, aimed at governing the appointment of directors in a consistent manner.

Treatment of corporate information

The management of communication, outside the company, of corporate information falls under the responsibility of the CEO, making use of the services of the Investor Relations department which acts in coordination with the “Institutional and External Relations” and “Corporate Affairs” departments under the direction of the body in charge of Iren’S financial communications.
Directors and Statutory Auditors are required to keep the documents and information acquired while performing their duties confidential.
At its meeting of 10 December 2010, and in line with the provisions of the Stock Exchange Regulations, the Board of Directors adopted the “regulation for internal management and external communication of confidential and/or privileged information.” This procedure expressly governs the communication obligations pursuant to art. 114, paragraph 7 of the Consolidated Law on Finance, as amended by art. 9 of Law 62/2005 (market abuse), and art. 152-sexies et seq. of the Issuer Regulation with reference to the organisational and company situation of the Iren Group.

Specifically, in accordance with the provisions of the above-mentioned self-regulatory law, regulations and provisions, relevant persons (those parties falling under the definition provided under art. 152-sexies of the Issuer Regulation), are required to inform Consob and the public, within 5 market trading days, of transactions involving the purchase, sale, subscription or exchange of shares issued by the issuer or related financial instruments, carried out by themselves or by persons closely related to them, when these cumulatively exceed Euro 5,000 per year. The aforementioned regulation is available on www.gruppoiren.it.
In compliance with the regulations to prevent market abuse, a register has been created at Iren and, pursuant to article 115-bis of the TUF, lists the people who have access to privileged information due to their working or professional activities or because of their duties.

Director responsible for the internal control and risk management system

At the meeting on 30 September 2010, Iren’s Board of Directors identified Roberto Bazzano as the executive director in charge of supervising the operations of the internal control system.
As a result of the alignment with the more recent provisions of Borsa Italiana’s 2011 edition of the Corporate Governance Code, which took place by means of resolution of the Board of Directors dated 18 December 2012, said position assumed the name of Director responsible for the internal control and risk management system.

Director responsible for the internal control and risk management system:

a) verifies the identification of the main company risks, taking into account the characteristics of the activities carried out by Iren S.p.A. and its subsidiaries, the definition of Risk Policies and the Audit Plan, and checks that these are periodically subject to review by the Executive Committee, the Board of Statutory Auditors, the Control and Risk Committee and the Board of Directors;
b) checks (i) that the guidelines defined by the Board of Directors have been implemented; (ii) provides for the planning, implementation and management of the internal control and risk management system, constantly checking the overall adequacy and effectiveness;
c) checks that this system is adapted to the operating conditions and the legislative and regulatory context;
d) can ask the internal audit function to perform checks on specific areas of operations and on compliance with internal rules and procedures in the performance of company transactions, providing simultaneous communication to the Chairman of the Board of Statutory Auditors, the Chairman of the Control and Risk Committee and to the Chairman of the Board of Statutory Auditors;
e) promptly reports to the Control and Risk Committee (or to the Board of Directors) on problems and criticalities that have emerged during the performance of his activities or that he has gained knowledge of, so that the Committee (or the Board) can put in place the necessary initiatives.

Internal control manager

In its meeting of 30 September 2010 and having consulted with the Internal Control Committee, the Board of Directors appointed the internal control managers, in charge of checking that the internal control system is always adequate, fully operational and functional. The appointment to internal control manager posts of Internal Auditing Managers Anna Socco and Maurilio Battioni took place immediately following the appointment of Mr. Bazzano as the executive director in charge of supervising operations of the internal control system (now called the Director responsible for the internal control and risk management system).

As a result of the amendments introduced with the alignment to the latest version of the Corporate Governance Code of Borsa Italiana S.p.A., approved by the Board of Directors of Iren S.p.A. on 18 December 2012, the role of Internal Control Manager was eliminated and the job of verifying that the internal control and risk management system is functioning and adequate was assigned to the CEO Roberto Garbati, a figure with internal auditing powers and who therefore, in a senior management position, assumes the function of internal auditing manager, pursuant to and in accordance with art 8. of the new Corporate Governance Code.

On presentation of the interim financial report at 30 June 2012 and the financial statements for as at 31 December 2012, the Iren Internal Control Managers presented a summary report to the Control and Risk Committee (then called the Internal Control Committee) on their activities in the first and second halves of 2012, for the purpose of checking the adequacy and operations of the Company’s Internal Control System.

Specifically, the Managers’ reports provided information on the following issues:

- presentation of the current configuration of Iren’S internal control system, with reference to its fundamental elements;
- presentation of the results of the controls carried out by the Internal Audit department at the main Group companies in order to monitor the internal control system regarding the most significant Iren procedures and those of its main subsidiaries: with reference to each check carried out, the summary framework of findings is presented, along with any recommendations and the follow-up monitoring of any corrective action initiated or in progress;
- summary of the action taken, within Iren and in the first-level companies, regarding implementation of the organisational, management and control models pursuant to Legislative Decree 231/01 approved by the respective Boards of Directors, and concerning the activities implemented pursuant to the provisions of Law 262/05.

A similar report is presented by the Internal Audit Manager at the time of presentation of the draft financial statements for 2012.

Other bodies and commitments

Iren has adjusted its corporate governance system to the provisions of the Consolidated Law on Finance and the new Corporate Governance Code through adoption of the necessary resolutions by the Board of Directors.
Furthermore, Giulio Domma was appointed Investor Relations Manager, and on 1 July 2010 Massimo Levrino was appointed manager in charge of financial reporting pursuant to Art. 154-bis of the Consolidated Law on Finance and with approval of the Board of Statutory Auditors.

Requirements for the directors

All members of the company's Board of Directors meet the integrity requirements as stated in Art. 147-quinquies of the Consolidated Law on Finance.
Directors Paolo Cantarella, Gianfranco Carbonato, Alcide Rosina, Franco Amato and Alberto Clò also fulfil the requirements of independence as provided by art. 148, paragraph 3 of the Consolidated Law on Finance and art. 3.3 of the new Corporate Governance Code.

Organisational model pursuant to Legislative Decree 231/2001

Iren and the main Group companies have adopted organisational, management and control models pursuant to Legislative Decree 231/2001 with the objective of representing a structured and organised system of procedures and control activities which would prevent, as far as possible, the perpetration of actions that could form the basis of offences envisaged by Legislative Decree 231/2001.
The model, updated by Iren S.p.A.'s Board of Directors at its meeting of 3 April 2012, includes:

(i) the description of the regulatory framework;
(ii) the description of the company's activities, of the governance model and the general organisational structure of the company;
(iii) the description of the methods applied to draw up the Model;
(iv) the composition and operation of the Supervisory Body;
(v) the disciplinary and penalties system;
(vi) the training and communication plan;
(vii) the criteria for updating the model;
(viii) the description of the Company's business which could be at risk for the commission of offences as provided by Legislative Decree 231/2001, with the provision of the relative control procedures.

The types of offences currently identified are as follows:

(i) offences in relations with Public Administration;
(ii) corporate offences;
(iii) market abuse;
(iv) offences committed by breaching regulations on the prevention of workplace accidents;
(v) other types of offences.

In addition to the organisational, management and control model, the issuer has adopted a Code of Ethics following the resolution of the Board of Directors of 10 December 2010.
The Company decided to have its Supervisory Body act on a collective basis in order to meet the independence, professional competence and continuity of action requirements noted above.
The members of the Supervisory Body are three directors without executive powers, one of whom is independent.
The Iren Supervisory Body will carry out regular checks on the areas of activity considered to be at risk in accordance with Legislative Decree 231/2001 along with the internal audit department, and report on the activities performed and on the results achieved to the Board of Directors on a half-yearly basis. Where necessary, the Supervisory Body will make recommendations for improving the activities control system and will monitor its implementation.

The general part of the model and the Code of Ethics are available on the company website www.gruppoiren.it in the investor relations/corporate governance/other corporate documents section.

Transactions with related parties

On 30 November 2010, Iren's Board of Directors adopted the "Internal regulation for transactions with related parties" which was issued in implementation:

a) of the provisions relating to transactions with related parties pursuant to article 2391-bis of the civil code;
b) the provisions set forth under art. 114 of Legislative Decree 58 of 24 February 1998 (the "Consolidated Law on Finance");
c) the regulation containing provisions on transactions with related parties, adopted by Consob with its resolution 17221 of 12 March 2010 and subsequently amended with resolution 17389 of 23 June 2010 (the "Consob Regulation").

The Regulation is effective from 1 January 2011. The provisions on public disclosures envisaged in the Consob Regulation and in this regulation are applicable from 1 December 2010.
The Regulation was also amended on 6 February 2013, in application of the new Corporate Governance Code.
The "Internal regulation on transactions with related parties" (also hereinafter referred to as the "TRP Regulation") is published on the Iren website (www.gruppoiren.it) and, in summary, provides for:

a) identification of related parties;
b) the meaning of transaction with related parties;
c) transactions of an insignificant amount;
d) transactions of major significance and the relative procedure;
e) transactions of minor significance and the relative procedure;
f) exclusions;
g) establishment of the committee for transactions with related parties;
h) transactions within the competence of the shareholders' meeting;
i) amendments to the Articles of Association to be submitted to the extraordinary shareholders' meeting of Iren;
j) forms of advertising.

Lastly, and regarding top managers, the following should be noted:

a) the Chairman of Iren S.p.A. (Mr. Bazzano) is also CEO and General Manager of the first-level company Iren Acqua Gas S.p.A.;
b) the CEO of Iren S.p.A. (Mr. Garbati) is also CEO and General Manager of the first-level company Iren Energia S.p.A.;
c) the General Manager of Iren S.p.A. (Mr. Viero) is also CEO and General Manager of Iren Emilia S.p.A. and CEO of the first-level company Iren Ambiente S.p.A..
d) Any interests that these authorised bodies have in transactions between the Parent and the above-mentioned First-level Companies will be declared in accordance with art. 2391 of the Civil Code when they are being reviewed and discussed by the respective Boards of Directors.

The Company and its subsidiaries disclose related party transactions in accordance with transparency and fairness principles, as noted in the Directors' Report (pursuant to art. 2391-bis of the Civil Code). A sizeable part of these relations concern services provided to the customers in general (gas, water, electricity, heat, etc.) and are governed by contracts normally applicable to these situations.
Where they do not concern current services, the transactions are governed by specific contracts, whose terms are established in accordance with normal market terms. If these references are not available or significant, the various profiles will be defined in consultation with independent experts or professionals.
The duties and responsibilities of the Independent Directors' Committee, which according to the Consob Regulation must express its opinion on the execution of transactions of major and minor significance with related parties and, in general, also perform all other duties assigned on transactions with related parties, were entrusted by the Board of Directors (at its meeting of 30 November 2010) to its Control and Risk Committee, the membership of which is extended for issues concerning such transactions.
In particular, in order to guarantee the independence and unrelated requirement in a given transaction ("unrelated" meaning that there is no relationship to the counterparty to a specific transaction and its related parties), the Control and Risk Committee is expanded to include other independent directors (pursuant to art. 148, paragraph 3, Legislative Decree 58/98 and to art. 3 of the Corporate Governance Code issued by Borsa Italiana) who are members of the Company's Board of Directors, attributing to the Chairman of the Control and Risk Committee the task of identifying - based on age seniority and also

taking into account the tasks already assigned pursuant to the Internal Regulation - a subcommittee (the "designated members") composed of three independent directors unrelated to the individual transaction under review.
To this end, at its meeting of 30 November 2010 and pursuant to Art. 7.1 of the Internal Regulation on Transactions with Related Parties regarding the extended composition of the Control and Risk Committee, limited to duties concerning transactions with related parties, the Board of Directors confirmed that the following members of the company's Board of Directors:

- Paolo Cantarella
- Gianfranco Carbonato

still meet the requirements of art. 148 paragraph 3 of Legislative Decree 58/98 (the Consolidated Law on Finance), and subsequent amendments and additions, and those of the Corporate Governance Code of Borsa Italiana S.p.A. and that adopted by the company, and therefore qualify as independent directors pursuant to art. 3 (h) of the Consob Regulation on transactions with related parties.

In 2012, the following related party transactions were executed: (i) one with the Municipality of Turin, through the subsidiary IRIDE SERVIZI S.p.A., relating to the amendment of certain clauses of the current service agreements with the city and the reduction of receivables owed to the Iren Group from the City of Turin; (ii) one with the Municipality of Turin relating to the participation of certain Iren Group companies in the public tender called by the Municipal Administration for the transfer of stakes in TRM and AMIAT; (iii) one with the Municipality of Parma regarding the settlement agreement for the resolution of the debt/credit balance with certain Iren Group companies; (iv) one with the Municipality of Parma, through the subsidiary Iren Ambiente S.p.A., regarding the legal protection against municipal provisions involving the suspension of construction works on the waste-to-energy plant in the city of Parma; (v) lastly, one with the related party BANCA IMI S.p.A. for the assignment of the task of financial advisor in an extraordinary transaction.
In compliance with the TRP Regulation, where necessary to meet the "independence" and "unrelated" requirements, a special sub-committee of "independent" and "unrelated" directors is designated, to examine and express an opinion on the interest of the company in that particular transaction, and on the convenience and substantive correctness of the related conditions.

OTHER INFORMATION

Personal data protection code

As part of the activities envisaged in Legislative Decree 196/03, the "Personal Data Protection Code", action was taken that was useful in assessing the data protection system in Group companies subject to these regulations. The action highlighted substantial adequacy of the formalities required under the regulations on the protection of personal data handled by these companies.

Statements pursuant to Art. 2.6.2 of the Stock Exchange Regulations

With regard to the certifications required by art. 2.6.2 paragraph 15 of the Exchange Regulation relating to compliance with the conditions set forth under art. 36 et seq. of the CONSOB Market Regulation, the company does not control companies established in and governed by countries which are not members of the European Union and which are of a significant interest pursuant to the provisions under section VI, par. II of the regulation adopted by CONSOB with Resolution no. 11971/1999, as amended. Therefore the provisions contained in art. 36, paragraph 1 the Market Regulation do not apply. With regard to the conditions set forth in art. 37 of the Market Regulation, the company is not subject to management and coordination by another company.

Report on Corporate Governance and Ownership Structures and the Remuneration Report

The Report on Corporate Governance and Ownership Structures and the Remuneration Report, approved by the Board of Directors and published with the Directors' Report, include information not mentioned in the previous section on Corporate Governance, as envisaged in art. 123-bis and art. 123-ter, Legislative Decree no. 58 of 24 February 1998, and subsequent amendments and additions.

PROPOSALS OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS' MEETING

PROPOSALS RELATING TO THE AGENDA ITEM "Financial Statements at 31 December 2012 and the Directors' Report: inherent and consequent resolutions."

Dear Shareholders,

in relation to the above, we propose that you:

- approve the financial statements at 31 December 2012 which closed with a profit of Euro 70,311,187.34.
- approve the following proposal for the allocation of profit for the year:

Iren S.p.A. profit for the year of	Euro 70,311,187.34
5% of profit for the year to the "legal reserve" of	Euro 3,515,559.37

To the shareholders, a unit dividend of Euro 0.0523 for the 1,181,725,677 ordinary shares and the 94,500,000 savings shares of a nominal amount of Euro 1 to be paid starting from 4 July 2013, for a total of Euro 66,746,602.91.

To the "Extraordinary reserve"	Euro 49,025.06

On behalf of the Board of Directors
The Chairman
Roberto Bazzano

Iren S.p.A.
Via Nubi di Magellano, 30 - 42123 Reggio Emilia
Share capital fully paid-in 1,276,225,677.00
Reggio Emilia Companies Register no. 07129470014
Tax Code and VAT no. 07129470014

Consolidated Financial Statements

at 31 December 2012

STATEMENT OF FINANCIAL POSITION

thousands of euro

	Note	31.12.2012	of which related parties	31.12.2011 Restated	of which related parties
ASSETS					
Property, plant and equipment	(1)	2,813,297		2,837,578	
Investment property	(2)	1,831		1,943	
Intangible assets with a finite useful life	(3)	1,295,022		1,280,769	
Goodwill	(4)	132,861		131,651	
Investments accounted for using the equity method	(5)	462,097		230,818	
Other investments	(6)	29,808		170,015	
Non-current financial assets	(7)	116,168	113,188	132,299	128,780
Other non-current assets	(8)	38,195	2,759	27,826	
Deferred tax assets	(9)	215,750		174,850	
Total non-current assets		**5,105,029**		**4,987,749**	
Inventories	(10)	89,110		67,931	
Trade receivables	(11)	1,253,713	151,377	1,239,730	150,717
Current tax assets	(12)	8,690		4,400	
Other receivables and other current assets	(13)	267,253	4,315	269,887	3,005
Current financial assets	(14)	273,550	254,223	377,235	355,751
Cash and cash equivalents	(15)	28,041	2,668	44,758	4,376
Total current assets		**1,920,357**		**2,003,941**	
Assets held for sale	(16)	7,739		31,622	420
TOTAL ASSETS		**7,033,125**		**7,023,312**	

Data as at 31 December 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

thousands of euro

	Note	31.12.2012	of which related parties	31.12.2011 Restated	of which related parties
EQUITY					
Equity attributable to owners of the Parent					
Share capital		1,276,226		1,276,226	
Reserves and retained earnings		311,070		466,075	
Profit (loss) for the year		152,559		(110,970)	
Total equity attributable to owners of the Parent		**1,739,855**		**1,631,331**	
Non-controlling interests		214,402		213,375	
TOTAL EQUITY	**(17)**	**1,954,257**		**1,844,706**	
LIABILITIES					
Non-current financial liabilities	(18)	2,197,827	177,162	2,051,413	210,604
Employee benefits	(19)	102,999		86,791	
Provisions for risks and charges	(20)	272,744		231,057	
Deferred tax liabilities	(21)	110,553		114,438	
Other payables and other non-current liabilities	(22)	154,453	177	146,123	
Total non-current liabilities		**2,838,576**		**2,629,822**	
Current financial liabilities	(23)	775,063	198,801	1,155,554	208,709
Trade payables	(24)	1,135,236	70,138	1,040,014	124,649
Other payables and other current liabilities	(25)	243,514	4,861	216,220	1,018
Current tax liabilities	(26)	4,910		37,740	
Provisions for risks and charges - current portion	(27)	81,548		99,061	
Total current liabilities		**2,240,271**		**2,548,589**	
Liabilities related to assets held for sale	(28)	21		195	
TOTAL LIABILITIES		**5,078,868**		**5,178,606**	
TOTAL EQUITY AND LIABILITIES		**7,033,125**		**7,023,312**	

Data as at 31 December 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

INCOME STATEMENT

thousands of euro

	Note	2012	of which related parties	2011 Restated	of which related parties
Revenue					
Revenue from goods and services	(29)	4,003,654	179,325	3,254,248	226,672
Change in contract work in progress	(30)	669	197	632	
Other revenue and income	(31)	323,518	4,048	265,719	17,559
- of which non-recurring		*23,015*		-	
Total revenue		**4,327,841**		**3,520,599**	
Operating expense					
Raw materials, consumables, supplies and goods	(32)	(2,116,257)	(232,336)	(1,682,008)	(479,810)
Services and use of third-party assets	(33)	(1,236,254)	(118,290)	(940,605)	(111,083)
Other operating expense	(34)	(105,250)	(8,029)	(71,563)	(3,481)
- of which non-recurring		*(14,644)*		-	
Capitalised expenses for internal work	(35)	20,667		28,208	
Personnel expense	(36)	(261,142)		(262,565)	
Total operating expense		**(3,698,236)**		**(2,928,533)**	
GROSS OPERATING PROFIT		**629,605**		**592,066**	
Amortisation, depreciation, provisions and impairment losses					
Amortisation/depreciation	(37)	(205,495)		(209,293)	
Provisions and impairment losses	(38)	(83,179)		(74,140)	
- of which provisions related to non-recurring transactions		*(7,631)*		-	
Total amortisation, depreciation, provisions and impairment losses		**(288,674)**		**(283,433)**	
OPERATING PROFIT		**340,931**		**308,633**	
Financial income and expense	**(39)**				
Financial income		26,533	11,543	23,783	11,374
Financial expense		(129,610)	(18,649)	(93,704)	(67)
Net financial expense		**(103,077)**		**(69,921)**	
Share of profit of associates accounted for using the equity method	(40)	9,673		(3,806)	
Impairment losses on investments	(41)	(105)		(224,308)	
- of which non-recurring		-		*(217,466)*	
Profit before tax		**247,422**		**10,598**	
Income tax expense	(42)	(85,251)		(113,013)	
Profit/(loss) for the year from continuing operations		**162,171**		**(102,415)**	
Profit/(loss) from discontinued operations	(43)	-		-	
Profit (loss) for the year		**162,171**		**(102,415)**	
attributable to:					
- Owners of the Parent		152,559		(110,970)	
- Non-controlling interests	(44)	9,612		8,555	
Earnings per ordinary and savings share	**(45)**				
- basic (euro)		0,12		(0,09)	
- diluted (euro)		0,12		(0,09)	

Data for the financial year 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

STATEMENT OF COMPREHENSIVE INCOME

thousands of euro

	Note	2012	2011 Restated
Profit/(loss) for the year - Owners of the parent and non-controlling interests (A)		**162,171**	**(102,415)**
Other comprehensive income	**(46)**		
- effective portion of changes in fair value of cash flow hedges		(26,488)	(11,002)
- change in fair value of available-for-sale financial assets		-	8,067
- actuarial profits/(losses) from defined benefit plans (IAS 19)		(15,542)	4,609
- share of other profits (losses) of companies accounted for using the equity method		2,995	(5,852)
Tax effect of other comprehensive income		14,420	1,626
Total other comprehensive expense, net of tax effect (B)		**(24,615)**	**(2,552)**
Total comprehensive income/(expense) (A)+(B)		**137,556**	**(104,967)**
attributable to:			
- Owners of the Parent		128,239	(113,479)
- Non-controlling interests		9,317	8,512

Data for the financial year 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserve	Legal reserve
31/12/2010 Restated	**1,276,226**	**105,102**	**23,862**
Legal reserve			5,134
Dividends to shareholders			
Retained earnings			
Changes in business combinations			
Changes in consolidation scope			
Capital increase of subsidiaries			
Other changes			
Comprehensive income for the year			
of which:			
- Profit for the year			
- Other comprehensive income			
31/12/2011 Restated	**1,276,226**	**105,102**	**28,996**
Dividends to shareholders			
Losses carried forward			
Changes in consolidation scope			
Changes in business combinations			
Capital increase of subsidiaries			
Other changes			
Comprehensive income for the year			
of which:			
- Profit for the year			
- Other comprehensive income			
31/12/2012	**1,276,226**	**105,102**	**28,996**

Data as at 31 December 2010 and 31 December 2011 have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

thousands of euro

Hedging reserve	Available for sale reserve	Other reserves and retained earnings (losses)	Total reserves and retained earnings (losses)	Profit/(loss) for the year	Equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
(17,029)	**(8,119)**	**327,817**	**431,633**	**144,171**	**1,852,030**	**229,590**	**2,081,620**
			5,134	(5,134)	-		-
		(10,975)	(10,975)	(97,504)	(108,479)	(12,818)	(121,297)
		41,533	41,533	(41,533)	-		-
		1,355	1,355		1,355	(597)	758
			-		-	(11,592)	(11,592)
			-		-	283	283
		(96)	(96)		(96)	(3)	(99)
(13,708)	8,119	3,080	(2,509)	(110,970)	(113,479)	8,512	(104,967)
				(110,970)	(110,970)	8,555	(102,415)
(13,708)	8,119	3,080	(2,509)		(2,509)	(43)	(2,552)
(30,737)	**-**	**362,714**	**466,075**	**(110,970)**	**1,631,331**	**213,375**	**1,844,706**
		(16,591)	(16,591)		(16,591)	(5,691)	(22,282)
		(110,970)	(110,970)	110,970	-		-
		(3,860)	(3,860)		(3,860)	(3,350)	(7,210)
		1,510	1,510		1,510		1,510
			-		-	849	849
		(773)	(773)		(773)	(99)	(872)
(11,908)		(12,413)	(24,321)	152,559	128,238	9,318	137,556
				152,559	152,559	9,612	162,171
(11,908)	-	(12,413)	(24,321)		(24,321)	(294)	(24,615)
(42,645)	**-**	**219,617**	**311,070**	**152,559**	**1,739,855**	**214,402**	**1,954,257**

CASH FLOWS STATEMENT

thousands of euro

	2012	2011 Restated
A. Opening cash and cash equivalents	**44,758**	**144,112**
Cash flow from operating activities		
Profit/(loss) for the year	162,171	(102,415)
Adjustments:		
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	205,495	209,293
Capital gains (losses) and other equity changes	(33,073)	(11,975)
Net change in post-employment benefits and other employee benefits	818	(4,399)
Net change in provision for risks and other charges	33,538	40,348
Change in deferred tax assets and liabilities	(30,683)	(30,073)
Change in other non-current assets and liabilities	1,392	(623)
Dividends received	(656)	(558)
Portion of loss of associates	(9,673)	3,806
Net impairment losses (reversals of impairment losses) on non-current assets	(1,784)	230,553
B. Cash flows from operations before variations in NWC	**327,545**	**333,957**
Change in inventories	(21,321)	(22,704)
Change in trade receivables	(18,269)	(124,495)
Change in tax assets and other current assets	(3,540)	(59,029)
Change in trade payables	98,154	84,338
Change in tax liabilities and other current liabilities	(3,998)	(29,044)
C. Cash flows from/(used in) variations in NWC	**51,026**	**(150,934)**
D. Operating cash flows (B+C)	**378,571**	**183,023**
Cash flows from/(used in) investing activities		
Investments in intangible assets and in property, plant and equipment and investment property	(339,749)	(493,254)
Investments in financial assets	(60,285)	(46)
Proceeds from the sale of investments and changes in assets held for sale	157,775	38,369
Dividends received	9,417	11,137
Other variations in financial assets	131	-
E. Total cash flows used in investing activities	**(232,711)**	**(443,794)**
F. Free cash flow (D+E)	**145,860**	**(260,771)**
Cash flows from/(used in) financing activities		
Dividends paid	(22,282)	(121,297)
Other changes in equity	-	1,042
New non-current loans	440,250	655,758
Repayment of non-current loans	(503,133)	(109,518)
Change in financial assets	118,438	(43,927)
Change in financial liabilities	(195,850)	(220,641)
G. Total cash flows from financing activities	**(162,577)**	**161,417**
H. Cash flows for the year (F+G)	**(16,717)**	**(99,354)**
I. Closing cash and cash equivalents (A+H)	**28,041**	**44,758**

Data for the financial year 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

IREN S.p.A. is an Italian multiutility company, listed on the Italian Stock Exchange (Borsa Italiana), created on 1 July 2010 through the merger of IRIDE and ENÌA.

The business segments in which the Group operates are:

- Electrical energy production and district heating (Hydroelectric energy, co-generation of electrical energy and heat, district heating network and production from Renewable sources);
- Market (Sale of electrical energy, gas, heat);
- Energy Infrastructures (Distribution networks of electrical energy, distribution networks of gas, LNG regasification plants);
- Integrated Water Service (sale and distribution of water, water treatment and sewerage);
- Waste Management (Waste collection and disposal);
- Other services (Telecommunications, Public Lighting, Global Services and other minor services).

Paragraph XII, Information by operating segments, includes information as per IFRS 8.

IREN S.p.A. was structured after the model of an industrial holding, with headquarters in Reggio Emilia and operating offices in Genoa, Parma, Piacenza and Turin, as well as companies head of the single business lines.

Data as at 31 December 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – Benefits to employees.

The schedules disclosed have been reclassified at 31 December 2011 to adjust to the classification adopted for related items at 31 December 2012. The main reclassifications are described in these notes.

The company's consolidated financial statements at 31 December 2012 include those of the Company and its subsidiaries, financial statements proportional to jointly- controlled companies (jointly referred to as the "Group" and individually as "Group entities") and the Group's investment in associates.

I. CONTENT AND STRUCTURE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Iren Group at 31 December 2012 have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the provisions set forth in implementation of art. 9 of Legislative Decree no. 38/2005. The IFRS include all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).

In drawing up these consolidated financial statements, the same accounting policies were used as those adopted for the Financial Statements at 31 December 2011, with the exceptions highlighted in section "Accounting policies and interpretations effective on 1 January 2012" and "Changes in accounting policies".

These consolidated financial statements at 31 December 2012 consist of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

In the statement of financial position, assets and liabilities are classified as "current/non-current". Assets and liabilities, classified as discontinued or held for sale, are shown separately. Current assets, which include cash and cash equivalents, are those that shall be realised, transferred or consumed during the ordinary operating cycle of the Group or during the twelve months following year end. Current liabilities are those that shall be settled during the ordinary operating cycle of the Group or during the twelve months following year end.

The income statement is classified on the basis of the nature of costs. In addition to the operating profit/(loss), the income statement also shows the gross operating profit/(loss) obtained by deducting total operating expense from total revenue.

The indirect method is used in the statement of cash flows. The cash configuration analysed in the statement of cash flows includes cash availability and cash in bank current accounts.

The financial statements have been drawn up based on the historical cost principle, except for certain financial instruments measured at fair value.

In addition, the financial statements of consolidated entities are drawn up at the reporting date of the reference year.

II. CONSOLIDATION POLICIES

All the subsidiaries, associates and interests in joint ventures are consolidated.

Subsidiaries (consolidated on a line-by-line basis)
Entities controlled by the Group are considered subsidiaries, as defined by IAS 27 - Consolidated and Separate Financial Statements.
Such control exists when the Group has the direct or indirect power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.
Equity and portion of profit/loss attributable to non-controlling interests are identified separately in the consolidated statement of financial position and income statement.
Subsidiaries are consolidated on a line-by-line basis. Infragroup balances, transactions, unrealised income and expenses are eliminated in full.

The new IAS 27, applicable prospectively as from 1 January 2010, sets out the following: a) all changes in the interests, that are not a loss in control, are to be accounted for as equity transactions and are therefore recognised with a balancing entry in equity; b) when a controlling entity assigns its control in a subsidiary, but still holds an equity investment in the company, this investment must be measured at fair value and any gains or losses deriving from the loss in control shall be charged to income statement.
Goodwill deriving from the acquisition of a non-controlling investment in a subsidiary was previously recognised as the surplus between the additional investment cost and the carrying amount of the investment in net assets acquired at the exchange date.

Jointly-controlled entities (proportionally consolidated)
These are entities over whose activities the Group has joint control, as defined by IAS 31 - Interests in Joint Ventures, in line with contractual agreements. With reference to entities jointly owned by public and private ventures, given the objective possibility for the public partner to influence the company not only by means of governance agreements, but also thanks to its nature of public entity, the existence of joint control is judged on the basis of contractual agreements and on the actual possibility for the private partner to jointly control strategic decisions regarding the joint venture.
The consolidated financial statements include the Group's share of revenue, expense, assets and liabilities of the jointly-controlled entities on a line-by-line basis from the date that joint control commences until the date that joint control ceases.

Associates (companies accounted for using the equity method)
An associate is a company over which the Group has significant influence, but not control or joint control over its financial and operating policies. The consolidated financial statements include the Group's share of the associate's profit or loss recognised using the equity method from the date that significant influence commences until the date that significant influence ceases. If the Group's share of losses of an associate equals or exceeds the carrying amount of its interest in the associate, the carrying amount is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations.

Transactions eliminated on consolidation
Infragroup balances and significant transactions and any unrealised gains and losses arising from infragroup transactions are eliminated in full in the consolidated financial statements. Unrealised gains and losses arising from transactions with jointly controlled entities are eliminated to the extent of the Group's interest in the entity. The related tax effect is calculated for all consolidation adjustments.

III. CONSOLIDATION SCOPE

The consolidation scope includes the companies directly or indirectly controlled by the parent.

Parent:
IREN S.p.A.

Companies consolidated on a line-by-line basis:
The five First-level companies were consolidated on a line-by-line basis and, through their consolidated financial statements, their subsidiaries:

1) IREN Acqua Gas and its subsidiaries:
    - Genoa Reti Gas
    - Laboratori Iren Acqua Gas
    - Mediterranea delle Acque and its subsidiaries:
        - Idrotigullio
        - Immobiliare delle Fabbriche

2) IREN Ambiente and its subsidiaries:
    - Bonifica Autocisterne
    - Montequerce
    - Tecnoborgo

3) IREN Emilia and its subsidiaries:
    - AGA
    - AMIAT V
    - Consorzio GPO
    - Enìa Parma
    - Enìa Piacenza
    - Enìa Reggio Emilia
    - Enìatel
    - Zeus

4) IREN Energia and its subsidiaries:
    - AEM Torino Distribuzione
    - CELPI (classified as asset held for sale)
    - Iride Servizi and its subsidiary:
        - AEM NET
    - Nichelino Energia

5) IREN Mercato and its subsidiaries:
    - CAE Amga Energia and its subsidiaries:
        - O.C. CLIM
        - CLIMATEL
    - GEA Commerciale

The Parent holds the majority of votes at ordinary shareholders' meetings of these companies, either directly or through its direct and indirect subsidiaries.

Companies consolidated proportionally:
The companies which are jointly-controlled by the Group are proportionally consolidated following agreements signed with other partners. These companies are as follows:
- AES Torino, (51% held by IREN Energia);
- Società Acque Potabili (30.86% held by IREN Acqua Gas);
- Acquedotto Savona (100% held by Società Acque Potabili);
- Acquedotto Monferrato (100% held by Società Acque Potabili);
- Acque potabili Crotone (100% held by Società Acque Potabili);
- OLT Offshore LNG S.p.A. (41.71% held by IREN Mercato);
- IREN Rinnovabili (90.185% held by IREN Ambiente);
- Enia Solaris (100% held by IREN Rinnovabili).

For the full list of investments, reference should be made to the Annexes.

CHANGES IN THE SCOPE OF CONSOLIDATION
In 2012, changes in the consolidation scope of the Iren Group involved:
- the consolidation on a line-by-line basis of the company AMIAT V S.p.A. following the incorporation of the company at the end of December 2012. The consolidation of the company had no impact on the equity attributable to owners of the parent, while resulted in an increase of Euro 2,008 thousand on non-controlling interests. For further details reference is made to section "Significant events" in the Directors' Report.
- the deconsolidation of GEA was a result of the completed disposal of the Group's entire investment, equal to 59.33% of the share capital, occurred on 28 December 2012. The disposal involved an increase in the equity attributable to owners, equal to Euro 7,033 thousand, and a reduction of Euro 3,090 thousand on non-controlling interests.

- the deconsolidation of Sasternet was a result of the completed disposal of the Group's entire investment, equal to 85% of the share capital, occurred in October 2012. The disposal involved a Group's capital gain of Euro 397 thousand and a reduction of around Euro 2,295 thousand on non-controlling interests;
- the deconsolidation of Tema due to completion of the winding-up procedure of the company. As at 31 December 2011 the assets and liabilities of Tema were recognised under assets held for sale and liabilities related to assets held for sale. The company's deconsolidation had no significant effect on the equity of owners of the parent or of non-controlling interests;
- the deconsolidation of Undis Servizi due to the fact that the disposal of shares held by the Group was completed in July 2012. The company's deconsolidation had no significant effect on the equity of owners of the parent or of non-controlling interests.
- the deconsolidation of the joint venture Namtra Investments Limited, a company set up under Cyprus law, following completion of the winding-up procedure on 21 June 2012 and receipt of certification of cancellation from the Cyprus register of companies. The company's deconsolidation had no significant effect on the equity of owners of the parent.

Moreover, during 2012, the Group's percentage of shares held in the companies IREN Rinnovabili and Enia Solaris was reduced from 100% to 90.185% due to the joining of the partner CCPL with whom a joint-venture was signed. The two companies are now consolidated proportionally. The transaction involved an increase in the equity attributable to owners of the parent, equal to Euro 1,510 thousand.

IV. ACCOUNTING POLICIES

The policies applied in the preparation of the IREN Group consolidated financial statements at 31 December 2012 are set out below; the accounting policies described hereunder have been applied consistently by all Group entities and remained unchanged with respect to those adopted as at 31 December 2011, except for information given in section "Changes in accounting policies".

Property, plant and equipment
- Property, plant and equipment
Property, plant and equipment are recognised at contribution, purchase or internal construction cost. This cost includes all costs directly attributable to bringing the asset to the location and condition necessary for it to be available for use (including, when relevant and the company has the related present obligation, the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located), net of trade discounts and rebates.
Financial expense related to the purchase of items of property, plant and equipment is capitalised for the part of the cost of the asset until it becomes operative.
When significant components of property, plant and equipment have different useful lives, they are accounted for separately.
In particular, under this policy, land and buildings located on the land are to be recognised separately; therefore, only the buildings are depreciated, while the carrying amount of land is impaired, as described in the following section "Impairment losses".

Ordinary maintenance expenditure is expensed in full. Expenditure that increases the carrying amount of the asset is charged to the asset to which it relates and depreciated over its estimated useful life, in compliance to IAS 16. Such expenditure includes expenditure that reasonably leads to an increase in future economic benefits, such as the lengthening of useful life, increase in production capacity, improvement in product quality and adoption of production processes that entail a significant reduction in production costs.
Assets under construction include expenditure related to the construction of plants incurred until the reporting date. These investments are depreciated once the asset becomes operative.

Property, plant and equipment are depreciated systematically on a straight-line basis annually using economic-technical rates determined in line with their residual useful lives. Landfills are depreciated based on the filling percentage. Transferable assets are depreciated according to the expiry term of the related concession decrees. Starting from 2012, as regards transferable assets related to expired hydroelectric concessions with a residual carrying value lower than the expected value to be granted to the outgoing operator (calculated based on provisions set out by Law 7 August 2012), their amortisation has been suspended.
The rates applied are set out in the following table:

	Min. rate	**Max. rate**
Buildings	0.9%	11.1%
Lightweight constructions	2.5%	10.0%
Vehicles	10.0%	25.0%
Sundry equipment	6.7%	100.0%
Furniture and office machines	5.9%	100.0%
Hardware	20.0%	100.0%
Facilities	0.8%	100.0%

The difference of minimum rate related to lightweight constructions is due to an adjustment of the useful lives of hydraulic equipment to the equipment adopted by the ATO. The economic impact of these changes are not significant. As regards item Hardware, the change in the minimum rata is due to the change in consolidation scope.
Grants related to assets are recognised as deferred revenue and taken to the income statement over the depreciation period of the related item of property, plant and equipment.

- Assets under finance lease
Assets held under finance leases are recognised as property, plant and equipment using the financial method with a balancing entry under payables of the same amount, as provided for by IAS 17 which, while reflecting the economic substance of operations, compares these operations to purchase and financing agreements. Based on the above-mentioned method, property, plant and equipment are recognised at the lease principal upon subscription of the finance lease. The amounts due to the lessor are also recognised under financial payables. This liability is decreased over time in line with repayment of the lease principal. Interest on payables is recognised in the income statement based on the repayment plan, in addition to depreciation of the asset based on the expected useful life.

Conversely, under the financial method, leased out assets are not included in property, plant and equipment. The related financial asset is recognised in the statement of financial position. It decreases over time in line with the collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the repayment plan.

Investment property
Investment property is initially measured at purchase or construction cost. Such cost includes the purchase price and any directly attributable expenditure. The related transaction costs are recognised among the property costs, when purchase is recognised. Real estate investments are measured at cost in the following evaluation.
Expenses incurred after the purchase or completion of a property intended as an investment property increase the initial cost of the asset, if the company is likely to obtain higher future benefits than those previously estimated, thanks to these expenses. Otherwise, such costs are charged to the income statement.

Investment property is depreciated systematically annually on a straight-line basis using rates held to represent the residual useful life of the relevant asset.

Intangible assets

Intangible assets are recognised in the statement of financial position when it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably. They are recognised at contribution, acquisition or production cost, including any directly attributable costs.

Intangible assets with finite useful lives are amortised on a systematic basis over their useful lives so that the carrying amount at year end matches their residual life or recoverable amount based on the company's plans to develop production. Amortisation begins when the asset is available for use.

Development costs are capitalised if all of the following features can be demonstrated:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the ability to reliably measure the expenditure attributable to the asset during its development;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- it is clear how the asset will generate future economic benefits.

If even one of these requirements is not met, the cost is fully recognised in the period in which it is incurred.

Amortisation of intangible assets is calculated on a straight-line basis over the following useful lives:

	Years	
	from	**to**
Industrial patents and similar rights	3	5
Licences, trademarks and similar rights	3	50
Software	2	5
Other intangible assets with finite useful life	3	20

Amortisation begins when the asset is available for use, in other words, when it is able to operate as intended by the company's management. Amortisation expires on the later of either the date in which the asset is classified as held for sale (or included in a disposal group classified as held for sale), pursuant to IFRS 5, or the date in which the asset is derecognised.

Assets under development and payments on account relate to internal and external costs referring to intangible assets for which the company has not yet acquired the right to and has not started to use in production. These investments are amortised from the date when they begin to be used in production.

Under IAS 36, assets under development and payments on account are tested for impairment annually, or whenever there is any indication of impairment, so as to check that the carrying amount matches the recoverable amount.

Goodwill

Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the fair value of the identifiable assets, liabilities and contingent liabilities related to the complex acquired. If, after this restatement, the value of current and contingent assets and liabilities exceeds the acquisition cost, the difference is recognised immediately in the income statement.

Any goodwill deriving from the acquisition of an associate is included in the carrying amount of the investment.

The Group has decided not to retrospectively apply IFRS 3 - Business combinations - to acquisitions that took place before 1 January 2004 on IFRS first-time adoption. Therefore, goodwill on acquisitions made before the transition date has been maintained at its amount determined under Italian GAAP after testing for impairment.
Goodwill is allocated to one or more cash-generating units and is not amortised, but is tested annually for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on “Impairment losses”).

Non-current assets held for sale
A non-current asset (or group of assets and liabilities held for disposal) is classified as available for sale if its carrying amount will be recovered mainly through a sale transaction rather than through its continued use. Immediately prior to initial classification of the asset (or disposal group) as available for sale, the carrying amounts of the assets are measured in accordance with Group accounting policies. The asset (or disposal group) is then recognised at the lower between its carrying amount and its fair value less costs to sell. Impairment loss on a disposal group is initially taken to goodwill, then to the residual assets and liabilities on a proportional basis, except for inventories, financial assets, deferred tax assets, employee benefits, investment property and biological assets, which continue to be measured in accordance with Group accounting policies. Impairment losses on the initial classification of an asset as held for sale compared to subsequent measurements are recognised in the income statement. Positive changes are recognised only to the extent of any accumulated impairment loss.

Service concession arrangements
Starting from 1 January 2010, the IREN Group applies IFRIC 12, endorsed by the European Union on 25 March 2009. This standard defines the recognition and measurement criteria to be adopted in agreements between public and private sectors related to development, financing, management and maintenance of infrastructures under licence agreement. In particular, should the grantor control the infrastructure by regulating and controlling the characteristics of the services supplied and the applicable prices, as well as by maintaining a residual interest in the activity, the operator will purchase either the right to use said infrastructure, or the financial asset, or both, based on the agreements made. Therefore, the operators that are included in the above cases, cannot recognise the assets dedicated to the supply of the service as property, plant and equipment in the statement of financial position under assets, regardless of the acknowledgement of ownership in favour of the same operators included in the service concession arrangements.

In particular, the operator purchases a financial asset to the extent that it has an unconditioned contract right to payment or another financial asset from, or upon instruction of the grantor with reference to the building services. The purchased financial asset is subject to provisions set forth in IAS 32, IAS 39 and IFRS 7.
The operator purchases an intangible asset to the extent that it has a right (licence) to receive the payment of the users of the public utility. The right to receive payments from users is not an unconditioned right to receive payments as the amounts depend on how much the utility is used. The intangible asset recognised is subject to the provisions of IAS 38.
If the operator is paid for the building services partly with a financial asset and partly with an intangible asset, the two amounts composing the payment to the operator shall be recognised separately. The payment received or to be received for both items is initially recognised at the fair value of the amount received or to be received and disclosed in the relevant revenue item.

With reference to the grants received on non-current assets, included in the application of IFRIC 12, such grants were classified under Other liabilities, divided between current and non-current, while the related disbursement is included in Other revenue.

Impairment losses

IAS/IFRS require a company to assess whether there are any specific indications of impairment. The company performs an impairment test, which consists of estimating the recoverable amount of the asset and comparing it to its net carrying amount.
The recoverable amount is the higher of fair value less costs to sell (if an active market exists) and the value in use of an asset. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating units, inclusive of taxes, by applying a discount rate, before taxes, represented by the current market assessments of the time value of money and risks specific to the asset.
If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. If the impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased to the estimated new recoverable amount. The latter amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised. The reversal of an impairment loss is recognised immediately to the income statement.
Assets that are not subject to amortisation (goodwill and other intangible assets with an indefinite useful life) and intangible assets that are not yet available for use are tested for impairment annually, even though no indication of impairment exists.

Financial instruments

All financial instruments, including derivatives, are recognised in the statement of financial position when the company becomes a party to the agreement and therefore acquires a right to payment or an obligation to pay.
Financial instruments can be classified in the following categories:

- Instruments measured at fair value through profit or loss (FVTPL). They are:
  - assets/liabilities classified as held for trading (i.e. acquired principally for the purpose of selling or repurchasing in the near term);
  - non-hedging derivatives;
  - financial instruments that, when initially recognised, were designated as FVTPL.
- loans and receivables (L&R). These are financial assets/liabilities (other than derivatives) which feature fixed or determinable prices and are not quoted on active markets.
- held-to-maturity investments (HTM). These are financial assets/liabilities, other than derivatives, with fixed prices or prices determinable with a fixed maturity term that the company intends, or is able to hold to maturity (e.g. bonds).
- available-for-sale financial assets (AFS). This residual category captures all financial assets not classified in the above-mentioned categories (e.g. equity investments lower than 20% in companies over which the Group does not exercise a significant influence).

- Investments measured using the equity method

These are investments in associates, i.e. over which the company has significant influence. They are measured using the equity method by recognising an amount equal to the investor's share of equity as per the most recent financial statements available, adjusted to account for the difference between the price paid and equity at the acquisition date and any infragroup transactions if relevant.
The investor's share of profit or loss arising from application of the equity method is recognised as a "Share of profit or loss of associates measured using the equity method", while the share of other comprehensive income of associates is recognised in the statement of comprehensive income.
The difference between the purchase cost and the value, pertaining to the owners of the Parent, of current and potential assets and liabilities, which can be identifiable in the associate at the acquisition date, is recognised as goodwill, included in the carrying amount of the investment, and tested for impairment, with the same procedures as described in the section above.

The risk deriving from losses which exceed the investor's share of equity is provided for in a provision for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

- Other investments

Investments in other companies, classified as available for sale (AFS), are measured at fair value. Profits and losses from changes in fair value are charged directly to other components of the statement of comprehensive income until they are sold or impaired. In this case, the total loss is reversed from other components of the statement of comprehensive income and recognised to the income statement for an amount equal to the difference between the acquisition cost and the current fair value. If the fair value cannot be reliably determined, investments are measured at cost adjusted for impairment losses, the effect of which is recognised in the income statement.

The risk deriving from losses which exceed the carrying amount of the investment is provided for in a provision for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

- Financial assets held for trading

Upon initial recognition, financial assets held for trading are measured at purchase cost, i.e. at the fair value of the consideration paid: transaction costs are included in the purchase cost, since they are related costs.

Subsequent to initial recognition, they are measured at fair value, without deducting any transaction costs that may be incurred upon sale or disposal. Changes in fair value are taken directly to the income statement.

If fair value cannot be determined reliably, such assets are measured at cost.

- Available-for-sale financial assets

Upon initial recognition, available-for-sale financial assets are measured at the fair value of the consideration paid (acquisition cost, including the related costs).

Subsequent to initial recognition, they are measured at fair value, without deducting any transaction costs that may be incurred upon sale or disposal. Changes in fair value are recognised in other components of the statement of comprehensive income and transferred to the income statement only when the available-for-sale assets are derecognised or have undergone an impairment loss.

If fair value of investments in instruments representing equity cannot be determined reliably, such assets are measured at cost.

- Hedging

The Group uses derivative financial instruments solely to hedge its exposure to currency, interest rate and commodities risks.

A hedging relationship qualifies for hedge accounting, under IAS 39, if all of the following conditions are met:

- at the inception of the hedge, or first-time adoption for instruments existing at 1 January 2005, there is formal designation and documentation of the hedging relationship and the company's risk management objective and strategy for undertaking the hedge;
- the hedge is expected to be highly effective in offsetting changes in fair value (fair value hedges) or cash flows (cash flow hedges) attributable to the hedged risk;
- for cash flow hedges, a forecast future transaction that is hedged must be highly probable and must present an exposure to variations in cash flows that might ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and is considered highly effective throughout the entire life of the derivative.

Hedging instruments are measured at fair value. The fair value is determined by using adequate measurement models for each type of financial instrument by using, where available, the market forward curve, both regulated and not regulated (intrinsic value). Fair value is supplemented with the time value for option contracts, which is based on their residual life and volatility of the underlying.

Taking account of provisions specified by IFRS 7.27A, as for the fair value hierarchy, each single category of financial instruments measured at fair value is shown as follows:

- Level 1: prices quoted (not adjusted) on active markets for similar assets or liabilities;
- Level 2: input data different from prices quoted, as per Level 1, which are observable for assets or liabilities, both directly (as per prices), and indirectly (or derived from prices);
- Level 3: input data related to assets or liabilities, which are not based on observable market data (non observable data).

Hedging instruments are tested for effectiveness at each reporting date to check whether the hedge still meets the requirements for designation as effective and can be recognised using hedge accounting.
If the requirements for the application of hedge accounting are met:

- for a cash flow hedge, fair value gains or losses on the hedging instrument are included in the statement of comprehensive income for the effective portion of the hedge (intrinsic value), and for the time value portion and any ineffective portion (overhedging) they are recognised in the income statement;
- for fair value hedges, fair value changes on both the hedging instrument and hedged item are recognised in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the gains or losses deriving from the measurement at fair value of the hedging instrument are fully recognised in the income statement.

- Other financial assets and liabilities
Loans and receivables are initially recognised at fair value, adjusted by any directly attributable transaction costs. They are subsequently measured at amortised cost.
Securities held until maturity are initially recognised at cost, increased by transaction costs borne for the acquisition of the financial asset. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, net of impairment losses.
At each reporting date, or whenever impairment indicators arise, all financial assets, except for FVTPL assets, are tested for impairment in order to determine whether there is objective evidence (such as breaches of agreements, possible bankruptcy or financial difficulties of the debtor,...) that the value of the asset might not be entirely recoverable.

- Trade receivables and payables
Trade receivables and payables, with repayment dates that are in line with normal commercial practices, are not discounted as the time value of money is not material for their measurement. They are recognised at fair value (equal to their nominal amount) and are subsequently measured at amortised cost. Trade receivables are measured net of the allowance for impairment set up to cover estimated losses.

- Cash and cash equivalents
Cash and cash equivalents include cash on hand, call deposits and short-term, highly liquid investments (maturities of three months or less from the date of acquisition) that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value.
Cash and cash equivalents, including ancillary charges, are measured at fair value.
Cash on hand and revenue stamps are measured at their nominal amount.

Inventories
Inventories, mainly made of materials and supplies for the maintenance and construction of plants, raw materials, i.e. fuel oil, diesel and gas with respect to trading, are measured at the lower of cost (purchase cost, transformation and other costs incurred to bring the inventories to their current place and condition) and their expected net realisable or replacement value.

Cost is determined using the average weighted cost method.
If the cost of inventories cannot be recovered because they are damaged, have become entirely or partly obsolete or their sales prices have decreased, they are written down to their net realisable value. If the circumstances leading to the write-down no longer exist, the write-down is reversed.

Inventories pertaining to contract work in progress are measured using the percentage of completion method, net of advances invoiced to customers. Orders for which a loss is expected at level of direct costs are subject to a specific write-down which is charged to income statement in the period in which the loss is recorded.

Equity
Share capital, including the various categories of shares, is stated at its nominal amount less share capital proceeds to be received.
The purchase cost of treasury shares is recognised as a reduction in equity.
Costs directly attributable to share capital transactions of the parent are offset against equity.
Dividends are recognised as payables when they are approved by the Shareholders.

Employee benefits
As from 1 January 2012, the amendment to the International Standard IAS 19 “Benefits to employees”, endorsed on 6 June 2012, was applied early. This amendment is applicable starting from 1 January 2013, although its application is on a voluntary basis for financial statements at 31 December 2012. The amendments can be classified in three categories: measurement and recognition, disclosures and further amendments.

The first category of amendments involves the definite-benefit plans. In particular, the corridor approach is no longer used in recognizing actuarial gains and losses (the IREN Group was no longer using this method) and now instructions are given to immediately recognise the components connected to “revaluations” (e.g. actuarial gains and losses) in Other comprehensive income.
As regards the presentation of the financial statements, the changes in liabilities connected with the obligation related to a definite-benefit plan are broken down in three components:

1) operating (service costs), personnel expenses;
2) financial (finance costs), net interest income/expense;
3) measuring (remeasurement costs), actuarial profit/loss.

As regards disclosures, information is given on the characteristics of the plans and related amounts entered in the financial statements, as well as on the risk resulting from the plans and including a sensitivity analysis of the oscillations in the demographic risk.
Post-employment benefits are defined according to plans which, based on their characteristics, are separated into “defined contribution” and “defined benefit” plans.

In defined contribution plans, the company obligation, limited to the payment of State contributions or to a separate fund, is calculated on the basis of contributions due. For the Group these are included under Post-Employment Benefits accrued since 1 January 2007, payable to the INPS (the Italian Social Security Institution) fund and the share paid to the additional pension funds.
The liability relating to the defined benefits plans, net of any plan assets, is calculated according to actuarial assumptions. For the Group, included in this category are Post-Employment Benefits accrued until 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the tariff discounts for employees and former employees, additional monthly salaries (art. 47, national labour agreement for the sector) and the loyalty bonus paid to employees.

The present value of the liability is calculated for each employee using the projected unit credit method. The total liability is calculated by estimating the amount payable on termination of the employment relations, taking into account economic, financial and demographic factors. This amount is recognised on a proportional basis over the year of service matured.

For post-employment benefits accrued at 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the proportional basis is not applied as at the reporting date the benefits can be considered accrued in full.

The demographic, economic and financial variables are validated annually by an independent actuary.

Profits and losses deriving from the actuarial calculations regarding post-employment benefits are immediately recognised in the Other comprehensive income, except for the loyalty bonus which is entirely recognised in the Income statement.

Provisions for risks and charges

Provisions for risks and charges are set up to cover liabilities of uncertain amount or due date that are recognised when, and only when, the following conditions are met:

- a company has a present obligation (legal or constructive) as a result of a past event at the reporting date;
- it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Risks for which the related liability is only potential are disclosed in the notes to the financial statements, and no provision is made.
No additional information is provided for events that are remote, i.e. where it is very unlikely they will arise, and no provision is made.
The provisions are recognised at the amount representing the best estimate of the total that the company would pay to settle the obligation, or transfer it to third parties at year end. If the discounting effect on the value of money is significant, the provisions are calculated by discounting future cash flows expected at a pre-tax discount rate that reflects the current market assessment of the time value of money.
On discounting, the time-related increase in the provision is recognised as financial expense.
Provisions for landfill post-closure are discounted based on the government curve of interest rates at the balance-sheet date. Cash flows, indicated in the expertise drawn up by an independent expert, are discounted on a YoY basis.

The provision for the renewal of transferable assets was set up so as not to recognise costs for maintenance, replacements and similar work, which do not increase the carrying amount of the asset, only in the periods in which they were incurred but to distribute them among the different periods of use of those assets.

Revenue

Revenue is measured at fair value with respect to the amount received or due, taking account of any commercial discounts and reductions connected with quantity.
Revenue from the sale of goods is recognised when:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When an uncertainty arises about the collectability of an amount already recognised, the uncollectible amount must be recognised as an expense, rather than as an adjustment of the income originally recognised.
Revenue from services is recognised when:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the reporting date can be measured reliably;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Grants related to assets and grants related to income

Grants related to assets are recognised, when they become payable, as deferred revenue and systematically taken as income to income statement over the useful life of the asset to which they refer. The deferred revenue related to the grants is recognised in the statement of financial position, under Other liabilities, with suitably separated current and non-current amounts.
Grants related to income are recognised in the income statement when the recognition criteria are met, i.e. when their recognition as balancing-entry of supply costs related to grant is certain.

Other revenue and income

Other revenue and income include all types of revenue which are not included in the above-mentioned cases and do not feature a financial nature. They are recognised in accordance with the above-mentioned methods for revenue from goods and services.

Costs for the purchase of goods and services

Costs are measured at the fair value of the amount paid or to be paid. Costs for the acquisition of goods and services are recognised when their amount can be reliably determined. The costs for the purchase of assets are recognised upon delivery which, based on outstanding agreements, identifies the transfer of the related risks and rewards. Costs for services are recognised on an accrual basis upon reception.

Financial income and expense

Income arising from the use by others of company assets yielding interest and dividends is recognised when:

- it is probable that the economic benefits associated with the transaction will flow to the company;
- the amount of revenue can be measured reliably.

Income is recognised on the following bases:

- interest is recognised on a time proportion basis that takes into account the effective yield on the asset;
- receivables from dividends from investments are recognised when the shareholder's right to receive payment is established. This usually takes place with the resolution passed by the related meeting.

When an uncertainty arises about the collectability of an amount already recognised, the uncollectible amount is recognised as an expense, rather than as an adjustment of the amount of income originally recognised.

Financial expense is recognised in the year in which it is incurred. Financial expense that is directly attributable to the acquisition, construction or production of a plant is capitalised as part of the cost of that asset when:

- it is likely that it will result in future economic benefits to the company
- it can be reliably measured.

Income tax expense

Income taxes comprise all the taxes calculated on the Group's taxable income.
Current and deferred taxes are recognised as income or expense and included in the profit or loss for the year, except to the extent that the tax arises from a transaction or event that is recognised, in the same or a different year, directly in equity.

Current tax is the expected tax payable on the taxable income for the year, applying the tax legislation enacted or substantially enacted at the reporting date. Deferred tax liabilities are calculated based on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the amounts used for taxation purposes.

Deferred tax assets are recognised only when their recovery is probable.
Deferred tax liabilities are calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

The option for the Group tax consolidation scheme was exercised pursuant to art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent IREN S.p.A.. The latter then calculates IRES on the sum of taxable profits/losses of each company taking part in the tax consolidation scheme.

In return for the taxable income earned and transferred to the parent, the consolidated company commits to pay "tax settlements" to the parent equal to the amount of taxes owed on the income transferred, net of the IRES tax credits transferred.

Discontinued operations

Discontinued operations are components of the Group which have been divested or represent a significant autonomous branch or geographical area of operations. Assets are classified as discontinued at the moment of transfer or when they are classified as asset held for sale. When an asset is classified as discontinued, the income statement is restated as though the operation were discontinued starting from the beginning of the corresponding period.

Translation criteria

The functional and presentation currency adopted by the Group is the Euro. When transactions in foreign currency are made, they are initially recognised at the exchange rate in effect on the transaction day. Except for non-current assets, assets and liabilities in foreign currency are recognised at the closing rate and the related exchange rate gains and losses are taken to income statement. Any net gain is allocated to a special reserve unavailable until realisation.

Emissions Trading Scheme

The Emissions Trading Scheme, which came into force in the European Union on 1 January 2005, is part of the 'flexible mechanisms' acknowledged by the Kyoto Protocol in order to reach greenhouse gas emission targets. The target for Italy is a 6.5% reduction in CO_2 emissions by 2012 over 1990.
The Group will actively participate in the emission trading scheme to reduce the emission of greenhouse gases and contribute to reaching the Group's targets with respect to the domestic reduction plan.
The emission quotas, both acquired or received free of charge, are entered as intangible assets. These quotas are initially measured at fair value, represented by the market value at allocation or by the actual purchase price. The two amounts are substantially similar. Emission quotas are not amortised, but eventually impaired if their fair value decreases below the carrying amount. As regards emissions made during the year (measured at fair value), an amount is allocated to the provision for risks, which will be used when the related rights are cancelled. Upon sale of the emission rights, the amount cashed is entered less the emission rights and the possible capital gain/loss.
Emission quotas held for trading, which are still unsold at year end, are recognised in the statement of financial position under Inventories of finished products and goods. These quotas will be measured at the lower of cost and market value.

Energy efficiency certificates

Some energy efficiency certificates were assigned to the Group, strictly connected with the performance of specific energy saving activities. In particular, the Group received:

- Trade certificates from the Network Operator (GRTN) certifying the annual production of electrical energy from renewable sources (Green Certificates). The Group is the owner of such certificates thanks to the production of electrical energy through hydroelectric plants, the waste to energy plant in Tecnoborgo, biogas plants, as well as to the use of cogeneration plants connected with district heating;

- Trade certificates (TEE) from the Authority for electrical energy and gas (AEEG) which certify the adoption of energy saving measures (White Certificates).

For accounting purposes, these Energy Certificates are considered as follows:
- Green Certificates deriving from the annual production of electrical energy from renewable sources are recognised on an accrual basis;
- White Certificates are accounted for in a slightly different way according to the fact that the company is bound or not bound to return the TEEs. The entities that are bound to return the TEEs recognise both the grant related to the year and the cost incurred or to be incurred for the TEEs purchased to meet obligations. If the amount of TEEs purchased exceed the compulsory amount, the cost of the exceeding purchased securities is discounted; conversely, if the securities purchased are not enough to meet obligations, the cost of securities to be purchased will be allocated to meet the compulsory amount for the year. The entities that are not bound to return the TEEs must recognise revenue and costs of the certificates sold, and the purchase cost of unsold certificates will be rediscounted.

Earnings per share

- Basic earnings per share

Basic earnings per share are calculated based on the profit or loss attributable to ordinary shareholders of the parent. They are calculated by dividing profit or loss attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year.

- Diluted earnings per share

Diluted earnings per share are calculated based on the profit or loss attributable to ordinary shareholders of the parent.
For the purposes of calculating diluted earnings per share, the number of ordinary shares is the weighted average number of ordinary shares plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. This conversion takes place at the beginning of the year or at the date of the issue of the potential ordinary shares.

CHANGES IN ACCOUNTING POLICIES

Starting from 2012, the Company elected for the early application of the standard IAS 19 revised (published in the Official Journal of 6 June 2012) as provided for in the standard itself.
The amendment to IAS 19 – Employee Benefits, removes the option to defer the recognition of actuarial gains and losses by using the corridor approach (no longer applied by the IREN Group), and requires that the deficit or surplus of the provision is entirely disclosed in the financial statements. The standard also requires the separate recognition in income statement of the cost components related to the working activity and net financial charges, as well the recognition of actuarial gains and losses resulting from the new measurement, each year, of assets and liabilities under other comprehensive income/(expense). Moreover, the income from activities, included in net financial charges, shall be calculated based on the discount rate of liabilities and no longer on their expected return. Lastly, the amendment sets out the new information to be supplied in the explanatory notes to the accounts.

To this purpose, it should be specified that the “revised” version of the IAS 19 standard, ratified by the European Commission, sets out that, in order to supply more reliable and relevant information, these components should be disclosed under “Evaluation reserves” included in equity and immediately recognised in the “Statement of comprehensive income”
The comparative data regarding the 2011 financial statements, as provided for by IAS 8, were adjusted to render them comparable with data relating to the 2012 financial statements.
The following table shows the impact of the early application of this standard on balance-sheet item for 2011, which results in the removal of actuarial gains and profits from financial income or expense and their recognition under other comprehensive income. The related tax effect is also disclosed.

	thousands of euro
	2011
Financial income	(5,042)
Financial expense	433
Income tax expense	1,472
Profit (loss) for the year	(3,137)
Other comprehensive income	
- Actuarial gains/(losses) from defined benefit plans (IAS 19)	4,609
Tax effect of other comprehensive income	(1,472)
Total other comprehensive income	3,137
Total other comprehensive income	-

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS FROM 1 JANUARY 2012

On 7 October 2010, the IASB issued some amendments to IFRS 7 – *Financial Instruments: Disclosures*, applicable for accounting periods starting on or after 1 July 2011. These amendments, endorsed by competent bodies of the European Union with Regulations published on 23 November 2011, aim to offer users of the financial statements a better understanding of risk exposures connected with the transfer of financial assets, as well as the effects of such risks on the entity's financial position. Moreover, the amendments require greater disclosure in the event an excessive amount of these transactions is carried out near the end of the accounting period.
The adoption of this amendment had no impact on the measurement of captions disclosed in the financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT EARLY ADOPTED BY THE GROUP

Moreover, the following accounting standards, as well as amendments and interpretations which are not yet applicable and have not been early adopted by Iren Group are to be noted:

- On 12 May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements*, which will replace the SIC-12 *Consolidation – Special purposes entities* and some parts of IAS 27 – *Consolidated and separate financial statements*, which will be called Separate Financial Statements and will govern accounting of equity investments in the separate financial statements. The new standard is based on the existing standards and aims at defining the concept of control as the key factor for including a company in the parent's consolidated financial statements. The control is obtained only if the investor has simultaneously: a) the power to manage the relevant activities of the investee through voting rights and/or agreements; b) the power to manage the exposure to future income of the investee (dividends, fiscal benefits); c) the power to influence the revenues of the investee. The standard shall be applied retrospectively to accounting periods starting on or after 1 January 2014, at the latest.
- On 12 May 2011, the IASB issued IFRS 11 – *Joint Arrangement*, which will replace IAS 31 – *Interests in Joint Ventures* and SIC-13 – *Jointly Controlled Entities – Non-monetary Contributions by Ventures*. The new standard sets out that, in a joint-venture, two or more parties hold the joint control if the decisions on material activities require the unanimous agreement of the parties. IFRS 11 sets out two distinct types of joint agreements:
    1. joint operations;
    2. joint ventures.

The two types of agreements are different for the rights and obligations of the parties in the agreement. In a joint operation the parties have rights to assets and obligations for liabilities, while in a joint-venture the parties have rights to the net assets. IFRS 11 sets out that assets, liabilities, costs and revenues in a joint operation are recognised by the parties based on the control percentage and a joint venture is recognised by the parties based on the equity method, as set out by IAS 28 "Equity investments in associated companies and joint ventures". This standard shall be applied retrospectively for accounting periods starting on or after 1 January 2014, at the latest. After the issue of IAS 28 – *Investments in Associates*, this standard was amended to include equity investments in companies under joint-control in its scope of application, as from the effective date of the standard itself.

- On 12 May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*, which is a new and complete standard on additional information that shall be supplied on any type of equity interest, including disclosures on subsidiaries, joint-venture agreements, associates, special purpose entities and other entities of this type that are not consolidated. The standard shall be applied retrospectively to accounting periods starting on or after 1 January 2014, at the latest.
- On 12 May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which clarifies how the fair value should be measured for accounting purposes. This standard is applied to all IFRS which require or allow for the fair value measurement, or the disclosure of information based on fair value. If a fair value is not directly observable on the market, the standard provides for the use of three possible measurement techniques: a) the market price inferable from similar transactions; b) the current net value of cash flows; c) the replacement value. The standard is applicable prospectively starting on 1 January 2013.
- On 16 June 2011, the IASB issued an amendment to IAS 1 - *Presentation of Financial Statements* in which companies are requested to change the grouping of items presented in other comprehensive income/(expense), according to their possible reclassification or non reclassification in future time to income statement. The amendment is effective for accounting periods starting on or after 1 July 2012.
- On 16 December 2011, the IASB issued another amendment to IAS 32 – *Financial Instruments: presentation*, to clarify the application of some criteria for the offsetting of financial assets and liabilities included in IAS 32. Amendments are applicable retrospectively for accounting periods starting on or after 1 January 2014.
- On 16 December 2011, the IASB issued another amendment to IFRS 7 – *Financial Instruments: disclosures*. The amendment requires information on the effects or potential effects of offsetting agreements of financial assets and liabilities in the statement of financial position. The amendments are applicable for the financial years starting on or after 1 January 2013 and interim periods following this date. Information must be supplied retrospectively.

At the reporting date, the competent bodies of the European Union have not yet concluded the endorsement process necessary for the application of the following accounting standards.

- On 12 November 2009, the IASB issued IFRS 9 - *Financial instruments*. This standard was then amended. The standard, effective retrospectively as from 1 January 2015, is the first step of a process aiming at fully replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities. In particular, as regards the financial assets, the new standard uses one single approach based on management models of financial instruments and characteristics of contact cash flows of financial assets, with the aim of determining the evaluation criteria, by replacing the various rules set forth by IAS 39. As regards financial liabilities, the main amendment is instead related to accounting of fair value changes of a financial liability measured at fair value in the income statement, in the event these liabilities are due to a change in creditworthiness of the liability itself. According to the new standard, these changes should be recognised under Other profit/(loss) and will no longer be entered in the income statement.
- On 17 May 2012, IASB issued a series of amendments to IFRS (Annual Improvement to IFRS's – 2009-2011 Cycle), which will be applicable retrospectively as from 1 January 2013. These amendments mainly relate to the following international criteria:
  a) IAS 1 – *Presentation of Financial Statements*: This amendment clarifies how comparative information should be disclosed in the event a company modifies its accounting policy and retrospectively restates and reclassifies its accounts or supplies additional information with respect to requirements of the standard. The amendments also relate to public contributions;

b) IAS 16 – *Property, Plant and Equipment*. The amendment clarifies that spare parts and replacement equipment should be capitalised only if they are consistent with the definition of Property, Plant and Equipment. Conversely, they should be classified as Inventories;
c) IAS 32 – *Financial Instruments: presentation*. The amendment removes the inconsistency between IAS 12 – Income Taxes and IAS 32 on the recognition of taxes resulting from distribution to shareholders. It sets out that they should be recognised to income statement provided that the distribution relates to income generated from transactions originally accounted to in the Income statement.
d) IAS 34 – *Interim Financial Reporting*. With reference to information on segment reporting, the amendment specifies that total assets for each sector or operating segment shall be reported only if this information is regularly supplied by the chief operating decision maker of the entity and a material change has occurred on the total assets of the segment, with respect to amounts reported in the last Annual Financial Reporting.

The Directors are evaluating the impact of the above-mentioned standards on the Group, with special reference to IFRS 11.

Use of estimates

In order to prepare the financial statements in compliance with IFRS, estimates and related assumptions are based on previous experience and other case factors, which are deemed reasonable and were adopted to define the carrying amount of assets and liabilities to which they refer. Estimates have been used to measure property, plant and equipment, investment property and intangible assets subject to impairment, as well as to recognise provisions for credit risks, risks for obsolete inventory items, amortisation/depreciation and impairment losses on assets, employee benefits, to determine the fair value of derivatives and available-for-sale financial assets, taxes and other provisions for risks. These estimates and assumptions are regularly revised. Any changes deriving from the revision of accounting estimates are recognised in the period in which they are revised, if the revision refers only to the period under evaluation. Should the revision involve both current and future periods, the variation is recognised in both the year in which the revision occurs and in the related future periods.

V. RISK MANAGEMENT

The management of business risks is an essential component of the Internal Control System of corporate governance in a listed company, and the Code of Conduct set forth by Borsa Italiana assigns specific responsibilities as regards this aspect. The Enterprise Risk Management, which is operative within the Group, includes methodological approach to the integrated identification, assessment and management of the Group risks.
For each of the following risk types:

- Financial risk (interest rate, currency, spread);
- Credit risk;
- Energy risk, associated with energy and/or financial markets, such as market variables or pricing options);
- Operational risks, associated with asset ownership, involvement in business activities, processes, procedures and information flows.

specific “policies” have been defined with the primary goal of fulfilling strategic guidelines, organisational-managerial principles, macro processes and techniques necessary for the active management of related risks.

Reputational risks have also been integrated into Group’s Enterprise Risk Management model, associated with maintaining trust and a positive image of the Group in the eyes of stakeholders.
The Group’s Enterprise Risk Management model also regulates the roles of the various parties involved in the risk management process, which is governed by the Board of Directors, and calls for specific Committees to manage each type of risk.
The “Risk Management” department, reporting to the CEO, was set up within the IREN Group. This department is formally entrusted with the following activities:

- coordinating the integrated management process of the Group’s risks;
- signing and managing insurance policies, with the cooperation of the Legal department.

On a quarterly basis, the Risk Management Department also analyses losses in all the Group’s operating areas and defines the containment and reduction methods.

A summary of the Group risk management models is shown hereunder.

FINANCIAL RISKS

Iren Group’s activity is exposed to various types of financial risks, including liquidity risk, currency risk and interest rate risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit currency risk and interest rate risk.

a) Liquidity risk
Liquidity risk is the risk that financial resources available to the company are insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.
The Group Finance Department was centralised in order to optimise the collection and use of financial resources. Specifically, the centralised management of cash flows in IREN, both through cash pooling and centralisation of all collection and payments within the IREN current accounts, make it possible to allocate Group-wide available funds according to the needs arising from time to time within the single companies. Cash movements are recognised in infragroup bank accounts along with infragroup interest income and expense.
Other investees have an independent financial management structure in compliance with the guidelines provided by the Parent.
Based on the cash pooling model, the accounts of all the companies are zeroed every day by means of a netting system that transfers the balances of currency transactions on the accounts of the Parent.
The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored. At 31 December 2012, the short-term bank credit facilities used by the Parent totalled Euro 269 million.

The table below illustrates the nominal cash flows required to settle financial liabilities:

thousands of euro

	Carrying amount	Contractual cash flows	within 12 months	1-5 years	over 5 years
Mortgage and bond payables (*)	2,441,635	(2,874,532)	(393,353)	(1,502,559)	(978,620)
Hedging of interest rate risk	59,767	(57,495)	(18,797)	(35,531)	(3,167)

(*) The carrying amount includes long-term and short-term mortgages

Cash flows required to settle other financial liabilities, different from those to banks, do not differ significantly from the recognised carrying amount.

IREN has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suitable to its needs, and the best market conditions.
During 2012, the Iren Group granted new non-current loans, for a total amount of Euro 440 million, of which Euro 402 million in favour of the Parent. The details of these assets carried out and of the single transactions are described in section Financial Management of the Directors' Report.
At 31 December 2012, 42% of the residual amount payable for mortgages was agreed at a fixed interest rate, and 58% at a floating rate.
With regard to the liquidity risk potentially deriving from contractual clauses allowing counterparties to withdraw financing should certain events occur (default and covenant risk), the clauses in IREN loan agreements are fulfilled. In particular, for certain medium/long-term loan agreements Iren is committed to meeting financial covenants (such as net financial position/EBITDA, EBITDA/Financial expense ratios) with annual verification. Moreover, other covenants such as the Change of Control clause have been provided for, which sets forth that the IREN Group's should be kept under indirect or direct control of Local Authorities, as well as clauses concerning negative pledges, under which the company undertakes not to give collateral beyond a specific limit, and the Pari Passu clause, which reserves an equal treatment to lending banks with respect to the treatment for other unsecured creditors.
The non-current loan agreements of certain Group companies also envisage the observance of financial covenants (Net Financial Position-EBITDA, Net Financial Position-Equity) which have been satisfied.

b) Currency risk
Except as indicated under the section on energy risk, the IREN Group is not particularly exposed to the currency risk.

c) Interest rate risk
The IREN Group is exposed to fluctuations in interest rates above all for financial charges regarding indebtedness. IREN Group's objective is to limit its exposure to interest rate increases while maintaining acceptable borrowing costs.
The risks associated with the increase in interest rates are monitored non-speculatively and, if necessary, reduced or eliminated by signing hedging swap and collar contracts with high credit standing financial counterparties, with the sole purpose of cash flow hedges. At 31 December 2012, all contracts to limit exposure to the interest rate risk were classified as cash flow hedges in that they satisfy requisites for the application of hedge accounting.
The fair value of the above-mentioned interest rate hedges was a negative Euro 59,767 thousand at 31 December 2012.
The hedging contracts agreed, together with fixed-rate loans, hedge approximately 70% of net financial indebtedness against interest rate risk, in line with the IREN Group target of maintaining a balance between floating rate loans and fixed rate loans or in any case hedged against significant increases in interest rates.

For a more complete understanding of the interest rate risks to which the Group is subject, stress testing was performed on the sensitivity of net financial expense and evaluation components in derivatives contracts to changes in interest rates.
As regards financial charges, this analysis was performed on the basis of reasonable assumptions as follows:

- an increase and a reduction of 100 basis points in the Euribor interest rates over the year was applied to the net financial indebtedness;
- in any existing hedge, interest rate shock was applied to both the debt position and related hedge with an extremely limited net effect on the income statement;
- the change in interest rates was also applied on the share of interest expense capitalised during the year;

With regard to existing hedges at year end, a 100 basis points theoretical translation increase and decrease were applied to the forward curve of interest rates used to measure the fair value of the hedges.

The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2012.

thousands of euro

	100 bps increase	**100 bps decrease**
Increase (decrease) in net financial charges	4,696	(4,675)
Increase (decrease) in fair value charges for derivatives	861	(246)
Increase (decrease) in hedging reserve	25,654	(26,899)

CREDIT RISK

The Iren S.p.A. Group's credit risk is mainly related to trade receivables that show no particular concentration since the credit exposure is spread across a large number of counterparties. This risk is connected to the sale of electrical energy, district heating and gas and the provision of water and environmental services to retail and business customers, as well as public entities.
In conducting its business activities, the Group is exposed to the risk that, as a result of the general economic and financial crisis, trade receivables might not be paid on their due date. The risks are not only attributable to an increase in the seniority of receivables, insolvency risk and an increase in receivables subject to bankruptcy proceedings, but also suffer impairment that could lead to full or partial cancellation from the financial statements.
In order to control credit risk, operating management of which is entrusted to individual regional functions, methodologies have been defined for monitoring and control of receivables in addition to the definition of strategies for reduction of credit exposure including Customer solvency analysis on acquiring receivables by means of thorough credit rating analysis to limit insolvency risk, the assignment of credit recovery to external credit recovery companies and the management of legal disputes regarding amounts receivable for services rendered, with the introduction of new recovery methods.

The internal trade credit policy and *ex ante* assessment tools of creditworthiness, as well as monitoring and recovery activities differ in relation to the various categories of customers and the various consumption dimension levels.
Over the last few years, in order to strengthen the analysis and monitoring capacities of receivables, new tools have been introduced for the acquisition of commercial information and customer payment records, operating management for the collection of overdue receivables, outsourcing the telephone inquiry activity for certain customer segments. The Group is also completing the project for "electronic meters" with the aim of enhancing the promptness in the decoupling of customers in arrears and reducing costs.
Credit risk is hedged, for certain types of business customers, by appropriate forms of bank or insurance guarantees upon demand issued by first rate credit entities.

An interest-bearing guarantee deposit is provided for some types of services (water, natural gas, “protected customer” electrical energy) in compliance with regulations governing these activities. This deposit is reimbursed if the customer adopts the payment through bank/post current accounts.
Generally applied payment terms are compliant with regulations in force and are consistent with market standards. In the event of non payment, interest in arrears will be debited to the extent indicated in the supply contracts and as set out by regulations in force.
As a result of the persisting economic situation, the Group has improved credit risk management by strengthening its monitoring and reporting procedures in order to promptly find any measure able to tackle the causes pinpointed.

Accruals to the allowance for impairment accurately reflect the effective credit risk through the targeted quantification of the accrual, involving the analysis of the individual receivable items recorded in the databases, specifically taking into account ageing, as well as comparison with historical impairment loss data and determination of the average non-payment rate.
During 2012, a “factoring” project was started aiming at implementing a software application able to manage credit release transactions in an organised way.
On a quarterly basis the Risk Management Department gathers information to integrate the main data on trade receivables from the Group companies in relation to customers, business sector and ageing range. There is a particular focus on customers with the highest level of past due receivables, both among first level companies and for the Group as a whole.
The results are presented at the Committee meetings and agreed with the Credit Managers of first level companies which in operating terms are responsible for credit management and recovery.

With reference to the subsidiary Iride Servizi, the company’s credit risk is basically linked to its credit concentration with the Municipality of Turin. For further details reference is made in particular to Note 7 “Non-current financial assets” of the consolidated financial statements.

ENERGY RISK

The IREN Group is exposed to the price risk, including the related currency risk, on the energy commodities traded, being electrical energy, natural gas, coal, etc., as both purchases and sales are either directly impacted by fluctuations in the price of such energy commodities or through indexing formulae.
The Group’s strategy is to minimise the need to turn to the financial markets for hedges, both by aligning the indexing of the commodities purchased and sold and by exploiting, vertically and horizontally, its various business segments.
For this purpose, the Group carries out production planning for its plants and purchases electrical energy, with the aim of reconciling energy self-production and market supply with demand from Group customers.

In November and December 2011, two commodity forward contracts (Commodity swaps on Gas Release 07 rate) were agreed upon as an energy portfolio hedge for 2012, for a total notional amount of 1.7 TWh and two average rate forward contracts were agreed upon for USD 105,000 thousand. Another forward contract was signed in February 2012 for USD 25,000 thousand covering the last four months of 2012.
In November and December 2012, two commodity forward contracts (Commodity swaps on Gas Release 07 rate) were agreed upon as an energy portfolio hedge for 2013, for a total notional amount of 2 TWh. Always in December further swaps were signed on a Gas Release 07 rate, for 0.5 TWh, matched to swap transactions on PUN, for same notional, which aim of margin-setting.
The fair value of agreements that were still in force on 31 December 2012 is in aggregate negative and amounts to Euro 3,905 thousand.
Iren Mercato launched trading operations which involve the trading of physical and financial contracts on the electrical market and financial contracts directly on the underlying commodities. These contracts may refer to various indexes (PUN, ITEC, Itmix, BINE) and also include trading on the IDEX.
The contracts that give rise to these activities are classified in a specific Trading Portfolio, which had a total fair value of Euro -77 thousand at 31 December 2012.

During the meeting of the Energy Risk Commissions, the compliance with limits set out by the policy is checked as regards the main metering and analyses are carried out on markets, sales volumes, exposure to risks related to exchange rates and prices of energy raw materials, as well as on the performance of agreed hedging contracts.

Recognition of derivatives

Derivatives are measured at fair value, determined on the basis of market values or, if unavailable, according to an internal measurement technique.

The Group makes derivative transactions having the purpose of hedging specific currency, rate or price risks.

In order to recognise derivatives, within these transactions it is necessary to distinguish between transactions that abide by all of the IAS 39 requirements in order to record them in compliance with the hedge accounting rules and transactions that do not abide by all of the above-mentioned requirements.

Transactions recognised in compliance with hedge accounting rules

These transactions may include:

- fair value hedging transactions: the derivative and the hedged item are recognised at fair value in the statement of financial position and the change of their fair values is recognised directly in the income statement;
- cash flow hedging transactions: the derivative is recognised at fair value with a balancing entry in a specific equity reserve for the effective component of the hedge and in the income statement for the ineffective component; when the hedged instrument appears, the amount deferred in equity is reversed to the income statement.

The transferred amount deferred in equity and the ineffective component are classified in the income statement based on the type of underlying instrument. Therefore, in the case of commodity derivatives they are recognised in the gross operating profit/loss, whereas in the case of interest rate risk hedges, they are recognised in financial income and expense.

Transactions not recognised in compliance with hedge accounting rules

The derivative is recognised at fair value in the statement of financial position.

The change in the fair value of the derivative is recognised in the income statement and is classified based on the type of underlying instrument:

- in the case of commodity derivatives, in the gross operating profit/loss; specifically, the component realised is recognised to adjust the income or expense referred to and that derived from the measurement of the derivative at the end of the year amongst other expense or other income;
- in the case of interest rate risk hedges, in financial income or expense.

As regards the measurement of the derivative in the statement of financial position items, the fair value of the derivative is recognised in long-term loans and financial receivables if the related underlying is a non-current item. Conversely, the derivative is recognised in short-term loans and financial receivables if the underlying is settled within the reference period.

Fair value

In addition to the carrying amount, the fair value along with the methods and major assumptions used to determine it must be disclosed for every class of assets and liabilities shown in the financial statements.
Fair value is determined as the sum of estimated future cash flows in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the forward curve of interest rates at year end.
In order to provide as complete disclosure as possible, the corresponding figure from the previous year is also indicated.

thousands of euro

	31.12.2012		31.12.2011	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Assets for hedging derivatives	80	80	473	473
Loans - non-current portion and bonds (*)	(2,120,293)	(2,020,406)	(2,004,987)	(2,087,892)
Loans - current portion	(321,342)	(373,177)	(499,203)	(568,689)
Liabilities for hedging derivatives	(59,847)	(59,847)	(43,251)	(43,251)
Total	**(2,501,402)**	**(2,453,350)**	**(2,546,968)**	**(2,699,359)**

(*) At 31 December 2012, the fair value of the Put Bonds was equal to Euro 196,822 thousand.

As regards financial assets and liabilities classes which are not included in the table above, the carrying amount is equal to fair value.

Fair value hierarchy

The following table shows the financial instruments recognised at fair value, based on the measurement technique used. The various levels were defined as shown below:

- Level 1: prices quoted (not adjusted) on active markets for similar assets or liabilities
- Level 2: input data different from prices quoted, as per Level 1, which are observable for assets or liabilities, both directly (as per prices), and indirectly (or derived from prices)
- Level 3: input data related to assets or liabilities, which are not based on observable market data (non observable data).

thousands of euro

31.12.2012	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				-
Financial assets designated at fair value through profit or loss				-
Financial assets held for trading				-
Derivative financial assets		845		845
Total assets	**-**	**845**	**-**	**845**
Derivative financial liabilities		(64,593)		(64,593)
Gross total	**-**	**(63,748)**	**-**	**(63,748)**

thousands of euro

31.12.2011	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets		36	140,273	140,309
Financial assets designated at fair value through profit or loss				-
Financial assets held for trading				-
Derivative financial assets		15,155		15,155
Total assets	**-**	**15,191**	**140,273**	**155,464**
Derivative financial liabilities		(50,578)		(50,578)
Gross total	**-**	**(35,387)**	**140,273**	**104,886**

All Group hedging financial instruments feature a fair value which can be classified at level 2. This level is measured based on the valuation techniques, which take as a reference parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different from quotations of the financial instruments, or however that do not require a significant adjustment based on data which cannot be observed on the market.
Moreover, no transfers occurred amongst the various Levels of the fair value hierarchy.
At 31 December 2011, Level 3 included the investment in Delmi for an amount of Euro 140,273 thousand.

OPERATIONAL RISKS

This category includes all the risks not included in the previous categories, which may influence the achievement of operational targets, i.e. relating to the effectiveness and efficiency of business transactions, including the levels of performance, profitability and protection of the resources against losses.
The Enterprise Risk Management model applied at Group level is focused on the integrated and synergic management of risks, and implements a process that consists of the following stages:

- identification;
- assessment;
- treatment;
- control;
- reporting.

Each process stage is performed in accordance with standards and references defined at Group level.

The main risks in the above categories are assessed in terms of impact, event probability and level of control. These assessments are subject to periodic review. The indicators that allow the risk to be examined in terms of trends and critical points are also monitored.
The Group's risk position is updated at least quarterly, indicating the extent and level of control of all risks monitored, including financial, credit and energy risks.
The main reputational risks are managed in addition to the operating risks.
The risk position and related indicators are submitted to top management and to the risk owners involved in mitigation and improvement activities.
Risk analysis is used as input in the preparation of planning tools.
The operational risk management process also aims at optimizing the Group's insurance profiles in the key "property" and "liability" areas.

a. Legislation and regulatory risks

The legislation and regulatory framework is subject to possible future changes, and therefore is a potential risk. For this purpose, the IREN Group set up internal structures in charge of the continuous monitoring of reference legislation, in order to assess and, as far as possible, mitigate its impact.

b. Strategic risks

The local utilities sector is experiencing a phase of important development and consolidation. Deregulation and liberalisation mean companies have been forced to adopt a more decisive approach to competitive pressure, taking advantage of the opportunities for external and internal corporate growth offered by the new market scenarios.

The strategic development plan of the IREN Group provides for considerable investments, from the development of joint ventures of important regasification plants for the gas supply, to the construction or upgrading of cogeneration plants to complete the district heating extension plan, as well as the upgrading of the hydroelectric plants, and the consolidated presence in the electrical energy and gas distribution sectors, and water and waste treatment sectors.

The above interventions entail an exposure of the Group to regulatory, technical, commercial, economic and financial risks (obtaining of licences, application of new technologies, compliance with commercial schedules, analysis of competition, etc.), which the Group has to tackle through specific processes and structures, focused on covering all phases, from assessment, to authorisation and realization of such project.

Specific quality-quantity assessments are performed on strategic risks, indicating the main risk factors and management plans required.

c. Plant-related risks

As regards the compliance of Group production plants, plant-related risks are managed with the above-mentioned approach in order to correctly allocate resources in terms of control and preventive measures (preventive/predictive maintenance, control and supervisory systems, emergency and continuity plans, etc.).

For the more important plants the Group has recently completed a number of surveys, from which it has been able to accurately detail the events to which such plants could be exposed and subsequent preventive action.

Insurance instruments, specially created based on the specific needs of each single plant, were also created.

d. IT risks

The main IT risks are related to the availability of core systems, amongst which the interfacing with the Power Exchange by IREN Mercato.

The Company is in fact one of the leading Italian operators on the Power Exchange and any accidental unavailability of the system could have considerable economic consequences, connected with the non-submission of energy sale or purchase offers.

To mitigate such risks, specific measures have been adopted, such as the redundancy of parts of the system and appropriate emergency procedures (“Disaster recovery”), which are periodically subjected to efficiency testing.

e. Market risk

The difficult global economic situation recorded in the last few years, which heavily hit the Eurozone Countries, is still having severe recession effects on the finance of Governments and companies.

In particular, the collapse of consumption and industrial production can heavily affect companies which, like Iren, offer public utility services to privates and companies.

According to the Bank of Italy’s Economic Bulletin, no signs for a cyclical trend reversion are reported in the first half of 2013. A new growth, although modest, might occur in the second half of the year. Internal demand for goods and services and credit terms (cost and quality) represent the main factors of uncertainty on economic recovery expectations.

As regards the Iren Group, through the Enterprise Risk Management, evolution and impact on the company’s business units are monitored and possible correction measures are therefore adopted, especially in the financial and commodity sectors.

Capital management

The capital management policies of the Board of Directors involves maintaining a high level of capital to uphold relations of trust with investors, creditors and the market, and also allowing future business development.

The Board of Directors monitors the return on capital and the level of dividends for distribution to ordinary shareholders, and aims to maintain a balance between achieving extra yield by recourse to indebtedness and the benefits and security offered by a solid equity position.

VI. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

On 30 November 2010, IREN's Board of Directors adopted the "Internal regulation for transactions with related parties" which was issued in implementation:

a) of the provisions relating to transactions with related parties pursuant to article 2391-bis of the civil code;
b) the provisions set forth under article 114 of Legislative Decree 58 of 24 February 1998 (the "Consolidated Law on Finance");
c) the regulation containing provisions on transactions with related parties, adopted by Consob with its resolution 17221 of 12 March 2010 and subsequently amended with resolution 17389 of 23 June 2010 (the "Consob Regulation").

The "Internal regulation on transactions with related parties", which was applied from 1 January 2011, is published on IREN's website (www.gruppoiren.it) and, in summary, provides for:

a) identification of related parties;
b) the meaning of transaction with related parties;
c) transactions of a significant amount;
d) transactions of a lesser significance and the relative procedure;
e) transactions of a higher significance and the relative procedure;
f) exclusions;
g) establishment of the committee for transactions with related parties;
h) transactions for which the shareholders' meeting is competent;
i) amendments to the Articles of Association to be submitted to the extraordinary shareholders' meeting of Iren;
j) forms of advertising.

Transactions between the Company and its subsidiaries and related parties are ruled by a transparent and fair approach. A good part of these relations concern services provided to the customers in general (gas, water, electrical energy, heat, technological services in general, etc.) and are governed by contract rules normally applicable to these situations.

Where they do not concern current services, the transactions are governed by specific contracts, whose terms are established in accordance with normal market terms. If these references are not available or significant, the various profiles will be defined in consultation with independent experts or professionals.

Transactions with subsidiaries and associates

Intercompany Services - In order to make best use of the organisational synergies arising from the merger of IRIDE and Enìa, the IREN structure was designed in accordance with a holding model, with sufficient staff structures to support the coordination activity of the Group and to deal with the most challenging matters of general interest. Therefore, IREN can provide professional services to the first-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.

All these activities are governed by special supply contracts at arm's length terms.

Financial management - Organisational solutions were adopted with the aim of centralising financial management for the entire Group under the direct responsibility of IREN S.p.A., in order to optimise the structure and conditions of access to third party financing.

To this end, non-current loans are taken out by IREN with financial institutions, whereby the funds are subsequently transferred to the Group's companies to support the investments made by these companies based on intercompany facility agreements.
The Board of Directors approved the regulation of financial transactions between the Parent and the First-level Companies, regarding both the cash pooling of resources available within the Group for day to day requirements (working capital), and for the management of resources needed to support non-current investments. The conditions of intercompany contracts, signed based on the above regulation, were defined according to the conditions at which the Parent procures on the financial market.

Tax consolidation scheme - Starting from 2010, IREN S.p.A. adopted the tax consolidation scheme pursuant to art. 117 et seq. of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.
Since 2010, all financial and legal transactions between the parties are governed by the specific infragroup agreement between the companies involved and the parent, IREN S.p.A. This agreement is periodically updated to meet regulatory amendments or corporate reorganisations.
In 2012, the tax consolidation scheme therefore includes, in addition to the parent IREN S.p.A., the following companies: AEM Torino Distribuzione, CELPI, IRIDE SERVIZI, AEMNET, IREN Acqua Gas, IREN MERCATO, IREN ENERGIA, CAE AMGA Energia, AGA, AES Torino, Mediterranea delle Acque, Zeus (now incorporated in the IREN Emilia company), Immobiliare delle Fabbriche, Nichelino Energia, ENIA Parma, ENIA Piacenza, ENIA Reggio Emilia, Eniatel, Tecnoborgo, IREN Ambiente, IREN Emilia and Genoa Reti Gas.

In particular, this contract covers the way in which the IRES taxable amounts are transferred and the related remuneration charge, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.
Italian Law no. 244 of 24 December 2007 (2008 Finance Law), with effect starting from the 2008 tax period, radically changed the group taxation rules. It abolished all consolidation adjustments provided for by art. 122 of the Consolidated Income Tax Act, abrogated the rules regarding infragroup transfers pursuant to art. 123 of the Consolidated Income Tax Act and introduced the possibility, under certain conditions, to deduct from the consolidated income surplus interest expense of the participating companies that may have accrued due to the new interest expense deductibility provisions set forth in art. 96 of the Consolidated Income Tax Act.
As a result of the regulatory modifications mentioned above, the parties agreed on the need to update the previous Regulation in effect, in compliance with the provisions of art. 22 of the Regulation. The update protects the principles stated above.
After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay to the parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.

The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the parent is able to determine the total group Income for IRES purposes.
The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to art. 127 paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.
With reference to Group companies that operate in the production, trading, transportation or distribution sectors of natural gas or electrical energy, also generated from renewable sources, these are subject to 6.5% IRES additional tax (increased to 10.5% for 2011, 2012 and 2013). This additional tax must be paid autonomously by the above-mentioned companies, even if they are party to the tax consolidation.

Group VAT option – The IREN Group opted for Group VAT Settlement in 2012, sending their adherence to this option within the terms of law.
In terms of procedures, for 2012, the payment of Group VAT involved the transfer to the parent IREN S.p.A. of all obligations regarding settlements and VAT periodic payments.
The companies that took part in the settlement procedure are the parent IREN S.p.A. and the following companies: IREN Energia S.p.A., Iride Servizi S.p.A., IREN Acqua Gas S.p.A., IREN Mercato S.p.A., AEM Torino Distribuzione S.p.A., AEM NET S.p.A., CAE AMGA Energia S.p.A., AES Torino S.p.A., CELPI, GENOVA RETI GAS, NICHELINO Energia, IDROTIGULLIO, ENIA Reggio Emilia S.p.A., ENIA Parma S.p.A., ENIA Piacenza S.p.A., IREN AMBIENTE S.p.A., IREN EMILIA S.p.A. and ENIA SOLARIS S.p.A.

Other significant transactions with associates
Furthermore, in 2012, IREN Mercato operations continued through a gas supply contract entered into with the associates Plurigas and Sinergie Italiane. This allowed the company to supply not only the Genoa and Emilia catchment areas, but also some trading companies belonging to the IREN Group.
The Group, through IREN Mercato, has a share of energy deriving from Edipower power plants through tolling contracts.

Transactions with shareholder Municipalities-related parties
IREN S.p.A. provides a series of services to Finanziaria Sviluppo Utilities S.r.l., a special purpose company through which the Municipalities of Genoa and Turin hold their equity investment in IREN S.p.A., in the legal, administrative, financial and tax areas, in accordance with specific agreements that provide for fair compensation for the services.

Furthermore, special attention is paid to the local authorities on whose territory IREN is also active through its subsidiaries.
Through IRIDE Servizi, the IREN Group provides various services to the Municipality of Turin in support of its activities for the administered community, such as management of street lighting and traffic light services, management of heating and electrical systems and municipal buildings or buildings used to provide services to the community, global services and similar. The services rendered by IRIDE Servizi are governed by specific long-term agreements.
It should be highlighted that, during 2012, an agreement was signed with the Municipality of Turin, which provides for the reduction of receivables due to the IREN Group from the Municipality of Turin and the amendment of some provisions of the current service conventions between IRIDE Servizi and the City of Turin.
Moreover, it is worth noting that the Iren Group took part in a public tender called by the Municipality for the disposal of some equity investment in the share capital of TRM and AMIAT. For further information, reference is made to section “Significant events” in the Directors’ Report.

IREN Mercato supplies the Municipalities of Turin, Genoa, Reggio Emilia, Parma and Piacenza with electrical energy and the Municipalities of Genoa, Reggio Emilia and Parma also with gas, at conditions similar to those applied to other customers. Its subsidiary, CAE S.p.A., provides services relating to the management of air conditioning systems in public buildings and to the management of technological systems at sports and public service facilities to the Municipality of Genoa, based on long-term contracts.

IREN Acqua Gas, through its subsidiary Mediterranea delle Acque S.p.A., provides the offices and facilities of the municipality of Genoa and directly the Municipalities of Reggio Emilia and Parma with drinking water and sewers based on supply contracts similar to those signed with other customers.
IREN Emilia provides

a) the Municipalities of Reggio Emilia, Parma and Piacenza with waste collection and disposal services at terms similar to those applied to other customers;
b) the Municipality of Piacenza with drinking water and sewers based on supply contracts similar to those signed with the other customers;
c) the Municipality of Parma with public lighting services;
d) the Municipality of Reggio Emilia with maintenance of public parks and snow removal;
e) the Municipality of Piacenza with maintenance of public parks, snow removal and cemetery services.

A settlement agreement was also signed with the Municipality of Parma to settle the credit/debit position of some Iren Group companies.

Transactions with related parties

According to the "Internal regulation on transactions with related parties", Iren's Directors defined the Intesa Sanpaolo Group as a related party. The Group has financial relations with the Intesa Sanpaolo Group, mainly relating to various loan types such as mortgage loans, credit lines and current accounts. Moreover, the task of financial advisor for an extraordinary transaction was also granted to Banca IMI S.p.A.

In view of supplying the integrated water service in the provinces of Parma, Piacenza and Reggio Emilia, the company IREN Acqua Gas, against the payment of an annual lease, uses the assets of the company Parma Infrastrutture, Piacenza Infrastrutture and AGAC Infrastrutture, controlled by the Municipalities involved.

Information on financial transactions with related parties is shown in paragraph "XIII. Annexes to the consolidated financial statements", considered an integral part of these notes.

Transactions with Directors

Lastly, and regarding key managers, the following should be noted:

a) the President of IREN S.p.A. (Mr. Bazzano) is also CEO and Managing Director of IREN Acqua Gas;
b) the CEO of IREN S.p.A. (Mr. Garbati) is also CEO and Managing Director of IREN Energia;
c) the Managing Director of IREN S.p.A. (Mr. Viero) is also CEO and Managing Director of IREN Emilia and Managing Director in IREN Ambiente.

Any interests that these authorised bodies have in operations between the Parent and the First-level Companies will be declared when they are being approved by the respective Boards of Directors.
As regards information on the remuneration of key managers, reference is made to the special Report on remuneration issued pursuant to Art. 123-ter of the Consolidated Finance Act.

VII. EVENTS AFTER THE REPORTING PERIOD

Exercise of the put option for the deconsolidation from Edipower

On 16 January 2013, the Board of Directors of IREN SpA resolved to exercise the put option for the deconsolidation from Edipower, as provided in the agreements, and to start the formal proceeding according to the agreed modalities and timing.

Change in membership of the Board of Directors of Iren SpA

On 6 February 2013, IREN S.p.A.'s Board of Directors appointed Lorenzo Bagnacani as Director, Vice President and member of the Executive Committee of the multiutility in replacement of Luigi Giuseppe Villani, who resigned on 19 January 2013, following investigations, still underway, that led to restrictive measures with respect, amongst others, to Angelo Buzzi, former President of Iren Emilia S.p.A.. IREN S.p.A. is already plaintiff claiming damages in the legal suits resulting from the "Green Money" investigation, which led to the "Public Money" investigation, where some situations seem to confirm that the Company is the injured party. The Company guaranteed the utmost collaboration to the investigating bodies, as it happened on the occasion of the "Green Money" proceeding, which led to the dismissal of two employees involved in the investigation. While expressing the utmost confidence in the investigations of the Court, IREN S.p.A. stresses that the company has no part in the facts claimed to the involved subjects and, claiming damages, appointed its lawyers to safeguard the company's interests and image. Based on internal controls carried out by the Internal Auditing no liabilities are to be attributed to the Company pursuant to the Leg. Decree 231/2001.

Presentation of the updating of the 2015 Industrial Plan.
The Iren Group submitted the updating of the 2015 Industrial Plan to the financial community on 6 February 2013. The Plan envisages an EBITDA for 2015 of around Euro 670 million, with a YoY growth of 3.2%, a decreasing net financial position totalling around Euro 700 million compared to 2011, and amounts lower than Euro 2 billion at the end of the plan.
Cumulated investments for the 2013-2015 period stood at around Euro 800 million.
The strategic development lines include:

- the consolidation and growth within the reference territories, businesses in which the Iren Group is leader: Environment, Integrated water cycle and District heating.
- the achievement of operational full potential while completing the integration and rationalization process within the Group and the achievement of further operating efficiency.
- the expansion of the customer base within the reference territories with special attention to retail and small business segments.
- the reduction of the indebtedness level through the limiting of investments, asset non-core dismissals and the reduction of the working capital.
- the implementation of financial partnership to seize new development opportunities, while maintaining the financial balance.
- the growth of the Group value, while maintaining an adequate return for shareholders.

Loan amounting to Euro 100 million by CDP
On 25 February 2013, IREN SpA signed a 15-year loan agreement with Cassa Depositi e Prestiti Spa (CDP) for the amount of Euro 100 million, aimed at supporting the implementation of the 2013-2015 Industrial Plan, especially regarding investments in the Energy Infrastructure sector.

VIII. OTHER INFORMATION

CONSOB COMMUNICATION no. DEM/6064293 of 28 July 2006

Significant non-recurring events and transactions
In December 2012, some subsidiaries of Iren S.p.A. transferred a portion of the real estate assets, deemed as non-core with respect to the development of industrial business, to the real estate investment mutual fund created and managed by Ream SGR S.p.A., called Fondo Core MultiUtilities, aimed at releasing financial resources, as well as streamlining the management of real estate properties.
The transaction is summarised through the following passages:

- Transfer of the Real Estate assets and related payables (previously acquired) to the Fund;
- Starting from 1 January 2013, the acquiring by the Iren Group, under finance lease and at arm's length, of the total real estate equity through the signing of 18-year lease contracts;
- Placement of the Fund quotas to third parties;
- Keeping by the Iren Group of 5% of the Fund (target to be achieved during 2013).

Upon transfer of the real estate properties, the Iren Group (as sole conferring subject) received the quotas of the Fund, which were then sold on 31/12/2012 in the amount of around 51% of the total. The Group therefore still owns around 49% at year end, with the commitment (by SGR) to sell 44% during 2013.
The real estate assets of the Iren Group that are available for sale, comprise 12 real estate properties, instrumental to the Group activities. As regards one building owned by Iren Energia, subject to condition precedent, the sale will be actually finalised during the first half of 2013 (these are however values with no particular significance).

The values related to the transaction are summarised hereunder:

thousands of Euro

Conferring company	Disposed carrying amount at 31/12/2012	Conferring value	Capital gains	Capital loss
Iren Acqua Gas	5,455	15,000	9,843	(298)
Iren Energia (*)	8,324	33,500	25,176	-
Iride Servizi	7,741	17,000	9,259	-
Iren Emilia	45,346	31,000	-	(14,346)
Total	**66,866**	**96,500**	**44,278**	**(14,644)**

(*) values net of the property subject to condition precedent

The aggregate impact of the net capital gain, which is generated from the transaction, at Group level, therefore amounts to around Euro 29.6 million. Of these amounts, approximately Euro 21 million were put forward to the following year as they relate to the Fund quotas which will be placed during 2013. The remaining Euro 8.6 million were instead recognised in 2012 (51% of the total capital gain, net of the capital loss reported by Iren Emilia). For further details please refer to the explanatory notes described hereunder.
This transfer operation is an operative leasing transaction as it complies with all requisites, first of all the requisite for the transfer of property and risks to another subject (especially the managing company of the Fund, REAM SGR S.p.A.).
By reason of the transfer, the conferring companies adhered to a provision for risks for a total amount, at Group level, of around Euro 7.6 million. This is a provision allocated for possible charges connected with the change in the use of the transferred real estate properties, determined based on provisions set out in the compensation agreements signed with the company that manages the fund.

In 2011 the “Significant non-recurring events and transactions” related to the company’s reorganisation that involved A2A S.p.A., EDF S.A., Delmi S.p.A., Edison S.p.A. and Iren S.p.A.. To this purpose, on 27 December 2011, the above-mentioned companies announced that they had reached an agreement for the company’s organization of Edison S.p.A. and Edipower S.p.A.. Upon the issue of the 2011 financial statements albeit this context is not final, this transaction was deemed as “highly probable” and therefore Delmi shares (Euro 136,126 thousand) were impaired to adjust the carrying amounts to the amounts expressed by the reorganisation of Edison S.p.A. and Edipower S.p.A. For further details, reference should be made to disclosures in the 2011 financial statements.

Positions or transactions deriving from atypical and/or unusual transactions

In 2012, the Group was not involved in atypical and/or unusual transactions, as defined in the Communication, i.e. transactions that may, due to their significance/relevance, nature of the counterparties, subject of the transaction, methods for determining the transfer price and timing of the event (near year end), give rise to concerns about: the correctness/completeness of the financial statements disclosures, conflict of interest, safeguard of the company’s assets, protection of minority shareholders.

Publication of the Financial Statements

The Financial Statements were authorised for publication by IREN S.p.A.’s Board of Directors during the meeting held on 10 April 2013. The Board of Directors authorised the Chairman, the CEO and the Managing Director to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders.
The shareholders’ meeting to be called to approve the separate financial statements of the Parent has the right to request amendments to the aforementioned consolidated financial statements.

IX. NOTES TO THE STATEMENT OF FINANCIAL POSITION

Unless otherwise stated, the following tables are in thousands of euro.

ASSETS

NON-CURRENT ASSETS

NOTE 1_PROPERTY, PLANT AND EQUIPMENT

The breakdown of property, plant and equipment, divided between historical cost, accumulated depreciation and carrying amount, is shown in the following table:

thousands of euro

	Cost at 31/12/2012	Acc. depreciation at 31/12/2012	Carrying amount at 31/12/2012	Cost at 31/12/2011	Acc. depreciation at 31/12/2011	Carrying amount at 31/12/2011
Land	68,563	(14)	68,549	75,984	(1,510)	74,474
Buildings	239,489	(77,755)	161,734	337,747	(104,865)	232,882
Leased buildings	6,735	(2,030)	4,705	6,735	(1,828)	4,907
Land and buildings	**314,787**	**(79,799)**	**234,988**	**420,466**	**(108,203)**	**312,263**
Plant and machinery	3,092,574	(1,207,380)	1,885,194	2,833,188	(1,112,482)	1,720,706
Leased plant and machinery	643	(562)	81	1,010	(581)	429
Plant and machinery	**3,093,217**	**(1,207,942)**	**1,885,275**	**2,834,198**	**(1,113,063)**	**1,721,135**
Industrial and commercial equipment	84,843	(55,421)	29,422	82,070	(50,038)	32,032
Leased industrial and commercial equipment	-	-	-	-	-	-
Industrial and commercial equipment	**84,843**	**(55,421)**	**29,422**	**82,070**	**(50,038)**	**32,032**
Other assets	116,823	(96,100)	20,723	117,494	(92,849)	24,645
Other leased assets	15,397	(978)	14,419	1,883	(1,535)	348
Other assets	**132,220**	**(97,078)**	**35,142**	**119,377**	**(94,384)**	**24,993**
Assets under construction and payments on account	628,470	-	628,470	**747,155**	-	**747,155**
Total	**4,253,537**	**(1,440,240)**	**2,813,297**	**4,203,266**	**(1,365,688)**	**2,837,578**

The variation in the historical cost of property, plant and equipment is shown in the following table:

thousands of euro

	Opening balance	Changes in the consolidation scope	Increases	Decreases	Reclassifications	Other changes	Closing balance
Land	75,984	(166)	4,016	(10,497)	(726)	(48)	68,563
Buildings	337,747	(1,821)	2,084	(100,178)	1,855	(198)	239,489
Leased buildings	6,735	-	-	-	-	-	6,735
Land and buildings	**420,466**	**(1,987)**	**6,100**	**(110,675)**	**1,129**	**(246)**	**314,787**
Plant and machinery	2,833,188	(26,608)	73,537	(1,877)	217,733	(3,399)	3,092,574
Leased plant and machinery	1,010	(366)	-	(1)	-	-	643
Plant and machinery	**2,834,198**	**(26,974)**	**73,537**	**(1,878)**	**217,733**	**(3,399)**	**3,093,217**
Industrial and commercial equipment	82,070	(103)	3,275	(1,136)	800	(63)	84,843
Leased equipment	-	-	-	-	-	-	-
Industrial and commercial equipment	**82,070**	**(103)**	**3,275**	**(1,136)**	**800**	**(63)**	**84,843**
Other assets	117,494	(773)	3,537	(4,152)	822	(105)	116,823
Other leased assets	1,883	-	14,513	(999)	-	-	15,397
Other assets	**119,377**	**(773)**	**18,050**	**(5,151)**	**822**	**(105)**	**132,220**
Assets under construction and payments on account	747,155	**(87)**	114,796	**(12,389)**	(220,592)	**(413)**	628,470
Total	**4,203,266**	**(29,924)**	**215,758**	**(131,229)**	**(108)**	**(4,226)**	**4,253,537**

The variation in accumulated depreciation is shown in the following table:

thousands of euro

	Opening balance	Changes in the consolidation scope	Depreciation for the year	Decreases	Reclassifications	Other changes	Closing balance
Accumulated depreciation, land	(1,510)	-	-	1,496	-	-	(14)
Accumulated depreciation, buildings	(104,865)	1,005	(9,624)	35,708	15	6	(77,755)
Accumulated depreciation, leased buildings	(1,828)	-	(202)	-	-	-	(2,030)
Accumulated depreciation, buildings	**(108,203)**	**1,005**	**(9,826)**	**37,204**	**15**	**6**	**(79,799)**
Acc. depreciation, plant and machinery	(1,112,482)	7,484	(103,276)	807	2	85	(1,207,380)
Acc. depreciation, leased plant and machinery	(581)	100	(81)	-	-	-	(562)
Acc. depreciation, plant and machinery	**(1,113,063)**	**7,584**	**(103,357)**	**807**	**2**	**85**	**(1,207,942)**
Acc. depreciation, ind. and comm. equipment	(50,038)	63	(6,515)	1,047	(23)	45	(55,421)
Acc. depreciation, leased ind. and comm. equip.	-	-	-	-	-	-	-
Acc. depreciation, leased ind. and comm. equip	**(50,038)**	**63**	**(6,515)**	**1,047**	**(23)**	**45**	**(55,421)**
Accumulated depreciation of other assets	(92,849)	422	(7,678)	3,904	-	101	(96,100)
Acc. depreciation of other leased assets	(1,535)	-	(441)	998	-	-	(978)
Accumulated depreciation of other assets	**(94,384)**	**422**	**(8,119)**	**4,902**	**-**	**101**	**(97,078)**
Total	**(1,365,688)**	**9,074**	**(127,817)**	**43,960**	**(6)**	**237**	**(1,440,240)**

The amounts attributable to GEA, Sasternet and Undis Servizi companies, disposed over the year, are disclosed in the column Changes in the consolidation scope.
The balance in the column Reclassifications relates to net transfers from property, plant and equipment and intangible assets within the application of IFRIC 12.
The balance of the column Other movements relates to the variation in interests in Enia Solaris and IREN Rinnovabili, proportionally consolidated.

Land and buildings
This item primarily includes industrial buildings connected with Group plants and related land The significant reduction in item Land and Buildings is due to the transfer of a portion of the real estate asset, which was deemed as non-core with respect to the development of the industrial business, to the mutual fund created and managed by Ream SGR S.p.A., called Fondo Core MultiUtilities, as well as to the sale of the headquarters in Turin.

Plant and machinery
This item refers to costs for electrical energy production plants, heat production plants, electrical energy distribution networks, gas distribution networks, heat distribution networks and plants related to waste

disposal services not operated under concessions as per IFRIC 12. Freely transferable assets are included in the assets of electrical energy production plants.

Investments for the year of Euro 73,537 thousand refer mainly to:
- the Torino Nord cogeneration plant for Euro 15,417 thousand;
- Development of the district heating network, including heat exchange substations, meters and remote reading appliances, for Euro 19,781 thousand;
- installation of new electronic meters for end customers and new connections to the distribution network of electrical energy, totalling Euro 8,957 thousand.

Industrial and commercial equipment
This item includes costs related to the purchase of supplementary or auxiliary assets for plants and machinery, such as rubbish bins, laboratory and other equipment.

Other assets
This item refers to costs for the purchase of office furniture and machines and vehicles. Ships for the regasification terminal, acquired through lease contracts are also included.

Assets under construction and payments on account
Assets under construction and payments on account include the various charges incurred for investments under construction and not yet in operation, mainly referring to the Torino Nord cogeneration Plant project (Euro 119,445 thousand), OLT project (Euro 306,196 thousand) and the Parma Integrated Environmental Hub (Euro 148,809 thousand). Investments for the year, equal to Euro 114,796 thousand, mainly refer to:
- construction of the Torino Nord cogeneration plant for Euro 16,365 thousand;
- implementation of the Integrated Environmental Hub project for the Emilia Romagna region for Euro 53,096 thousand;
- transformation of the gas carrier Golar Frost, purchased by OLT Offshore, into a regasification plant, within the construction project of the Livorno regasification terminal (OLT project), amounting to Euro 30,058 thousand.

Ordinary depreciation for 2012, totalling Euro 127,817 thousand, were calculated based on the rates previously indicated and held to represent the residual useful life of the relevant asset.
It is worth noting that, with Law no. 134 of 7 August 2012, the Parliament amended the regulations in force regarding the large shunt concessions for hydroelectric purposes (“hydroelectric concessions”).
The regulation also sets out that the outgoing operator shall be granted an amount calculated:
- as regards the “wet assets” (collection, regulation works, penstocks, drain pipes included in the business branch of the outgoing operator, the so-called “transferable assets”), based on the revalued historic cost, net of public capital contributions, revalued, received by the operator for the construction of these assets, less the ordinary wear;
- as regards the “dry assets” (property, plant and equipment included in the business branch of the outgoing operator and not included in the “wet assets” category, the so-called non transferable assets), based on the reconstruction value, less the ordinary wear.

According to the above regulations, starting from the accounting period 2012, as regards transferable assets related to expired hydroelectric concessions, the residual carrying value of which is lower than the estimated value pertaining to the outgoing operator (calculated based on the above-mentioned provisions), the depreciation of these assets was suspended, with a positive impact on the 2012 income statement, equal to Euro 8,092 thousand, already net of the related tax effect.
The group holds assets acquired through finance leases for a value of Euro 19,205 thousand (Euro 5,684 thousand at 31 December 2011), mainly related to ships for the regasification terminal in Livorno.

Lastly, no assets are pledged against liabilities.

NOTE 2_INVESTMENT PROPERTY

The following table highlights the breakdown of the item:

thousands of euro

	Cost at 31/12/2012	Acc. depreciation at 31/12/2012	Carrying amount at 31/12/2012	Cost at 31/12/2011	Acc. depreciation at 31/12/2011	Carrying amount at 31/12/2011
Land	243	-	243	260	-	260
Buildings	2,775	(1,187)	1,588	2,826	(1,143)	1,683
Total	**3,018**	**(1,187)**	**1,831**	**3,086**	**(1,143)**	**1,943**

The amounts indicated refer to investment property of the subsidiaries Mediterranea delle Acque (Euro 289 thousand), and Immobiliare delle Fabbriche (Euro 636 thousand), the portion of the investment property of Società Acque Potabili, proportionally consolidated (equal to Euro 906 thousand) and mainly refer to buildings held to obtain lease payments.
The fair value of investment property is not lower than the carrying amount.

NOTE 3_ INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

Intangible assets, broken down between historical cost and accumulated amortisation, are shown in the following table:

thousands of Euro

	Cost at 31/12/2012	Acc. depreciation at 31/12/2012	Carrying amount at 31/12/2012	Cost at 31/12/2011	Acc. depreciation at 31/12/2011	Carrying amount at 31/12/2011
Development costs	524	(494)	30	524	(475)	49
Industrial patents and similar rights	50,744	(36,008)	14,736	47,882	(29,254)	18,628
Licences, trademarks and similar rights	1,736,076	(574,330)	1,161,746	1,628,134	(517,777)	1,110,357
Other intangible assets	104,822	(66,593)	38,229	112,208	(59,041)	53,167
Assets under construction and payments on account	80,281	-	80,281	98,568	-	98,568
Total	**1,972,447**	**(677,425)**	**1,295,022**	**1,887,316**	**(606,547)**	**1,280,769**

The variation in the historical cost of intangible assets is shown in the following table:

thousands of Euro

	Opening balance	**Changes in the consolidation scope**	**Increases**	**Decreases**	**Reclassifications**	**Impairment losses for the year**	**Closing balance**
Development costs	524	-	-	-	-	-	524
Industrial patents and similar rights	47,882	(51)	3,290	(723)	346	-	50,744
Licences, trademarks and similar rights	1,628,134	(12,070)	54,356	(2,038)	67,694	-	1,736,076
Other intangible assets	112,208	(254)	27,680	(39,243)	4,855	(424)	104,822
Assets under construction and payments on account	98,568	(32)	54,949	(60)	(72,999)	(145)	80,281
Total	**1,887,316**	**(12,407)**	**140,275**	**(42,064)**	**(104)**	**(569)**	**1,972,447**

Changes in accumulated amortisation are shown in the following table:

thousands of Euro

	Opening balance	**Changes in the consolidation scope**	**Depreciation for the year**	**Decreases**	**Reclassifications**	**Closing balance**
Acc. depreciation, development costs	(475)	-	(19)	-	-	(494)
Acc. deprec. of ind. patents and similar rights	(29,254)	50	(6,961)	157	-	(36,008)
Acc. deprec. of licences, trademarks and similar rights	(517,777)	1,988	(59,889)	1,363	(15)	(574,330)
Acc. deprec. of other int. assets	(59,041)	210	(10,756)	2,994	-	(66,593)
Total	**(606,547)**	**2,248**	**(77,625)**	**4,514**	**(15)**	**(677,425)**

The amounts attributable to GEA, Sasternet and Undis Servizi companies, disposed over the year, are disclosed in the column Changes in the consolidation scope.
The balance in the column Reclassifications relates to net transfers from property, plant and equipment and intangible assets within the IFRIC 12 scope of application, as well as to transfers to the assets available for sale.
Impairment losses for the year mainly relate to capitalised costs for the commercial development of new customs.

Industrial patents and similar rights
This item mainly relates to the total costs borne for the purchase of corporate and management software and the acquisition of rights for the exclusive use of technical studies on the statistical trend of network losses, amortised over five years.

Licences, trademarks and similar rights
This item is primarily composed of:

- assets recognised in application of IFRIC 12, related to the business segments of natural gas distribution, the Integrated Water Service and, marginally, district heating;
- the right of use of aqueduct networks by virtue of the concessions granted by the municipality of Genoa and other neighbouring municipalities;
- concessions for the use of the IT network of third party operators.

Other intangible assets
This item is primarily composed of:
- costs incurred for in-house customisation of licensed software applications;
- expense for the ordinary maintenance of electrical systems and special installations of the Turin municipal authority, capitalised and amortised over the term of the fifteen-year agreement;
- emission trading quotas held for internal needs;
- costs for the commercial development of customers.

Assets under construction and payments on account
This item mainly consists of investments for concession services governed by IFRIC 12, in addition to software licences and related implementation costs.

NOTE 4_GOODWILL

This item totals Euro 132,861 thousand (Euro 131,651 thousand at 31 December 2011) and mainly refers to goodwill for:
- the majority of Acqua Italia S.p.A. (now Mediterranea delle Acque), where the positive difference between the purchase cost and fair value of acquired and identifiable assets and liabilities was recognised as goodwill for Euro 23,202 thousand (allocated to the water CGU);
- ENEL's acquisition of the business unit related to the distribution and sale of electrical energy to non-eligible customers in the Municipality of Turin, in which the positive difference between the purchase cost and fair value of acquired and identifiable assets and liabilities was recognised as goodwill for Euro 64,608 thousand (allocated to the energy infrastructures CGU, especially electric grids);
- the business unit purchased from ENEL at the end of 2000 and referred to electric facilities of the city of Parma, for an amount of Euro 10,444 thousand (allocated to energy infrastructures CGU, especially electrical energy grids);
- shares in Enìa Energia (now merged into Iren Mercato), acquired by Sat Finanziaria S.p.A. and Edison, for an amount of Euro 16,761 thousand (allocated to the market CGU).

The change compared to 31 December 2011 mainly refers to the goodwill on the acquisition of the business unit referring to the trading and sale of ERG electrical energy and the deconsolidation of the GEA company.
Goodwill is referred to as an intangible asset with an indefinite useful life. Therefore, it is not amortised, but tested for impairment to check whether the carrying amount is still recoverable.
The Iren Group impairment tests is organised on two levels:
- Cash-generating Units, corresponding to the business sectors described in the foreword to these noted based on the Group's Business Plan. This method allows for a more effective disclosure of goodwill and future investment plans and supplies a homogeneous analysis of information communicated to the market. In particular, the cash-generating units are represented by Energy Infrastructures, Generation, Market, Integrated Water Service, Waste Management, Other (residual).
- For First-level companies (Iren Acqua Gas, Iren Ambiente, Iren Emilia, Iren Energia and Iren Mercato, upon the occurrence of specific impairment triggers with special reference to goodwill, assets and value recoverability of their equity investments.

Within the assessments made, the recoverable amount was determined by calculating the value in use of an asset or referring to fair value, net of costs to sell. In order to obtain the best estimate of the value in use, assessments were made by using pre-tax operating cash flows, which derive from the latest and most extensive economic and financial projections in the five-year industrial plan, approved by the Board of

Directors on 6 February 2013, as well as pre-tax value terminal, calculated by using the perpetual yield, if applicable, and by verifying the same according to implied multiples (the final value should be a multiple equal to 8 for the type of regulated activities in which the company operates, where concessions are multi-annual and therefore permit to take account of this timing with reasonable margins). For a more prudent estimate of the profit, the terminal value selects the lowest value between perpetuity and multiples.
The discount rate is defined by the pre-tax weighted average cost of capital (WACC) and it is included in the 5.86% – 6.80% range, according to the specific business line.
In general, and prudentially, the "g" growth rate was used to calculate the terminal value equal to zero at real values. In the event of standalone plans used at nominal values, the "g" growth rate used was equal to programmed inflation (1.5%).
The impairment test performed on 31 December 2012 on CGUs, corresponding to the business sectors described in the foreword to these notes, highlighted no impairment losses.
It is highlighted that for all Cash Generating Units the recoverable value is significantly higher compared to the carrying value. In particular, even with a 2% increase in the pre-tax weighted average cost of capital (WACC) no impairment is highlighted.
In light of the current volatility of markets and the uncertain economic perspectives in future times, the company deems suited to highlight that the regulated business are subject to a specific sector legislation which governs margins. These business, therefore, have stable margins that can be foreseen also in turbulent market periods.

NOTE 5_INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Investments measured using the equity method are equity investments in companies in which the Group exercises a significant influence.
The Group companies measured using the equity method at 31 December 2012 are shown in an annex.
Changes for the year are shown in the following table:

thousands of Euro

	31/12/2011	Reclassi-fications	Increases (Decreases)	Profit/(loss) for the year	Dividends	Measurements with direct effect on equity	Impairment losses	31/12/2012
A2A Alfa	1,722	-	-	(120)	(630)	-	-	972
ABM Next	254	-	-	-	(31)	-	-	223
Aciam	304	(309)	30	(25)	-	-	-	-
Acos	7,459	-	-	38	-	-	-	7,497
Acos Energia	779	-	-	26	(75)	-	-	730
Acquaenna	1,380	-	-	-	-	-	-	1,380
Acqueinforma	5	-	-	-	-	-	(5)	-
Aguas de San Pedro	5,114	-	-	671	(111)	(255)	-	5,419
Aiga	335	-	-	-	-	-	-	335
Amat	2,997	-	-	5	-	-	-	3,002
Amat Energia	-	-	-	-	-	-	-	-
AMIAT	-	-	28,800	-	-	-	-	28,800
Amiu	-	-	-	-	-	-	-	-
Amter	721	-	-	37	(98)	-	-	660
Asa	10,233	-	-	2,670	-	(1,088)	-	11,815
Asmt Servizi Industriali	3,649	(3,684)	-	35	-	-	-	-
Astea	-	19,225	-	-	-	-	-	19,225
Atena	9,034	-	-	72	-	-	-	9,106
Castel	433	-	(350)	-	-	-	(83)	-
Consorzio Servizi Integrati	50	-	(50)	-	-	-	-	-
Delmi	-	142,730	-	1,905		(950)	-	143,685
Domus Acqua	28	-	-	-	-	-	-	28
Edipower	145,000	-	-	8,367	-	(905)	-	152,462
Fingas	8,171	-	1,750	-	-	-	-	9,921
Fondo Core MultiUtilities	-	-	123	-	-	-	-	123
Gas Energia	810	-	-	(12)	-	-	-	798
Gica	-	-	-	-	-	-	-	-
Global Service	6	-	-	-	-	-	-	6
Il tempio	32	-	-	32	-	-	-	64
Iniziative Ambientali	460	-	-	33	-	-	-	493
Livorno Holding	-	-	-	-	-	-	-	-
Mestni Plinovodi	9,374	-	-	58	-	-	-	9,432
Mondo Acqua	142	-	-	-	-	-	-	142
Plurigas	18,904	-	-	5,476	(7,512)	1,745	-	18,613
Project Financing Management	-	-	2,167	-	-	-	-	2,167
Rio Riazzone	220	-	-	4	-	-	-	224
S.M.A.G.	6	-	-	7	-	-	-	13
Salerno Energia Vendite	1,561	-	-	245	(304)	-	-	1,502
Sea Power & Fuel	9	-	-	(5)	-	-	-	4
Sinergie Italiane	-	-	-	-	-	-	-	-
Sosel	643	-	-	42	-	-	-	685
Tirana Acque	47	-	-	-	-	-	-	47
TRM V	-	-	31,593	-	-	-	-	31,593
Valle Dora Energia	498	-	-	-	-	-	-	498
Vea Energia e Ambiente	438	-	-	(5)	-	-	-	433
TOTAL	**230,818**	**157,962**	**64,063**	**19,556**	**(8,761)**	**(1,453)**	**(88)**	**462,097**

The equity investment in Delmi is restated from “Other investments” to the item under evaluation due to the agreements signed among A2A, Delmi and EDF and among A2A, Delmi, Edison and Alpiq. On 24 May 2012, in fact, the agreements signed on 15 February 2012 and later amended on 5 May 2012 between A2A, Delmi and EDF and between A2A, Delmi, Edison and Alpiq were fully implemented. As a result, Delmi sold 50% of Transalpina di Energia to WGRM 4 Holding S.p.A., a fully owned subsidiary of EDF, for the price of Euro 783,748,900, and acquired 70% of Edipower from Edison (50%) and Alpiq (20%) for a total price of Euro 883,748,900.
Agreements were also signed between A2A, Iren, Iren Energia (currently a shareholder of Edipower) and other shareholders of Delmi regarding governance and the operating model of Edipower and the eventual exit of minority shareholders.
Given the aforementioned governance agreements, Iren assessed that it has significant influence over Delmi even if the percentage interest (15%) is less than the 20% threshold.
Consistently with the 2011 financial statements, Iren’s Directors deem that fair value of the equity investments in Delmi at 31 December 2012 should be determined based on Iren’s equity investment in the company’s Shareholders’ Equity. Delmi’s Shareholders’ Equity, in fact, reflects the fair value measurement of the only asset held, that is to say 70% of the equity investment in Edipower.
Since the closing date of the transaction was 24 May 2012, as already mentioned, Delmi can therefore be measured at equity in accordance with IAS 28 paragraph 23 from that date. By analogy, pursuant to IFRS 3 par. 41 and 42, it is assumed that the fair value of Delmi at 31 May 2012, as estimated cost, is equal to Euro 142,730 thousand. The excess of Euro 2,458 thousand compared to the measurement at 31 December 2011 was recognised under “Financial income” in the income statement. The subsequent application of the equity method, based on the Delmi’s financial statements at 31 December 2012, involved a revaluation of Euro 1,905 thousand, disclosed between the “profit/loss of associated companies accounted for at equity” and a negative value adjustment, totalling Euro 950 thousand recorded in Shareholders’ Equity.
It should be noted that the merger of Delmi into its subsidiary Edipower was effective on 1 January 2013 and, on 16 January 2013, IREN S.p.A.’s Board of Directors resolved on exercising the put option for the deconsolidation from Edipower, set out in the agreements, and on starting the formal proceeding according to preset modalities and timing. The agreements envisage that IREN S.p.A. be assigned, as a counterparty of the equity investment in Edipower, the high-efficiency, combined-cycle thermoelectric plant in Turbigo (800 MW of installed power) and the hydroelectric plant in Tusciano (annual production capacity of around 250 GWh).

In December 2012, a partnership was created amongst Iren S.p.A., other Iren Group companies (Iren Emilia SpA, Iren Ambiente SpA, Iren Energia SpA), F2i, which holds its control (75%), and TRM V S.p.A.. Following the tender launched by the Municipality of Turin, TRM V S.p.A. acquired 80% of TRM S.p.A., which was entrusted with the task of designing, building and managing the waste-to-energy plants using urban and similar waste serving the southern area of the province of Turin. The measurement of the equity investment had no economic impact as the transaction was concluded at the end of 2012.

In December 2012, a partnership between the Iren Group, ACEA Pinerolese Industriale S.p.A. and the company AMIAT V S.p.A. was concluded. This partnership, following the tender launched by the Municipality of Turin, acquired 49% of the company AMIAT S.p.A., which managed the environmental services of the Municipality of Turin. The measurement of the equity investment had no economic impact as the transaction was concluded at the end of 2012.

The participation of the Group in the Fondo Core MultiUtilities is disclosed, net of the portion of unrealised capital gain. Further information can be found in the section “Other information”.

Equity investment in Astea is restated from “Assets held for sale” to the item under evaluation due to the lack of conditions precedent for the equity investment registration under item Assets held for sale. Further information can be found in note 16 Assets held for sale.

The equity investment in ASMT Servizi Industriali was reclassified under item Assets held for sale by virtue of the fact that, at the beginning of 2013, the sale of the equity investment was finalised.

As regards the equity investment in Sinergie Italiane, the carrying amount of which is zero, the provision for risks against the risk of future losses of this investee amounted to Euro 10,000 thousand.

As regards the equity investment in Plurigas, on 27 March 2013 the Shareholders' Meeting resolved on the liquidation of the company. IREN's Directors deem that at the end of the settlement procedure, IREN will collect an amount which is substantially equal to the proportion of the company's Shareholders' Equity.

NOTE 6_OTHER INVESTMENTS

This item relates to investments in companies over which the Group has neither control nor significant influence. Since their fair value could not be reliably determined, these investments were maintained at cost, adjusted for any impairment losses.
The list of other investments at 31 December 2012 is shown in an annex.
Changes for the year are shown in the following table:

thousands of Euro

	31/12/2011	Changes in the consolidation scope	Increases (Decreases)	Impairment losses	Reclassifications	31/12/2012
Acque Potabili Siciliane	20	-	-	-	-	20
Astea Energia	7	-	-	-	-	7
Atena Patrimonio	12,030	-	-	-	-	12,030
ATO2 Acque società consortile	10	-	-	-	-	10
Autostrade Centro Padane	1,248	-	-	-	-	1,248
BT Enia	2,110	-	-	-	-	2,110
C.R.P.A.	52	-	-	-	-	52
CFR SPA	13	(13)	-	-	-	-
Consorzio Leap	10	-	-	-	-	10
Consorzio Topix	5	-	-	-	-	5
Cosme	2	-	-	-	-	2
CSP Innovazione nelle ICT	28	-	-	-	-	28
Delmi	140,272	-	-	2,458	(142,730)	-
Energia Italiana	12,928	-	-	-	-	12,928
Environment Park	399	-	-	-	-	399
IAM SPA	25	(25)	-	-	-	-
Nord Ovest Servizi	780	-	-	-	-	780
RE Innovazione	8	-	-	-	-	8
Rupe	10	-	-	-	-	10
SDB Società di biotecnologie	10	-	-	-	-	10
SI.RE	15	-	-	(15)	-	-
Sogea	2	-	-	(2)	-	-
Stadio di Albaro	27	-	-	-	-	27
T.I.C.A.S.S.	4	-	-	-	-	4
TLR V	-	-	120	-	-	120
TOTAL	**170,015**	**(38)**	**120**	**2,441**	**(142,730)**	**29,808**

As described in Note 5, the investment in Delmi was reclassified among companies measured using the equity method.

NOTE 7_NON-CURRENT FINANCIAL ASSETS

The item, equal to Euro 116,168 thousand (31 December 2011: Euro 132,299 thousand), refers to securities other than equity investments, financial assets and the fair value of derivatives.

Securities other than investments

This item contains securities that are measured pursuant to the provisions of IAS 39 - *Financial Instruments: Recognition and Measurement*, as held for sale or as held-to-maturity investments.

Specifically they amount to Euro 40 thousand (Euro 36 thousand at 31 December 2011) and refer to securities given as collateral to authorities, classified as held-to-maturity investments, and are measured at amortised cost.

Financial receivables and fair value of derivatives

thousands of euro

	31/12/2012	31/12/2011
Non-current financial receivables from joint ventures	2,895	-
Non-current financial receivables from associates	809	812
Non-current financial receivables from shareholders - related parties	109,484	127,468
Non-current financial receivables - leases	-	130
Non-current financial receivables from others	2,860	3,380
Fair value of derivatives – non-current share	80	473
Total	**116,128**	**132,263**

Non-current financial receivables from joint ventures relate to loans granted to Joint ventures Iren Rinnovabili and Enia Solaris, related to the unnetted portion resulting from the proportional consolidation.

Financial receivables to associates relate to amounts due to the companies ABM Next, Acquaenna and Aiga, the amount of which are not significant.

Receivables from shareholders-related parties refer to amounts due from the Municipality of Turin for Euro 108,918 thousand, from the Municipality of Genoa for Euro 69 thousand and from the Intesa Sanpaolo Group for Euro 497 thousand.

The amounts due from the Municipality of Turin, which accrue interest in favour of the Group, refer to classification of the non-current portion of receivables on the current account used to settle trade and financial relations between the subsidiary IRIDE Servizi S.p.A. and the Municipality of Turin.

These receivables form part of an overall position, totalling Euro 211,103 thousand, and are divided among various statement of financial position items according to their classification by type and maturity: Trade receivables (Note 11) and Current financial assets – financial receivables from Parents (Note 14), as shown in the following table.

	31/12/2012	31/12/2011
		thousands of euro
Trade receivables for services on invoices issued	22,732	19,904
Trade receivables for services on invoices to be issued	3,957	6,190
Trade receivables for electrical energy and other supplies	12,207	15,917
Allowance for impairment	(6,750)	(6,750)
Total trade receivables	**32,146**	**35,261**
Non-current portion of financial receivables in current account	108,918	127,468
Total non-current financial receivables	**108,918**	**127,468**
Current portion of financial receivables in current account	62,500	70,000
Financial receivables for interest invoiced	3,933	8,090
Financial receivables for interest to be invoiced	3,606	3,688
Total current financial receivables	**70,039**	**81,778**
Total	**211,103**	**244,507**

In November 2012 an agreement was signed between the City of Turin and the IREN Group, which provides for the reduction of receivables from the City of Turin. According to the above-mentioned agreement, in December receivables were collected in the amount of around Euro 120 million. Moreover, it is highlighted that in January 2013 around Euro 20 million were collected.
From a prudential Directors' assessment, based on the agreements signed with the City of Turin, it is estimated that approximately Euro 62.5 million of the financial receivables from the Municipality of Turin are collectible within 12 months.
The balance of trade receivables from the Municipality of Turin has decreased by around Euro 3,115 thousand (net of the allowance for impairment) and the balance of current and non-current financial receivables has decreased by Euro 30,289 thousand. The IREN Group's total exposure from the Municipality of Turin has therefore decreased by Euro 33,404 thousand compared to 31 December 2011.

The interest-free loan for the future share capital increase, paid to Nord Ovest Servizi, and an interest-free loan to Medgas are included in Receivables from others.

The fair value of derivatives amounts to Euro 80 thousand (31 December 2011: Euro 473 thousand) and the related description is included in the section "Risk Management".

Moreover, at 31 December 2011, receivables from AES Torino amounted to Euro 130 thousand.

NOTE 8_OTHER NON-CURRENT ASSETS

These are detailed in the following table:

	31/12/2012	31/12/2011
		thousands of euro
Guarantee deposits	2,864	2,730
Tax assets after 12 months	11,287	1,858
Other non-current assets	10,524	8,949
Non-current prepayments and accrued income	13,520	14,289
Total	**38,195**	**27,826**

Tax assets after 12 months include amounts due following the appeal for the deduction of IRAP tax from IRES tax (Art. 2, par. 1 quarter of the Law Decree no. 201 of 6 December 2011) and IRPEF advances on post-employment benefits and were paid in accordance with Law no. 140/1997. In accordance with the relevant legislation, this amount has been recovered since 1 January 2000 and is revalued annually on the basis of the same criteria used to revalue the post-employment benefits.

Prepayments mainly include the long-term prepaid portion, relating to energy service contracts signed by the subsidiary CAE AMGA Energia S.p.A.

NOTE 9_DEFERRED TAX ASSETS

These total Euro 215,750 thousand (Euro 174,850 thousand at 31 December 2011) and refer to deferred tax assets deriving from elements deductible in future years. They also include the tax effect on adjustments made on IFRS first-time adoption.
Reference should be made to the income statement, Note 42 “Income tax expense” shown in the annex, for further details.

CURRENT ASSETS

NOTE 10_INVENTORIES

Inventories primarily comprise methane and consumables intended for maintenance and construction of the Group plants. The measurement criterion used is the weighted average cost.
The summary of changes occurring over the year is as follows:

thousands of euro

	31/12/2012	31/12/2011
Raw materials	88,875	66,958
Allowance for inventory write-down	(3,217)	(2,614)
Carrying amount	**85,658**	**64,344**
Contract work in progress	3,452	3,587
Total	**89,110**	**67,931**

The significant change compared to 31 December 2011 is due to the market division’s acquisition of a portion of gas inventories of the associate Sinergie Italiane.
The allowance for inventory write-down was set up and is used to take into consideration inventories that are technically obsolete and slow-moving.

At 31 December 2012 no inventories were pledged against liabilities.

NOTE 11_TRADE RECEIVABLES

These are detailed in the following table:

thousands of euro

	31/12/2012	31/12/2011
Receivables from customers	1,200,002	1,161,092
Allowance for impairment	(103,990)	(82,836)
Net receivables from customers	**1,096,012**	**1,078,256**
Trade receivables from joint ventures	13,433	13,203
Trade receivables from associates	60,574	62,868
Trade receivables from other Group companies	12,653	10,758
Trade receivables from shareholders – related parties	81,846	85,450
Allowance for impairment - receivables from shareholders – related parties	(10,805)	(10,805)
Total	**1,253,713**	**1,239,730**

Note that at 31 December 2012 factoring transactions were completed with derecognition of receivables for a total of Euro 69,479 thousand.

Receivables from customers
These mainly relate to receivables due for electrical energy, gas, water and heat supplies, waste disposal services and sundry services. The balance takes into account the allowance for impairment, illustrated below, for Euro 103,990 thousand (Euro 82,836 thousand at 31 December 2011).

Receivables from joint ventures
This item includes receivables from the Group joint ventures, proportionately consolidated. These relate to normal trade transactions performed at arm's length. For further details, reference is made to the table of transactions with related parties shown in the annex.

Receivables from associates
These relate to normal trade transactions performed at arm's length. For further details, reference is made to the table of transactions with related parties shown in the annex.

Receivables from other Group companies
These relate to receivables from certain non-consolidated Group companies, relating to ordinary trading transactions performed at arm's length.

Receivables from shareholders – related parties
Receivables from shareholders - related parties refer to trading transactions performed at arm's length with territorial authorities (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and, marginally, with FSU. The balance takes into account the allowance for impairment of Euro 10,805 thousand (unchanged compared to 31 December 2011). For further details, reference is made to the table of transactions with related parties shown in the annex.

The allowance for impairment features the movements shown in the following table:

thousands of euro

	31/12/2011	Uses	Provisions for the year	Changes in the consolidation scope	31/12/2012
Allowance for impairment	82,836	(22,513)	43,802	(135)	103,990
Allowance for impairment – receivables from shareholders – related parties	10,805	-	-	-	10,805
Total	**93,641**	**(22,513)**	**43,802**	**(135)**	**114,795**

The provision was used to cover losses on receivables. The provisions of the year take into consideration the usual and thorough analyses as well as the current economic situation.

NOTE 12_CURRENT TAX ASSETS

These amount to Euro 8,690 thousand (Euro 4,400 thousand at 31 December 2011) and include tax credits for IRES and IRAP advanced to the tax authority.

NOTE 13_OTHER RECEIVABLES AND OTHER CURRENT ASSETS

These are detailed in the following table:

thousands of euro

	31/12/2012	31/12/2011
Receivables for revenue tax/UTIF	945	29,329
VAT credit	7,614	15,966
Other tax assets	4,838	4,771
Tax assets due within 12 months	**13,397**	**50,066**
Receivables from CCSE	105,717	50,951
Green certificates	72,471	124,836
Advances to suppliers	33,612	1,513
Receivables for Group tax consolidation and VAT	4,314	3,004
Other current assets	13,654	21,153
Other current assets	**229,768**	**201,457**
Accruals and deferrals	24,088	18,364
Total	**267,253**	**269,887**

Note that at 31 December 2012 factoring transactions were completed with derecognition of the green certificate receivables for a total of Euro 20,572 thousand.
In relation to receivables from the Cassa Conguaglio Settore Elettrico (CCSE), a portion of the amounts shown may not be collectable within the next 12 months.
The reduction of receivables for revenue taxes is due to pre-payments and settlement payments which are influenced by invoicing volumes for the pertaining year and the previous year.
The increase of receivables to the Cassa Conguaglio Settore Elettrico (CCSE) is due to the payment of ancillary components to the gas carriage and higher receivables for Energy efficiency certificates pertaining to 2012.

NOTE 14_CURRENT FINANCIAL ASSETS

All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.
The details of current financial assets including derivatives are provided below:

thousands of euro

	31/12/2012	31/12/2011
Financial receivables from joint ventures	175,892	154,916
Financial receivables from associates	7,552	117,675
Financial receivables from related party Municipalities	70,039	81,778
Other financial receivables	19,303	8,184
Other financial assets	764	14,682
Total	**273,550**	**377,235**

Financial receivables from joint ventures

They relate, in the amount of Euro 175,168 thousand (Euro 153,110 thousand at 31 December 2011) to receivables from the joint venture OLT Offshore, for the unnetted portion, deriving from the proportional consolidation, of the loan granted to the company IREN Mercato, in the amount of Euro 90 thousand (Euro 1,806 thousand at 31 December 2011) to receivables from the joint venture AES Torino, related to the unnetted portion, deriving from the proportional consolidation, of the centred management of treasury and related interests, in the amount of Euro 614 thousand (not reported at 31 December 2011), to receivables from the joint venture Iren Rinnovabili, related to the unnetted portion of the amount due, deriving from the proportional consolidation, and of Euro 20 thousand (not reported at 31 December 2011), to receivables from the joint venture Enia Solaris, related to the unnetted portion of the amount due, resulting from the proportional consolidation.

Financial receivables from associates

They relate, in the amount of Euro 6,614 thousand (unchanged with respect to 31 December 2011), to receivables from the associated ASA related to the loan granted to the company IREN Mercato. The remaining portion refers to receivables from associates for immaterial individual amounts. For further details reference is made to the schedule of transactions with related parties shown in the annex.
Furthermore, at 31 December 2011 these included Euro 110,000 thousand in amounts due from the associate Edipower for the shareholder loan.

Financial receivables from shareholders - related parties

These regard receivables on which interest accrues for the Group and amount to Euro 70,039 thousand (Euro 81,778 thousand at 31 December 2011). They refer to the short-term balance of the current account which governs the trade and financial transactions between IRIDE Servizi S.p.A. and the Municipality of Turin, as already described in Note 7, to which reference is made for further details.
The Directors prudently assessed the amount on the basis of agreements concluded with the City of Turin. The remaining part of the financial receivables from the Municipality was therefore classified under "non-current financial receivables – receivables from shareholders - related parties" (Euro 108,918 thousand).

Other financial receivables

They refer, in the amount of Euro 12,060 thousand, to the portion still to be collected by E.S.TR.A. S.p.A. for the transfer of the equity investment in GEA. They include dividends to be collected, the short-term portion of finance lease receivables, prepayments and accrued income of a financial nature and other financial receivables.

Other financial assets

This item amounts to Euro 764 thousand (31 December 2011: Euro 14,682 thousand) and refers to the positive fair value of commodity derivatives signed by IREN Mercato.

NOTE 15_CASH AND CASH EQUIVALENTS

Cash and cash equivalents may be analysed as follows:

thousands of euro

	31/12/2012	31/12/2011
Bank and postal accounts	27,953	44,268
Cash in hand and cash equivalents	83	484
Other cash and cash equivalents	5	6
Total	**28,041**	**44,758**

Cash equivalents represent short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

NOTE 16_ASSETS HELD FOR SALE

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They amount to Euro 7,739 thousand (Euro 31,622 thousand at 31 December 2011).

Euro 3,684 thousand refer to the investment in Asmt Servizi Industriali, which at 31 December 2011 was recognised as an investment measured using the equity method. The investment was classified among assets held for sale by reason of the fact that in 2013 the transfer of shares held in the company will be presumably concluded.

Euro 310 thousand refer to the investment in ACIAM, which at 31 December 2011 was recognised as an investment measured using the equity method. The investment was classified among assets held for sale by reason of the fact that in 2013 the transfer of shares held in the company will be presumably concluded.

Euro 340 thousand (Euro 681 thousand at 31 December 2011) refer to property of the subsidiary Mediterranea delle Acque S.p.A. and Immobiliare delle Fabbriche S.p.A. for which negotiations continue for the disposal of properties held for sale with potential buyers with whom current negotiations aim to define the sale terms and subsequent finalisation.
These real estate assets are recognised taking into account the Group’s commitment to sell. Therefore, the classification is based on the assumption that the carrying amount will be recovered through a disposal and not through use in business operations. The amount recognised was determined at the lower of the carrying amount and fair value less costs to sell.

Euro 2,952 thousand (Euro 3,459 thousand at 31 December 2011) refer to the Group share of intangible assets of Società Acque Potabili under the water concession agreement for Lazio region municipalities in the province of Rome (Rocca di Papa, Olevano Romano, Capranica Prenestina, Gerano, Rocca Canterano, Canterano) and the water concession agreement in the Municipality of Castrolibero in the province of Cosenza, Zoagli in the province of Genoa, and Casalborgone en San Sebastiano Po in the province of Turin. Assets held for sale already recognised in the previous year retain the same value pending conclusion of the final agreement to be signed this year.

Euro 236 thousand (Euro 231 thousand at 31 December 2011) refer to assets of the subsidiary CELPI, no longer operative from 2 December 2011 after it was placed in liquidation.

Euro 158 thousand (unchanged from 31 December 2011) refer to the associate Piana Ambiente.

Euro 59 thousand (not present at 31 December 2011) relate to the associate AMIU.

In addition, assets held for sale include the investment in Fata Morgana which at 31 December 2012 was completely written down.

Moreover, at 31 December 2011, the following was included:

- Euro 6,770 thousand, equity investment in Gesam Gas, sold in February 2012;
- Euro 168 thousand, assets of the subsidiary Tema S.c.a.r.l., which was liquidated in the first half of 2012;
- Euro 20,155 thousand, assets of the subsidiary Consorzio GPO, mainly consisting of (Euro 19,225 thousand) 21.32% equity investment of the share capital in the ASTEA company, which, at 31 December, are consolidated on a line-by-line basis in the assets by reason of the fact that there is still no reasonable certainty that the sale will be concluded within 12 months from the ending date of these financial statements. The sale, in fact, will be concluded through a procedure which will consider the review of the shareholding and operating setting of the associated Astea and the consequent redefinition of the partnership between Shareholding Municipalities and GPO.

LIABILITIES

NOTE 17_EQUITY

Equity may be analysed as follows:

thousands of euro

	31/12/2012	31/12/2011 Restated
Share capital	1,276,226	1,276,226
Reserves and retained earnings	311,070	466,075
Net profit (loss) for the year	152,559	(110,970)
Total equity attributable to owners of the Parent	**1,739,855**	**1,631,331**
Share capital and reserves attributable to non-controlling interests	204,790	204,820
Non-controlling interests	9,612	8,555
Total consolidated equity	**1,954,257**	**1,844,706**

Share capital

The share capital amounts to Euro 1,276,225,677 (unchanged compared to 31 December 2011), fully paid up and consisting of 1,181,725,677 ordinary shares with a nominal value of Euro 1 each and 94,500,000 savings shares without voting rights with a nominal value of Euro 1 each.

Savings shares

The 94,500,000 savings shares of IREN, held by Finanziaria Città di Torino, are not listed, have no voting rights and, except for a different order of priority in the allocation of net residual assets in the event of winding-up of the company, they are subject to the same regulation as ordinary shares.
Lastly, in the case of sale, the savings shares will be converted automatically, at par, into ordinary shares.

Reserves

The breakdown of this item is provided in the following table:

thousands of euro

	31/12/2012	31/12/2011 Restated
Share premium reserve	105,102	105,102
Legal reserve	28,996	28,996
Hedging reserve	(42,645)	(30,737)
Other reserves and retained earnings (losses)	219,617	362,714
Total reserves	**311,070**	**466,075**

Hedging reserve

With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a balancing entry directly in equity under the cash flow hedge reserve. These contracts were agreed to hedge exposure to the risk of interest rate fluctuations on floating rate loans and to the risk of price changes in electrical energy and gas purchase contracts.

Other reserves and retained earnings (losses)

These mainly comprise the surplus generated from the merger of AMGA into AEM Torino and the later merger of Enìa into Iride, retained profits and losses and the reserve including actuarial gains and losses resulting from the measurement of post-employment benefits to employees.

During 2012, they reduced mainly due to the retained loss reported in 2011 and the distribution of dividends. For further details, reference should be made to the statement of changes in equity.

NON-CURRENT LIABILITIES

NOTE 18_NON-CURRENT FINANCIAL LIABILITIES

These amount to Euro 2,197,827 thousand (Euro 2,051,413 thousand at 31 December 2011) and consist of:

Bonds

These amount to Euro 157,643 thousand (Euro 158,305 thousand at 31 December 2011) and relate to the Parent for two puttable bonds issued in 2008 with maturity in 2021.

The bond, with a total term of 13 years, requires that after the third year and subsequently every two years, if the banks fail to exercise the option for redemption at par value, a competitive auction mechanism is activated to determine the credit spread for the following 2 years, to be applied at a pre-set fixed rate. The first auction was conducted in September 2011 with definition of the credit spread for the 2 years thereafter. Based on the trend of interest rates, the possible exercise of the reimbursement option at the theoretical maturity term of September 2013 is deemed as inapplicable.

The amount refers to the amortised cost, pursuant to IFRS.

Non-current bank loans

These relate exclusively to the non-current portion of bank loans and amount to Euro 1,962,651 thousand (Euro 1,846,681 thousand at 31 December 2011).

Non-current loans can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and expiry date, as shown in the following table:

thousands of euro

	fixed rate	floating rate	TOTAL
min/max rate	3.45%-5.665%	0.409%-5.135%	
term	2014 - 2027	2014 - 2024	
2014	52,496	694,787	747,283
2015	75,427	147,281	222,708
2016	88,556	90,034	178,590
2017	105,237	51,516	156,753
following	496,949	160,368	657,317
Total payables at 31/12/2012	**818,665**	**1,143,986**	**1,962,651**
Total payables at 31/12/2011	**538,982**	**1,307,699**	**1,846,681**

All loans are in euro.

The changes in non-current loans during the year are summarised below:

thousands of euro

	31/12/2011 Total payables	Increases	Repayments	Amortised cost adjustments	31/12/2012 Total payables
- fixed rate	**538,982**	332,000	(52,053)	(264)	**818,665**
- floating rate	**1,307,699**	108,250	(273,548)	1,585	**1,143,986**
TOTAL	**1,846,681**	**440,250**	**325,601**	**1,321**	**1,962,651**

Total non-current loans at 31 December 2012 increased compared to 31 December 2011 due to the following variations:

- Euro 440,250 thousand increase due to the disbursement of new non-current loans. Specifically, the Parent was granted new credit facilities amounting to Euro 402 million: from EIB, in the amount of Euro 140 million, on the OLT project and Euro 142 million for the development and maintenance of gas and electric networks, from BBVA, in the amount of Euro 50 million, from Banca Popolare Emilia Romagna, in the amount of Euro 30 million, from Mediobanca, in the amount of Euro 40 million. Moreover, non-current loans were granted for the total amount of Euro 75 million to the company AES Torino (consolidated at 51%), of which Euro 20 million from Carige and Euro 55 million on EIB funds with the intermediation of Intesa Sanpaolo;
- reduction, for the total amount of Euro 325,601 thousand, related to the current restatement of the portions of loans maturing within 12 months and partly due to the deconsolidation of positions related to the sold company GEA S.p.A.;
- marginal changes in amortised cost for the purpose of IAS accounting of loans.

Finance lease liabilities

Finance lease liabilities relate to assets held by the Group under finance leases. These amount to Euro 14,002 thousand (Euro 1,130 at 31 December 2011).
Details of finance lease liabilities at 31 December 2012 are shown in the following table.

thousands of euro

	Due within one year	1 - 5 years	over 5 years
Recognised liabilities	1,012	3,267	10,735
Summary of instalments to be paid	1,377	6,007	17,466
Financial expense	365	2,740	6,731

Other financial liabilities

These amount to Euro 63,532 thousand (Euro 45,296 thousand at 31 December 2011) of which Euro 59,847 thousand (Euro 43,251 thousand at 31 December 2011) refer to the fair value of derivatives agreed to hedge exposure to the risk of interest rate fluctuations on floating rate loans (described in the section “Risk management”) and Euro 3,685 thousand (Euro 2,045 thousand at 31 December 2011) to sundry financial payables.

NOTE 19_EMPLOYEE BENEFITS

Changes in this item in 2012 were as follows:

	thousands of euro
At 31/12/2011	**86,791**
Current service costs	679
Financial expense	4,781
Disbursements for the year	(2,833)
Advances	(1,232)
Actuarial losses	15,509
Changes in consolidation scope	(229)
Other changes	(467)
At 31/12/2012	**102,999**

Liabilities for employee benefits consist of:

Post-employment benefits
Post-employment benefits underwent the following movements during 2012:

	thousands of euro
At 31/12/2011	**63,783**
Current service costs	379
Financial expense	3,518
Disbursements for the year	(1,400)
Advances	(1,232)
Actuarial losses	11,051
Changes in consolidation scope	(229)
Other changes	(40)
At 31/12/2012	**75,830**

Other benefits
The composition and changes over the year of defined benefit plans, other than the post-employment benefits described above, are shown hereunder.

<u>Additional months' salaries (long-service bonus)</u>

	thousands of euro
At 31/12/2011	**2,795**
Current service costs	126
Financial expense	150
Disbursements for the year	(176)
Actuarial losses	578
Other changes	(1)
At 31/12/2012	**3,472**

Loyalty bonus

	thousands of euro
At 31/12/2011	**1,993**
Current service costs	90
Financial expense	113
Disbursements for the year	(101)
Actuarial gains	(6)
At 31/12/2012	**2,089**

Tariff discounts

	thousands of euro
At 31/12/2011	**17,052**
Current service costs	84
Financial expense	925
Disbursements for the year	(1,079)
Actuarial losses	3,855
At 31/12/2012	**20,837**

Premungas fund

	thousands of euro
At 31/12/2011	**1,168**
Financial expense	75
Disbursements for the year	(77)
Actuarial losses	31
Other changes	(426)
At 31/12/2012	**771**

Actuarial valuations

The above-mentioned liabilities are measured by independent actuaries.

The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.

Future service is estimated in order to define the present value of the obligations on the basis of the assumptions related to changes in both the total number of employees and employee remuneration. These will be paid to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.

Actuarial projections of the probable discounts on electrical energy consumption due to current retirees or surviving spouses as well as current employees (and surviving spouses, if any) were taken into account in determining the amount of the electrical energy discount.

The following factors were considered in deciding which discount rate to adopt in the measurement approach provided by IAS 19:

- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the average weighted residual term of liabilities related to all benefits and all Group companies.

The other financial assumptions adopted in the calculations are the following:

Annual discount rate (Iboxx Corporate A)	3.20%
Annual inflation rate	2.00%
Annual rate of electrical energy price increase	2.00%
Annual increase rate of post-employment benefits	3.00%
Annual average increase rate of supplementary pensions	1.50%

Over the last few years, Directors have assessed a gradual worsening of the average rating of debt securities emitters, both as regards public emitters (sovereign debt, public institutions, etc.), and companies. In light of the above, they assessed a lower volume in the market of securities with a high rating.

In order to comply with IAS 19 regarding the identification of the discount rate to be used for the development of actuarial measurements in special cases, Directors deemed that the basket corresponding, at the date of the actuarial measurement, to the average return of bonds in euro, with issuer rating at least equal to A (Standard & Poor's) or Aa1 (Moody's), was more representative of the actual financial market trends of listed bonds issued by private companies, which is the main benchmark, as set out by IAS 19 to determine the discount rate. The ratings identified allow for the meeting of the "high quality" requirements set forth in IAS 19 and allow for an adequate width of the reference basket, taking also in account the special final use of this rate set out by the standard itself.

If, in the actuarial measurements at 31 December 2012, an annual discount rate representing a basket of bonds denominated in Euro with issuer rating equal to AA (2.70%) was used, liabilities for post-employment definite benefits for employees would have been higher by Euro 4.9 million. While taking the fiscal effect into consideration, the Shareholders' Equity would have been lower by around Euro 3.5 million.

Pursuant to provisions set out by the new IAS 19, the following additional information are supplied:

- sensitivity analysis for each relevant actuarial hypothesis at year-end. This would show the effects that would occur following the changes in the actuarial assumptions reasonably possible at this date, in absolute terms;
- grant for the following year;
- average financial duration of the bond for definite benefit plans.

The above information is shown in the following table.

	Change in liabilities according to changes in discount rate		**Service cost 2013**	**Duration of the plan**
	+0.25%	**-0.25%**		
Post-employment benefits	(1,463)	1,522	282	11
Suppl. monthly payments	(74)	77	108	7
Loyalty bonus	(36)	33	114	7
Tariff discounts	(1,117)	1,195	173	19
Premungas	(15)	15	-	8

NOTE 20_PROVISIONS FOR RISKS AND CHARGES

These are detailed in the following table, and refer to both the current and non-current quotas:

thousands of euro

	Opening balance	Changes in the consolidation scope	Increases	Decreases	(Income)/Expense to be discounted	Closing balance	Current portion
Provision for renewal of third party assets	83,006	-	11,774	(692)	9,297	103,385	2,335
Provisions for landfill post-closure	29,116	-	4,158	(5,882)	3	27,395	2,018
Provision for dismantling and restoring sites	8,229	-	-	(248)	140	8,121	4,942
Provision for CIG/CIGS	45,367	-	12,854	(7,296)	1,095	52,020	-
Provision for former employees	1,258	-	-	-	-	1,258	-
Provision for risks on investments	33,036	-	10,000	(32,074)	-	10,962	10,918
Other provisions for risks and charges	130,106	(535)	63,174	(41,746)	152	151,151	61,335
Total	**330,118**	**(535)**	**101,960**	**(87,938)**	**10,687**	**354,292**	**81,548**

Provision for renewal of third party and transferable assets

This provision refers mainly to liabilities which, if the integrated water service concessions for the Parma, Piacenza and Reggio Emilia ATOs are re-awarded, will be deducted from the indemnity paid to the Group by the incoming operator with respect to investments made in the meantime. These liabilities are estimated according to amortisation/depreciation of the series of assets and equipment relating to the aforementioned integrated water cycle which, as a result of the spin-offs completed in 2005 between the three companies AGAC, Tesea and AMPS (later merged into Enìa), were transferred to the financial statements of three fully public joint-stock companies as envisaged in art. 113, paragraph 13 of the Consolidated Law on Local Entities. This series of assets is used to perform the water service against the payment of a fee and with a contractual commitment to set up the aforementioned provision.

Provisions for landfill post-closure

These are mainly provisions for future recovery expense, also including costs for post-operating management until complete conversion of the areas involved to green areas. These costs are supported by special expert reports. Allocations and decreases for the year were performed to adjust existing provisions to the estimated future costs to be borne and accrued at 31 December 2012. Decreases also refer to the uses of the provision to cover costs borne over the year regarding the disposal of leachate (related to closed lots of still operating landfills, both owned and under concession), as well as to the aggregate expense borne in the post-operating phase until the mineralization of waste and the conversion of landfills into green areas are completed.

Provision for dismantling and restoring sites

The provision for dismantling and restoring sites partly refers to the prudential estimate of charges to be incurred in relation to the future restoration of former AMNU land on which an incinerator was located. The remainder refers to the estimated potential costs associated with the future dismantling of the plant in Reggio Emilia, for which the increase recognised for the year relates exclusively to the discounting of this liability.

Provision for CIG/CIGS

The provision for risks mainly refers to the potential risk of greater charges relating to higher contributions to be paid to INPS for ordinary and extraordinary redundancy and mobility.

Provision for former employees

The provision for former employees under Laws no. 610/52 and 336/73 is to cover expense arising from the application of these two laws (sliding scale pensions and benefits for ex-servicemen and similar).

Provision for risks on investments

This item refers mainly to risks relating to the hedging of future losses by the investee Sinergie Italiane.

Other provisions for risks and charges

The provision mainly refers to the probable risk of greater charges for the construction of plants which are finished or still to be finished, the provisions for estimated ICI tax to be paid calculated on the value of plant systems as envisaged in art. 1-*quinquies* of Decree Law no. 44 of 31 March 2005 and probable charges for various disputes.
The increased in the year primarily refer to allocations for:

- higher charges related to the construction of plants that are currently already completed or still to be completed (Euro 8,251 thousand);
- possible charges related to the change in use of the real estate properties to be transferred to the fund (Euro 7,631 thousand). Further information can be found in the section "VIII. Other information – Significant non-recurring events and transactions";
- the estimate of charges related to the return of emission quotas (Euro 14,670 thousand);
- the best estimate of the 2013 liability on the tolling contract for Edipower, which the Directors deemed prudent to allocate by virtue of agreements already signed and described in the section on significant events after year end (Euro 20,000 thousand);
- the IMU/ICI tax estimate to be paid on the value of the plants, calculated as provided by the article 1-quinquies of the Law Decree no. 44 of 31 March 2005 (Euro 1,775 thousand).

The current portion referring to the provisions described above was reclassified under "provisions, current portion" (Note 27).

NOTE 21_DEFERRED TAX LIABILITIES

Deferred tax liabilities of Euro 110,553 thousand (Euro 114,438 thousand at 31 December 2011) are due to the temporary difference between the carrying amount and tax value of assets and liabilities recognised in the financial statements.
Deferred taxation is calculated with reference to the expected tax rates applicable in the year in which the differences will reverse.
Reference should be made to the income statement, Note 42 "Income tax expense" shown in the annex, for further details.

NOTE 22_OTHER PAYABLES AND OTHER NON-CURRENT LIABILITIES

This item can be broken down as follows:

thousands of euro

	31/12/2012	**31/12/2011**
Payables due after one year	19,522	10,827
Deferred income for grants related to plant – non current	134,389	131,519
Non-current accrued expenses and deferred income	542	3,777
Total	**154,453**	**146,123**

Non-current accrued expenses and deferred income relate to the portion of revenue falling due after one year and arising from activities mainly requested by telecommunications users, invoiced in the period and in previous years but accruing in the future.
Other payables relate to the amount of the substitute tax calculated on the capital gain resulting from the contribution of a portion of the real estate assets to the Fondo Core MultiUtilities, to be paid after 12 months from the balance-sheet date and advances paid by users to guarantee water supply.

CURRENT LIABILITIES

NOTE 23_CURRENT FINANCIAL LIABILITIES

All financial liabilities recognised in this item are due within 12 months. The carrying amount of these liabilities approximates their fair value as the impact of discounting is negligible.
Current financial liabilities can be analysed as follows:

thousands of euro

	31/12/2012	31/12/2011
Bank loans	601,254	1,022,746
Financial payables to joint ventures	71	-
Financial payables to associates	30	-
Financial payables to shareholders – related parties	-	3,752
Other financial liabilities	168,962	121,728
Payables for current derivatives	4,746	7,328
Total	**775,063**	**1,155,554**

Bank loans
Current bank loans may be analysed as follows:

thousands of euro

	31/12/2012	31/12/2011
Loans - current portion	321,342	499,203
Other current payables to banks	277,087	520,366
Accrued financial expenses and deferred financial income	2,825	3,177
Total	**601,254**	**1,022,746**

Financial payables to joint ventures
They relate to payables to joint ventures AES Torino and Enia Solaris regarding the unnetted amount, resulting from the proportional consolidation.

Financial payables to associates
This item relates to amounts due to the company Valle Dora Energia.

Financial payables to shareholders – related parties
At 31 December 2011, they amounted to Euro 3,752 thousand and related to financial payables of the Parent to FSU s.r.l..

Other financial liabilities
They mainly relate to the proportional portion of payables of OLT Offshore to E.On and Golar shareholders (Euro 126,070 thousand), payables to factoring companies for portions collected by customers and to be paid to the factor (Euro 35,803 thousand) and the amount due to Cassa Conguaglio

Settore Elettrico (Euro 6,030 thousand) related to advances paid on bills received following the earthquake in Emilia. The current portion of finance lease payables totalled Euro 1,012 thousand (Euro 551 thousand at 31 December 2011).

Payables for current derivatives
They relate to the negative fair value of derivative contracts on commodities concluded by Iren Mercato.

NOTE 24_TRADE PAYABLES

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2012	31/12/2011
Trade payables to suppliers	1,025,265	870,667
Trade payables to joint ventures	15,779	13,060
Trade payables to associates	31,837	95,917
Trade payables to shareholders – related parties	16,546	15,673
Trade payables to minor Group companies	24,800	25,145
Advances due within one year	5,263	3,914
Guarantee deposits due within one year	14,355	14,256
Charges to be reimbursed within one year	1,391	1,382
Total	**1,135,236**	**1,040,014**

NOTE 25_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

All payables recognised in this item are due within twelve months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2012	31/12/2011
VAT payable	49,061	39,515
Revenue tax/UTIF payable	933	-
IRPEF payable	10,509	9,472
Other tax liabilities	13,861	9,799
Tax liabilities due within one year	**74,364**	**58,786**
Payables to employees	29,502	31,992
Payables to C.C.S.E.	53,969	60,436
Other current liabilities	54,857	34,982
Accounts payable to social security institutions within one year	13,152	12,988
Other payables due within one year	**151,480**	**140,398**
Accrued expenses and deferred income	17,670	17,036
Total	**243,514**	**216,220**

The increase of other current liabilities is related to payables for energy efficiency certificates necessary to fulfil the obligation for the year.

NOTE 26_CURRENT TAX LIABILITIES

Current tax liabilities amounting to Euro 4,910 thousand (Euro 37,740 thousand at 31 December 2011) include IRES and IRAP payables. In addition, the item includes the taxes estimated for this year, further details regarding the calculation of which can be found in Note 42.

NOTE 27_PROVISIONS FOR RISKS AND CHARGES - CURRENT PORTION

The item amounts to Euro 81,548 thousand (Euro 99,061 thousand at 31 December 2011) and refers to the portion of the provision for risks of Euro 61,335 thousand including charges related to the obligation to return emission quotas, as well as the provision for risks on investments of Euro 10,918 thousand primarily related to the associate Sinergie Italiane, the provision for the renewal of third party assets of Euro 2,335 thousand, the provision for dismantling and restoring sites and provisions for landfill post-closure of Euro 6,960 thousand expected to be used within the next 12 months.

NOTE 28_LIABILITIES RELATED TO ASSETS HELD FOR SALE

They amount to Euro 21 thousand and relate to the restatement of liabilities of the subsidiary CELPI.

FINANCIAL INDEBTEDNESS

The net financial position, calculated as the difference between current/non-current financial assets and liabilities, may be analysed as indicated in the following table:

thousands of euro

	31/12/2012	31/12/2011
Non-current financial assets	(116,168)	(132,299)
Non-current financial liabilities	2,197,827	2,051,413
Net non-current financial liabilities	**2,081,659**	**1,919,114**
Current financial assets	(301,591)	(421,993)
Current financial liabilities	775,063	1,155,554
Net current financial liabilities	**473,472**	**733,561**
Net financial liabilities	**2,555,131**	**2,652,675**

The following table shows the gross financial indebtedness, without considering the financial liabilities of OLT Offshore LNG to the shareholders E.On and Golar, equal to Euro 126,070 thousand (Euro 110,016 thousand at 31 December 2011) which, following the proportionate consolidation of OLT (41.71%), are included in current financial liabilities. The Directors consider that better information would be given, in terms of financial risk, by excluding the portion of financial liabilities of OLT Offshore LNG to the shareholders E.On and Golar since these liabilities find their ideal balancing entry in the portion of the financing granted by IREN Mercato to OLT, recognised under current financial assets.

thousands of euro

	31/12/2012	31/12/2011
Non-current financial liabilities	2,197,827	2,051,413
Current financial liabilities	775,063	1,155,554
(less) OLT indebtedness to E.On and Golar	(126,070)	(110,016)
Gross financial indebtedness	**2,846,820**	**3,096,951**

Net Financial Position regarding related parties

Non-current financial assets include Euro 108,918 thousand (31 December 2011: Euro 127,468 thousand) relating to the non-current portion of the current account through which trading and financial transactions between the subsidiary Iride Servizi and the Municipality of Turin are settled, Euro 69 thousand (31 December 2011: zero) to amounts due from the Municipality of Genoa, Euro 809 thousand (Euro 812 thousand at 31 December 2011) to amounts due from associates, Euro 1,963 thousand to amounts due from the proportionately consolidated joint venture Enia Solaris, Euro 932 thousand to amounts due from the proportionately consolidated joint venture Iren Rinnovabili, and Euro 497 thousand to fixed-term deposits held with the Intesa Sanpaolo Group.

Of the non-current financial liabilities, Euro 177,162 thousand (Euro 210,604 thousand at 31 December 2011) refer to non-current loans granted by the Intesa Sanpaolo Group and the negative fair value of hedging derivatives entered into with the Intesa Sanpaolo Group.

Of the current financial assets, Euro 70,039 thousand (31 December 2011: Euro 81,778 thousand) refer to the short position on the current account between the subsidiary Iride Servizi and the Municipality of Turin, Euro 90 thousand (31 December 2011: Euro 1,806 thousand) to receivables from the proportionately consolidated joint venture AES Torino for centralised treasury management services, Euro 175,168 thousand (31 December 2011: Euro 153,110 thousand) to receivables from the proportionately consolidated joint venture OLT Offshore related to a loan granted by IREN Mercato, Euro 20 thousand to receivables from the proportionately consolidated joint venture Enia Solaris, Euro 614 thousand (unchanged compared to 31 December 2011), Euro 6,614 thousand to receivables from the proportionally consolidated joint venture Iren Rinnovabili (unchanged since 31 December 2011), the associate ASA primarily related to a loan granted by IREN Mercato, and Euro 2,670 thousand (Euro 4,202 thousand at 31 December 2011) to the positive position on the current accounts held with the Intesa San Paolo Group. The remaining Euro 1,679 thousand (Euro 1,061 thousand at 31 December 2011) refer to receivables from associates for individual immaterial amounts. For further details reference is made to the schedule of transactions with related parties shown in the annex. Furthermore, at 31 December 2011 these included Euro 110,000 thousand in amounts due from the associate Edipower for the shareholder loan.

Current financial liabilities relate, in the amount of Euro 198,698 thousand (Euro 204,957 thousand at 31 December 2011) to short-term loans granted by the Intesa San Paolo Group. The remaining Euro 101 thousand refers to payables due to the joint ventures AES Torino and Enia Solaris and the associate Valle Dora Energia for individual immaterial amounts. Moreover, at 31 December 2011 Euro 3,752 thousand related to payables to FSU.

Below is the net financial position in the format proposed by the CESR recommendation of 28 July 2006, which does not include non-current financial assets.

thousands of euro

	31/12/2012	31/12/2011
A. Cash	(28,041)	(44,758)
B. Other cash and cash equivalents (details)	-	-
C. Securities held for trading	-	-
D. Cash (A) + (B) + (C)	**(28,041)**	**(44,758)**
E. Current financial assets	**(273,550)**	**(377,235)**
F. Current bank payables	279,912	523,543
G. Current portion of non-current liabilities	321,342	499,203
H. Other current financial liabilities	173,809	132,808
I. Current financial liabilities (F)+(G)+(H)	**775,063**	**1,155,554**
J. Current net financial liabilities (I) – (E) – (D)	**473,472**	**733,561**
K. Non-current bank payables	1,962,651	1,846,681
L. Bonds issued	157,643	158,305
M. Other non-current liabilities	77,533	46,426
N. Non-current financial liabilities (K) + (L) + (M)	**2,197,827**	**2,051,412**
O. Net financial indebtedness (J) + (N)	**2,671,299**	**2,784,973**

X. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousands of euro.

For remarks on the performance for 2012 reference is made to the section "Financial position, result of operations and cash flows of the IREN Group" in the Directors' Report, which illustrates the economic analysis by operating segment compared to the Group's consolidated report for 2011.

REVENUE

NOTE 29_REVENUE FROM GOODS AND SERVICES

This item amounts to Euro 4,003,654 thousand (Euro 3,254,248 thousand in 2011).

NOTE 30_CHANGE IN CONTRACT WORK IN PROGRESS

This item increased by Euro 669 thousand (Euro 632 thousand in 2011) and mainly refers to contract work in progress performed for the renewal of the road surface coating after damage caused by works.

NOTE 31_OTHER REVENUE AND INCOME

Other revenue includes:

Grants

thousands of euro

	2012	2011
Grants related to plant	4,999	6,063
Other grants	1,481	924
Total	**6,480**	**6,987**

The grants related to plant represent the portion pertaining to the grants calculated in proportion to the depreciation rates of the assets to which they refer.

Revenue from energy efficiency certificates

thousands of euro

	2012	2011
Revenue from Emission Trading	41,607	54,294
Revenue from Green Certificates	95,831	75,846
Revenue from White Certificates	25,610	18,109
Total	**163,048**	**148,249**

The decrease in revenue for Emission Trading is due to the fall in prices recorded on the market compared to the previous year.
The increase in revenue from green certificates is due to the higher volume of certificates produced (around Euro 7 million), the price increase (approximately Euro 3 million) and higher trading volumes (around Euro 10 million).

Other income

	2012	2011
		thousands of euro
Revenue from service contracts	14,835	18,987
Revenue from rental income and leases	807	1,203
Revenue from optical fibre rental	3,589	4,557
Capital gains from the sale of goods	38,367	1,110
Revenue from previous years/Prior year income	53,578	55,074
Insurance recoveries	674	275
Sundry repayments	7,489	6,105
Income from fair value of commodity derivatives	6,098	8,616
Other revenue and income	28,553	14,556
Total	**153,990**	**110,483**

Capital gains from the sale of goods include capital gains made through the transfer of a portion of the real estate asset, which was deemed as non-core with respect to the development of the industrial business, to the mutual fund created and managed by Ream SGR S.p.A., called Fondo Core MultiUtilities (around Euro 23 million), as well as to the sale of the headquarters in Turin (around Euro 14.8 million).
Prior year revenue arises above all from the settlement of previous years' items with reference to estimates made in previous years. The item includes the Euro 16,338 thousand reimbursement from the CCSE of irrecoverable costs incurred for the Telessio plant after deregulation of the power market (as per Interministerial Decree MISE-MEF 23/05/2012).
Capital gains from the disposal of equity investments in GEA (Euro 10,886 thousand) and Sasternet (Euro 397 thousand) are recognised under item Other revenue and income.
In 2012, capital gains on the disposal of consolidated equity investments, deemed as irrelevant, pursuant to IFRS 5, are disclosed under item Other revenue and income. In 2011 these amounts were instead recorded under item Net profit/loss from discontinued operations. To this regard, the corresponding figures have been reclassified for Euro 487 thousand.

EXPENSE

NOTE 32_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

This item is broken down as follows:

	2012	2011
		thousands of euro
Purchase of electrical energy	770,011	504,299
Purchase of gas	1,231,398	1,053,986
Purchase of heat	275	227
Purchase of other fuels	3,517	12,663
Purchase of water	3,308	3,025
Other raw materials	17,044	22,204
Sundry inventory mat. (including fuels and lubricants)	36,031	41,155
Emission Trading	27,406	44,975
Green certificates	25,029	3,647
White certificates	23,730	18,478
Change in inventories	(21,492)	(22,651)
Total	**2,116,257**	**1,682,008**

The decrease in costs related to Emission Trading is due to the fall in prices recorded on the market compared to the previous year.
The increase in costs for green certificates is due to greater trading activity during the year.
Regarding regulatory updates on energy efficiency certificates, reference should be made to "Legislation - Green Certificates, Energy efficiency certificates and ETS" in the Directors' Report.

NOTE 33_SERVICES AND USE OF THIRD-PARTY ASSETS

Costs for services are detailed in the following table:

thousands of euro

	2012	2011
Transport of electrical energy	468,368	272,299
Electrical system costs	150,037	94,948
Tolling fees	101,838	51,669
Gas carriage	27,455	16,602
Heat carriage	46,932	37,266
Third party works for networks, plants	163,101	171,597
Collection and disposal, snow removal, public parks	95,381	96,332
Maintenance expense	8,840	10,178
Expenses related to personnel (canteen, training, travel)	5,777	6,201
Professional services (studies, design, analysis)	9,004	10,115
Technical and administrative consulting	17,983	15,959
Trade and advertising expenses	6,022	8,921
Legal and notary fees	6,603	6,238
Insurance	9,360	8,809
Banking costs	8,609	7,122
Telephone costs	5,528	5,492
Costs related to service contracts	4,325	24,444
Reading and invoicing services	11,006	11,101
Fees of the Board of Statutory Auditors	1,603	1,584
Other costs for services	48,946	40,841
Total costs for services	**1,196,718**	**897,718**

Costs for electrical energy transport and electrical system costs increased compared to 2011 due to higher volumes of electrical energy sold during 2012.

Tolling fees refer to amounts paid to Edipower and to A2A under the terms of agreements governing electrical energy production by Edipower in favour of the trading parents, which besides paying the tolling fees are also committed to supplying the fuel necessary for production. The increase, compared to 2011, is due to the higher portion, starting from June 2012, charged to the Group due to governance agreements concluded between A2A, Iren, Iren Energia (current shareholder of Edipower) and the other shareholders of Delmi.

Fees for heat carriage relate to the transport of heat by the proportionately consolidated AES Torino S.p.A.

Tenders and works mainly relate to operating and maintenance costs for systems and networks.

Costs for the use of third-party assets amount to Euro 39,535 thousand (2011: Euro 42,887 thousand). These include instalments paid by the market operator of the Genoa district to the municipalities pursuant to resolutions no. 8 dated 13 June 2003 and no. 16 dated 22 December 2003 of the Optimal District Authority (Agenzie di Ambito territoriale ottimale - AATOs), instalments paid to the companies which own the assets in the integrated water service in the municipalities of Parma, Piacenza and Reggio Emilia, easement for crossing land, and instalments for operating leases, hiring and sundry rentals.

NOTE 34_OTHER OPERATING EXPENSE

Other operating expense is shown in the following table:

thousands of euro

	2012	2011
General expense	6,913	6,878
Instalments and initial down payments paid to obtain permits for shunts	10,197	8,386
Logistics expense	647	1,547
Taxes and duties	22,311	17,843
Prior year expense	33,843	23,172
Capital losses from the sale of goods	18,209	1,545
Expense from fair value of commodity derivatives	7,463	7,287
Other sundry operating expense	5,667	4,905
Total	**105,250**	**71,563**

Prior year expense mainly relates to differences on estimates made in previous years.
Capital losses from disposal of goods include capital loss reported in the transfer of a portion of the real estate assets, which was deemed as non-core with respect to the development of the industrial business, to the mutual fund created and managed by Ream SGR S.p.A., called Fondo Core MultiUtilities (around Euro 15 million).
Starting from 2012, like capital gains, capital losses on the disposal of consolidated equity investments, deemed as irrelevant, pursuant to IFRS 5, are disclosed under item Other sundry operating expense. In 2011 these amounts were instead recorded under item Net profit/loss from discontinued operations. To this regard, the corresponding figures have been reclassified for Euro 218 thousand.

NOTE 35_CAPITALISED EXPENSES FOR INTERNAL WORK

This item regards increases in assets recorded in the statement of financial position developed using internal resources.

thousands of euro

	2012	2011
Capitalised labour costs	16,246	20,480
Capitalised inventory materials	4,421	7,728
Total	**20,667**	**28,208**

NOTE 36_PERSONNEL EXPENSE

Personnel expense is made up as follows:

thousands of euro

	2012	2011
Gross remuneration	184,169	183,572
Social security charges payable	59,139	58,809
Post-employment benefits	379	422
Other long-term employee benefits	300	320
Other expense	14,657	17,050
Directors' fees	2,498	2,392
Total	**261,142**	**262,565**

As described in Note 35, Euro 16,246 thousand of costs related to employees were capitalised.
"Other expense" includes the social security and recreational contribution to ADAEM, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds.

The personnel composition is shown in the following table.

	31/12/2012	31/12/2011	Average for the year
Managers	72	73	72
Junior managers	196	197	197
White collars	2,668	2,670	2,671
Blue collars	1,631	1,682	1,644
Total	**4,567**	**4,622**	**4,584**

NOTE 37_AMORTISATION/DEPRECIATION

thousands of euro

	2012	2011
Property, plant and equipment and investment property	127,870	136,379
Intangible assets	77,625	72,914
Total	**205,495**	**209,293**

For further details on amortisation/depreciation, reference should be made to the tables of variations in property, plant and equipment, investment property and intangible assets.

NOTE 38_PROVISIONS AND IMPAIRMENT LOSSES

thousands of euro

	2012	2011
Allowance for impairment	43,802	23,353
Provision for risks and renewal of third party assets	57,289	53,547
Releases	(18,481)	(9,005)
Impairment losses	569	6,245
Total	**83,179**	**74,140**

The analysis of the provisions and related variations are given in the comment to the Statement of financial position item “Provisions for risks and charges”. The releases of provisions refer to the release of the release of the Bad debt provision by Euro 2,760 thousand and the release of the Provision for risks by Euro 15,721 thousand. The release of provision for risks and charges primarily relates to allocations of previous years for higher charges due to the construction of plants and allocations to provisions for landfill post-closure.

Impairment losses primarily refer to the impairment of intangible assets associated with the constant, prudential assessment of costs due to the increase in the customer base. In 2011, they also related to the impairment of emission quotas recorded under intangible assets.

NOTE 39_FINANCIAL INCOME AND EXPENSE

Financial income

The breakdown of financial income is provided in the following table:

thousands of euro

	2012	2011 Restated
Dividends	657	558
Bank interest income	297	260
Interest income from receivables/loans	12,720	11,621
Interest income from customers	8,585	6,630
Fair value gains on derivatives	276	242
Income on derivatives	393	1,245
Gains from sale of financial assets	690	2,219
Exchange rate gains	35	19
Other financial income	2,880	989
Total	**26,533**	**23,783**

Interest income from receivables/loans includes interest accrued on the current account between Iride Servizi and the Municipality of Turin for Euro 3,606 thousand. The remainder mainly refers to interest income from the proportionately consolidated OLT Offshore (Euro 4,548 thousand) and the associate Edipower (Euro 2,521 thousand).
Other financial income includes the change in fair value of the investee Delmi for Euro 2,458 thousand. Further information can be found in Note 5 – equity investments measured at equity.
Starting from 2012, capital gains on the disposal of equity investments in associated companies, deemed as irrelevant, pursuant to IFRS 5, are disclosed under item Financial income. In 2011 these amounts were instead recorded under item Net profit/loss from discontinued operations. To this regard, the corresponding figures have been reclassified for Euro 1,722 thousand.

Financial expense

The breakdown of financial expense is provided in the following table:

thousands of euro

	2012	2011 Restated
Interest expense on loans	74,957	55,326
Interest expense on bond loans	9,669	6,422
Interest expense on bank current accounts	17,795	20,534
Other interest expense	10,303	5,881
Capitalised financial charges	(18,217)	(19,401)
Derivative fair value charges	578	428
Charges on derivatives	17,013	15,928
Loss from sale of financial assets	49	380
Interest cost – Employee benefits	4,781	3,725
Exchange rate losses	24	142
Other financial expense	12,658	4,339
Total	**129,610**	**93,704**

The increase in interest expense on bond loans reflects recalculation of the interest rate applied from September 2011. This item includes amounts relating to the measurement at amortised cost. Reference should be made to the note to the statement of financial position item “Employee benefits” for details of financial expense on employee benefits. Other financial expense mainly includes financial expense due to the discounting of provisions (Euro 10,081 thousand). For further information on financial income/(expense), reference is made to the Directors’ Report.

NOTE 40_SHARE OF PROFIT OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The profit is Euro 9,673 thousand (a loss of Euro 3,086 thousand in 2011) and is composed of reversals of impairment losses amounting to Euro 19,782 thousand and impairment losses totalling Euro 10,109 thousand, mainly due to the loss for the year of the associated Sinergie Italiane.

NOTE 41_IMPAIRMENT LOSSES ON INVESTMENTS

This item amounts to Euro 105 thousand and relates to impaired amounts from the investees Castel, Acqueinforma, Consorzio Si.RE and Sogea, the amount of which are insignificant.

In 2011, the restated amount was equal to Euro 224,308 thousand and mainly related to the impairment of the equity investment in Delmi (Euro 136,126 thousand), Edipower (Euro 81,340 thousand), Amat (Euro 2,644 thousand), ASMT (Euro 2,284 thousand) and GICA (Euro 918 thousand).

NOTE 42_INCOME TAX EXPENSE

Income taxes for 2012 are estimated at Euro 85,251 thousand (Euro 113,013 thousand in 2011).

thousands of euro

	2012	2011 Restated
Current tax	134,612	146,571
Deferred tax assets	(33,219)	(26,663)
Prior year taxes	(16,142)	(6,895)
Total	**85,251**	**113,013**

The Group tax rate for 2011 was equal to 46%, above all net of the following extraordinary effects:

1. impairment loss on Edipower investment (held by Iren Energia) and on Delmi investment (held by the parent Iren).
2. the recalculation of deferred tax assets and liabilities following the 4% increase in the additional IRES for the companies that were already subjected to this taxation (IREN Energia and IREN Mercato) and the payment of the additional tax also for the companies that distribute electrical energy and natural gas (AEM Torino Distribuzione, AES, Genoa Reti Gas and Gea) occurred after the coming into force of Law Decree no. 138 of 13 August 2011.

In 2012, the adjusted tax rate was equal to 43.83%, net mainly of capital gains generated from the transfer of some properties to the real estate fund Fondo Core MultiUtilities, the disposal of equity investments and the sale of the real estate property in Via Bertola, Turin, as well as from IRES' reimbursement claim for the IRAP deduction on personnel expense, pursuant to Art. 2, par. 1 quarter of the Law Decree 201/2011 (equal to around Euro 13 million). The tax rate is also reduced due to the non application of the IRES additional tax on the income of the company AES Torino, as it was not due in 2012.

The following table shows deferred tax assets and liabilities and their impact.

thousands of euro

	2012	2011
Deferred tax assets		
Directors' and statutory auditors' fees	930	847
Non deductible provisions	105,112	73,479
Taxable contributions	494	552
Differences in value of fixed assets	54,713	60,664
Derivatives (IAS 39)	18,728	12,747
Tax losses carried forward indefinitely	2,406	1,175
Other	33,367	25,386
Total	**215,750**	**174,850**
Deferred tax liabilities		
Differences in value of fixed assets	73,715	95,486
Grants related to plant	275	275
Provision for impairment of tax assets, separate fin. stat.	1,113	1,143
Adjustment to post-employment benefits	1,511	3,930
Derivatives (IAS 39)	287	3,632
Finance lease	1,533	1,184
Other	32,119	8,787
Total	**110,553**	**114,437**
Total net deferred tax assets (liabilities)	**105,197**	**60,413**
Total change	**44,784**	
of which:		
Equity	14,420	
Income statement (*)	30,364	

(*) The change in income statement is summarised in "deferred tax liabilities" and partly in "Prior year taxes".

Recovery of State Aid

With its Decision C 27/99 of 5 June 2002, the European Commission concluded the procedure related to the tax treatment provided for by article 3, paragraphs 69 and 70, Law no. 549 of 28 December 1995 (the "tax moratorium"). Such treatment granted a three-year tax exemption to joint-stock companies in which the government has a majority interest set up in accordance with Law no. 142 of 8 June 1990.
The Italian Government, the leading counsels of the former AEM Torino and the former AMGA and the companies affected by the judgement that have appealed against it before the Court of First Instance of the European Communities appealed against this judgement to the Court of Justice of the European Communities.
During these years, the legislator has issued various measures in order to define the recovery modalities of aids deemed as illegal.
Following these measures, the Tax Authorities proceeded to the recovery of aids.
For the position of the former AEM Torino, and the position of the former AMGA , IRIDE S.p.A. (now IREN) proposed recourse to the competent Provincial Tax Commission, and paid the amount requested.
On 11 June 2009, the First Instance Court of the European Community issued an order regarding the proceedings started, amongst other, by the former AEM Torino and former AMGA of Genoa, while rejecting the appeals.

Iride S.p.A. (now IREN) appealed against the above order at the Court of Justice of the European Community, with reference to the positions of both AEM Torino and AMGA.
Based on Art. 19 of Decree Law no. 135 of 25 September 2009, the Government intervened on the alleged State aid defining that only gains realised by the former municipal companies are not subject to tax recovery.
Following the new proceeding, on 2 October 2009 the Tax Authorities sent further notices of assessment, totalling around Euro 75 million, which Iride (now IREN) promptly paid to avoid further charges and interest.
On 11 January 2010, the appeal regarding the former AEM Torino for 1997 was discussed at the Province Tax Commission of Turin. In particular, the Commission deemed that the energy market, in those years, was not a free market regime. Therefore, the State aid granted, for that portion of activity, were deemed as legal.

On 14 March 2011, the Regional Tax Commission of Turin rejected the appeal filed in on tax assessments for the years 1998 and 1999 for former AEM. In particular, they were assessment notices with which the Tax Authorities recovered the unpaid taxes during the years of "tax exemption", except for one-off taxes (electrical margin, dividends to Municipalities, capital gains).
On 8 June 2011, following the opinion expressed by the technical expert appointed by the court on the correct calculation of interest on the recovery of State aids, the Regional Tax Commission of Genoa accepted the appeal lodged by the former AMGA as the requests of the Tax Authorities were deemed as illegal.
With ruling no. 1/14/2012 of 11 July 2011 on the recovery of the former AEM Torino for 2007, the Regional Tax Commission of Turin accepted the appeal lodged by the Tax Authorities.

NOTE 43_PROFIT FROM DISCONTINUED OPERATIONS

No amounts were reported in 2012. In 2011, they amounted to Euro 1,004 thousand, now restated under Other revenue, Other sundry operating expense, Other financial income and Impairment losses on investments.

NOTE 44_PROFIT (LOSS) FOR THE YEAR ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit for the year attributable to non-controlling interests, which amounts to Euro 9,612 thousand (Euro 8,555 thousand in 2011), relates to the share of profit of non-controlling interests of companies that are consolidated but not wholly owned by the Group.

NOTE 45_EARNINGS PER SHARE

In order to calculate the basic and diluted earnings per share the number of ordinary shares for 2012 is the weighted average, unchanged compared to the previous year, of shares outstanding in the reporting based on the provisions of paragraph 20, IAS 33.

	2012	2011 Restated
Profit/(loss) for the year (thousands of euro)	152,559	(102,415)
Weighted average number of shares outstanding during the year (thousand)	1,276,226	1,276,226
Basic earnings/(loss) per share (euro)	**0.12**	**(0.08)**

Diluted earnings per share are calculated by dividing profit by the adjusted number of shares. The adjusted number of shares is calculated by assuming the conversion of all financial instruments that could potentially dilute the ordinary shares.

	2012	2011 Restated
Profit/(loss) for the year (thousands of euro)	152,559	(102,415)
Weighted average number of shares (thousands)	1,276,226	1,276,226
Weighted average number of shares to calculate the diluted earnings per share (thousands)	1,276,226	1,276,226
Diluted earnings/(loss) per share (euro)	**0.12**	**(0.08)**

NOTE 46_OTHER COMPREHENSIVE INCOME

The effective portion of changes in the fair value of cash flow hedges, negative by Euro 26,488 thousand, refers to interest rate hedges and commodity price hedges (electrical energy and gas).
Actuarial losses, related to defined benefit plans, amounted to Euro 15,542 thousand.
The portion of other profits/(losses) of companies measured using the equity method, positive by Euro 2,995 thousand, refers to changes in the fair value of the cash flow and commodity hedging of associates.
The tax effect of other comprehensive income is a positive Euro 14,420 thousand.

XI. GUARANTEES AND CONTINGENT LIABILITIES

These relate to:

a) Sureties for Group commitments of Euro 509,427 thousand (31 December 2011: Euro 428,427 thousand); the most significant items being sureties issued in favour of:
   - the Reggio Emilia Provincial Government for Euro 88,459 thousand for waste collection and post-closure management of plants subject to A.I.A. (Integrated Environmental Authorisation);
   - ENEL Distribuzione for Euro 77,799 thousand to guarantee the electrical energy transport service contract;
   - SNAM Rete Gas for Euro 76,579 thousand, of which Euro 61,500 thousand in the interest of OLT Offshore LNG Toscana in relation to the construction of a delivery point;
   - the Electrical energy Market Operator (GME) for Euro 45,300 thousand to guarantee the market participation contract;
   - the Municipality of Turin, for Euro 45,476 thousand, of which Euro 18,000 thousand as provisory guarantee deposit for the equity investment in the AMIAT/TRM proceeding and Euro 27,476 thousand as definitive guarantee deposits;
   - ATO-R, for Euro 41,000 thousand, as definitive guarantees in the AMIAT/TRM proceeding;
   - Terna, for Euro 27,050 thousand to guarantee injection and withdrawal dispatching contracts and to guarantee the electrical energy transport service contract;
   - the Tax Authorities, for Euro 21,814 thousand for Group VAT offsetting procedures;
   - the Customs Authority, for Euro 17,518 thousand to guarantee the regular payment of revenue tax and additional local and provincial duties on electrical energy consumption and gas excise;
   - the Ministry of the Environment, for Euro 12,230 thousand;
   - the Parma Provincial Government, for Euro 11,439 thousand for waste collection and operating and post-closure management of plants subject to A.I.A. (Integrated Environmental Authorisation);
   - Banca Intesa, amounting to Euro 6,902 thousand, to guarantee the Mestni loan;
   - G.S.E. S.p.A., for Euro 5,518 thousand, for the proceeding for the auction to obtain incentives on the PAI plant in Parma;
   - the Piacenza Provincial Government, for Euro 3,349 thousand for waste collection and post-closure management of plants subject to A.I.A. (Integrated Environmental Authorisation);
   - the Municipality of Moncalieri for Euro 2,949 thousand, to guarantee the construction of urbanisation works;
   - REAM SGR S.p.A., for Euro 2,352 thousand, to guarantee future lease payments of real estate properties transferred to the fund called Fondo Core MultiUtilities;
   - Reale Immobili S.p.A., for Euro 1,200 thousand in relation to sale of the registered office of IREN TO in Via Bertola;
   - the Municipality of Genoa, for Euro 2,043 thousand, to guarantee works on the gas network;
   - FCT Holding, for Euro 2,000 thousand, as definitive guarantee in the AMIAT/TRM proceeding;
   - the Municipality of Nichelino, for Euro 1,679 thousand, to guarantee land occupancy for installing district heating networks;

b) Guarantees given on behalf of subsidiaries and associates, amounting to Euro 256,297 thousand, primarily to guarantee credit facilities;

c) Shares pledged for Euro 364,160 thousand. These refer to Edipower shares (nominal value Euro 1 each for a total of Euro 144,130 thousand) and Delmi shares (nominal value Euro 1 each for a total of Euro 220,030 thousand).

The most important amounts, regarding the guarantees given on behalf of associates, refer to the associate Sinergie Italiane (namely guarantees for credit facilities and letters of patronage totalling Euro 115,402 thousand at 31 December 2012, compared to Euro 175,727 thousand at 31 December 2011).
The liquidation in bonis continues by the board of liquidators appointed in April 2012. The liquidators concluded the main procurement contracts and since 1 October 2012 the Company's operating activity therefore includes only the purchase of gas from the Russian Gazprom supplier and the sale of gas to their shareholders or subsidiaries, included IREN Mercato. Therefore credit facilities continued to be reduced

and the Company's financial exposure is progressively lowering with the consequent decrease in shareholders' guarantee obligations.
After 31 December 2012 the release from other guarantees was formalised which further decreased their amount at 31 March 2013 to Euro 87,002 thousand.

COMMITMENTS

With regard to the subsidiary Mediterranea delle Acque, a commitment within the framework Agreement with the shareholder F2i rete idrica S.p.A. is in place. Article 15 of this agreement envisages that IREN Acqua Gas is bound to pay damages in the event of liabilities, losses or damage suffered by F2i or Mediterranea delle Acque or its investees, resulting from incorrect or unfair statements included in the agreement, with specific reference to outstanding tax disputes among which the dispute with the Tax Authorities for the acknowledgement of amortisation deducted by Mediterranea delle Acque regarding the water business segment transferred from Amga S.p.A. to the newly incorporated Genoa Acque S.p.A. in December 1999 (then named Mediterranea delle Acque following the merger with Genoa private aqueducts).

Moreover, on 16 February 2010, IREN S.p.A. resolved to fully support the OLT project according to budget financial plans defined and approved to make the required resources available upon the company's request and until implementation of the project financing. To this purpose, it is noted that, with regards to the commitment with Saipem, which amounted initially to Euro 387,603 thousand, during the year the commitment was increased by Euro 43,000 thousand, by effect to the signed contract addendum. At 31 December 2012, advances totalling Euro 372,595 thousand were already paid, therefore the residual amount is Euro 58,008 thousand.

CONTINGENT LIABILITIES

Mediterranea delle Acque: Dispute with the Tax Authorities

With regard to the dispute with the Tax Authorities – Office 1 of Genoa, regarding the assessment notices for the years 2003, 2004 and 2005, 2006, 2007, 2008, pursuant to art. 37 bis, par. 4 of Italian Presidential Decree 600/73, as thoroughly described in the financial statements at 31 December 2011, events and updates occurred during 2012 and until the approval of these financial statements by the Board of Directors, are described hereunder.
With regard to the pronouncement of the Provincial Tax Commission of Genoa, which ruled in favour of the Tax Authorities for 2003, limited to taxes, the Company paid a total of Euro 1,281,193 on 18 March 2011, within the term provided; the company lodged an appeal with subsequent appearance before the Genoa Regional Tax Commission on 2 March 2011.
With regard to the pronouncements on the years 2004 and 2005, which also ruled in favour of the Tax Authorities, limited to taxes, the company lodged an appeal with subsequent appearance before the Regional Tax Commission on 8 July 2011.
On 12 December 2011, the company was served also with IRES and IRAP assessments for 2006, promptly objected before the Provincial Tax Commission of Genoa. The hearing was held on 11 December 2012 and now the company is waiting for the lodging of the sentence.
On 8 August 2012, the IRES and IRAP assessments notes for the year 2007 were received, promptly objected before the Provincial Tax Commission of Genoa. The company is now waiting for the hearing to be fixed.

On 8 March 2013 the company was served with IRES and IRAP assessment notes for the year 2008. The terms for the objection before the Provincial Tax Commission of Genoa are now pending. The company intends object the assessment by 7 May 2013.
The Tax Authorities also lodged an appeal within the terms provided, limited to the fines, in relation to which the pronouncement of the Regional Tax Commission had ruled in favour of the company.
On 21 September 2011, the tax bills related to IRES for the years 2004 and 2005 (including interest and expense), for a total amount of Euro 2,192,838 were notified to the company (Recording pursuant to Art.

68 of Leg. Decree 546/92 following CTP ruling no. 300/01/10 and no. 304/01/10 lodged on 21/12/2010). The amounts paid were recognised under item Other non-current receivables.
The Company, also in light of the opinion expressed by fiscal consultants, deems that the risk deriving from the dispute can be referred to the so-called contingent liabilities as per IAS 37 as this is a possible but improbable expense: therefore, pursuant to provisions set out by the reference accounting standard, the matter was disclosed in the notes to the financial statements without accruing any provisions. This is based on the opinion that it is unlikely that the Company will have to pay any amount in relation to this obligations taking account of the strong defence raised during the proceedings.
The above-mentioned opinion was confirmed also by the company’s legal consultants who examined the reasons for the first instance ruling: these reasons, in fact, seem to be incorrect under a logical and juridical point of view and the company deems that the ruling will be restated in the following judgement instances. The lawyers were therefore charged to draw up the appeal deed, which was lodged within due terms.

At this stage of proceedings, and for the above-mentioned reasons (duly motivated in other deeds issued during the proceedings), and based on the reasons specified in the pronouncement related to the assessment notice, the Company deemed that the assessment notices are likely to be entirely accepted and cancelled.
Therefore, the Company does not deem it necessary to accrue a specific provision as it is not probable that economic resources will be used to settle tax claims.
Pursuant to paragraph 86 of IAS 37, the following information regarding contingent liabilities is supplied:

a) in the event the proceeding outcome be different than the outcome expected based on the above-mentioned rulings, for all years still to open to tax assessment for income tax purposes, all amortisation/depreciation to be calculated by Mediterranea delle Acque on gains resulting from transfers from AMGA SPA, at that time not subject to taxation and amounting to around Euro 93 million, should be considered by the Company as not deductible. This would result in a total tax payable plus interest of approximately Euro 32.6 million, of which Euro 1.2 million in higher taxes for 2012.
b) if the outcome is unfavourable, it is however impossible to establish when the matter will turn to be unfavourable for the Company and when the above-mentioned amounts will be payable (also taking account of tax collection times that, although in the presence of a pending ruling, provide for a preliminary allocation of a portion of the assessed tax);
c) the Company deems it a mere possibility that resources expected to produce economic benefits will have to be used to fulfil tax obligations.

Investigation of the Authority for Electrical Energy and Gas

On 26 June 2012, the Authority for Electrical Energy and Gas published the outcome of the investigations associated with the proceeding started in 2010 with resolution VIS 165/10: the Authority assessed the infringement of some provisions, and as a result Iren Mercato might be fined.
Although the risk is to be deemed as possible, no amount had been allocated in the financial statements by reason of the fact that there are no elements to quantify the possible fine, taking also account that, in the opinion of the company’s legal consultants, the proceeding is still in the preparatory and not decision phase.

XII. SEGMENT REPORTING

Segment reporting, based on the Group's management and internal reporting structure, is given below in accordance with IFRS 8.
Given the nature of the activity carried out by Group companies, a geographical segment analysis is not relevant.

OPERATING SEGMENTS

The IREN Group operates in the following business segments:

- Electrical energy production and district heating (Hydroelectric energy, co-generation of electrical energy and heat, district heating network and production from Renewable sources);
- Market (Sale of electrical energy, gas, heat);
- Energy Infrastructures (Distribution networks of electrical energy, distribution networks of gas, LNG regasification plants);
- Integrated Water Service (sale and distribution of water, water treatment and sewerage);
- Waste Management (Waste collection and disposal);
- Other services (Telecommunications, Public Lighting, Global Services and other minor services).

These operating segments are disclosed pursuant to IFRS 8. Under this Standard, the disclosure about operating segments should be based on the elements which the executive committee and management use in taking operational and strategic decisions.
For a correct reading of the income statements relating to individual businesses presented and commented on below, revenue and expense referring to joint activities were entirely allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers.
Given the fact that the Group mainly operates in the North-West area, the following segment information does not include a breakdown by geographical area.
Net invested capital and income statements (up to the operating performance) are presented below by segment and with 2011 corresponding figures.
As regards non-current assets, equity investments held by the group were included in the "Non-allocable" column. Moreover, in view of a reorganisation and development of the district heating business, also assets related to the distribution network of thermal energy have been included in the hydroelectric generation segment which, since 2012, is called Generation and District Heating. For comparison purposes, also the amounts related to 2011 have been reclassified.
For remarks on the performance of operating segments, reference is made to the section "Financial position, results of operations and cash flows of IREN Group - Segment Reporting" in the Directors' report.

Statement of financial position restated by business segments at 31 December 2012

millions of euro

	Generation and District heating	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,621	51	1,287	950	296	36	494	4,735
Net working capital	161	48	(20)	106	(25)	(43)	8	235
Other non-current assets (liabilities)	(77)	3	(55)	(264)	(46)	(11)	(12)	(461)
Net invested capital (NIC)	1,705	**102**	1,212	**792**	225	**(17)**	490	**4,509**
Equity								1,954
Net financial position								2,555
Own funds and net financial indebtedness								**4,509**

Statement of financial position restated by business segments at 31 December 2011

millions of euro

	Generation and District heating	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,658	45	1,258	952	265	69	406	4,653
Net working capital	120	142	(37)	72	5	(28)	13	288
Other non-current assets (liabilities)	(80)	(8)	(61)	(246)	(40)	8	(15)	(443)
Net invested capital (NIC)	1,698	**179**	1,160	**778**	230	**49**	404	**4,497**
Equity								1,845
Net financial position								2,653
Own funds and net financial indebtedness								**4,497**

Income Statement by business segments at 31 December 2012

millions of euro

	Generation and District heating	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	983	4,052	385	432	211	131	(1,867)	4,328
Total operating expense	(773)	(3,999)	(205)	(316)	(172)	(99)	1,867	(3,698)
Gross Operating Profit (EBITDA)	210	**52**	180	**116**	39	**32**	-	**630**
Net am./depr., provisions and impairment losses	(82)	(39)	(54)	(76)	(23)	(15)	-	(289)
Operating profit (EBIT)	129	**14**	126	**40**	16	**17**	-	**341**

Income Statement by business segments at 31 December 2011

millions of euro

	Generation and District heating	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	840	3,072	382	438	217	112	(1,542)	3,521
Total operating expense	(643)	(3,020)	(211)	(326)	(175)	(96)	1,542	(2,929)
Gross Operating Profit (EBITDA)	197	**53**	171	**113**	42	**16**	-	**592**
Net am./depr., provisions and impairment losses	(105)	(18)	(51)	(77)	(27)	(7)	-	(283)
Operating profit (EBIT)	93	**35**	120	**36**	15	**10**	-	**309**

XIII. ANNEXES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED COMPANIES

Company	Registered office	Currency	Share capital	% ownership	Participating company
IREN ACQUA GAS S.p.A.	Genoa	Euro	386,963,511	92.94	IREN
				7.06	IREN EMILIA
IREN AMBIENTE S.p.A.	Piacenza	Euro	63,622,002	100.00	IREN
IREN EMILIA S.p.A.	Reggio Emilia	Euro	196,832,103	100.00	IREN
IREN ENERGIA S.p.A.	Turin	Euro	818,855,779	100.00	IREN
IREN MERCATO S.p.A.	Genoa	Euro	61,356,220	100.00	IREN
AEM Torino Distribuzione S.p.A.	Turin	Euro	126,127,156	100.00	IREN ENERGIA
Aemnet S.p.A.	Turin	Euro	6,973,850	100.00	IRIDE SERVIZI
AGA S.p.A.	Genoa	Euro	11,000,000	99.64	IREN EMILIA
AMIAT V. S.p.A.	Turin	Euro	1,000,000	93.0592	IREN EMILIA
				0.0008	IREN
Bonifica Autocisterne	Piacenza	Euro	595,000	51.00	IREN AMBIENTE
C.EL.PI. Scrl in liquidazione	Turin	Euro	293,635	99.93	IREN ENERGIA
CAE Amga Energia S.p.A.	Genoa	Euro	10,000,000	100.00	IREN MERCATO
Climatel S.r.l.	Savona	Euro	10,000	100.00	O.C.Clim
Consorzio GPO	Genoa	Euro	20,197,260	62.35	IREN EMILIA
ENIA Parma S.r.l.	Parma	Euro	300,000	100.00	IREN EMILIA
ENIA Piacenza S.r.l.	Piacenza	Euro	300,000	100.00	IREN EMILIA
ENIA Reggio Emilia S.r.l.	Reggio Emilia	Euro	300,000	100.00	IREN EMILIA
ENIAtel S.p.A.	Piacenza	Euro	500,000	100.00	IREN EMILIA
GEA Commerciale S.p.A.	Grosseto	Euro	340,910	100.00	IREN MERCATO
Genoa Reti Gas S.r.l.	Genoa	Euro	1,500,000	100.00	IREN ACQUA GAS
Idrotigullio S.p.A.	Chiavari (GE)	Euro	979,000	66.55	Mediterranea delle Acque
Immobiliare delle Fabbriche S.r.l.	Genoa	Euro	90,000	100.00	Mediterranea delle Acque
IRIDE SERVIZI S.p.A.	Turin	Euro	52,242,791	93.78	IREN ENERGIA
				6.22	IREN EMILIA
Laboratori Iren Acqua Gas S.p.A.	Genoa	Euro	2,000,000	90.89	IREN ACQUA GAS
Mediterranea delle Acque S.p.A.	Genoa	Euro	19,203,411	60.00	IREN ACQUA GAS
Monte Querce	Reggio Emilia	Euro	100,000	60.00	IREN AMBIENTE
Nichelino Energia S.r.l.	Turin	Euro	8,500,000	67.00	IREN ENERGIA
				33.00	AES Torino
O.C.Clim S.r.l.	Savona	Euro	100,000	100.00	CAE Amga Energia
Tecnoborgo S.p.A.	Piacenza	Euro	10,379,640	50.50	IREN AMBIENTE
				0.50	IREN
Zeus S.p.A.	Genoa	Euro	20,320,000	100.00	IREN EMILIA

COMPANIES CONSOLIDATED PROPORTIONATELY

Company	Registered office	Currency	Share capital	% ownership	Participating company
Acque Potabili Crotone	Turin	Euro	100,000	100.00	Società Acque Potabili
Acquedotto Monferrato	Turin	Euro	600,000	100.00	Società Acque Potabili
Acquedotto Savona	Savona	Euro	500,000	100.00	Società Acque Potabili
AES Torino S.p.A.	Turin	Euro	110,500,000	51.00	IREN ENERGIA
Enia Solaris s.r.l.	Parma	Euro	100,000	100.00	IREN Rinnovabili S.p.A.
IREN Rinnovabili S.p.A.	Reggio Emilia	Euro	221,764	90.19	IREN AMBIENTE
Olt Offshore Toscana LNG S.p.A.	Milan	Euro	145,750,700	41.71	IREN MERCATO
Società Acque Potabili S.p.A.	Turin	Euro	3,600,295	30.86	IREN ACQUA GAS

COMPANIES MEASURED USING THE EQUITY METHOD

Company	Registered office	Currency	Share capital	% ownership	Participating company
A2A Alfa S.r.l.	Milan	Euro	100,000	30.00	IREN MERCATO
ABM Next	Bergamo	Euro	25,825	45.00	Società Acque Potabili
Aciam S.p.A.	Avezzano	Euro	258,743	29.09	IREN AMBIENTE
Acos Energia S.p.A.	Novi Ligure	Euro	150,000	25.00	IREN MERCATO
Acos S.p.A.	Novi Ligure	Euro	17,075,864	25.00	IREN EMILIA
Acquaenna S.c.p.a.	Enna	Euro	3,000,000	46.00	IREN ACQUA GAS
Aguas de San Pedro	S.Pedro Sula (Honduras)	Lempiras	159,900	30.00	IREN ACQUA GAS
Aiga S.p.A.	Ventimiglia	Euro	104,000	49.00	IREN ACQUA GAS
Amat S.p.A.	Imperia	Euro	5,435,372	48.00	IREN ACQUA GAS
AMIAT S.p.A.	Turin	Euro	46,326,462	49.00	AMIAT V. S.p.A.
AMIU S.p.A.	Alessandria	Euro	120,000	49.00	IREN EMILIA
Amter S.p.A.	Cogoleto	Euro	404,263	49.00	Mediterranea delle Acque
ASA S.p.A.	Livorno	Euro	28,613,414	40.00	AGA
ASMT Serv. Ind.S.p.A.	Tortona	Euro	3,856,240	44.75	IREN EMILIA
ASTEA	Recanati	Euro	76,115,676	21.32	Consorzio GPO
Atena S.p.A.	Vercelli	Euro	8,203,255	40.00	Zeus
Delmi	Milan	Euro	1,466,868,500	15.00	IREN
Domus Acqua S.r.l.	Domusnovas	Euro	96,000	29.00	IREN ACQUA GAS
Edipower S.p.A.	Milan	Euro	1,441,300,000	10.00	IREN ENERGIA
Fata Morgana S.p.A.	Reggio Calabria	Euro	1,402,381	25.00	IREN EMILIA
Fin Gas srl	Milan	Euro	10,000	50.00	IREN MERCATO
Gas Energia S.p.A.	Turin	Euro	3,570,000	20.00	IRIDE SERVIZI
GICA s.a.	Lugano	CHF	4,000,000	24.99	IREN MERCATO
Global Service Parma	Parma	Euro	20,000	30.00	IREN EMILIA
Il Tempio S.r.l.	Reggio Emilia	Euro	110,000	45.50	IREN EMILIA
Iniziative Ambientali S.r.l.	Novellara	Euro	100,000	40.00	IREN AMBIENTE
Mestni Plinovodi	Koper (Slovenia)	Euro	15,952,479	49.88	IREN ACQUA GAS
Mondo Acqua	Mondovì	Euro	800,000	38.50	IREN ACQUA GAS
Piana Ambiente S.p.A.	Gioia Tauro	Euro	1,719,322	25.00	IREN EMILIA
Plurigas	Milan	Euro	800,000	30.00	IREN
Project Financing Management	Settimo Milanese (MI)	Euro	3,000,000	49.00	IREN Rinnovabili
Rio Riazzone S.p.A.	Rome	Euro	103,292	44.00	IREN AMBIENTE
S.M.A.G.	Genoa	Euro	20,000	30.00	IREN ACQUA GAS
Salerno Energia Vendite	Salerno	Euro	2,447,526	39.40	GEA Commerciale
Sea Power & Fuel S.r.l.	Genoa	Euro	10,000	50.00	IREN MERCATO
Sinergie Italiane S.r.l.	Milan	Euro	3,000,000	30.94	IREN MERCATO
So. Sel. S.p.A.	Modena	Euro	240,240	24.00	IREN EMILIA
Tirana Acque in liquidazione	Genoa	Euro	95,000	50.00	IREN ACQUA GAS
TRM V. S.p.A.	Turin	Euro	1,000,000	24.70	IREN
				0.10	IREN AMBIENTE
				0.10	IREN EMILIA
				0.10	IREN ENERGIA
Valle Dora Energia Srl	Turin	Euro	537,582	49.00	IREN ENERGIA
VEA Energia e Ambiente	Pietra Santa	Euro	96,000	37.00	IREN MERCATO

INVESTMENTS IN OTHER COMPANIES

Company	Registered office	Currency	Share capital	% ownership	Participating company
Acque Potabili Siciliane	Palermo	Euro	5,000,000	56.77	Società Acque Potabili
				9.83	Mediterranea delle Acque
Astea Energia	Osimo (AN)	Euro	117,640	7.00	IREN MERCATO
Atena Patrimonio	Vercelli	Euro	73,829,295	14.65	Zeus
ATO2 Acque	Biella	Euro	80,000	12.50	IREN ACQUA GAS
Autostrade Centro Padane	Cremona	Euro	15,500,000	1.46	IREN EMILIA
BT ENIA Telecomunicazioni	Parma	Euro	4,226,000	12.01	IREN EMILIA
C.R.P.A. S.p.A.	Reggio Emilia	Euro	1,851,350	5.40	IREN EMILIA
Consorzio L.E.A.P.	Piacenza	Euro	1,055,000	0.95	IREN AMBIENTE
Consorzio Topix	Turin	Euro	1,690,000	0.30	Aemnet
Cosme Srl	Genoa	Euro	320,000	1.00	IREN ACQUA GAS
CSP Scrl	Turin	Euro	641,000	6.10	IREN ENERGIA
Energia Italiana S.p.A.	Milan	Euro	26,050,000	11.00	IREN ENERGIA
Environment Park S.p.A.	Turin	Euro	11,406,780	3.39	IREN ENERGIA
Nord Ovest Servizi	Turin	Euro	7,800,000	10.00	IREN ACQUA GAS
RE Innovazione	Reggio Emilia	Euro	882,872	0.87	IREN AMBIENTE
Rupe S.p.A.	Genoa	Euro	3,057,898	0.39	Immobiliare delle Fabbriche
S.D.B. S.p.A.	Turin	Euro	536,000	1.00	IRIDE SERVIZI
Stadio Albaro	Genoa	Euro	1,230,000	2.00	CAE Amga Energia
T.I.C.A.S.S.	Genoa	Euro	98,000	4.08	IREN ACQUA GAS
TLR V. S.p.A. (*)	Turin	Euro	120,000	99.996	IREN ENERGIA
				0.001	IREN
				0.001	IREN AMBIENTE
				0.001	IREN EMILIA

(*) the company, incorporated at the end of 2012 is not operating yet

FINANCIAL STATEMENTS DATA OF THE MAIN CONSOLIDATED COMPANIES, COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS, PROPORTIONATELY AND USING THE EQUITY METHOD

Fully consolidated companies

Company	Currency	Total Assets	Equity	Total revenue	Profit/Loss
IREN ACQUA GAS S.p.A.	Euro	1,208,552,434	632,711,688	213,674,008	37,702,147
IREN AMBIENTE S.p.A.	Euro	349,309,795	100,877,054	90,928,930	12,067,295
IREN EMILIA S.p.A.	Euro	753,677,971	338,949,009	463,448,982	4,556,343
IREN ENERGIA S.p.A.	Euro	2,286,487,767	1,249,370,101	891,923,548	103,879,879
IREN MERCATO S.p.A.	Euro	1,558,779,686	77,058,822	4,012,857,877	(2,572,013)
AEM Torino Distribuzione S.p.A.	Euro	506,782,812	206,448,146	145,326,010	19,566,365
Aemnet S.p.A.	Euro	12,395,886	9,631,453	4,041,613	2,131,108
AGA S.p.A.	Euro	19,831,893	7,224,213	4,625	(355,034)
AMIAT V. S.p.A.	Euro	28,925,000	28,925,000	-	-
Bonifica Autocisterne	Euro	875,799	467,907	1,102,879	(36,600)
C.EL.PI. Scrl in liquidazione	Euro	304,624	278,595	2	-
CAE Amga Energia S.p.A.	Euro	60,556,106	24,458,943	38,404,740	106,341
Climatel S.r.l.	Euro	440,020	113,514	349,414	26,699
Consorzio GPO	Euro	21,260,046	21,211,964	-	180,190
ENIA Parma S.r.l.	Euro	58,946,826	6,409,664	104,941,504	1,733,924
ENIA Piacenza S.r.l.	Euro	27,068,344	2,778,235	61,696,464	1,651,949
ENIA Reggio Emilia S.r.l.	Euro	51,343,496	2,852,647	107,773,103	1,869,951
ENIAtel S.p.A.	Euro	2,838,199	1,296,947	2,609,391	146,947
GEA Commerciale S.p.A.	Euro	10,185,912	2,611,805	20,525,304	839,802
Genoa Reti Gas S.r.l.	Euro	46,882,018	12,500,924	52,997,736	10,004,192
Idrotigullio	Euro	36,997,030	9,568,695	16,582,702	1,533,939
Immobiliare delle Fabbriche	Euro	10,841,769	10,521,641	38,962	(58,802)
IRIDE SERVIZI S.p.A.	Euro	243,510,298	94,523,217	85,555,701	15,894,280
Laboratori Iren Acqua Gas	Euro	10,014,957	5,357,393	8,245,754	690,819
Mediterranea delle Acque S.p.A.	Euro	625,837,038	441,106,754	120,370,074	18,655,675
Monte Querce	Euro	733,238	100,000	24,449	-
Nichelino Energia S.r.l.	Euro	24,380,091	9,518,227	4,341,195	702,842
O.C.Clim S.r.l.	Euro	9,591,893	3,251,424	8,491,201	70,976
Tecnoborgo S.p.A.	Euro	35,870,470	19,992,760	22,364,230	2,323,361
Zeus S.p.A.	Euro	21,810,280	21,772,374	-	384,272

Proportionately consolidated companies

Company	Currency	Total Assets	Equity	Total revenue	Profit/Loss
Acque Potabili Crotone	Euro	14,605,906	2,699,874	3,037	(698,532)
Acquedotto Monferrato	Euro	13,158,317	2,826,968	510,826	125,747
Acquedotto Savona	Euro	34,101,254	8,685,023	12,640,866	2,096,406
AES Torino S.p.A.	Euro	695,240,562	325,634,929	190,733,531	72,463,744
Enia Solaris s.r.l.	Euro	26,954,077	4,958,721	3,015,724	181,138
IREN Rinnovabili S.p.A.	Euro	26,602,654	9,525,263	3,149,767	(260,909)
Olt Offshore Toscana LNG S.p.A.	Euro	752,065,819	135,238,932	21,122,372	(3,840,009)
Società Acque Potabili S.p.A.	Euro	261,413,388	102,845,005	55,439,710	(1,434,836)

Companies measured using the equity method

Company	Currency	Total Assets	Equity	Total revenue	Profit/Loss
A2A Alfa (1)	Euro	3,911,916	1,300,809	-	2,425,148
ABM Next	Euro	2,237,262	224,555	2,319,376	152,063
Acos Energia S.p.A. (1)	Euro	16,163,784	2,916,283	23,907,572	1,219,732
Acos S.p.A. (1)	Euro	40,456,682	24,255,675	11,319,644	1,279,061
Acquaenna S.c.p.a. (1)	Euro	59,275,670	3,677,897	16,094,631	(2,075,774)
Aguas de San Pedro	Lempiras	642,129,088	422,121,956	302,506,338	61,749,688
Aiga S.p.A.	Euro	5,504,920	687,559	2,348,896	3,815
Amat S.p.A. (1)	Euro	36,871,024	6,145,452	8,048,371	57,381
AMIAT S.p.A. (1)	Euro	275,244,058	73,022,162	198,613,990	2,877,653
Amter S.p.A.	Euro	5,041,965	1,342,829	4,379,901	187,010
ASA S.p.A.	Euro	203,186,150	32,925,905	84,970,652	450,030
ASTEA (1)	Euro	139,325,515	82,116,701	51,096,278	1,950,786
Atena S.p.A. (1)	Euro	49,022,320	11,659,033	38,209,447	958,242
Delmi	Euro	1,076,770,130	930,070,555	61,182	(5,080,604)
Domus Acqua S.r.l. (1)	Euro	1,074,794	223,800	380,635	34,245
Edipower S.p.A.	Euro	2,731,065,712	1,524,620,752	1,054,957,600	48,640,388
Fin Gas srl (1)	Euro	16,204,372	16,193,482	-	(44,258)
Gas Energia S.p.A. (1)	Euro	17,165,352	3,984,660	12,231,430	(60,591)
GICA s.a. (1)	CHF	7,050,770	(1,749,921)	978,282	(3,997,419)
Global Service Parma (1)	Euro	13,904,828	20,000	6,276,692	-
Il Tempio S.r.l. (1)	Euro	3,803,497	141,479	275,145	40,249
Iniziative Ambientali S.r.l.	Euro	3,800,942	1,232,253	-	83,164
Mestni Plinovodi (1)	Euro	33,217,762	17,817,660	11,886,307	279,569
Mondo Acqua (1)	Euro	5,185,790	1,182,258	3,816,553	228,152
Plurigas	Euro	83,644,050	61,237,430	1,116,700,852	18,069,974
Project Financing Management	Euro	3,718,033	3,182,509	742,198	147,101
Rio Riazzone S.p.A. (2)	Euro	947,148	508,176	131,988	8,712
S.M.A.G. (1)	Euro	1,494,766	41,705	2,283,402	21,707
Salerno Energia Vendite (1)	Euro	25,239,889	4,174,795	40,395,610	1,103,565
Sea Power & Fuel S.r.l. (1)	Euro	17,450	7,349	-	(2,945)
Sinergie Italiane (3)	Euro	773,146,501	(88,737,035)	2,208,580,001	(92,160,046)
So. Sel. S.p.A.	Euro	9,860,137	2,482,891	13,058,090	176,814
TRM V. S.p.A.	Euro	126,370,500	126,370,500	-	-
Valle Dora Energia Srl	Euro	621,152	542,076	104,000	993
VEA Energia e Ambiente (1)	Euro	3,382,110	1,170,795	5,513,833	380,569

(1) figures from fin. stat. 31.12.2011

(2) figures from fin. stat. 30.09.2012

(3) figures from fin. stat. 30.09.2011

RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (Consob Communication no. 6064293 dated 26 July 2006)

thousands of euro

IFRS STATEMENT OF FINANCIAL POSITION		RECLASSIFIED STATEMENT OF FINANCIAL POSITION	
Property, plant and equipment	2,813,297		
Investment property	1,831		
Intangible assets	1,295,022		
Goodwill	132,861		
Investments accounted for using the equity method	462,097		
Other investments	29,808		
Total (A)	**4,734,916**	**Non-Current Assets (A)**	**4,734,916**
Other non-current assets	38,195		
Other payables and other non-current liabilities	(154,453)		
Total (B)	**(116,258)**	**Other non-current assets (liabilities) (B)**	**(116,258)**
Inventories	89,110		
Trade receivables	1,253,713		
Current tax assets	8,690		
Other receivables and other current assets	267,253		
Trade payables	(1,135,236)		
Other payables and other current liabilities	(243,514)		
Current tax liabilities	(4,910)		
Total (C)	**235,106**	**Net working capital (C)**	**235,106**
Deferred tax assets	215,750		
Deferred tax liabilities	(110,553)		
Total (D)	**105,197**	**Deferred tax assets (liabilities) (D)**	**105,197**
Employee benefits	(102,999)		
Provisions for risks and charges	(272,744)		
Provisions for risks and charges - current portion	(81,548)		
Total (E)	**(457,291)**	**Provisions and employee benefits (E)**	**(457,291)**
Assets held for sale	7,739		
Liabilities related to assets held for sale	(21)		
Total (F)	**7,718**	**Assets (Liabilities) held for sale (F)**	**7,718**
		Net invested capital (G=A+B+C+D+E+F)	**4,509,388**
Equity (H)	**1,954,257**	**Equity (H)**	**1,954,257**
Non-current financial assets	(116,168)		
Non-current financial liabilities	2,197,827		
Total (I)	**2,081,659**	**Non-current financial indebtedness (I)**	**2,081,659**
Current financial assets	(273,550)		
Cash and cash equivalents	(28,041)		
Current financial liabilities	775,063		
Total (L)	**473,472**	**Current financial indebtedness (L)**	**473,472**
		Net financial indebtedness (M=I+L)	**2,555,131**
		Own funds and net financial indebtedness (H+M)	**4,509,388**

DEFERRED TAX ASSETS AND LIABILITIES FOR 2012

	differences			
	opening	accrual	reverse	residual
Deferred tax assets				
Directors' and statutory auditors' fees	3,224	2,191	1,870	3,545
Non deductible provisions	227,290	107,789	33,246	301,833
Taxable contributions	1,380	-	20	1,360
Differences in value of fixed assets	188,239	24,123	23,833	188,529
Derivatives (IAS 39)	37,704	23,419	329	60,794
Tax losses carried forward indefinitely	8,085	1,995	1,036	9,044
Other	67,290	43,851	20,848	90,293
total taxable base/deferred tax assets	**533,212**	**203,368**	**81,182**	**655,398**
Deferred tax liabilities				
Differences in value of fixed assets	330,523	4,255	23,543	311,235
Grants related to plant	1,260	-	-	1,260
Provision for impairment of tax assets, separate fin. stat.	3,374	-	110	3,264
Adjustment to post-employment benefits	12,682	548	6,386	6,844
Derivatives (IAS 39)	(71)	-	2,337	(2,408)
Finance lease	2,991	658	84	3,565
Other	50,796	35,056	7,988	77,864
Total taxable base/deferred tax assets	**401,555**	**40,517**	**40,448**	**401,624**
Net deferred tax assets (liabilities)	**131,657**	**162,851**	**40,734**	**253,774**

thousands of euro

taxes to IS	taxes to E	taxes IRES	IRAP	total
117	-	899	31	930
26,313	1,860	100,305	4,807	105,112
(9)	-	447	47	494
(935)	-	53,079	1,634	54,713
824	6,042	16,185	2,543	18,728
1,718	-	2,406	-	2,406
3,188	805	32,398	969	33,367
31,216	**8,707**	**205,719**	**10,031**	**215,750**
(5,246)	-	64,722	8,993	73,715
-	-	248	27	275
(30)	-	1,113	-	1,113
(572)	(2,139)	1,511	-	1,511
(795)	(3,574)	277	10	287
229	-	1,387	146	1,533
7,266	-	31,462	657	32,119
852	**(5,713)**	**100,720**	**9,833**	**110,553**
30,364	**14,420**	**104,999**	**198**	**105,197**

DEFERRED TAX ASSETS AND LIABILITIES FOR 2011

	differences			
	opening	accrual	reverse	residual
Deferred tax assets				
Directors' and statutory auditors' fees	3,141	2,496	2,414	3,224
Non deductible provisions	192,566	68,592	33,868	227,290
Taxable contributions	1,466	-	86	1,380
Differences in value of fixed assets	160,260	36,317	8,338	188,239
Derivatives (IAS 39)	18,262	19,881	439	37,704
Tax losses carried forward indefinitely	6,940	2,019	874	8,085
Other	66,278	26,689	25,678	67,290
total taxable base/deferred tax assets	**448,915**	**155,994**	**71,697**	**533,212**
Deferred tax liabilities				
Differences in value of fixed assets	189,966	188,418	47,861	330,523
Grants related to plant	3,146	-	1,886	1,260
Provision for impairment of tax assets, separate fin. stat.	50,149	-	46,775	3,374
Adjustment to post-employment benefits	9,364	4,999	1,681	12,682
Derivatives (IAS 39)	(2,414)	2,351	8	(71)
Finance lease	2,601	976	586	2,991
Other	38,532	28,504	16,240	50,796
Total taxable base/deferred tax assets	**291,344**	**225,248**	**115,038**	**401,555**
Net deferred tax assets (liabilities)	**157,570**	**(69,254)**	**(43,341)**	**131,657**

thousands of euro

taxes to IS	taxes to E	taxes IRES	IRAP	total
7	-	847	1	847
13,317	-	70,206	3,272	73,479
28	-	496	56	552
13,927	-	58,170	2,494	60,664
195	5,529	10,953	1,793	12,747
531	-	1,175	-	1,175
7,021	2	24,126	1,261	25,386
35,025	**5,531**	**165,974**	**8,877**	**174,850**
2,766	-	85,905	9,581	95,486
28	-	248	27	275
82	-	1,143	-	1,143
1,098	27	3,930	-	3,930
796	2,570	3,622	10	3,632
178	-	1,079	104	1,184
3	(165)	8,614	173	8,787
4,951	**2,432**	**104,542**	**9,896**	**114,438**
30,074	**3,098**	**61,432**	**(1,019)**	**60,413**

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Trade Receivables	Financial receivables and Cash and cash equivalents	Other receivables	Trade payables	Financial payables
Municipality of Genoa	15,377	68	-	3,633	-
Municipality of Parma	14,790	-	-	321	-
Municipality of Piacenza	3,510	-	-	5,672	-
Municipality of Reggio Emilia	5,187	-	-	2,766	-
Municipality of Turin	32,147	178,957	1	4,153	-
Finanziaria Sviluppo Utilities	31	-	2,759	-	-
Intesa Sanpaolo group	-	3,167	-	-	375,861
AES Torino	1,767	90	4,304	14,862	16
OLT Offshore LNG	327	175,168	-	-	-
Società Acque Potabili	11,287	-	-	880	-
Acquedotto Savona	7	-	-	16	-
Acquedotto Monferrato	7	-	-	-	-
ENìA Solaris	-	1,982	10	-	56
Iren Rinnovabili S.p.A.	38	1,546	-	21	-
ABM Next	9	104	-	2	-
Aciam S.p.A.	325	-	-	-	-
Acos Energia S.p.A.	4,691	-	-	4	-
Acos S.p.A.	44	164	-	-	-
Acquaenna S.c.p.a.	3,312	276	-	384	-
Aguas de San Pedro S.A.	469	-	-	-	-
Aiga S.p.A.	178	467	-	-	-
Amat S.p.A.	72	-	-	3	-
AMIU Alessandria	-	-	-	44	-
Amter S.p.A.	1,703	-	-	-	-
ASA S.p.A.	9,554	6,614	-	1,692	-
ASMT Serv. Ind.S.p.A.	277	-	-	32	-
ASTEA	7,689	235	-	-	-
Atena S.p.A.	93	341	-	421	-
Domus Acqua S.r.l.	22	15	-	-	-
Edipower S.p.A.	5,579	-	-	8,102	-
Fata Morgana	1	-	-	-	-
Gas Energia S.p.A.	-	-	-	54	-
GICA s.a.	-	572	-	-	-
Global Service Parma	4,995	-	-	2,977	-
Il Tempio S.r.l.	1	313	-	-	-
Iniziative Ambientali S.r.l.	1	-	-	-	-
Mondo Acqua	218	-	-	-	-
Piana Ambiente S.p.A.	294	-	-	-	-
Plurigas S.p.A.	81	-	-	(1,711)	-
S.M.A.G. srl	38	-	-	985	-
Salerno Energia Vendite	2,043	-	-	64	-
Sinergie Italiane S.r.l.	16,542	-	-	16,200	-
So. Sel. S.p.A.	8	-	-	2,518	-
Valle Dora Energia Srl	4	-	-	62	30
VEA Energia e Ambiente	18	-	-	-	-
Agac Infrastrutture	3	-	-	1,175	-
Parma Infrastrutture	8,632	-	-	4,110	-
Piacenza Infrastrutture	6	-	-	696	-
TOTAL	**151,377**	**370,079**	**7,074**	**70,138**	**375,963**

thousands of euro

	Other payables	Revenue and income	Costs and other charges	Financial income	Financial expense
Municipality of Genoa	-	7,064	2,443	-	-
Municipality of Parma	4,369	1,015	4,551	-	-
Municipality of Piacenza	-	3,254	2,523	-	-
Municipality of Reggio Emilia	-	3,953	603	-	-
Municipality of Turin	385	82,872	1,657	3,606	-
Finanziaria Sviluppo Utilities	-	28	-	-	1
Intesa Sanpaolo group	-	-	682	-	18,641
AES Torino	284	2,039	50,551	107	7
OLT Offshore LNG	-	-	-	4,548	-
Società Acque Potabili	-	657	85	1	-
Acquedotto Savona	-	141	1	-	-
Acquedotto Monferrato	-	3	-	-	-
ENìA Solaris	-	-	-	74	-
Iren Rinnovabili S.p.A.	-	56	15	58	-
ABM Next	-	-	-	-	-
Aciam S.p.A.	-	184	-	17	-
Acos Energia S.p.A.	-	16,674	-	-	-
Acos S.p.A.	-	58	-	-	-
Acquaenna S.c.p.a.	-	97	-	13	-
Aguas de San Pedro S.A.	-	164	-	-	-
Aiga S.p.A.	-	188	-	17	-
Amat S.p.A.	-	185	20	-	-
AMIU Alessandria	-	-	-	-	-
Amter S.p.A.	-	1,194	-	-	-
ASA S.p.A.	-	497	90	-	-
ASMT Serv. Ind.S.p.A.	-	92	49	-	-
ASTEA	-	-	-	235	-
Atena S.p.A.	-	95	-	341	-
Domus Acqua S.r.l.	-	-	-	-	-
Edipower S.p.A.	-	78	55,537	2,521	-
Fata Morgana	-	-	-	-	-
Gas Energia S.p.A.	-	-	90	-	-
GICA s.a.	-	-	-	-	-
Global Service Parma	-	412	1,834	-	-
Il Tempio S.r.l.	-	-	-	5	-
Iniziative Ambientali S.r.l.	-	-	-	-	-
Mondo Acqua	-	453	-	-	-
Piana Ambiente S.p.A.	-	1	-	-	-
Plurigas S.p.A.	-	30,726	84,969	-	-
S.M.A.G. srl	-	-	2,105	-	-
Salerno Energia Vendite	-	19,811	65	-	-
Sinergie Italiane S.r.l.	-	2	144,342	-	-
So. Sel. S.p.A.	-	11	5,018	-	-
Valle Dora Energia Srl	-	7	104	-	-
VEA Energia e Ambiente	-	2,693	-	-	-
Agac Infrastrutture	-	10	-	-	-
Parma Infrastrutture	-	8,851	1,321	-	-
Piacenza Infrastrutture	-	5	-	-	-
TOTAL	**5,038**	**183,570**	**358,655**	**11,543**	**18,649**

INDEPENDENT AUDITORS' FEES

Pursuant to art. 149-duodecies of the enactment regulation of Legislative Decree 58/1998, fees for the year due to PricewaterhouseCoopers S.p.A. can be summarised as follows:

thousands of euro

Service	Service provider	To	Fees
Audit	Parent auditor	Parent	81
Attestation services	Parent auditor	Parent	21
Tax consulting services	Parent auditor	Parent	-
Other services	i) Parent auditor	Parent	175
	ii) Parent auditor network	Parent	-
Audit	i) Parent auditor	i) Subsidiaries	545
	ii) Parent auditor network	ii) Subsidiaries	-
Attestation services	i) Parent auditor	i) Subsidiaries	143
	ii) Parent auditor network	ii) Subsidiaries	-
Tax consulting services	i) Parent auditor	i) Subsidiaries	-
	ii) Parent auditor network	ii) Subsidiaries	-
Other services	i) Parent auditor	i) Subsidiaries	20
	ii) Parent auditor network	ii) Subsidiaries	30
		Total	**1,015**

STATEMENT REGARDING THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-*TER* OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. The undersigned, Andrea Viero, Managing Director, and Massimo Levrino, Administration and Finance Director and Manager in charge of financial reporting of IREN S.p.A. hereby confirm, also in consideration of the provisions of art. 154-*bis*, subsections 3 and 4, Legislative Decree no. 58 of 24 February 1998:

   - the adequacy in respect of the company's characteristics and

   - the effective application during 2012 of administrative and accounting procedures in preparing the consolidated financial statements.

2. Furthermore, it is hereby declared that:

   2.1 the consolidated financial statements:

   a) are prepared in compliance with applicable IFRS endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002;

   b) correspond with documentary findings, books and accounting records;

   c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

   2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the issuer's situation and of the entirety of the companies included in the consolidation, together with the description of the major risks and uncertainties to which they are exposed.

10 April 2013

The Managing Director

Andrea Viero

Administration and Finance Director
and Manager in Charge appointed
under Law 262/05

Massimo Levrino

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the Shareholders of
Iren SpA

1 We have audited the consolidated financial statements of Iren SpA and its subsidiaries ("Iren Group") as of 31 December 2012 which comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, cash flows statement and related notes. The directors of Iren SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005. Our responsibility is to express an opinion on these consolidated financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the consolidated financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements include prior year financial information for comparative purposes. As described in the notes to the financial statements, the directors restated prior year financial information which were previously audited by other auditors who issued their report on 23 April 2012. The restatement and the disclosure presented in the notes to the financial statements have been examined by us for the purpose of issuing our opinion on the consolidated financial statements as of 31 December 2012.

3 In our opinion, the consolidated financial statements of Iren Group as of 31 December 2012 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of Iren Group for the year then ended.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.812.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 - **Bologna** Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Dante 7 Tel. 01029041 - **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel.0458263001

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4 The directors of Iren SpA are responsible for the preparation of the directors' report and the report on corporate governance and ownership structure, published in the Investor Relations section of Iren SpA's website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree n° 58/98 presented in the report on corporate governance and ownership structure, with the consolidated financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard n° 001 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the directors' report and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree n° 58/98 presented in the report on corporate governance and ownership structure are consistent with the consolidated financial statements of Iren Group as of 31 December 2012.

Turin, 29 April 2013

PricewaterhouseCoopers SpA

Signed by

Piero De Lorenzi
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers.

Iren S.p.A.
Via Nubi di Magellano, 30 – 42123 Reggio Emilia
Share capital fully paid-in 1,276,225,677.00
Reggio Emilia Companies Register no. 07129470014
Tax Code and VAT no. 07129470014

Separate Financial Statements

at 31 December 2012

STATEMENT OF FINANCIAL POSITION

Figures in euro

	Note	31.12.2012	of which related parties	31.12.2011 Restated	of which related parties
ASSETS					
Property, plant and equipment	(1)	1,690,481		6,996,453	
Intangible assets with a finite useful life	(2)	437,311		141,980	
Investments in subsidiaries, joint ventures and associates	(3)	2,410,241,884		2,236,297,601	
Other investments	(4)	-		140,272,674	
Non-current financial assets	(5)	1,453,795,376	1,452,745,083	984,120,817	982,678,082
Other non-current assets	(6)	10,687,792	2,759,032	367,608	
Deferred tax assets	(7)	30,164,232		24,855,366	
Total non-current assets		**3,907,017,076**		**3,393,052,499**	
Trade receivables	(8)	16,013,164	15,511,651	20,820,112	20,766,835
Current tax assets	(9)	3,518,242		159,018	
Other receivables and other current assets	(10)	44,179,915	41,281,200	49,102,182	36,805,641
Current financial assets	(11)	274,357,852	274,148,240	978,627,234	978,585,943
Cash and cash equivalents	(12)	4,630,418	267,830	17,406,189	
Total current assets		**342,699,591**		**1,066,114,735**	
Assets held for sale				-	
TOTAL ASSETS		**4,249,716,667**		**4,459,167,234**	

Data as at 31 December 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

Figures in euro

	Note	31.12.2012	of which related parties	31.12.2011 Restated	of which related parties
EQUITY					
Share capital		1,276,225,677		1,276,225,677	
Reserves and retained earnings		158,335,228		244,556,201	
Profit (loss) for the year		70,311,187		(57,293,489)	
TOTAL EQUITY	**(13)**	**1,504,872,092**		**1,463,488,389**	
LIABILITIES					
Non-current financial liabilities	(14)	2,076,086,729	145,485,277	1,855,587,104	186,974,492
Employee benefits	(15)	10,590,067		9,456,446	
Provisions for risks and charges	(16)	19,670,784		19,891,350	
Deferred tax liabilities	(17)	5,360,816		1,913,212	
Other payables and other non-current liabilities	(18)	8,861,996	8,861,996	-	
Total non-current liabilities		**2,120,570,392**		**1,886,848,112**	
Current financial liabilities	(19)	566,530,016	225,013,311	1,051,732,797	284,942,644
Trade payables	(20)	20,147,012	3,382,128	15,787,521	3,518,771
Other payables and other current liabilities	(21)	37,597,155	16,468,547	26,786,580	19,165,061
Current tax liabilities	(22)	-		14,523,835	
Total current liabilities		**624,274,183**		**1,108,830,733**	
Liabilities related to assets held for sale		-		-	
TOTAL LIABILITIES		**2,744,844,575**		**2,995,678,845**	
TOTAL EQUITY AND LIABILITIES		**4,249,716,667**		**4,459,167,234**	

Data as at 31 December 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

INCOME STATEMENT

Figures in euro

	Note	2012	of which related parties	2011 Restated	of which related parties
Revenue					
Revenue from goods and services	(23)	13,320,191	13,320,191	13,250,142	13,250,142
Other revenue and income	(24)	18,541,969	807,112	2,402,829	544,698
Total revenue		**31,862,160**		**15,652,971**	
Operating expense					
Raw materials, consumables, supplies and goods	(25)	(11,933)		(16,646)	
Services and use of third-party assets	(26)	(16,869,618)	(4,685,903)	(15,602,210)	(3,610,947)
Other operating expense	(27)	(5,367,972)	(214,098)	(2,930,701)	(52,223)
Capitalised expenses for internal work	(28)	166,198		-	
Personnel expense	(29)	(19,905,485)	(20,593)	(19,727,984)	
Total operating expense		**(41,988,810)**		**(38,277,541)**	
GROSS OPERATING LOSS		**(10,126,650)**		**(22,624,570)**	
Amortisation, depreciation, provisions and impairment losses					
Amortisation/depreciation	(30)	(114,350)		(545,333)	
Provisions and impairment losses	(31)	(3,771,674)		(342,310)	
Total amortisation, depreciation, provisions and impairment losses		**(3,886,024)**		**(887,643)**	
OPERATING LOSS		**(14,012,674)**		**(23,512,213)**	
Financial income and expense	**(32)**				
Financial income		180,648,850	177,592,209	183,938,354	182,447,732
Financial expense		(110,272,586)	(13,774,290)	(96,614,561)	(836,642)
Net financial income		**70,376,264**		**87,323,793**	
Impairment losses on investments	(33)	-		(136,125,958)	
- of which non-recurring		-		*(136,125,958)*	
Profit/(loss) before tax		**56,363,590**		**(72,314,378)**	
Income tax expense	(34)	13,947,597		15,020,889	
Profit/(loss) for the year from continuing operations		**70,311,187**		**(57,293,489)**	
Profit/(loss) from discontinued operations		-		-	
Profit (loss) for the year		**70,311,187**		**(57,293,489)**	

Data as at 31 December 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

STATEMENT OF COMPREHENSIVE INCOME

Figures in euro

	Note	2012	2011 Restated
Profit/(loss) for the year - Owners of the parent and non-controlling interests (A)		**70,311,187**	**(57,293,489)**
Other comprehensive income	**(35)**		
- effective portion of changes in fair value of cash flow hedges		(16,591,318)	(18,330,597)
- change in fair value of available-for-sale financial assets		-	8,564,424
- actuarial profits/(losses) from defined benefit plans (IAS 19)		(1,567,244)	345,916
Tax effect of other comprehensive income		5,823,013	5,920,759
Total other comprehensive expense, net of tax effect (B)		**(12,335,549)**	**(3,499,498)**
Total comprehensive income/(expense) (A)+(B)		**57,975,638**	**(60,792,987)**

Data as at 31 December 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserve	Legal reserve
31/12/2010 Restated	**1,276,226**	**105,102**	**23,862**
Legal reserve			5,134
Dividends to shareholders			
Retained earnings			
Comprehensive income/loss for the year			
of which:			
- Profit (loss) for the year			
- Other comprehensive income			
31/12/2011 Restated	**1,276,226**	**105,102**	**28,996**
Dividends to shareholders			
Losses carried forward			
Comprehensive income/loss for the year			
of which:			
- Profit (loss) for the year			
- Other comprehensive income			
31/12/2012	**1,276,226**	**105,102**	**28,996**

Data as at 31 December 2010 and 31 December 2011 have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

thousands of euro

Hedging reserve	Available for sale reserve	Other reserves and retained earnings (losses)	Total reserves and retained earnings (losses)	Profit/(loss) for the year	Equity
(13,714)	**(8,447)**	**147,126**	**253,929**	**102,606**	**1,632,761**
			5,134	(5,134)	-
		(10,975)	(10,975)	(97,505)	(108,480)
		(33)	(33)	33	-
(12,197)	8,447	251	(3,499)	(57,294)	(60,793)
				(57,294)	(57,294)
(12,197)	8,447	251	(3,499)		(3,499)
(25,911)	**-**	**136,369**	**244,556**	**(57,294)**	**1,463,488**
		(16,591)	(16,591)		(16,591)
		(57,294)	(57,294)	57,294	-
(11,179)		(1,157)	(12,336)	70,311	57,975
				70,311	70,311
(11,179)	-	(1,157)	(12,336)		(12,336)
(37,090)	**-**	**61,327**	**158,335**	**70,311**	**1,504,872**

CASH FLOWS STATEMENT

thousands of euro

	2012	2011 Restated
A. Opening cash and cash equivalents including cash pooling balance	**457,742**	**405,178**
Cash flow from operating activities		
Profit/(loss) for the year	70,311	(57,294)
Adjustments:		
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	114	545
Capital gains (losses) and other equity changes	(14,780)	-
Net change in post-employment benefits and other employee benefits	(434)	(99)
Net change in provision for risks and other charges	(220)	698
Change in deferred tax assets and liabilities	3,962	(1,404)
Change in other non-current assets/liabilities	(1,458)	46
Dividends received	(93,194)	(157,003)
Net impairment losses (reversals of impairment losses) on non-current assets	(2,458)	136,126
B. Cash flows from operations before variations in NWC	**(38,157)**	**(78,385)**
Change in trade receivables	4,808	(6,723)
Change in tax assets and other current assets	1,563	8,558
Change in trade payables	4,358	(16,625)
Change in tax liabilities and other current liabilities	(3,713)	(9,495)
C. Cash flows from/(used in) variations in NWC	**7,016**	**(24,285)**
D. Operating cash flows (B+C)	**(31,141)**	**(102,670)**
Cash flows from/(used in) investing activities		
Investments in intangible assets, property, plant and equipment and investment property	(324)	(155)
Investments in financial assets	(31,214)	(67,137)
Proceeds from the sale of investments	20,000	-
Dividends received	93,194	157,003
E. Total cash flows from investing activities	**81,656**	**89,711**
F. Free cash flow (D+E)	**50,515**	**(12,959)**
Cash flows from/(used in) financing activities		
Dividends paid	(16,591)	(108,479)
New non-current loans	402,000	525,000
Repayment of non-current loans	(458,085)	(97,651)
Change in financial assets	(110,593)	(71,808)
Change in financial liabilities	(245,360)	(181,539)
G. Total cash flows from/(used in) financing activities	**(428,629)**	**65,523**
H. Cash flows for the year (F+G)	**(378,114)**	**52,564**
I. Closing cash and cash equivalents including cash pooling balance (A+H)	**79,628**	**457,742**
L. Cash-pooling balance with subsidiaries	**(74,998)**	**(440,336)**
M. Closing cash and cash equivalents (I + L)	**4,630**	**17,406**

Data as at 31 December 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – *Benefits to employees*.

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

IREN S.p.A. is an Italian multiutility company, listed on the Italian Stock Exchange (Borsa Italiana), created on 1 July 2010 through the merger of IRIDE AND ENÌA.

Through the Company's subsidiaries, IREN S.p.A. operates in the following business sectors:

- Electrical energy production and district heating (Hydroelectric energy, cogeneration of electrical energy and heat, production from renewable sources);
- Market (Sale of electrical energy, gas, heat);
- Energy Infrastructures (Distribution networks of electrical energy, distribution networks of gas, district heating networks, LNG regasification plants);
- Integrated Water Service (sale and distribution of water, water treatment and sewerage);
- Waste Management (Waste collection and disposal);
- Other services (Telecommunications, Public Lighting, Global Services and other minor services).

IREN was structured after the model of an industrial holding, with headquarters in Reggio Emilia, Via Nubi di Magellano 30, and operating offices in Genoa, Parma, Piacenza and Turin, as well as companies heading the single business lines.

Data at 31 December 2011, compared, have been restated by effect of the early adoption of the reviewed version of the IAS 19 – Benefits to employees.

I. CONTENT AND STRUCTURE OF THE SEPARATE FINANCIAL STATEMENTS

The separate financial statements of the Parent IREN S.p.A. have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the provisions set forth in implementation of art. 9 of Legislative Decree no. 38/2005. The IFRS include all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).
In compliance with European Regulation no. 1606 of 19 July 2002, the Iride Group, starting from 2005, has adopted the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") in the preparation of its consolidated financial statements. Based on the national implementation legislation for the aforementioned Regulation, the separate financial statements of the Parent Iride S.p.A. have been prepared in accordance with the IFRS starting from 2006.

In drawing up these financial statements, the same accounting policies were used as those adopted for the Financial Statements at 31 December 2011, with the exceptions highlighted in section "Accounting policies and interpretations effective on 1 January 2012" and "Changes in accounting policies".

The separate financial statements at 31 December 2012 consist of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

In the statement of financial position, assets and liabilities are classified as 'current/non-current'. Assets and liabilities classified as discontinued or held for sale are shown separately. Current assets, which include cash and cash equivalents, are those that shall be realised, transferred or consumed during the ordinary operating cycle of the company or during the twelve months following year end. Current liabilities are those that shall be settled during the ordinary operating cycle of the company or during the twelve months following year end.

The income statement is classified on the basis of the nature of costs. In addition to the operating profit/(loss), the income statement also shows the gross operating profit/(loss) obtained by deducting total operating expense from total revenue.
The indirect method is used in the statement of cash flows. The cash configuration analysed in the statement of cash flows includes cash availability and cash in bank current accounts and the balance of the subsidiaries' cash pooling management.

The separate financial statements have been drawn up based on the historical cost principle, except for certain financial instruments measured at fair value. The financial statements have also been drawn up on the assumption of the company's ability to continue as a going concern. The company, in fact, considered that there are no significant uncertainties (as defined in IAS 1.25) regarding the going concern assumption. These separate financial statements are stated in Euro, the company's functional currency. Data included in the notes, unless otherwise specified, are expressed in thousands of euro.

Finally, in accordance with CONSOB Resolution no. 15519 of 27 July 2006 regarding the format of financial statements, specific additional columns have been added to the Income Statement and the Statement of Financial Position to highlight significant transactions with related parties.

II. ACCOUNTING POLICIES

The policies applied in the preparation of IREN S.p.A. separate financial statements at 31 December 2012 are set out below; the accounting policies described hereunder have been applied consistently by all Group entities and remained unchanged with respect to those adopted as at 31 December 2011, except for information given in section "Changes in accounting policies".

Property, plant and equipment

- Property, plant and equipment
Property, plant and equipment are recognised at contribution, purchase or internal construction cost. This cost includes all costs directly attributable to bringing the asset to the location and condition necessary for it to be available for use (including, when relevant and the company has the related present obligation, the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located), net of trade discounts and rebates.
Financial expense related to the purchase of items of property, plant and equipment is capitalised for the part of the cost of the asset until it becomes operative.
When significant components of property, plant and equipment have different useful lives, they are accounted for separately.
In particular, under this policy, land and buildings located on the land are to be recognised separately; therefore, only the buildings are depreciated, while the carrying amount of land is impaired, as described in the following section "Impairment losses".

Ordinary maintenance expenditure is expensed in full. Expenditure that increases the carrying amount of the asset is charged to the asset to which it relates and depreciated over its estimated useful life, in compliance to IAS 16. Such expenditure includes expenditure that reasonably leads to an increase in future economic benefits, such as the lengthening of useful life, increase in production capacity, improvement in product quality and adoption of production processes that entail a significant reduction in production costs.
Assets under construction include expenditure related to the construction of plants incurred until the reporting date. These investments are depreciated once the asset becomes operative.
Property, plant and equipment are depreciated systematically on a straight-line basis annually using economic-technical rates determined in line with their residual useful lives.

The rates applied are set out in the following table:

Item	Min. rate	Max. rate
Buildings	3%	3%
Auxiliary systems of buildings	5%	10%

Grants related to assets are recognised as deferred revenue and taken to the income statement over the depreciation period of the related item of property, plant and equipment.

- *Assets under finance lease*

Assets held under finance leases are recognised as property, plant and equipment using the financial method with a balancing entry under payables of the same amount, as provided for by IAS 17 which, while reflecting the economic substance of operations, compares these operations to purchase and financing agreements. Based on the above-mentioned method, property, plant and equipment are recognised at the lease principal upon subscription of the finance lease. The amounts due to the lessor are also recognised under financial payables. This liability is decreased over time in line with repayment of the lease principal. Interest on payables is recognised in the income statement based on the repayment plan, in addition to depreciation of the asset based on the expected useful life.

Conversely, under the financial method, leased out assets are not included in property, plant and equipment. The related financial asset is recognised in the Statement of financial position. It decreases over time in line with the collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the repayment plan.

Investment property

Investment property is initially measured at purchase or construction cost. Such cost includes the purchase price and any directly attributable expenditure. The related transaction costs are recognised among the property costs, when purchase is recognised. Real estate investments are measured at cost in the following evaluation.

Expenses incurred after the purchase or completion of a property intended as an investment property increase the initial cost of the asset, if the company is likely to obtain higher future benefits than those previously estimated, thanks to these expenses. Otherwise, such costs are charged to the income statement.

Investment property is depreciated systematically annually on a straight-line basis using rates held to represent the residual useful life of the relevant asset.

Intangible assets

Intangible assets are recognised in the Statement of financial position when it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably. They are recognised at contribution, acquisition or production cost, including any directly attributable costs.

Intangible assets with finite useful lives are amortised on a systematic basis over their useful lives so that the carrying amount at year end matches their residual life or recoverable amount based on the company's plans to develop production. Amortisation begins when the asset is available for use.

Development costs are capitalised if all of the following features can be demonstrated:

- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the ability to reliably measure the expenditure attributable to the asset during its development;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- it is clear how the asset will generate future economic benefits.

If even one of these requirements is not met, the cost is fully recognised in the period in which it is incurred.
Industrial patents and similar rights are amortised on a straight-line over five years.

Amortisation begins when the asset is available for use, in other words, when it is able to operate as intended by the company's management. Amortisation expires on the later of either the date in which the asset is classified as held for sale (or included in a disposal group classified as held for sale), pursuant to IFRS 5, or the date in which the asset is derecognised.
Assets under development and payments on account relate to internal and external costs referring to intangible assets for which the company has not yet acquired the right to and has not started to use in production. These investments are amortised from the date when they begin to be used in production.

Under IAS 36, assets under development and payments on account are tested for impairment annually, or whenever there is any indication of impairment, so as to check that the carrying amount matches the recoverable amount.

Goodwill

Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the fair value of the identifiable assets, liabilities and contingent liabilities related to the complex acquired. If, after this restatement, the value of current and contingent assets and liabilities exceeds the acquisition cost, the difference is recognised immediately in the income statement.
Any goodwill deriving from the acquisition of an associate is included in the carrying amount of the investment.
The Group has decided not to retrospectively apply IFRS 3 - Business combinations - to acquisitions that took place before 1 January 2004 on IFRS first-time adoption. Therefore, goodwill on acquisitions made before the transition date has been maintained at its amount determined under Italian GAAP after testing for impairment.
Goodwill is allocated to one or more cash-generating units and is not amortised, but is tested annually for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on "Impairment losses").

Non-current assets held for sale

A non-current asset (or group of assets and liabilities held for disposal) is classified as available for sale if its carrying amount will be recovered mainly through a sale transaction rather than through its continued use. Immediately prior to initial classification of the asset (or disposal group) as available for sale, the carrying amounts of the assets are measured in accordance with Group accounting policies. The asset (or disposal group) is then recognised at the lower between its carrying amount and its fair value less costs to sell. Impairment loss on a disposal group is initially taken to goodwill, then to the residual assets and liabilities on a proportional basis, except for inventories, financial assets, deferred tax assets, employee benefits, investment property and biological assets, which continue to be measured in accordance with Group accounting policies. Impairment losses on the initial classification of an asset as held for sale compared to subsequent measurements are recognised in the income statement. Positive changes are recognised only to the extent of any accumulated impairment loss.

Impairment losses

IFRS require a company to assess whether there are any specific indications of impairment. The company performs an impairment test, which consists of estimating the recoverable amount of the asset and comparing it to its net carrying amount.
The recoverable amount is the higher of fair value less costs to sell (if an active market exists) and the value in use of an asset. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating units, inclusive of taxes, by applying a discount rate, before taxes, represented by the current market assessments of the time value of money and risks specific to the asset.

If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. If the impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased to the estimated new recoverable amount. The latter amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised. The reversal of an impairment loss is recognised immediately to the income statement.
Assets that are not subject to amortisation (goodwill and other intangible assets with an indefinite useful life) and intangible assets that are not yet available for use are tested for impairment annually, even though no indication of impairment exists.

Financial instruments

- Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost. In the event of impairment, the carrying amount of the investment is written down. The impairment loss is recognised in the income statement.

- Other investments

Investments in other companies, classified as available for sale (AFS), are measured at fair value. Profits and losses from changes in fair value are charged directly to other components of the statement of comprehensive income until they are sold or impaired. In this case, the total loss is reversed from other components of the statement of comprehensive income and recognised to the income statement for an amount equal to the difference between the acquisition cost and the current fair value. If the fair value cannot be reliably determined, investments are measured at cost adjusted for impairment losses, the effect of which is recognised in the income statement.
The risk deriving from losses which exceed the carrying amount of the investment is recognised in a provision for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

- Financial assets held for trading

Upon initial recognition, financial assets held for trading are measured at purchase cost, i.e. at the fair value of the consideration paid; transaction costs, as they are ancillary costs, are included in the purchase cost.
Subsequent to initial recognition, they are measured at fair value, without deducting any transaction costs that may be incurred upon sale or disposal. Changes in fair value are taken directly to the income statement.
If fair value cannot be determined reliably, such assets are measured at cost.

- Available-for-sale financial assets

Upon initial recognition, available-for-sale financial assets are measured at the fair value of the consideration paid (acquisition cost, including the related costs).
Subsequent to initial recognition, they are measured at fair value, without deducting any transaction costs that may be incurred upon sale or disposal. Changes in fair value are recognised in other components of the statement of comprehensive income and transferred to the income statement only when the available-for-sale assets are derecognised or have undergone an impairment loss.
If fair value of investments in instruments representing equity cannot be determined reliably, such assets are measured at cost.

- Hedging

The Company uses derivative financial instruments solely to hedge its exposure to currency, interest rate and commodities risks.
A hedging relationship qualifies for hedge accounting, under IAS 39, if all of the following conditions are met:

- at the inception of the hedge, or first-time adoption for instruments existing at 1 January 2005, there is formal designation and documentation of the hedging relationship and the company’s risk management objective and strategy for undertaking the hedge;
- the hedge is expected to be highly effective in offsetting changes in fair value (fair value hedges) or cash flows (cash flow hedges) attributable to the hedged risk;

- for cash flow hedges, a forecast future transaction that is hedged must be highly probable and must present an exposure to variations in cash flows that might ultimately affect profit or loss;
- the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured;
- the hedge is assessed on an ongoing basis and is considered highly effective throughout the entire life of the derivative.

Hedging instruments are measured at fair value. The fair value is determined by using adequate measurement models for each type of financial instrument by using, where available, the market forward curve, both regulated and not regulated (intrinsic value). Fair value is supplemented with the time value for option contracts, which is based on their residual life and volatility of the underlying.

Taking account of provisions specified by IFRS 7.27A, as for the fair value hierarchy, each single category of financial instruments measured at fair value is shown as follows:
- Level 1: prices quoted (not adjusted) on active markets for similar assets or liabilities;
- Level 2: input data different from prices quoted, as per Level 1, which are observable for assets or liabilities, both directly (as per prices), and indirectly (or derived from prices);
- Level 3: input data related to assets or liabilities, which are not based on observable market data (non observable data).

Hedging instruments are tested for effectiveness at each reporting date to check whether the hedge still meets the requirements for designation as effective and can be recognised using hedge accounting.
If the requirements for the application of hedge accounting are met:
- for a cash flow hedge, fair value gains or losses on the hedging instrument are included in the other components of the statement of comprehensive income for the effective portion of the hedge (intrinsic value), and for the time value portion and any ineffective portion (overhedging) they are recognised in income statement;
- for fair value hedges, fair value gains or losses on both the hedging instrument and hedged item are recognised in the income statement.

If the hedge no longer meets the criteria for hedge accounting, the gains or losses deriving from the measurement at fair value of the hedging instrument are fully recognised in the income statement.

- *Other financial assets and liabilities*

Loans and receivables are initially recognised at fair value, adjusted by any directly attributable transaction costs. They are subsequently measured at amortised cost.
Securities held until maturity are initially recognised at cost, increased by transaction costs borne for the acquisition of the financial asset. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, net of impairment losses.
At each reporting date, or whenever impairment indicators arise, all financial assets, except for FVTPL assets, are tested for impairment in order to determine whether there is objective evidence (such as breaches of agreements, possible bankruptcy or financial difficulties of the debtor,...) that the value of the asset might not be entirely recoverable.

- *Trade receivables and payables*

Trade receivables and payables, with repayment dates that are in line with normal commercial practices, are not discounted as the time value of money is not material for their measurement. They are recognised at fair value (equal to their nominal amount) and are subsequently measured at amortised cost. Trade receivables are measured net of the allowance for impairment set up to cover estimated losses.

- *Cash and cash equivalents*

Cash and cash equivalents include cash on hand, call deposits and short-term, highly liquid investments (maturities of three months or less from the date of acquisition) that are readily convertible into known amounts of cash and that are subject to an insignificant risk of changes in value.
Cash and cash equivalents, including ancillary charges, are measured at fair value.
Cash on hand and revenue stamps are measured at their nominal amount.

Equity
Share capital, including the various categories of shares, is stated at its nominal amount less share capital proceeds to be received.
The purchase cost of treasury shares is recognised as a reduction in equity.
Costs directly attributable to share capital transactions of the parent are offset against equity.
Dividends are recognised as payables when they are approved by the Shareholders.

Employee benefits
As from 1 January 2012, the amendment to the International Standard IAS 19 "Benefits to employees", endorsed on 6 June 2012, was applied early. This amendment is applicable starting from 1 January 2013, although its application is on a voluntary basis for financial statements at 31 December 2012. The amendments can be classified in three categories: measurement and recognition, disclosures and further amendments.

The first category of amendments involves the definite-benefit plans. In particular, the corridor approach is no longer used in recognizing actuarial gains and losses (the IREN Group was no longer using this method) and now instructions are given to immediately recognise the components connected to "revaluations" (e.g. actuarial gains and losses) in Other comprehensive income.

As regards the presentation of the financial statements, the changes in liabilities connected with the obligation related to a definite-benefit plan are broken down in three components:
1) operating (service costs), personnel expenses;
2) financial (finance costs), net interest income/expense;
3) measuring (remeasurement costs), actuarial profit/loss.

As regards disclosures, information is given on the characteristics of the plans and related amounts entered in the financial statements, as well as on the risk resulting from the plans and including a sensitivity analysis of the oscillations in the demographic risk.
Post-employment benefits are defined according to plans which, based on their characteristics, are separated into "defined contribution" and "defined benefit" plans.

In defined contribution plans, the company obligation, limited to the payment of State contributions or to a separate fund, is calculated on the basis of contributions due. For IREN this category includes Post-Employment Benefits accrued since 1 January 2007, payable to the INPS (the Italian Social Security Institution) fund and the share paid to the additional pension funds.

The liability relating to the defined benefits plans, net of any plan assets, is calculated according to actuarial assumptions. For IREN, this category includes Post-Employment Benefits accrued until 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the discounts on fees for employees and former employees, additional monthly salaries (art. 47, national labour agreement for the sector), the loyalty bonus paid to employees if a specific length of service is reached and the Premungas fund, which is a supplementary pension plan which allows the employee to obtain the same amount of remuneration received upon retirement.
The present value of the liability is calculated for each employee using the projected unit credit method. The total liability is calculated by estimating the amount payable on termination of the employment relations, taking into account economic, financial and demographic factors. This amount is recognised on a proportional basis over the period of service matured.

For post-employment benefits accrued at 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the proportional basis is not applied as at the reporting date the benefits can be considered accrued in full.

The demographic, economic and financial variables are validated annually by an independent actuary.

Profits and losses deriving from the actuarial calculations regarding post-employment benefits are immediately recognised in the Other comprehensive income, except for the loyalty bonus which is entirely recognised in the Income statement.

Provisions for risks and charges

Provisions for risks and charges are set up to cover liabilities of uncertain amount or due date that are recognised when, and only when, the following conditions are met:

- a company has a present obligation (legal or constructive) as a result of a past event at the reporting date;
- it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Risks for which the related liability is only potential are disclosed in the notes to the financial statements, and no provision is made.
No additional information is provided for events that are remote, i.e. where it is very unlikely they will arise, and no provision is made.
The provisions are recognised at the amount representing the best estimate of the total that the company would pay to settle the obligation, or transfer it to third parties at year end. If the discounting effect on the value of money is significant, the provisions are calculated by discounting future cash flows expected at a pre-tax discount rate that reflects the current market assessment of the time value of money.
On discounting, the time-related increase in the provision is recognised as financial expense.
Provisions for landfill post-closure are discounted based on the government curve of interest rates at the balance-sheet date. Cash flows, indicated in the expertise drawn up by an independent expert, are discounted on a YoY basis.

Revenue

Revenue is measured at fair value with respect to the amount received or due, taking account of any commercial discounts and reductions connected with quantity.
Revenue from the sale of goods is recognised when:

- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When an uncertainty arises about the collectability of an amount already recognised, the uncollectible amount must be recognised as an expense, rather than as an adjustment of the income originally recognised.

Revenue from services is recognised when:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the reporting date can be measured reliably;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Grants related to assets and grants related to income

Grants related to assets are recognised, when they become payable, as deferred revenue and systematically taken as income to income statement over the useful life of the asset to which they refer.

The deferred revenue related to the grants is recognised in the statement of financial position, under Other liabilities, with suitably separated current and non-current amounts.
Grants related to income are recognised in the income statement when the recognition criteria are met, i.e. when their recognition as balancing-entry of supply costs related to grant is certain.

Other revenue and income
Other revenue and income include all types of revenue which are not included in the above-mentioned cases and do not feature a financial nature. They are recognised in accordance with the above-mentioned methods for revenue from goods and services.

Costs for the purchase of goods and services
Costs are measured at the fair value of the amount paid or to be paid. Costs for the acquisition of goods and services are recognised when their amount can be reliably determined. The costs for the purchase of assets are recognised upon delivery which, based on outstanding agreements, identifies the transfer of the related risks and rewards. Costs for services are recognised on an accrual basis upon reception.

Financial income and expense
Income arising from the use by others of company assets yielding interest and dividends is recognised when:
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the amount of revenue can be measured reliably.

Income is recognised on the following bases:
- interest is recognised on a time proportion basis that takes into account the effective yield on the asset;
- receivables from dividends from investments are recognised when the shareholder’s right to receive payment is established. This usually takes place with the resolution passed by the related meeting.

When an uncertainty arises about the collectability of an amount already recognised, the uncollectible amount is recognised as an expense, rather than as an adjustment of the amount of income originally recognised.

Financial expense is recognised in the year in which it is incurred. Financial expense that is directly attributable to the acquisition, construction or production of a plant is capitalised as part of the cost of that asset when:
- it is likely that it will result in future economic benefits to the company;
- it can be reliably measured.

Income tax expense
Income taxes comprise all the taxes calculated on the company’s taxable income.
Current and deferred taxes are recognised as income or expense and included in the profit or loss for the year, except to the extent that the tax arises from a transaction or event that is recognised, in the same or a different year, directly in equity.
Current tax is the expected tax payable on the taxable income for the year, applying the tax legislation enacted or substantially enacted at the reporting date. Deferred tax liabilities are calculated based on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the amounts used for taxation purposes.
Deferred tax assets are recognised only when their recovery is probable.
Deferred tax liabilities are calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

The option for the Group tax consolidation scheme was exercised pursuant to art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent IREN S.p.A.. The latter then calculates IRES on the sum of taxable profits/losses of each company taking part in the tax consolidation scheme.
In return for the taxable income earned and transferred to the parent, the consolidated company commits to pay “tax settlements” to the parent equal to the amount of taxes owed on the income transferred, net of the IRES tax credits transferred.

Discontinued operations
Discontinued operations are components of the Group, which have been divested or represent a significant autonomous branch or geographical area of operations. Assets are classified as discontinued at the moment of transfer or when they are classified as asset held for sale. When an asset is classified as discontinued, the income statement is restated as if the operation were discontinued starting from the beginning of the corresponding period.

Translation criteria
The functional and presentation currency adopted by the Group is the Euro. When transactions in foreign currency are made, they are initially recognised at the exchange rate in effect on the transaction day. Except for non-current assets, assets and liabilities in foreign currency are recognised at the closing rate and the related exchange rate gains and losses are taken to income statement. Any net gain is allocated to a special reserve unavailable until realisation.

CHANGES IN ACCOUNTING POLICIES

Starting from 2012, the Company elected for the early application of the standard IAS 19 revised (published in the Official Journal of 6 June 2012) as provided for in the standard itself.
The amendment to IAS 19 – Employee Benefits, removes the option to defer the recognition of actuarial gains and losses by using the corridor approach (no longer applied by the IREN Group), and requires that the deficit or surplus of the provision is entirely disclosed in the financial statements. The standard also requires the separate recognition in income statement of the cost components related to the working activity and net financial charges, as well the recognition of actuarial gains and losses resulting from the new measurement, each year, of assets and liabilities under other comprehensive income/(expense). Moreover, the income from activities, included in net financial charges, shall be calculated based on the discount rate of liabilities and no longer on their expected return. Lastly, the amendment sets out the new information to be supplied in the explanatory notes to the accounts.

To this purpose, it should be specified that the “revised” version of the IAS 19 standard, ratified by the European Commission, sets out that, in order to supply more reliable and relevant information, these components should be disclosed under “Evaluation reserves” included in equity and immediately recognised in the “Statement of comprehensive income”
The comparative data regarding the 2011 financial statements, as provided for by IAS 8, were adjusted to render them comparable with data relating to the 2012 financial statements.

The effects of the early application on 2011 financial statements are shown in the following table.

thousands of euro

	2011
Financial income	(536)
Financial expense	190
Income tax expense	95
Profit (loss) for the year	(251)
Other comprehensive income	
- Actuarial gains/(losses) from defined benefit plans (IAS 19)	346
Tax effect of other comprehensive income	(95)
Total other comprehensive income	251
Total other comprehensive income	-

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS FROM 1 JANUARY 2012

On 7 October 2010, the IASB issued some amendments to IFRS 7 – *Financial Instruments: Disclosures*, applicable for accounting periods starting on or after 1 July 2011. These amendments, endorsed by competent bodies of the European Union with Regulations published on 23 November 2011, aim to offer users of the financial statements a better understanding of risk exposures connected with the transfer of financial assets, as well as the effects of such risks on the entity's financial position. Moreover, the amendments require greater disclosure in the event an excessive amount of these transactions is carried out near the end of the accounting period.
The adoption of this amendment had no impact on the measurement of captions disclosed in the financial statements.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT EARLY ADOPTED BY THE GROUP

Moreover, the following accounting standards, as well as amendments and interpretations which are not yet applicable and have not been early adopted by Iren Group are to be noted:

- On 12 May 2011, the IASB issued IFRS 10 – *Consolidated Financial Statements*, which will replace the *SIC-12 Consolidation – Special purposes entities* and some parts of IAS 27 – *Consolidated and separate financial statements*, which will be called Separate Financial Statements and will govern accounting of equity investments in the separate financial statements. The new standard is based on the existing standards and aims at defining the concept of control as the key factor for including a company in the parent's consolidated financial statements. The control is obtained only if the investor has simultaneously: a) the power to manage the relevant activities of the investee through voting rights and/or agreements; b) the power to manage the exposure to future income of the investee (dividends, fiscal benefits,..); c) the power to influence the revenues of the investee. The standard shall be applied retrospectively to accounting periods starting on or after 1 January 2014, at the latest.

- On 12 May 2011, the IASB issued IFRS 11 – Joint Arrangement, which will replace IAS 31 – Interests in Joint Ventures and SIC-13 – Jointly Controlled Entities – Non-monetary Contributions by Ventures. The new standard sets out that, in a joint-venture, two or more parties hold the joint control if the decisions on material activities require the unanimous agreement of the parties. IFRS 11 sets out two distinct types of joint agreements:
    1. joint operations;
    2. joint ventures.

  The two types of agreements are different for the rights and obligations of the parties in the agreement. In a joint operation the parties have rights to assets and obligations for liabilities, while in a joint-venture the parties have rights to the net assets. IFRS 11 sets out that assets, liabilities, costs and revenues in a joint operation are recognised by the parties based on the control percentage and a joint venture is recognised by the parties based on the equity method, as set out by IAS 28 "Equity investments in associated companies and joint ventures". This standard shall be applied retrospectively for accounting periods starting on or after 1 January 2014, at the latest. After the issue of IAS 28 – *Investments in Associates*, this standard was amended to include equity investments in companies under joint-control in its scope of application, as from the effective date of the standard itself.
- On 12 May 2011, the IASB issued IFRS 12 – *Disclosure of Interests in Other Entities*, which is a new and complete standard on additional information that shall be supplied on any type of equity interest, including disclosures on subsidiaries, joint-venture agreements, associates, special purpose entities and other entities of this type that are not consolidated. The standard shall be applied retrospectively to accounting periods starting on or after 1 January 2014, at the latest.
- On 12 May 2011, the IASB issued IFRS 13 – *Fair Value Measurement*, which clarifies how the fair value should be measured for accounting purposes. This standard is applied to all IFRS which require or allow for the fair value measurement, or the disclosure of information based on fair value. If a fair value is not directly observable on the market, the standard provides for the use of three possible measurement techniques: a) the market price inferable from similar transactions; b) the current net value of cash flows; c) the replacement value. The standard is applicable prospectively starting on 1 January 2013.
- On 16 June 2011, the IASB issued an amendment to IAS 1 - *Presentation of Financial Statements* in which companies are requested to change the grouping of items presented in other comprehensive income/(expense), according to their possible reclassification or non reclassification in future time to income statement. The amendment is effective for accounting periods starting on or after 1 July 2012.
- On 16 December 2011, the IASB issued another amendment to IAS 32 – *Financial Instruments: presentation*, to clarify the application of some criteria for the offsetting of financial assets and liabilities included in IAS 32. Amendments are applicable retrospectively for accounting periods starting on or after 1 January 2014.
- On 16 December 2011, the IASB issued another amendment to IFRS 7 – *Financial Instruments: disclosures*. The amendment requires information on the effects or potential effects of offsetting agreements of financial assets and liabilities in the statement of financial position. The amendments are applicable for the financial years starting on or after 1 January 2013 and interim periods following this date. Information must be supplied retrospectively.

At the reporting date, the competent bodies of the European Union have not yet concluded the endorsement process necessary for the application of the following accounting standards.

- On 12 November 2009, the IASB issued IFRS 9 - *Financial instruments*. This standard was then amended. The standard, effective retrospectively as from 1 January 2015, is the first step of a process aiming at fully replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities. In particular, as regards the financial assets, the new standard uses one single approach based on management models of financial instruments and characteristics of contact cash flows of financial assets, with the aim of determining the evaluation criteria, by replacing the various rules set forth by IAS 39. As regards financial liabilities, the main amendment is instead related to accounting of fair value changes of a financial liability measured at fair value in the income statement, in the event these liabilities are due to a change in creditworthiness of the liability itself. According to the new standard, these changes should be recognised under Other profit/(loss) and will no longer be entered in the income statement.

- On 17 May 2012, IASB issued a series of amendments to IFRS (Annual Improvement to IFRS's – 2009-2011 Cycle), which will be applicable retrospectively as from 1 January 2013. These amendments mainly relate to the following international criteria:
  a) IAS 1 – *Presentation of Financial Statements*: This amendment clarifies how comparative information should be disclosed in the event a company modifies its accounting policy and retrospectively restates and reclassifies its accounts or supplies additional information with respect to requirements of the standard. The amendments also relate to public contributions;
  b) IAS 16 – *Property, Plant and Equipment*. The amendment clarifies that spare parts and replacement equipment should be capitalised only if they are consistent with the definition of Property, Plant and Equipment. Conversely, they should be classified as Inventories;
  c) IAS 32, *Financial Instruments: presentation*. The amendment removes the inconsistency between IAS 12 – Income Taxes and IAS 32 on the recognition of taxes resulting from distribution to shareholders. It sets out that they should be recognised to income statement provided that the distribution relates to income generated from transactions originally accounted to in the Income statement.
  d) IAS 34 – *Interim Financial Reporting*. With reference to information on segment reporting, the amendment specifies that total assets for each sector or operating segment shall be reported only if this information is regularly supplied by the chief operating decision maker of the entity and a material change has occurred on the total assets of the segment, with respect to amounts reported in the last Annual Financial Reporting.

The Directors are evaluating the impact of the above-mentioned standards on the Company.

Use of estimates
In order to prepare the financial statements in compliance with IFRS, estimates and related assumptions are based on previous experience and other case factors, which are deemed reasonable and were adopted to define the carrying amount of assets and liabilities to which they refer. Estimates have been used to measure property, plant and equipment, investment property and intangible assets subject to impairment, as well as to recognise provisions, amortisation and depreciation and impairment losses on assets, employee benefits and to determine the fair value of derivatives and available-for-sale financial assets, taxes and other provisions for risks. These estimates and assumptions are regularly revised. Any changes deriving from the revision of accounting estimates are recognised in the period in which they are revised, if the revision refers only to the period under evaluation. Should the revision involve both current and future periods, the variation is recognised in both the year in which the revision occurs and in the related future periods.

III. RISK MANAGEMENT

The management of business risks is an essential component of the Internal Control System of corporate governance in a listed company, and the Code of Conduct set forth by Borsa Italiana assigns specific responsibilities as regards this aspect. The enterprise risk management model in place within the group is currently being adapted and implemented in the new IREN entity. The model includes the methodological approach to the integrated identification, assessment and management of Group risks.
For each of the following risk types:

- Financial risk (interest rate, currency, spread);
- Credit risk;
- Energy risk (risk factors associated to energy and/or financial markets, such as market variables or pricing choices);
- Operational risk (risk factors associated with the ownership of assets, involvement in business activities, processes, procedures and information flows, and with the group's image);

specific "policies" have been defined with the primary goal of fulfilling strategic guidelines, organisational-managerial principles, macro processes and techniques necessary for the active management of related risks.
This model also regulates the roles of the various parties involved in the risk management process, which is governed by the Group Board of Directors. The document requires the creation of a Group Risk Committee and specific Risk Commissions, which shall take more hands-on action regarding specific management models for each of the following types of risk.
The "Risk Management" department, reporting to the CEO, was set up within the IREN Group. This department is formally entrusted with the following activities:

- coordinating the integrated management process of the Group's risks;
- signing and managing insurance policies, with the cooperation of the Legal department.

On a quarterly basis, the Risk Management Department also analyses losses in all the Group's operating areas and defines the containment and reduction methods.
A summary of the risk management models is shown hereunder.

LIQUIDITY RISK

Liquidity risk is the risk that financial resources available to the company are insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.
The table below illustrates the expected outflows (within 12 months, in 1-5 years and over 5 years). The flows indicated are undiscounted future cash flows, calculated according to residual contractual expiry dates, on both principal and interest. Undiscounted cash flows relating to interest rate hedges are also included.

thousands of euro

Data at 31/12/2012	Carrying amount	Contractual cash flows	within 12 months	1-5 years	over 5 years
Mortgage and bond payables (*)	2,217,275	(2,632,835)	(263,984)	(1,440,504)	(928,347)
Hedging of interest rate risk (**)	56,428	(56,131)	(17,807)	(34,885)	(3,439)

(*) The carrying amount of the "Mortgage and bond payables" includes the nominal amount of the mortgages and bonds (both current and non-current shares).
(**) The carrying amount of "Hedging of interest rate risk" includes the fair value of hedges (both positive and negative).

Cash flows required to settle other financial liabilities, different from those to banks, do not differ significantly from the recognised carrying amount.
For details of the liquidity risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

INTEREST RATE RISK

For a more complete understanding of the interest rate risks, a sensitivity analysis was performed on net financial charges to changes in interest rates. This analysis was performed on the basis of reasonable assumptions as follows:

- an increase and a reduction of 100 basis points in the Euribor interest rates over the year was applied to the net financial indebtedness;
- in any existing hedge, interest rate shock was applied to both the debt position and related hedge with an extremely limited net effect on the income statement;
- with regard to existing hedges at year end, a 100 basis points translation increase and decrease were applied to the forward curve of interest rates used to measure the fair value of the hedges.

The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2012.

thousands of euro

	Financial expense		Hedging Reserve	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
Cash flow sensitivity (net)				
Net financial indebtedness (including hedges)	2,076	(2,076)	-	-
Change in fair value				
Hedges (assessment components only)	(861)	246	25,354	(26,591)
Total impact from sensitivity analysis	**1,215**	**(1,830)**	**25,354**	**(26,591)**

FAIR VALUE

Fair value is determined as the sum of estimated future cash flows expected in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the forward curve of interest rates at year end. In order to provide as complete disclosure as possible, the corresponding figure from the previous year is also indicated.
For each recognised asset and liability class, the following table provides both the carrying amount and related fair value.

thousands of euro

Asset/liability description	**31/12/2012**		**31/12/2011**	
	Carrying amount	**Fair value**	**Carrying amount**	**Fair value**
Non-current loans to related parties	1,453,715	1,458,423	983,648	1,056,438
Hedges – long-term assets	80	80	473	473
Non-current bank loans	(2,019,579)	(1,930,132)	(1,815,804)	(1,895,116)
Hedges – long-term liabilities	(56,508)	(56,508)	(39,783)	(39,783)
Loans - current portion	(197,697)	(247,237)	(458,085)	(519,114)
Total	**(819,989)**	**(775,374)**	**(1,329,551)**	**(1,397,102)**

(*) At 31 December 2012, the fair value of the Put Bonds was equal to Euro 196,822 thousand.

Fair value hierarchy

The following table shows the financial instruments recognised at fair value, based on the measurement technique used. The various levels were defined as shown below:

- Level 1: prices quoted (not adjusted) on active markets for similar assets or liabilities;
- Level 2: input data different from prices quoted, as per Level 1, which are observable for assets or liabilities, both directly (as per prices), and indirectly (or derived from prices);
- Level 3: input data related to assets or liabilities, which are not based on observable market data (non observable data).

thousands of euro

31/12/2012	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets				-
Financial assets designated at fair value through profit or loss				-
Financial assets held for trading				-
Derivative financial assets		80		80
Total assets	**-**	**80**	**-**	**80**
Derivative financial liabilities		(56,508)		(56,508)
Gross total	**-**	**(56,508)**	**-**	**(56,508)**

thousands of euro

31/12/2011	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets			140,273	140,273
Financial assets designated at fair value through profit or loss				-
Financial assets held for trading				-
Derivative financial assets		473		473
Total assets	**-**	**473**	**140,273**	**140,746**
Derivative financial liabilities		(39,783)		(39,783)
Gross total	**-**	**(39,310)**	**140,273**	**100,963**

All Group hedging financial instruments feature a fair value which can be classified at level 2. This level is measured based on the valuation techniques, which take as a reference parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different from quotations of the financial instruments, or however that do not require a significant adjustment based on data which cannot be observed on the market.
Moreover, no transfers occurred amongst the various Levels of the fair value hierarchy.

CREDIT RISK

IREN S.p.A. is not particularly exposed to credit risk as it mainly provides professional services to the First-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.

For details of the credit risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

OPERATIONAL RISKS

This category includes all the risks not included in the previous categories, which may influence the achievement of operational targets, i.e. relating to the effectiveness and efficiency of business transactions, including the levels of performance, profitability and protection of the resources against losses.
The Enterprise Risk Management model applied at Group level is focused on the integrated and synergic management of risks, and implements a process that consists of the following stages:

- identification;
- assessment;
- treatment;
- control;
- reporting.

Each process stage is performed in accordance with standards and references defined at Group level.

The main risks in the above categories are assessed in terms of impact, event probability and level of control. These assessments are subject to periodic review. The indicators that allow the risk to be examined in terms of trends and critical points are also monitored.
The Group's risk position is updated at least quarterly, indicating the extent and level of control of all risks monitored, including financial, credit and energy risks.
The main reputational risks are managed in addition to the operating risks.
The risk position and related indicators are submitted to top management and to the risk owners involved in mitigation and improvement activities.
Risk analysis is used as input in the preparation of planning tools.
The operational risk management process also aims at optimizing the Group's insurance profiles in the key "property" and "liability" areas.

a. Legislation and regulatory risks

The legislation and regulatory framework is subject to possible future changes, and therefore is a potential risk. For this purpose, the IREN Group set up internal structures in charge of the continuous monitoring of reference legislation, in order to assess and, as far as possible, mitigate its impact.

b. Strategic risks

The local utilities sector is experiencing a phase of important development and consolidation. Deregulation and liberalisation mean companies have been forced to adopt a more decisive approach to competitive pressure, taking advantage of the opportunities for external and internal corporate growth offered by the new market scenarios.
The strategic development plan of the IREN Group provides for considerable investments, from the development of joint ventures of important regasification plants for the gas supply, to the construction or upgrading of cogeneration plants to complete the district heating extension plan, as well as the upgrading of the hydroelectric plants, and the consolidated presence in the electrical energy and gas distribution sectors, and water and waste treatment sectors.
The above interventions entail an exposure of the Group to regulatory, technical, commercial, economic and financial risks (obtaining of licences, application of new technologies, compliance with commercial schedules, analysis of competition, etc.), which the Group has to tackle through specific processes and structures, focused on covering all phases, from assessment, to authorisation and realization of such project.
Specific quality-quantity assessments are performed on strategic risks, indicating the main risk factors and management plans required.

c. Plant-related risks

As regards the compliance of Group production plants, plant-related risks are managed with the above-mentioned approach in order to correctly allocate resources in terms of control and preventive measures (preventive/predictive maintenance, control and supervisory systems, emergency and continuity plans, etc.).

For the more important plants the Group has recently completed a number of surveys, from which it has been able to accurately detail the events to which such plants could be exposed and subsequent preventive action.
Insurance instruments, specially created based on the specific needs of each single plant, were also created.

d. IT Risks
The main IT risks are related to the availability of core systems, amongst which the interfacing with the Power Exchange by IREN Mercato.
The Company is in fact one of the leading Italian operators on the Power Exchange and any accidental unavailability of the system could have considerable economic consequences, connected with the non-submission of energy sale or purchase offers.
To mitigate such risks, specific measures have been adopted, such as the redundancy of parts of the system and appropriate emergency procedures ("Disaster recovery"), which are periodically subjected to efficiency testing.

e. Market risk
The difficult global economic situation recorded in the last few years, which heavily hit the Eurozone Countries, is still having severe recession effects on the finance of Governments and companies.
In particular, the collapse of consumption and industrial production can heavily affect companies which, like Iren, offer public utility services to privates and companies.
According to the Bank of Italy's Economic Bulletin, no signs for a cyclical reversion are highlighted in the first half of 2013. A new growth, although of modest, might occur in the second half of the year. Internal demand for goods and services and credit terms (cost and quality) represent the main factors of uncertainty on economic recovery expectations.
As regards the Iren Group, through the Enterprise Risk Management, evolution and impact on the company's business units are monitored and possible correction measures are therefore adopted, especially in the financial and commodity sectors.

Capital management
The capital management policies of the Board of Directors involves maintaining a high level of capital to uphold relations of trust with investors, creditors and the market, and also allowing future business development.
The Board of Directors monitors the return on capital and the level of dividends for distribution to ordinary shareholders, and aims to maintain a balance between achieving extra yield by recourse to indebtedness and the benefits and security offered by a solid equity position.

IV. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

On 30 November 2010, IREN's Board of Directors adopted the "Internal regulation for transactions with related parties" which was issued in implementation:

a) of the provisions relating to transactions with related parties pursuant to article 2391-bis of the civil code;
b) the provisions set forth under article 114 of Legislative Decree 58 of 24 February 1998 (the "Consolidated Law on Finance");
c) the regulation containing provisions on transactions with related parties, adopted by Consob with its resolution 17221 of 12 March 2010 and subsequently amended with resolution 17389 of 23 June 2010 (the "Consob Regulation").

The "Internal regulation on transactions with related parties", which was applied from 1 January 2011, is published on IREN's website (www.gruppoiren.it) and, in summary, provides for:

a) identification of related parties;
b) the meaning of transaction with related parties;
c) transactions of a significant amount;
d) transactions of a lesser significance and the relative procedure;

e) transactions of a higher significance and the relative procedure;
f) exclusions;
g) establishment of the committee for transactions with related parties;
h) transactions for which the shareholders' meeting is competent;
i) amendments to the Articles of Association to be submitted to the extraordinary shareholders' meeting of Iren;
j) forms of advertising.

Transactions between the Company and its subsidiaries and related parties are ruled by a transparent and fair approach. A good part of these relations concern services provided to the customers in general (gas, water, electrical energy, heat, etc.) and are governed by contract rules normally applicable to these situations.
Where they do not concern current services, the transactions are governed by specific contracts, whose terms are established in accordance with normal market terms. If these references are not available or significant, the various profiles will be defined in consultation with independent experts or professionals.

Transactions with related parties
IREN S.p.A. provides a series of services to Finanziaria Sviluppo Utilities S.r.l., a special purpose company through which the Municipalities of Genoa and Turin hold their equity investment in IREN S.p.A., in the legal, administrative, financial and tax areas, in accordance with specific agreements that provide for fair compensation for the services.

Transactions with shareholders-related parties
According to the "Internal regulation on transactions with related parties", Iren's Directors defined the Intesa Sanpaolo Group as a related party.
The Company has financial relations with the Intesa San Paolo Group and mainly relate to various loan types such as mortgage loans, credit lines and current accounts. Moreover, the task of financial advisor for an extraordinary transaction was also granted to Banca IMI S.p.A.

Transactions with subsidiaries
Intercompany Services - In order to make best use of the organisational synergies arising from the merger of IRIDE and Enìa, the IREN structure was designed in accordance with a holding model, with sufficient staff structures to support the coordination activity of the Group and to deal with the most challenging matters of general interest. Therefore, IREN can provide professional services to the first-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.
All these activities are governed by special supply contracts at arm's length terms.

Financial management - Organisational solutions were adopted with the aim of centralising financial management for the entire Group under the direct responsibility of IREN S.p.A., in order to optimise the structure and conditions of access to third party financing.
To this end, non-current loans are taken out by IREN with financial institutions, whereby the funds are subsequently transferred to the Group's companies to support the investments made by these companies based on intercompany facility agreements.
The Board of Directors approved the regulation of financial transactions between the Parent and the First-level Companies, regarding both the cash pooling of resources available within the Group for day to day requirements (working capital), and for the management of resources needed to support non-current investments. The conditions of intercompany contracts, signed based on the above regulation, were defined according to the conditions at which the Parent procures on the financial market.

Tax consolidation scheme - Starting from 2010, IREN S.p.A. adopted the tax consolidation scheme pursuant to art. 117 et seq. of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.
In 2012, all financial and legal transactions between the parties are governed by the specific infragroup agreement between the companies involved and the parent, IREN S.p.A..

Moreover, the new tax consolidation scope, in addition to the parent IREN S.p.A., includes the following companies, without interruption: AEM Torino Distribuzione, CELPI, IRIDE SERVIZI, AEMNET, IREN Acqua Gas, IREN MERCATO, IREN ENERGIA, CAE AMGA Energia, AGA, AES Torino, Mediterranea delle Acque, Zeus (now incorporated in the IREN Emilia company), Immobiliare delle Fabbriche, Nichelino Energia, ENIA Parma, ENIA Piacenza, ENIA Reggio Emilia, Eniatel, Tecnoborgo, IREN Ambiente, IREN Emilia and Genova Reti Gas.
In particular, this contract covers the way in which the IRES taxable amounts are transferred and the related remuneration charge, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.
Italian Law no. 244 of 24 December 2007 (2008 Finance Law), with effect starting from the 2008 tax period, radically changed the group taxation rules. It abolished all consolidation adjustments provided for by art. 122 of the Consolidated Income Tax Act, abrogated the rules regarding infragroup transfers pursuant to art. 123 of the Consolidated Income Tax Act and introduced the possibility, under certain conditions, to deduct from the consolidated income surplus interest expense of the participating companies that may have accrued due to the new interest expense deductibility provisions set forth in art. 96 of the Consolidated Income Tax Act.
By reason of regulatory amendments, the Regulations in force were drawn up taking into account the above-mentioned criteria, pursuant to provisions set out by Art. 22 of the same Regulations.
After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay to the parent “tax settlements” equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.
The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the parent is able to determine the total group Income for IRES purposes.
The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to art. 127 paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.
With reference to Group companies that operate in the production, trading, transportation or distribution sectors of natural gas or electrical energy, also generated from renewable sources, these are subject to 6.5% IRES additional tax (increased to 10.5% for 2011, 2012 and 2013). This additional tax must be paid autonomously by the above-mentioned companies, even if they are party to the tax consolidation.

<u>Group VAT option</u> - In terms of procedures, for 2012, the payment of Group VAT involved the transfer to the parent IREN S.p.A. of all obligations regarding settlements and VAT periodic payments.
The companies that took part in the settlement procedure are the parent IREN S.p.A. and the following companies: IREN Energia S.p.A., Iride Servizi S.p.A., IREN Acqua Gas S.p.A., IREN Mercato S.p.A., AEM Torino Distribuzione S.p.A., AEM NET S.p.A., CAE AMGA Energia S.p.A., AES Torino S.p.A., CELPI, GENOVA RETI GAS, ENIA Reggio Emilia S.p.A., ENIA Parma S.p.A., ENIA Piacenza S.p.A., IREN AMBIENTE S.p.A., IREN EMILIA S.p.A., ENIA SOLARIS S.p.A., Idrotigullio e Mediterranea delle Acque and Nichelino Energia.

Transactions with Directors
Lastly, and regarding key managers, the following should be noted:
a) the President of IREN S.p.A. (Mr. Bazzano) is also CEO and Managing Director of IREN Acqua Gas;
b) the CEO of IREN S.p.A. (Mr. Garbati) is also CEO and Managing Director of IREN Energia;
c) the Managing Director of IREN S.p.A. (Mr. Viero) is also CEO and Managing Director of IREN Emilia and Managing Director in IREN Ambiente.

Any interests that these authorised bodies have in operations between the Parent and the First-level Companies will be declared when they are being approved by the respective Boards of Directors.

As regards information on the remuneration of key managers, reference is made to the special Report on remuneration issued pursuant to Art. 123-ter of the Consolidated Finance Act.

V. EVENTS AFTER THE REPORTING PERIOD

Exercise of the put option for the deconsolidation from Edipower

On 16 January 2013, the Board of Directors of IREN S.p.A. resolved to exercise the put option for the deconsolidation from Edipower, as provided in the agreements, and to start the formal proceeding according to the agreed modalities and timing.

Change in membership of the Board of Directors of Iren SpA

On 6 February 2013, IREN S.p.A.'s Board of Directors appointed Lorenzo Bagnacani as Director, Vice President and member of the Executive Committee of the multiutility in replacement of Luigi Giuseppe Villani, who resigned on 19 January 2013, following investigations, still underway, that led to restrictive measures with respect, amongst others, to Angelo Buzzi, former President of Iren Emilia S.p.A.. IREN S.p.A. is already plaintiff claiming damages in the legal suits resulting from the "Green Money" investigation, which led to the "Public Money" investigation, where some situations seem to confirm that the Company is the injured party. The Company guaranteed the utmost collaboration to the investigating bodies, as it happened on the occasion of the "Green Money" proceeding, which led to the dismissal of two employees involved in the investigation. While expressing the utmost confidence in the investigations of the Court, IREN S.p.A. stresses that the company has no part in the facts claimed to the involved subjects and, claiming damages, appointed its lawyers to safeguard the company's interests and image.

Based on internal controls carried out by the Internal Auditing no liabilities are to be attributed to the Company pursuant to the Leg. Decree 231/2001.

Presentation of the updating of the 2015 Industrial Plan.

The Iren Group submitted the updating of the 2015 Industrial Plan to the financial community on 6 February 2013. The Plan envisages an EBITDA for 2015 of around Euro 670 million, with a YoY growth of 3.2%, a decreasing net financial position totalling around Euro 700 million compared to 2011, and amounts lower than Euro 2 billion at the end of the plan.

Cumulated investments for the 2013-2015 period stood at around Euro 800 million.

The strategic development lines include:

- the consolidation and growth within the reference territories, businesses in which the Iren Group is leader: Environment, Integrated water cycle and District heating.
- the achievement of operational full potential while completing the integration and rationalization process within the Group and achieving further operating efficiency.
- the expansion of the customer base within the reference territories with special attention to retail and small business segments.
- the reduction of the indebtedness level through the limiting of investments, asset non-core dismissals and the reduction of the working capital.
- the implementation of financial partnership to seize new development opportunities, while maintaining the financial balance.
- the growth of the Group value, while maintaining an adequate return for shareholders.

Loan amounting to Euro 100 million by CDP

On 25 February 2013, IREN SpA signed a 15-year loan agreement with Cassa Depositi e Prestiti Spa (CDP) for the amount of Euro 100 million, aimed at supporting the implementation of the 2013-2015 Industrial Plan, especially regarding investments in the Energy Infrastructure sector.

VI. OTHER INFORMATION

CONSOB COMMUNICATION no. DEM/6064293 of 28 July 2006

Significant non-recurring events and transactions
No significant non-recurring events and transactions occurred in 2012.
In 2011 this item related to the company's reorganisation that involved A2A S.p.A., EDF S.A., Delmi S.p.A., Edison S.p.A. and Iren S.p.A.. To this purpose, on 27 December 2011, the above-mentioned companies announced that they had reached an agreement for the company's organization of Edison S.p.A. and Edipower S.p.A.. Upon the issue of the 2011 financial statements albeit this context is not final, this transaction was deemed as "highly probable" and therefore Delmi shares (Euro 136,126 thousand) were impaired to adjust the carrying amounts to the amounts expressed by the reorganisation of Edison S.p.A. and Edipower S.p.A. For further details, reference should be made to disclosures in the 2011 financial statements.

Positions or transactions deriving from atypical and/or unusual transactions
In 2012, the company was not involved in atypical and/or unusual transactions, as defined in the Communication, i.e. transactions that may, due to their significance/relevance, nature of the counterparties, subject of the transaction, methods for determining the transfer price and timing of the event (near year end), give rise to concerns about: the correctness/completeness of the financial statements disclosures, conflict of interest, safeguard of the company's assets, protection of minority shareholders.

TREASURY SHARES
At 31 December 2012, the company did not hold treasury shares.

PUBLICATION OF THE FINANCIAL STATEMENTS
The Financial Statements were authorised for publication by IREN S.p.A.'s Board of Directors during the meeting held on 10 April 2013. The Board of Directors authorised the Chairman, the CEO and the Managing Director to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders.
The Shareholders' Meeting to be called to approve the separate financial statements of the Parent has the right to request amendments to the aforementioned separate financial statements.

FEES OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS
As regards information on the remuneration of Directors, Auditors and Managers with strategic responsibilities, reference is made to the special Report on remuneration issued pursuant to Art. 123-ter of the Consolidated Finance Act.

VII. NOTES TO THE STATEMENT OF FINANCIAL POSITION

Unless otherwise stated, the following tables are in thousands of euro.

ASSETS

NON-CURRENT ASSETS

NOTE 1_PROPERTY, PLANT AND EQUIPMENT

The breakdown and change of property, plant and equipment may be analysed as follows:

thousands of euro

	31/12/2011	Increases	Depreciation	Disposals and other changes	31/12/2012
Land	559			(281)	278
Buildings	6,437		(85)	(4,940)	1,412
Total	**6,996**	**-**	**(85)**	**(5,221)**	**1,690**

Disposals relate to the sale of the headquarters located in via Bertola 48, Turin. The sales price amounted to Euro 20 million, with a capital gain of around Euro 14.8 million.

Furthermore, there are no guarantees for significant amounts on the assets.

NOTE 2_ INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

The breakdown and change of intangible assets may be analysed as follows:

thousands of euro

	31/12/2011	Increases	Depreciation	Disposals and other changes	31/12/2012
Industrial patents and similar rights	55	78	(29)		104
Assets under development	87	246			333
Total	**142**	**324**	**(29)**	**-**	**437**

<u>Industrial patents and similar rights</u>
This item primarily relates to costs incurred in the year for the purchase of management software. This asset is amortised over a five-year period.

<u>Assets under development</u>
These are costs incurred over the year to implement new software.

NOTE 3 _ INVESTMENTS IN SUBSIDIARIES, JOINT VENTURES AND ASSOCIATES

Investments in subsidiaries
The list of investments in subsidiaries at 31 December 2012 is annexed.

The total of this item, changed compared to 31 December 2011, following the reclassification of the equity investment in the company Delmi Spa, is broken down as follows:

thousands of euro

	31/12/2012	31/12/2011
IREN Acqua Gas S.p.A.	529,516	529,516
IREN Ambiente S.p.A.	97,189	97,189
IREN Emilia S.p.A.	341,512	341,512
IREN Energia S.p.A.	1,171,667	1,171,667
IREN Mercato S.p.A.	95,987	95,987
Tecnoborgo S.p.A.	186	186
Total	**2,236,057**	**2,236,057**

The Tecnoborgo investment is controlled directly by effect of shares held by IREN Ambiente.
It is also noted that equity investment in AMIAT V S.p.A. (0.001 %) and TLR V S.p.A. (0.001%), which is not reported in the table due to the insignificance of the related amount, are directly controlled by Iren S.p.a., through the first level companies IREN Emilia and IREN Energia.

In December 2012, the First-level companies, IREN Acqua Gas, IREN Ambiente and IREN Energia made an extraordinary distribution, drawing on the available reserves, amounting to Euro 69,013 thousand (Euro 62,375 thousand in 2011).
As regards this distribution, the Directors underline that they checked that there are no impairment indicators so as to require the recognition of an impairment loss pursuant to provisions set out by IAS 36.

Investments in associates
The list of investments in associates at 31 December 2012 is provided in an annex.
Changes occurred over the year are reported in the following table:

thousands of euro

	31/12/2011	Increases	Reclassifications	31/12/2012
Delmi S.p.A.	-	-	142,731	142,731
Plurigas S.p.A.	240	-	-	240
TRM V S.p.A.	-	31,214	-	31,214
Total	**240**	**31,214**	**142,731**	**174,185**

In December 2012, a partnership was created amongst Iren S.p.A., other Iren Group companies (Iren Emilia SpA, Iren Ambiente SpA, Iren Energia SpA), F2i, which holds its control, and TRM V S.p.A.. Following the tender launched by the Municipality of Turin, TRM V S.p.A. acquired 80% of TRM S.p.A., which was entrusted with the task of designing, building and managing the waste-to-energy plants using urban and similar waste serving the southern area of the province of Turin.

During the year, the equity investment in Delmi was reclassified from item “Other investments” to the item under evaluation. On 24 may 2012, in fact, the agreements signed on 15 February 2012 and

subsequently modified on 5 May 2012 were fully executed by A2A, Delmi and EDF and A2A, Delmi, Edison and Alpiq. As a result, Delmi sold 50% of Transalpina di Energia to WGRM 4 Holding S.p.A., a fully owned subsidiary of EDF, for the price of Euro 783,748,900, and acquired 70% of Edipower from Edison (50%) and Alpiq (20%) for a total price of Euro 883,748,900.
Agreements were also signed between A2A, Iren, Iren Energia (currently a shareholder of Edipower) and other shareholders of Delmi regarding governance and the operating model of Edipower and the eventual exit of minority shareholders.
Given the aforementioned governance agreements, Iren assessed that it has significant influence over Delmi even if the percentage interest (15%) is less than the 20% threshold.
Since the closing date of the transaction was 24 May 2012, as already mentioned, from that date Delmi can therefore be considered an associated company in accordance with IAS 28 paragraph 23. By analogy, pursuant to IFRS 3 par. 41 and 42, it is assumed that the fair value of Delmi at 31 May 2012, as estimated cost, is equal to Euro 142,731 thousand. The excess of Euro 2,458 thousand compared to the measurement at 31 December 2011 was recognised under "Financial income" in the income statement.
The merger of Delmi into its subsidiary Edipower became effective on 1 January 2013.
On 16 January 2013, the Board of Directors of IREN S.p.A. resolved to exercise the put option for the deconsolidation from Edipower, as provided in the agreements, and to start the formal proceeding according to the agreed modalities and timing. The agreements envisage that IREN S.p.A. be assigned, as a counterparty of the equity investment in Edipower, the high-efficiency, combined-cycle thermoelectric plant in Turbigo (800 MW of installed power) and the hydroelectric plant in Tusciano (annual production capacity of around 250 GWh).

As regards the equity investment in Plurigas, on 27 March 2013 the Shareholders' Meeting resolved on the liquidation of the company. IREN's Directors deem that at the end of the settlement procedure, IREN will collect an amount which is substantially equal to the proportion of the company's Shareholders' Equity, which is remarkably higher than the carrying value at 31 December 2102.

NOTE 4_OTHER INVESTMENTS

This item relates to investments in companies over which Iren S.p.A. has neither control nor significant influence. Since their fair value could not be reliably determined, these investments were maintained at cost, adjusted for any impairment losses.
At 31 December 2012, no investments were reported in other companies, while at 31 December 2011, this item reported an amount of Euro 140,273 thousand related to the equity investment in Delmi which, as described in Note 3, was reclassified as associated company.

NOTE 5_NON-CURRENT FINANCIAL ASSETS

Non-current financial receivables

These total Euro 1,453,715 thousand (Euro 983,648 thousand at 31 December 2011). These are detailed in the following table:

thousands of euro

	31/12/2012	31/12/2011
Receivables from subsidiaries and joint ventures	1,452,745	982,678
Receivables from other Group companies	970	970
Total	**1,453,715**	**983,648**

Financial receivables from subsidiaries and joint ventures relate to amounts due from:

- IREN Energia, as for Euro 525,000 thousand (Euro 430,000 thousand at 31 December 2011),
- AEM Distribuzione, as for Euro 110,000 thousand (unchanged with respect to 31 December 2011),
- Iren Acqua Gas, as for Euro 171,795 thousand (unchanged with respect to 31 December 2011),
- IREN Mercato, as for Euro 380,500 thousand (Euro 80,000 thousand at 31 December 2011),
- Enia Solaris, as for Euro 20,000 thousand (not reported at 31 December 2011),
- Iren Emilia, as for Euro 83,205 thousand (unchanged with respect to 31 December 2011),
- Idrotigullio, as for Euro 6,666 thousand (Euro 6,821 thousand at 31 December 2011),
- Iren Ambiente, as for Euro 146,079 thousand (Euro 100,857 thousand at 31 December 2011),
- Iren Rinnovabili, as for Euro 9,500 thousand (not reported at 31 December 2011),

Financial receivables from other Group companies refer to a non-interest bearing capital injection into Nord Ovest Servizi.

Other non-current financial assets
These amount to Euro 80 thousand (Euro 473 thousand at 31 December 2011) and relate to the fair value of derivatives. Reference should be made to the section on “Risk management” in chapter III for comments.

NOTE 6_OTHER NON-CURRENT ASSETS

They amount to Euro 10,688 thousand (Euro 368 thousand at 31 December 2011) and they are comprised of tax receivables for Ires reimbursement, following the Irap deduction related to years 2007/2011 and amounting to Euro 10,321 thousand, as well s receivables to personnel for the non-current portion of loans granted to employees, in the amount of Euro 367 thousand.

NOTE 7_DEFERRED TAX ASSETS

This item amounts to Euro 30,164 thousand (31 December 2011: Euro 24,855 thousand) and refers to deferred tax assets arising from costs deductible in future years.
Reference should be made to the income statement, Note 34 “Income tax expense”, for further details.

CURRENT ASSETS

NOTE 8_TRADE RECEIVABLES

These are detailed in the following table:

thousands of euro

	31/12/2012	31/12/2011
Receivables from customers	436	33
Receivables from subsidiaries and joint ventures	15,166	20,401
Receivables from associates	315	337
Receivables from related parties	31	28
Receivables from other Group companies	65	21
Total	**16,013**	**20,820**

Receivables from customers
They primarily relate to receivables for expense reimbursements. These amount to Euro 436 thousand (Euro 33 thousand at 31 December 2011).

Receivables from subsidiaries and joint ventures

Receivables from subsidiaries and joint ventures refer to normal trade transactions carried out at arm's length.

The total amount of trade receivables from subsidiaries and joint ventures is broken down under section relations with related parties.

Receivables from associates

This item primarily refers to fees that may be charged back for offices performed by Iren's employees in the associated companies, as well as to the repaid amount of insurance costs borne by the Parent.

The total amount of trade receivables from associated companies is broken down under section relations with related parties.

Receivables from shareholders – related parties

Receivables from shareholders - related parties recorded a balance of Euro 31 thousand (Euro 28 thousand at 31 December 2011) and refer to receivables for work performed for FSU.

Receivables from other Group companies

They amount to Euro 65 thousand (Euro 21 thousand at 31 December 2011) and relate to receivables from Atena Patrimonio as for Euro 5 thousand (Euro 15 thousand at 31 December 2011) and Euro 60 thousand from Tirreno Power (Euro 6 thousand at 31 December 2011). They refer to fees that may be charged back for offices performed by Iren's employees in this company.

NOTE 9_CURRENT TAX ASSETS

They amount to Euro 3,518 thousand (Euro 159 thousand at 31 December 2011) and refer to receivables for IRES advances.

NOTE 10_OTHER RECEIVABLES AND OTHER CURRENT ASSETS

These are detailed in the following table:

thousands of euro

	31/12/2012	31/12/2011
Receivables from personnel	61	55
Receivables from subsidiaries for Group VAT	22,671	9,169
Receivables from subsidiaries for tax consolidation scheme	18,610	27,636
VAT credit	-	8,313
Other receivables	500	800
Tax assets	804	2,505
Prepayments	1,534	624
Total	**44,180**	**49,102**

Receivables from personnel include receivables for loans granted to employees, advances on pensions, wages and salaries and travel expenses.

The option for the Group tax consolidation scheme was exercised pursuant to art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent IREN S.p.A..

NOTE 11_CURRENT FINANCIAL ASSETS

All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.
Current financial receivables relate to:

Loans to subsidiaries and joint ventures
This item consists of the following items:

thousands of euro

	31/12/2012	31/12/2011
For invoices issued	60	584
For invoices to be issued	32,987	28,354
For loans granted	233	370,231
For centralised treasury management and cash pooling	171,854	517,042
For dividends to be received	69,013	62,375
Total	**274,147**	**978,586**

Loans granted include the current portion of a mortgage loan granted to the subsidiary Idrotigullio (Euro 231 thousand at 31 December 2011).
This item at 31 December 2011 also included:

- the loan granted to IREN Mercato, which in turn finances the company OLT Offshore within the agreements with the other shareholder Eon, in the amount of Euro 260,000 thousand, at 31 December 2012 was equal to Euro 300,500 thousand and it is classified under non-current loans;
- the loan supplied by Edipower, amounting to Euro 110,000 thousand.

Dividends to be received refer to an extraordinary distribution decided by the Shareholders of the four First-level companies in December 2012. At 31 December 2012, these dividends were still unpaid. For further information, reference is made to Note 3_Investments in subsidiaries, joint venture and associates.

Other financial receivables
They amount to Euro 210 thousand (Euro 41 thousand at 31 December 2011) and primarily relate to financial prepayments.

NOTE 12_CASH AND CASH EQUIVALENTS

Cash and cash equivalents may be analysed as follows:

thousands of euro

	31/12/2012	31/12/2011
Bank and postal accounts	4,623	17,035
Cash in hand and cash equivalents	7	371
Total	**4,630**	**17,406**

Cash equivalents represent short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

LIABILITIES

NOTE 13_EQUITY

Equity may be analysed as follows:

thousands of euro

	31/12/2012	31/12/2011 Restated
Share capital	1,276,226	1,276,226
Reserves and retained earnings	158,335	244,556
Net profit (loss) for the year	70,311	(57,294)
Total	**1,504,872**	**1,463,488**

Share capital
The share capital amounts to Euro 1,276,225,677 (unchanged compared to 31 December 2011), fully paid up and consisting of 1,181,725,677 ordinary shares with a nominal value of Euro 1 each and 94,500,000 savings shares without voting rights with a nominal value of Euro 1 each.

Savings shares
The 94,500,000 savings shares of IREN, held by Finanziaria Città di Torino, are not listed, have no voting rights and, except for a different order of priority in the allocation of net residual assets in the event of winding-up of the company, they are subject to the same regulation as ordinary shares.
Lastly, in the case of sale, the savings shares will be converted automatically, at par, into ordinary shares.

Reserves
The breakdown of this item is provided in the following table:

thousands of euro

	31/12/2012	31/12/2011 Restated
Share premium reserve	105,102	105,102
Legal reserve	28,996	28,996
Hedging reserve	(37,090)	(25,911)
Other reserves and retained earnings (losses)	61,327	136,369
Total	**158,335**	**244,556**

Hedging reserve
With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a balancing entry directly in equity under the cash flow hedge reserve. These contracts were signed to hedge the interest rate risk of variable rate loans.

Other reserves and retained earnings (losses)
These mainly comprise the surplus generated from the merger of AMGA into AEM Torino and the later merger of Enìa into Iride, and retained earnings and losses. During 2012, they reduced due to the retained loss reported in 2011 and the distribution of dividends. For further details, reference should be made to the statement of changes in equity.

Dividends
At the ordinary shareholders' meeting of Iren S.p.A. held on 14 May 2012, the distribution of a Euro 0.013 per share extraordinary dividend was approved. The dividend amounting to Euro 16,591 thousand was paid from 18 June 2012.

NON-CURRENT LIABILITIES

NOTE 14_NON-CURRENT FINANCIAL LIABILITIES

They amount to Euro 2,076,087 thousand (Euro 1,855,587 thousand at 31 December 2011) and consist of:

Bonds

They amount to Euro 157,643 thousand (Euro 158,305 thousand at 31 December 2011) and relate to two puttable bonds, issued in 2008 with maturity in 2021.

The bond, with a total term of 13 years, requires that after the third year and subsequently every two years, if the banks fail to exercise the option for redemption at par value, a competitive auction mechanism is activated to determine the credit spread for the following 2 years, to be applied at a pre-set fixed rate. The first auction was conducted in September 2011 with definition of the credit spread for the 2 years thereafter. Based on the trend of interest rates, the possible exercise of the reimbursement option at the theoretical maturity term of September 2013 is deemed as inapplicable.

The amount refers to the amortised cost, pursuant to IAS.

Non-current bank loans

These relate exclusively to the non-current portion of bank loans and amount to Euro 1,861,936 thousand (Euro 1,657,499 thousand at 31 December 2011).

They can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and expiry date, as shown in the following table:

thousands of euro

	fixed rate	floating rate	TOTAL
min/max rate	3.945%-5.665%	0.409%-3.985%	
term	2014-2027	2014-2024	
2014	52,496	677,835	730,331
2015	75,427	132,735	208,162
2016	88,556	76,871	165,427
2017	105,237	40,976	146,213
following	496,949	114,854	611,803
Total payables at 31/12/2012	**818,665**	**1,043,271**	**1,861,936**
Total payables at 31/12/2011	**538,982**	**1,118,517**	**1,657,499**

All loans are in euro.

The changes in non-current loans during the year are summarised below:

thousands of euro

	31/12/2011				31/12/2012
	Total payables	Increases	Repayments	Amortised cost adjustments	Total payables
- fixed rate	**538,982**	332,000	(52,053)	(264)	**818,665**
- floating rate	**1,118,517**	70,000	(145,644)	398	**1,043,271**
TOTAL	**1,657,499**	**402,000**	**(197,697)**	**134**	**1,861,936**

Total non-current loans at 31 December 2012 increased compared to 31 December 2011 due to the following variations:

- increase of Euro 402 million for the supply of new non-current loans, from EIB, in the amount of Euro 140 million, on the OLT project and Euro 142 million for the development and maintenance of gas and electric networks, from BBVA, in the amount of Euro 50 million, from Banca Popolare Emilia Romagna, in the amount of Euro 30 million, from Mediobanca, in the amount of Euro 40 million;
- reduction, totalling Euro 197,697 thousand, related to the reclassification as current liabilities of loans with maturity in the next 12 months;
- marginal changes in amortised cost.

Other financial liabilities

These amount to Euro 56,508 thousand (Euro 39,783 thousand at 31 December 2011) and refer to the fair value of derivative contracts entered into by Iren as hedges against the interest rate risk on floating rate mortgages (reference should be made to paragraph “Risk management” for comments).

NOTE 15_EMPLOYEE BENEFITS

Changes in this item in 2012 were as follows:

thousands of euro

At 31/12/2011	**9,456**
Current service costs	28
Financial expense	605
Disbursements for the year of releases and withdrawals	(559)
Actuarial losses	1,494
Other changes	(434)
At 31/12/2012	**10,590**

Liabilities for employee benefits consist of:

Post-employment benefits

Changes in this item in 2012 were as follows:

thousands of euro

At 31/12/2011	**3,684**
Current service costs	
Financial expense	239
Disbursements for the year of releases and withdrawals	(132)
Actuarial losses	724
Other changes	(8)
At 31/12/2012	**4,507**

Other benefits

The composition and changes over the year of defined benefit plans, other than the post-employment benefits described above, are shown hereunder.

Additional months' salaries (long-service bonus)

The long-service bonus has been provided for to cover the additional amount due to employees in force at the end of the year in respect of the amount accrued at that date for those reaching the minimum pensionable service.

Movements of the year are shown in the following table:

	thousands of euro
At 31/12/2011	**227**
Current service costs	6
Financial expense	14
Disbursements for the year of releases and withdrawals	(20)
Actuarial losses	96
At 31/12/2012	**323**

Loyalty bonus

Employees reaching 25, 30 or 35 years of service are entitled to a loyalty bonus equal to one monthly salary amount as established by the national sector labour contract in force on reaching the required years of services. Movements of the year are shown in the following table:

	thousands of euro
At 31/12/2011	**282**
Current service costs	13
Financial expense	18
Disbursements for the year of releases and withdrawals	(7)
Actuarial gains	(71)
At 31/12/2012	**235**

Provision for tariff discounts

The Company gives its employees hired before and on 31 July 1979 an electrical energy discount of 80% on the first 7,500 kW consumed per annum. For employees hired between 1 August 1979 and 8 July 1996, the Company gives an 80% discount on a maximum of 2,500 kW consumed per annum. This benefit is not recognised to employees hired since 9 July 1996.

In addition to employees currently in service, the electrical energy discount is recognised to all those eligible, including retired employees, and this right is transferable to surviving spouses.

Movements of the year are shown in the following table:

	thousands of euro
At 31/12/2011	**4,095**
Current service costs	9
Financial expense	260
Disbursements for the year of releases and withdrawals	(323)
Actuarial losses	714
At 31/12/2012	**4,755**

Premungas fund

The Premungas fund is a supplementary pension plan which allows the employee to obtain the same amount of remuneration received upon retirement. The benefit is paid to employees hired with a Federgasacqua contract up to 28 February 1978.

Movements of the year are shown in the following table:

thousands of euro

At 31/12/2011	**1,168**
Financial expense	74
Disbursements for the year of releases and withdrawals	(77)
Actuarial losses	31
Other changes	(426)
At 31/12/2012	**770**

Actuarial valuations

The above-mentioned liabilities are measured by independent actuaries.

The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.

Future service is estimated in order to define the present value of the obligations on the basis of the assumptions related to changes in both the total number of employees and employee remuneration. These will be paid to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.

Actuarial projections of the probable discounts on electrical energy consumption due to current retirees or surviving spouses as well as current employees (and surviving spouses, if any) were taken into account in determining the amount of the electrical energy discount.

The following factors were considered in deciding which discount rate to adopt in the measurement approach provided by IAS 19:

- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the average weighted residual term of liabilities related to all benefits and all Group companies.

The other financial assumptions adopted in the calculations are the following:

Annual discount rate	3.20%
Annual inflation rate	2.00%
Annual rate of electrical energy price increase	2.00%
Annual increase rate of post-employment benefits	3.00%
Annual average increase rate of supplementary pensions	1.50%

Over the last few years, Directors have assessed a gradual worsening of the average rating of debt securities emitters, both as regards public emitters (sovereign debt, public institutions, etc.), and companies. In light of the above, they assessed a lower volume in the market of securities with a high rating.

In order to comply with IAS 19 regarding the identification of the discount rate to be used for the development of actuarial measurements in special cases, Directors deemed that the basket corresponding, at the date of the actuarial measurement, to the average return of bonds in euro, with issuer rating at least equal to A (Standard & Poor’s) or Aa1 (Moody’s), was more representative of the actual financial market trends of listed bonds issued by private companies, which is the main benchmark, as set out by IAS 19 to determine the discount rate. The ratings identified allow for the meeting of the “high quality” requirements set forth in IAS 19 and allow for an adequate width of the reference basket, taking also in account the special final use of this rate set out by the standard itself.

If, in the actuarial measurements at 31 December 2012, an annual discount rate representing a basket of bonds denominated in Euro with issuer rating equal to AA (2.70%) was used, liabilities for post-employment definite benefits for employees would have been higher by around Euro 492 thousand. While taking the fiscal effect into consideration, the Shareholders' Equity would have been lower by around Euro 357 thousand.

Pursuant to provisions set out by the new IAS 19, the following additional information are supplied:

- sensitivity analysis for each relevant actuarial hypothesis at year-end. This would show the effects that would occur following the changes in the actuarial assumptions reasonably possible at this date, in absolute terms;
- grant for the following year;
- average financial duration of the bond for definite benefit plans.

The above information is shown in the following table.

	Change in liabilities according to changes in discount rate		Service cost 2013	Duration of the plan
	+0.25%	-0.25%		
Post-employment benefits	(103)	107	-	10
Additional monthly salaries	(7)	8	14	7
Loyalty bonus	(3)	3	11	7
Tariff discounts	(147)	155	15	13
Premungas	(15)	15	-	8

NOTE 16_PROVISIONS FOR RISKS AND CHARGES

Details and variations are shown in the table hereunder:

thousands of euro

	31/12/2011	Increases	Decreases	31/12/2012
Provision for CIG/CIGS	17,984	2,700	(4,238)	16,446
Other provisions	1,907	1,520	(203)	3,224
Total	**19,891**	**4,220**	**(4,441)**	**19,670**

Increases are mainly due to allocations for the year, in the amount of Euro 3,772 thousand and discount rates, while decreases are primarily due to tax bills, for C.I.G.-C.I.G.S., paid during 2012.

NOTE 17_DEFERRED TAX LIABILITIES

Deferred tax liabilities of Euro 5,361 thousand (Euro 1,913 thousand at 31 December 2011) are due to the temporary difference between the carrying amount and tax value of assets and liabilities recognised in the financial statements.
Deferred taxation is calculated with reference to the expected tax rates applicable in the year in which the differences will reverse.
Reference should be made to the income statement, note 32 "Income tax expense", for further details.

NOTE 18_OTHER PAYABLES AND OTHER NON-CURRENT LIABILITIES

This item amounts to Euro 8,862 thousand (not reported at 31 December 2011) and related to payables to companies adhering in the tax consolidation regime for reimbursements of Ires for the appeal of IRAP deduction for 2007-2011 years.

CURRENT LIABILITIES

NOTE 19_CURRENT FINANCIAL LIABILITIES

All financial liabilities recognised in this item are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.
Current financial liabilities can be analysed as follows:

thousands of euro

	31/12/2012	31/12/2011
Bank loans	469,076	969,669
Payables to subsidiaries	97,382	78,302
Financial payables to joint ventures	32	-
Financial payables to shareholders – related parties	-	3,752
Financial payables to associates	30	-
Other financial liabilities	10	10
Total	**566,530**	**1,051,733**

Bank loans
Current bank loans may be analysed as follows:

thousands of euro

	31/12/2012	31/12/2011
Loans - current portion	197,697	458,085
Other current payables to banks	268,651	508,614
Accrued financial expenses and deferred financial income	2,728	2,970
Total	**469,076**	**969,669**

Payables to subsidiaries
Subsidiary loans may be analysed as follows:

thousands of euro

	31/12/2012	31/12/2011
For interests	526	1,596
For cash-pooling	96,856	76,706
Total	**97,382**	**78,302**

Financial payables to shareholders – related parties
Not reported at 31 December 2012 (Euro 3,752 thousand at 31 December 2011).

Other financial liabilities
These amount to Euro 10 thousand (31 December 2011: Euro 10 thousand) and refer to payables due to Monte Titoli.

NOTE 20_TRADE PAYABLES

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2012	31/12/2011
Trade payables to suppliers	16,151	11,689
Trade payables to subsidiaries	3,382	3,514
Trade payables to associates	-	4
Trade payables to other Group companies	614	580
Total	**20,147**	**15,787**

NOTE 21_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

All payables recognised in this item are due within twelve months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2012	31/12/2011
Social security charges payable	1,160	1,218
Amounts payable to subsidiaries for tax consolidation scheme	9,151	3,458
Payables to subsidiaries for group VAT	7,317	15,694
VAT payables	14,618	-
IRPEF payables	996	952
Payables to employees	2,970	2,923
Other payables	1,385	2,541
Total	**37,597**	**26,786**

The option for the Group tax consolidation scheme was exercised pursuant to art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent IREN S.p.A..

NOTE 22_CURRENT TAX LIABILITIES

Not reported at 31 December 2012. At 31 December 2011 the item amounted to Euro 14,524 thousand and related to tax liabilities for IRES tax.

FINANCIAL INDEBTEDNESS

The net financial position, calculated as the difference between short/medium/long-term financial indebtedness and short-term financial assets, may be analysed as indicated in the following table:

thousands of euro

	31/12/2012	31/12/2011
Non-current financial assets	(1,453,795)	(984,121)
Non-current financial liabilities	2,076,087	1,855,587
Non-current financial liabilities	**622,292**	**871,466**
Current financial assets	(278,988)	(996,033)
Current financial liabilities	566,530	1,051,733
Net current financial liabilities	**287,542**	**55,700**
Net financial indebtedness	**909,834**	**927,166**

Net Financial Position regarding related parties

Non-current financial assets were Euro 1,423,245 thousand (Euro 982,678 thousand at 31 December 2011) and concern loans granted to subsidiaries.

Non-current financial liabilities refer, as for Euro 145,485 thousand, to relations with the Intesa Sanpaolo Group regarding loans granted, as well as to fair value of hedging derivatives.

Current financial assets relate, as for Euro 274,148 thousand (31 December 2011: Euro 978,586 thousand) to financial receivables from subsidiaries due to the centralised treasury management, loans granted and receivables for dividends to be received, as well as receivables from joint ventures due to the relation of centralised treasury management and receivables from associates due to the centralised treasury management and loans granted.

Current liabilities, equal to Euro 225,013 thousand (Euro 284,942 thousand at 31 December 2011) relate to financial payables to subsidiaries due to the centralised treasury management, interest expense on financial movements and payables to the Intesa Sanpaolo Group on loans granted.

For additional information, see the annexed tables on transactions with related parties.

Below is the net financial position in the format proposed by the CESR recommendation of 10 July 2005, which does not include non-current financial assets.

thousands of euro

	31/12/2012	31/12/2011
A. Cash	(4,630)	(17,406)
B. Other cash and cash equivalents (details)	-	-
C. Securities held for trading	-	-
D. Cash (A) + (B) + (C)	**(4,630)**	**(17,406)**
E. Current financial assets	**(274,358)**	**(978,627)**
F. Current bank payables	271,380	511,584
G. Current portion of non-current liabilities	197,697	458,085
H. Other current financial liabilities	97,453	82,064
I. Current financial liabilities (F)+(G)+(H)	**566,530**	**1,051,733**
J. Current net financial indebtedness (I) + (E) + (D)	**287,542**	**55,700**
K. Non-current bank payables	1,861,936	1,657,499
L. Bonds issued	157,643	158,305
M. Other non-current liabilities	56,508	39,783
N. Non-current financial liabilities (K) + (L) + (M)	**2,076,087**	**1,855,587**
O. Net financial indebtedness (J) + (N)	**2,363,629**	**1,911,287**

VIII. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousands of euro.

REVENUE

NOTE 23_REVENUE FROM GOODS AND SERVICES

Revenue from services may be analysed as follows:

thousands of euro

	2012	2011
Services provided to related parties	28	28
Services provided to subsidiaries and associates	13,292	13,222
Total	**13,320**	**13,250**

Revenue from services provided to related party shareholders refers to services provided to FSU.

Revenue from services to subsidiaries and associated companies relate to administrative and technical services provided in accordance with a specific contract. For additional information, see the annexed tables on transactions with related parties.

NOTE 24_OTHER REVENUE AND INCOME

Other revenue includes:

thousands of euro

	2012	2011
Revenue from previous years	3,167	1,829
Capital gains on disposals of assets	14,806	-
Sundry repayments	569	574
Total	**18,542**	**2,403**

Prior year revenue mainly derives from the settlement of prior items with reference to estimates made in previous years and adjustments to prior years' invoices.
Capital gains on disposal of assets relate to the higher sale price on the sale of the building located in via Bertola 48 in Turin.
Sundry repayments include fees which were paid to IREN Directors and employees and may be recharged to Group companies.

EXPENSE

NOTE 25_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

This amounts to Euro 12 thousand (Euro 17 thousand in 2011) and mainly refers to purchases of printed material and stationery.

NOTE 26_SERVICES AND USE OF THIRD-PARTY ASSETS

Costs for services are detailed in the following table:

thousands of euro

	2012	2011
Professional services	8,271	4,622
Personnel travel expenses for business, courses or conferences	486	458
Statutory auditors' fees and reimbursements	165	185
Insurance	569	290
Advertising and entertainment expenses	306	4,568
Telephone and postal communications	42	38
Canteen and meal vouchers	28	55
Banking and postal costs	1,330	1,216
Supply of electrical energy from Iren Mercato	325	348
Supply of water	16	22
Services from subsidiaries and Group companies	3,681	2,462
Other costs for services	1,108	950
Total	**16,327**	**15,214**

Costs for the use of third-party assets amount to Euro 543 thousand (Euro 388 thousand in 2011) and include vehicle hire and sundry rents.

NOTE 27_OTHER OPERATING EXPENSE

Other operating expense is shown in the following table:

thousands of euro

	2012	2011
Membership fees	1,012	1,006
Taxes and duties	976	739
Donations	1,052	-
Prior year expense	2,017	970
Prior year taxes	9	-
Other sundry operating expense	302	216
Total	**5,368**	**2,931**

Taxes and duties mainly refer to other taxes paid such as IMU (local property tax), the substitute tax on mortgages and stamp duty.

Donations primarily relate to contributions paid to the Teatro Regio of Turin and the Teatro Carlo Felice of Genova.
Prior year expense mainly refers to difference on estimates.

NOTE 28_CAPITALISED EXPENSES FOR INTERNAL WORK

The costs for capitalised internal works amounted to Euro 166 thousand (not reported in 2011).

NOTA 29_PERSONNEL EXPENSE

Personnel expense is made up as follows:

thousands of euro

	2012	2011
Wages and salaries	13,613	13,480
Social security charges payable	4,007	3,994
Defined benefit plans - other	28	21
Other personnel expense	1,388	1,416
Directors' fees	869	817
Total	**19,905**	**19,728**

"Other personnel expense" includes the social security and recreational contribution, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds.

The following table shows the average number of employees and their number at the beginning and end of the year:

	31/12/2012	31/12/2011	Average for the year
Managers	20	20	20
Junior managers	47	47	47
White collars	196	201	197
Total	**263**	**268**	**264**

NOTE 30_AMORTISATION/DEPRECIATION

Depreciation of property, plant and equipment and investment property amounted to Euro 85 thousand (Euro 531 thousand with respect to 2011) and refer to the depreciation of properties owned by the company. Disposals relate to the sale of the headquarters located in via Bertola 48, Turin.
Amortisation of intangible assets amounted to Euro 29 thousand (Euro 13 thousand in 2011).

NOTE 31 _ PROVISIONS AND IMPAIRMENT LOSSES

It amounts to Euro 3,772 thousand (Euro 342 thousand in 2011). The analysis of the provisions and variations therein are given in the comment to the Statement of financial position item "Provisions for risks and charges".

NOTE 32_FINANCIAL INCOME AND EXPENSE

Financial income

The breakdown of financial income is provided in the following table:

thousands of euro

	2012	2011
Income from investments	99,832	119,994
Bank interest income	41	140
Interest income from Group companies	77,760	62,454
Interest income on interest rate hedges	393	1,245
Actuarial gains on employee benefits measurement	71	536
Fair value gains on derivatives	88	74
Changes in fair value of equity investments	2,458	0
Other financial income	6	32
Total	**180,649**	**184,475**

Income from investments include the extraordinary distribution made by companies leading the business segments Iren Acqua Gas, Iren Energia and Iren Ambiente by using available reserves for a total amount of Euro 78,109 thousand (Euro 62,374 thousand in 2011).

For further information, reference is made to Note 3 – Investments in subsidiaries, joint ventures and associates.

Financial expense

The breakdown of financial expense is provided in the following table:

thousands of euro

	2012	2011
Bank interest expense on loans	74,630	56,295
Bank interest expense on credit facilities	17,340	20,118
Interest expense on interest rate hedging derivatives	16,247	15,094
Interest expense to subsidiaries	596	770
Financial expense to related party shareholders	1	67
Employee benefits	605	432
Financial expense related to the discounting of the provision for risks	449	927
Financial expense on derivatives	345	2,668
Actuarial loss in measuring benefits to employees	-	293
Other financial expense	60	141
Total	**110,273**	**96,805**

Reference should be made to the note to “Employee benefits” in the Statement of financial position for details of financial expense on employee benefits.

NOTE 33_IMPAIRMENT LOSSES ON INVESTMENTS

This item is not measured at 31 December 2012. At 31 December 2011 it amounted to Euro 136,126 thousand following the impairment loss of the equity investment in the company Delmi.

NOTE 34_INCOME TAX EXPENSE

Income taxes amount to Euro 13,948 thousand (Euro 15,020 thousand in 2011) and may be analysed as follows:

- current tax of Euro 16,493 thousand (2011: Euro 11,991 thousand);
- net deferred tax assets amounting to Euro -3,962 thousand (Euro 1,266 thousand in 2011);
- current tax of Euro 1,417 thousand (2011: Euro 1,763 thousand), related to current taxes;

The 2008 Finance Act modified the interest expense regulations under art. 96 of the Consolidated Income Tax Act, providing for their deductibility up to a maximum of 30% of the Gross Operating Profit (GOP) with the possibility of carrying forward any surpluses of non-deductible interest expense to the following years and, if group taxation is adopted, with the right to offset said surpluses with any GOP surpluses accrued from other group companies.
With reference to IREN S.p.A., the new regulations set forth under Art. 96 of the Consolidated Income Tax Act involved forming surpluses of non-deductible interest expense totalling Euro 29,455 thousand that, however, the company was able to fully offset with the GOP surpluses accrued within the Group thanks to IREN's decision to use group taxation and pursuant to existing consolidated taxation agreements. The ensuing benefit in terms of lower IRES tax was Euro 8,100 thousand.
Pursuant to the consolidated taxation agreements, in consideration of the fact that, to date, the existing GOP surpluses cannot be used individually, no remuneration is owed by the companies with surpluses of non-deductible interest expense surpluses to the group companies that transferred their GOP surpluses.
The following table shows the reconciliation between the theoretical and effective IRES tax rates. The reconciliation between ordinary and effective IRAP rate was not significant.

The table shows current tax only, thus excluding deferred taxes. Therefore, variations to the theoretical tax refer to both temporary and final variations.

IRES

thousands of euro

		2012	2011
A	Profit before tax	56,364	(71,968)
B	Theoretical tax charge (27.5% rate)	15,500	(19,791)
C	Temporary differences taxable in future years	-	-
D	Temporary differences deductible in future years	4,407	4,249
	Fees to independent auditors and directors	239	*622*
	Amortisation/depreciation, capital losses and gains	131	*284*
	Allocations to provisions and interest expense	4,037	*2,062*
	Other	-	*1,283*
E	Transfer of prior year temporary differences	(93,040)	(59,156)
	Dividends not received over the year	(74,990)	(57,406)
	Use of provisions	(5,102)	(418)
	Fees to independent auditors and directors	(195)	(195)
	Other	(12,753)	(1,137)
F	Differences not recoverable in future years	(27,705)	83,271
	Non-taxable share of dividends (95%) received at 31/12	(29,277)	(54,738)
	Prior year items	-	961
	Impairment loss - Delmi	-	136,126
	Altre	1,572	922
G	Taxable income (A+C+D+E+F)	(59,974)	(43,604)
H	Current taxes for the year	(16,493)	(11,991)
I	Tax rate (H/A)	-29%	17%

Recovery of State Aid

With its Decision C 27/99 of 5 June 2002, the European Commission concluded the procedure related to the tax treatment provided for by article 3, paragraphs 69 and 70, Law no. 549 of 28 December 1995 (the "tax moratorium"). Such treatment granted a three-year tax exemption to joint-stock companies in which the government has a majority interest set up in accordance with Law no. 142 of 8 June 1990.
The Italian Government, the leading counsels of the former AEM Torino and the former AMGA and the companies affected by the judgement that have appealed against it before the Court of First Instance of the European Communities appealed against this judgement to the Court of Justice of the European Communities.

During these years, the legislator has issued various measures in order to define the recovery modalities of aids deemed as illegal.
Following these measures, the Tax Authorities proceeded to the recovery of aids with "order-communications".
For the position of the former AEM Torino, IRIDE S.p.A. (now IREN) proposed recourse to the competent Provincial Tax Commission, and paid the amount requested as there were no conditions for obtaining its suspension, with the right of repetition in the case of a positive outcome of the disputes in progress. The Provincial Tax Commission rejected the appeals filed.
The order regarding the former AMGA S.p.A. has instead been annulled in self-defence with the documents produced to the competent office by the company.
Pursuant to Art. 24 of Decree Law no. 185 of 29 November 2008, on 30 April 2009 the Tax Authorities sent IRIDE S.p.A. (now IREN) six tax assessments (for a total of around Euro 60 million) related to the recovery of state aid declared inconsistent with the Community regulations, regarding the position of the former AEM Torino and former AMGA of Genoa, during the so-called "tax moratorium" period (1996 through 1999).
On that occasion, the Tax Authorities proceeded to assessments in accordance with instructions supplied by the Central Assessment Authority.

Iride (now IREN) also provided for the payment of the claimed amounts and filed appeals against the above assessments at the competent Province Tax Commissions.
On 11 June 2009, the First Instance Court of the European Community issued an order regarding the proceedings started, amongst other, by the former AEM Torino and former AMGA of Genoa, while rejecting the appeals.
Iride S.p.A. (now IREN) appealed against the above order at the Court of Justice of the European Community, with reference to the positions of both AEM Torino and AMGA.
Based on Art. 19 of Decree Law no. 135 of 25 September 2009, the Government intervened on the alleged State aid defining that only gains realised by the former municipal companies are not subject to tax recovery.
Following the new proceeding, on 2 October 2009 the Tax Authorities sent further notices of assessment, totalling around Euro 75 million, which Iride (now IREN) promptly paid to avoid further charges and interest.
On 11 January 2010, the appeal regarding the former AEM Torino for 1997 was discussed at the Province Tax Commission of Turin. In particular, the Commission deemed that the energy market, in those years, was not a free market regime. Therefore, the State aid granted, for that portion of activity, were deemed as legal.
On 14 March 2011, the Regional Tax Commission of Turin rejected the appeal filed in on tax assessments for the years 1998 and 1999 for former AEM. In particular, they were assessment notices with which the Tax Authorities recovered the unpaid taxes during the years of "tax exemption", except for one-off taxes (electrical margin, dividends to Municipalities, capital gains).

On 8 June 2011, following the opinion expressed by the technical expert appointed by the court on the correct calculation of interest on the recovery of State aids, the Regional Tax Commission of Genoa accepted the appeal lodged by the former AMGA as the requests of the Tax Authorities were deemed as illegal.
With ruling no. 1/14/2012 of 11 July 2011 on the recovery of the former AEM Torino for 2007, the Regional Tax Commission of Turin accepted the appeal lodged by the Tax Authorities.

NOTE 35_OTHER COMPREHENSIVE INCOME

This item relates to:
- negative change in interest rate hedges, in the amount of Euro 16,591 thousand (Euro 18,331 thousand at 31 December 2011);
- actuarial losses related to post-employment benefit plans for employees, in the amount of Euro 1,567 thousand (actuarial gains amounting to Euro 346 thousand at 31 December 2011);
- the aggregate tax effect is positive by Euro 5,823 thousand (31 December 2011: Euro 5,921 thousand).

At 31 December 2012, no change in fair value was reported for financial assets available for sale. At 31 December 2011, this change amounted to Euro 8,564 thousand and related to the release to income statement to the reserve for equity investments in Delmi due to impairment loss.

IX. GUARANTEES AND CONTINGENT LIABILITIES

Personal guarantees given amount to Euro 511,755 thousand (31 December 2011: Euro 404,322 thousand) to be divided as follows:

- euro 60,215 thousand of bank and insurance guarantees given to various Banks. Among the above, it is worth noting guarantees given in favour of:
  - Tax Authorities for annual VAT reimbursements, for Euro 21,813 thousand;
  - Municipality of Turin, for Euro 24,476 thousand, as definitive guarantee in the AMIAT/TRM proceeding;
  - FCT Holding, for Euro 2,000 thousand, as definitive guarantee in the AMIAT/TRM tender procedure;
  - REAM Sgr Spa, for Euro 2,352 thousand, to guarantee future lease payments of real estate properties transferred to the fund called Fondo Core MultiUtilities;
  - Reale Immobili S.p.A., for Euro 1,200 thousand in relation to sale of the registered office of IREN TO in Via Bertola;
- Euro 312,608 thousand of guarantees given on behalf of subsidiaries, primarily to guarantee credit facilities and their transactions.
- Euro 138,932 thousand of guarantees given on behalf of associated companies primarily related to the associate Sinergie Italiane.

The most important amounts, regarding the guarantees given on behalf of associates, refer to the associate Sinergie Italiane (namely guarantees for credit facilities and letters of patronage totalling Euro 115,402 thousand at 31 December 2012, compared to Euro 175,727 thousand at 31 December 2011).
The liquidation in bonis continues by the board of liquidators appointed in April 2012. The liquidators concluded the main procurement contracts and since 1 October 2012 the Company's operating activity therefore includes only the purchase of gas from the Russian Gazprom supplier and the sale of gas to their shareholders or subsidiaries, included IREN Mercato. Therefore credit facilities continued to be reduced and the Company's financial exposure is progressively lowering with the consequent decrease in shareholders' guarantee obligations.
After 31 December 2012 the release from other guarantees was formalised which further decreased their amount at 31 March 2013 to Euro 87,002 thousand.

The Euro 6,902 thousand given to guarantee the Mestni loan are to be noted.

Moreover, on 16 February 2010, IREN S.p.A. resolved to fully support the OLT project according to budget financial plans defined and approved to make the required resources available upon the company's request and until implementation of the project financing. To this purpose, it is noted that, with regards to the commitment with Saipem, which amounted initially to Euro 387,603 thousand, during the year the commitment was increased by Euro 43,000 thousand, by effect to the signed contract addendum. At 31 December 2012, advances totalling Euro 372,595 thousand were already paid, therefore the residual amount is Euro 58,008 thousand.

Lastly, it is worth noting that Iren S.p.A., as partner of AES S.p.A., signed a put option contract to support a bank loan entered by AES S.p.A..
The fair value of this instrument is equal to zero as the events that regulate the exercise are highly improbable.

X. ANNEXES TO THE SEPARATE FINANCIAL STATEMENTS

LIST OF INVESTMENTS

STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

DEFERRED TAX ASSETS AND LIABILITIES

TRANSACTIONS WITH RELATED PARTIES FOR 2012

RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' FEES

LIST OF INVESTMENTS

Company	Registered office	Currency	Share capital	% of investment
SUBSIDIARIES				
Iren ACQUA GAS S.p.A.	Genoa	euro	386,963,511	92.94
Iren AMBIENTE S.p.A.	Piacenza	euro	63,622,002	100.00
Iren EMILIA S.p.A.	Reggio Emilia	euro	196,832,103	100.00
Iren ENERGIA S.p.A.	Turin	euro	818,855,779	100.00
Iren MERCATO S.p.A.	Genoa	euro	61,356,220	100.00
Tecnoborgo	Piacenza	euro	10,379,640	0.50
TLR V S.p.A.	Turin	euro	120,000	0.001
AMIAT V S.p.A.	Turin	euro	1,000,000	0.001
ASSOCIATES				
Plurigas S.p.A.	Milan	euro	800,000	30.00
Delmi S.p.A.	Milan	euro	1,466,868,500	15.00
TRM V S.p.A.	Turin	euro	1,000,000	24.70

STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

Nature/Description	31/12/2012	31/12/2011 Restated
SHARE CAPITAL	1,276,225,677	1,276,225,677
EQUITY-RELATED RESERVE		
Share premium reserve (1)	105,102,206	105,102,206
Negative goodwill	56,792,947	56,792,947
INCOME-RELATED RESERVE		
Legal reserve	28,996,367	28,996,367
Other reserves:		
Extraordinary reserve	4,288,198	13,324,099
Contribution reserve	-	7,555,032
Fair value reserve	-	-
Other reserves taxable on distribution	1,402,976	94,952,422
Hedging reserve	(37,090,146)	(25,910,916)
Actuarial reserve, IAS 19	(1,157,319)	250,789
Profits/Losses carried forward	-	(36,506,746)
TOTAL	**1,434,560,906**	**1,520,781,877**
Unavailable portion	1,410,324,250	1,410,575,039
Remaining available portion	24,236,656	110,206,838

(1) Distributable to shareholders when the legal reserve has reached one fifth of the share capital.

KEY:
A: share capital increase
B: coverage of losses
C: dividend distribution

Figures in euro

31/12/2010 Restated	Possible use	Available portion	Summary of uses over the last three years	
			coverage of losses	other reasons
1,276,225,677	B	1,276,225,677		
105,102,206	A, B	105,102,206		
56,792,947	A, B, C	56,792,947		
23,861,884	B	28,996,367		
24,248,108	A, B, C	4,288,198		22,507,568
7,555,032	A, B, C	-		7,555,032
(8,446,663)	A, B	-		
94,952,422	A, B, C	1,402,976	93,549,446	
(13,713,966)		(37,090,146)		
83,996		(1,157,319)		
(36,506,746)	A, B, C	-		
1,530,154,897				
1,405,273,763		1,410,324,250		
124,881,134		24,236,656		

DEFERRED TAX ASSETS AND LIABILITIES

	2012			
	differences			
	opening	accrual	reverse	residual
Deferred tax assets				
Directors' fees	564	71	28	607
Independent Auditors' fees	485	167	167	485
Entertainment expenses	-	-	-	-
Provision for risks	19,387	2,820	4,441	17,766
Provisions for employee benefits	5,056	2,782	581	7,257
Assets amortisation/depreciation	199	-	-	199
Derivatives	35,770	16,745	-	52,515
Other	23,815	158	1,000	22,973
Total taxable base/deferred tax assets	**85,276**	**22,743**	**6,217**	**101,802**
Deferred tax liabilities				
Allowance for impairment	44	-	-	44
Provision for risks	37	-	-	37
Provisions for employee benefits	464	151	-	615
Assets amortisation/depreciation	1,996	-	263	1,733
Capital gains for disposal of assets	613	11,950	197	12,366
Derivatives	887	-	-	887
Dividends not received	3,119	3,905	3,119	3,905
Total taxable base/deferred tax assets	**7,160**	**16,006**	**3,579**	**19,587**
TAX LOSSES	-	-	-	-
Net deferred tax assets (liabilities)	**78,116**	**6,737**	**2,638**	**82,215**

				thousands of euro
		2012		
		taxes		
taxes	taxes	IRES	IRAP	total
to IS	to E			
12	-	167	-	167
-	-	133	-	133
-	-	-	-	-
(446)	-	4,886	69	4,955
195	411	1,996	-	1,996
-	-	55	-	55
-	5,412	14,441	2,531	16,972
(275)	-	5,805	81	5,886
(514)	**5,823**	**27,483**	**2,681**	**30,164**
-	-	12	-	12
-	-	10	2	12
42	-	169	-	169
(42)	-	348	58	406
3,232	-	3,401	-	3,401
-	-	277	10	287
216	-	1,074	-	1,074
3,448	**-**	**5,291**	**70**	**5,361**
-	-	-	-	-
(3,962)	**5,823**	**22,192**	**2,611**	**24,803**

DEFERRED TAX ASSETS AND LIABILITIES

	2011			
	differences			
	opening	accrual	reverse	residual
Deferred tax assets				
Directors' fees	451	180	67	564
Independent Auditors' fees	300	546	361	485
Entertainment expenses	7	-	7	-
Provision for risks	18,118	1,465	196	19,387
Provisions for employee benefits	4,735	759	438	5,056
Assets amortisation/depreciation	-	199	-	199
Derivatives	16,792	18,978	-	35,770
Other	24,093	1,728	2,006	23,815
total taxable base/deferred tax assets	**64,496**	**23,855**	**3,075**	**85,276**
Deferred tax liabilities				
Allowance for impairment	44	-	-	44
Provision for risks	37	-	-	37
Provisions for employee benefits	464	-	-	464
Assets amortisation/depreciation	1,996	-	-	1,996
Capital gains for disposal of assets	613	-	-	613
Derivatives	887	-	-	887
Dividends not received	4,969	3,119	4,969	3,119
Total taxable base/deferred tax assets	**9,010**	**3,119**	**4,969**	**7,160**
TAX LOSSES	-	-	-	-
Net deferred tax assets (liabilities)	**55,486**	**20,736**	**(1,894)**	**78,116**

thousands of euro

		2011		
		taxes		
taxes	taxes	IRES	IRAP	total
to IS	to E			
31	-	155	-	155
47	-	133	-	133
(2)	-	-	-	-
349	-	5,331	69	5,400
384	-	1,390	-	1,390
55	-	55	-	55
-	6,134	9,837	1,724	11,561
33	(118)	6,088	73	6,161
897	**6,016**	**22,989**	**1,866**	**24,855**
-	-	12	-	12
-	-	10	2	12
-	-	127	-	127
-	-	384	65	449
-	-	169	-	169
-	-	277	10	287
(509)	-	858	-	858
(509)	**-**	**1,837**	**77**	**1,914**
-	-	-	-	-
1,406	**6,016**	**21,152**	**1,789**	**22,941**

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Trade Receivables	Financial receivables and Cash and cash equivalents	Other receivables	Trade payables	Financial payables
Finanziaria Sviluppo Utilities	31		2,759		
Intesa Sanpaolo group		268			273,055
Aem To Distribuzione SpA	221	122,417			
Aem Net SpA	15		135		4,966
AGA SpA	16				
Bonifica Autocisterne srl	2				
Cae Amga Energia	61		349		
Celpi	3				69
Climatel srl	2				
EniaTel	6				
Enia Piacenza	100		152		
Enia Parma	136				
Enia Reggio Emilia	142		153		
Genova Reti Gas	132		1,763		
Idrotigullio	50	6,934			
Immobiliare delle Fabbriche					
Iren Ambiente	326	148,706			
Iren Acqua Gas	1,663	204,550		396	
Iren Emilia	3,386	84,849	4,520	274	66,367
Iren Energia	5,386	687,071	3,837	770	
Iren Mercato	2,010	389,286	4,846	594	25,980
Iride Servizi	740	45,076	13,821	1,334	
Laboratori Idrici Acqua Gas	13				
Mediterranea delle acque	208		2,187		
Nichelino Energia	25	8,029	42		
Tecnoborgo			591		
Zeus					
AES Torino	404	184	8,784	14	32
Società Acque Potabili	77				
Acquedotto Savona	10				
Acquedotto Monferrato	10				
ENìA Solaris		20,198	101		
Iren Rinnovabili S.p.A.	21	9,594			
Aciam S.p.A.	60				
Acos S.p.A.	26				
Amter S.p.A.	26				
ASMT Serv. Ind.S.p.A.	4				
Domus Acqua S.r.l.	20				
Edipower S.p.A.	73				
Fata Morgana	1				
Il Tempio S.r.l.	1				
Iniziative Ambientali S.r.l.	1				
Piana Ambiente S.p.A.	81				
Plurigas S.p.A.					
S.M.A.G. srl	14				
Sinergie Italiane S.r.l.	2				
So. Sel. S.p.A.	3				
Valle Dora Energia Srl	3				30
Total	**15,511**	**1,727,162**	**44,040**	**3,382**	**370,499**

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Other payables	Revenue and income	Costs and other charges	Financial income	Financial expense
Finanziaria Sviluppo Utilities		28			1
Intesa Sanpaolo group			368		13,177
Aem To Distribuzione SpA	2,696	139	4	5,173	
Aem Net SpA	26	17			8
AGA SpA	13	5			
Bonifica Autocisterne srl		1			
Cae Amga Energia	126	5			
Celpi	7	4			
Climatel srl					
EniaTel	115	5			
Enia Piacenza	961	18			
Enia Parma	2,254	24			
Enia Reggio Emilia	2,064	26			
Genova Reti Gas	292	31			
Idrotigullio	133	3		70	
Immobiliare delle Fabbriche	45				
Iren Ambiente	2,136	68		17,121	
Iren Acqua Gas	4,650	2,432	237	27,044	4
Iren Emilia	3,026	4,939	452	9,206	64
Iren Energia	1,157	3,804	1,157	83,149	
Iren Mercato	2,874	1,537	544	19,807	506
Iride Servizi	1,753	615	2,151	5,113	
Laboratori Idrici Acqua Gas		1			
Mediterranea delle acque	441	30			
Nichelino Energia	97	12		367	
Tecnoborgo	87				
Zeus	15				
AES Torino	363	192	1	219	14
Società Acque Potabili		28			
Acquedotto Savona		5			
Acquedotto Monferrato		5			
ENÌA Solaris				198	
Iren Rinnovabili S.p.A.		43	6	94	
Aciam S.p.A.		2			
Acos S.p.A.		17			
Amter S.p.A.		4			
ASMT Serv. Ind.S.p.A.		4			
Domus Acqua S.r.l.					
Edipower S.p.A.		73		2,521	
Fata Morgana					
Il Tempio S.r.l.					
Iniziative Ambientali S.r.l.					
Piana Ambiente S.p.A.		1			
Plurigas S.p.A.				7,512	
S.M.A.G. srl (ex integra)					
Sinergie Italiane S.r.l.		2			
So. Sel. S.p.A.		3			
Valle Dora Energia Srl		4			
Total	**25,331**	**14,127**	**4,920**	**177,594**	**13,774**

RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (Consob Communication no. 6064293 dated 26 July 2006)

thousands of euro

IFRS STATEMENT OF FINANCIAL POSITION		RECLASSIFIED STATEMENT OF FINANCIAL POSITION	
Property, plant and equipment	1,691		
Intangible assets	437		
Investments in subsidiaries, joint ventures and associates	2,410,242		
Other investments	-		
Total (A)	**2,412,370**	**Non-Current Assets (A)**	**2,412,370**
Other non-current assets	1,826		
Total (B)	**1,826**	**Other non-current assets (liabilities) (B)**	**1,826**
Trade receivables	16,013		
Current tax assets	3,518		
Other receivables and other current assets	44,180		
Trade payables	(20,147)		
Other payables and other current liabilities	(37,597)		
Current tax liabilities	-		
Total (C)	**5,967**	**Net working capital (C)**	**5,967**
Deferred tax assets	30,164		
Deferred tax liabilities	(5,361)		
Total (D)	**24,803**	**Deferred tax assets (liabilities) (D)**	**24,803**
Employee benefits	(10,590)		
Provisions for risks and charges	(19,671)		
Total (E)	**(30,261)**	**Provisions and employee benefits (E)**	**(30,261)**
		Net invested capital (G=A+B+C+D+E)	**2,414,705**
Equity (F)	**1,504,872**	**Equity (F)**	**1,504,872**
Non-current financial assets	(1,453,795)		
Non-current financial liabilities	2,076,086		
Total (G)	**622,291**	**Non-current financial indebtedness (G)**	**622,291**
Current financial assets	(274,358)		
Cash and cash equivalents	(4,630)		
Current financial liabilities	566,530		
Total (H)	**287,542**	**Current financial indebtedness (H)**	**287,542**
		Net financial indebtedness (I=G+H)	**909,833**
		Own funds and net financial indebtedness (F+I)	**2,414,705**

INDEPENDENT AUDITORS’ FEES

Pursuant to art. 149-duodecies of the enactment regulation of Legislative Decree 58/1998, fees for the year due to PriceWaterHouse S.p.A. can be summarised as follows:

thousands of euro

Service	Service provider	To	Fees
Audit	Parent auditor	Parent	81
Attestation services (1)	Parent auditor	Parent	21
Tax consulting services	Parent auditor	Parent	-
Other services (2)	i) Parent auditor	Parent	175
	ii) Parent auditor network	Parent	
Audit	i) Parent auditor	i) Subsidiaries	
	ii) Parent auditor network	ii) Subsidiaries	
Attestation services	i) Parent auditor	i) Subsidiaries	
	ii) Parent auditor network	ii) Subsidiaries	
Tax consulting services	i) Parent auditor	i) Subsidiaries	
	ii) Parent auditor network	ii) Subsidiaries	
Other services	i) Parent auditor	i) Subsidiaries	
	ii) Parent auditor network	ii) Subsidiaries	
		Total	**277**

(1) Attestation services refer to the limited half-year audits and the audit and certification of the unbundling financial statements.
(2) The other services relate to the translation of financial statements, financial and tax due diligence activities related to the participation of Iren S.p.A. in the TRM/AMIAT tender and the audit of extraordinary transactions.

STATEMENT REGARDING THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. The undersigned, Andrea Viero, Managing Director, and Massimo Levrino, Administration and Finance Director and Manager in charge of financial reporting of IREN S.p.A. hereby confirm, also in consideration of the provisions of art. 154-bis, subsections 3 and 4, Legislative Decree no. 58 of 24 February 1998:

- the adequacy in respect of the company's characteristics and
- the actual application during 2012 of administrative and accounting procedures in preparing the separate financial statements.

2. Furthermore, it is hereby declared that:

2.1 the separate financial statements:

a) are prepared in compliance with applicable IFRS endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002;

b) correspond with books and accounting records;

c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the issuer's situation and of the entirety of the companies included in the consolidation, together with the description of the major risks and uncertainties to which they are exposed.

10 April 2013

The Managing Director

Mr. Andrea Viero

Administration and Finance Director
and Manager in Charge appointed under
Law 262/05

Mr. Massimo Levrino

AUDITORS' REPORT IN ACCORDANCE WITH ARTICLES 14 AND 16 OF LEGISLATIVE DECREE N° 39 OF 27 JANUARY 2010

To the Shareholders of
Iren SpA

1 We have audited the separate financial statements of Iren SpA as of 31 December 2012 which comprise the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, cash flows statement and related notes. The directors of Iren SpA are responsible for the preparation of these financial statements in compliance with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005. Our responsibility is to express an opinion on these separate financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards and criteria recommended by Consob, the Italian Commission for listed Companies and the Stock Exchange. Those standards and criteria require that we plan and perform the audit to obtain the necessary assurance about whether the separate financial statements are free of material misstatement and, taken as a whole, are presented fairly. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by the directors. We believe that our audit provides a reasonable basis for our opinion.

The separate financial statements include prior year financial information for comparative purposes. As described in the notes to the financial statements, the directors restated prior year financial information which were previously audited by other auditors who issued their report on 23 April 2012. The restatement and the disclosure presented in the notes to the financial statements have been examined by us for the purpose of issuing our opinion on the separate financial statements as of 31 December 2012.

3 In our opinion, the separate financial statements of Iren SpA as of 31 December 2012 comply with the International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree n° 38/2005; accordingly, they have been prepared clearly and give a true and fair view of the financial position, result of operations and cash flows of Iren SpA for the year then ended.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.812.000,00 i.v., C .F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70124 Via Don Luigi Guanella 17 Tel. 0805640211 - **Bologna** Zola Predosa 40069 Via Tevere 18 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Dante 7 Tel. 01029041 - **Napoli** 80121 Piazza dei Martiri 58 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43100 Viale Tanara 20/A Tel. 0521242848 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Via Grazioli 73 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Verona** 37135 Via Francia 21/C Tel.0458263001

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4 The directors of Iren SpA are responsible for the preparation of the directors' report and the report on corporate governance and ownership structure, published in the Investor Relations section of Iren SpA's website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and of the information referred to in paragraph 1, letters c), d), f), l), m), and paragraph 2, letter b), of article 123-bis of Legislative Decree n° 58/98 presented in the report on corporate governance and ownership structure, with the separate financial statements, as required by law. For this purpose, we have performed the procedures required under Italian Auditing Standard n° 001 issued by the Italian Accounting Profession (Consiglio Nazionale dei Dottori Commercialisti e degli Esperti Contabili) and recommended by Consob. In our opinion, the directors' report and the information referred to in paragraph 1, letters c), d), f), l), m) and paragraph 2, letter b), of article 123-bis of Legislative Decree n° 58/98 presented in the report on corporate governance and ownership structure are consistent with the separate financial statements of Iren SpA as of 31 December 2012.

Turin, 29 April 2013

PricewaterhouseCoopers SpA

Signed by

Piero De Lorenzi
(Partner)

This report has been translated into the English language from the original, which was issued in Italian, solely for the convenience of international readers.

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING
(pursuant to Art. 153, Italian Legislative Decree 58/1998 and Art. 2429, Italian Civil Code)

Dear Shareholders,

In 2012 the Board of Statutory Auditors, the composition of which now results from the renewal resolved by the Shareholders' Meeting of 14 May 2012, performed its supervisory activities in accordance with regulations in force, in compliance with the duties pursuant to Art. 149, Italian Legislative Decree 58/1998 (the Consolidated Law on Finance) and with the regulatory content of Legislative Decree no. 39 of 27 January 2010, and in accordance with the principles of conduct recommended by the Italian Accounting Profession.

This report refers to the activities carried out in fulfilment of our duties, as required by Art. 2429 of the Italian Civil Code and in compliance with Art. 153 of the Consolidated Law on Finance, taking into account Consob Communications relating to corporate controls.

The activities of the Board of Statutory Auditors involved, amongst other things:

- attendance of the Shareholders' Meeting of 14 May 2012, nineteen meetings of the Board of Directors, thirty-seven meetings of the Executive Committee;
- attendance to seventeen meetings of the Internal Control Committee, the latter also in relation to the work of the Committee for Transactions with Related Parties. It should be noted that the Internal Control Committee is now called "Control and Risk Committee" in compliance with provisions set out in the new Code of Conduct approved by the Board of Directors on 18 December 2012, pursuant to provisions set out by the Code of Conduct issued by Borsa Italiana in December 2011;
- fifteen meetings of the Board of Statutory Auditors which, in cases deemed necessary, involved the attendance of the members of the Executive Committee, the members of the Independent Auditors, the Manager in charge of financial reporting and the Internal Audit Manager and other managers of the Company in charge of key functions for the audit activity of the Board of Statutory Auditors;
- information gathering and exchange of opinions with *PricewaterhouseCoopers*, which was conferred by the Shareholders' Meeting of 14 May 2012 the task for the audit of the financial statements and for expressing an opinion thereon for the nine-year period 2012-2020, the Manager in charge of financial reporting, the Internal Audit Committee, the Supervisory Body pursuant to Legislative Decree 231/2001 and with the Managers of various company departments, in particular Internal Audit;
- information gathering on the administration and control systems and the general business performance of the subsidiaries, pursuant to Art. 151 of the Consolidated Law on Finance, also through meetings and/or specific requests to the Boards of Statutory Auditors of the Group's major companies.

With reference to governance structure, the Board of Statutory Auditors indicates that the public Shareholders started a review process aimed at rendering this structures better compliant with the Group's needs and allowing for a more effective integration among the various local realities.

The Board of Statutory Auditors acknowledges that during the meeting of 14 November 2012, the Board of Directors amended the Company's By-laws in order to adjust it to provisions set forth by Law no. 120 of 12 July 2011 on equal access to administration and control bodies of listed companies and those set out by Legislative Decree no. 91 of 18 June 2012 on the rights of shareholders.

The Board also acknowledges that, following the dismissal of the Director Enrico Salza (who was also Chairman of the Internal Control Committee), with decision approved by the Board, the Board of Directors provided for replacement, pursuant to art. 2386, paragraph 1, Italian Civil Code, by appointing Mrs. Carla Patrizia Ferrari.

The Board also acknowledges that, at the beginning of 2013, the Director and Deputy Chairman, Mr. Luigi Giuseppe Villani, resigned from office due to the investigations which led to restrictive measures also with respect to Mr. Angelo Buzzi, former President of Iren Emilia. In view of the dismissal of the Company's

Deputy Chairman, with resolution approved by the Board of Statutory Auditors, the Board of Directors replaced the missing person, pursuant to Art. 2386 paragraph 1 of the Italian Civil Code, by appointing Mr. Lorenzo Bagnacani as Director and Deputy Chairman.
Following these investigations, the Company, which guaranteed the utmost collaboration to enquiring bodies, stressed that the company had no part in the facts claimed to the involved subjects and started, claiming damages, suited legal actions to protect its rights. Moreover, based on information highlighted within the internal survey carried out, as well as on press releases of the State Counsel's Office, no liability was identified with respect to the company pursuant to Leg. Decree 231/2001.

Iren SpA operates as Parent, through the five first-level companies over which it exercises a management and coordination role in accordance with the provisions of Art. 2497 et seq. of the Italian Civil Code. The Articles of Association of the first-level companies grant powers of approval to the Iren SpA Executive Committee and Board of Directors regarding the more significant transactions in terms of multi-year plans, annual Group budgets, equity transactions, joint ventures, investments, the issue of guarantees, etc..
The information provided by the Board of Statutory Auditors in the following remarks is therefore for the most part confirmed in the Notes to the Consolidated Financial Statements in reference to the business activities of the individual consolidated companies.

As part of the supervisory activities carried out in the manner described above, the Board would like to report the following, in accordance with the sequence of topics indicated in Consob Communication DEM/1025564 of 6 April 2001, as amended.

1. *Remarks on the main economic, financial and equity transactions*
   In relation to activities performed directly by the Parent or first-level companies, in the Directors' Report for the Group Iren SpA has illustrated the more significant financial statements transactions completed during the year and after year end. Particularly important among these were:
   - the reorganisation of the Edison and Edipower Group, through the exercise of the put option for the deconsolidation from Edipower, resolved after year end;
   - the award of the tender launched by the Municipality of Turin for the identification of a private shareholder operating in Amiat S.p.A. and TRM S.p.A.. This transaction was also the object of a thorough examination by the Committee for Transactions with Related Parties;
   - the transfer of a portion of the real estate assets in the real estate investment mutual fund called Fondo Core MultiUtilities, created and managed by REAM SGR;
   - Implementation of the Integrated Environmental Hub in Parma with respect to which the TAR section of the Parma Court confirmed the compliance with the building licence procedures carried out. the Directors' Report also takes into account the legal action started by the Public Prosecutor's Office of Parma, within which the G.I.P. office rejected the seizure request of the worksite with a resolution confirmed by the order of the Re-examination Court. The appeal of the seizure request, lodged at the Supreme Court by the Prosecutor's Office, is still pending;
   - the disposal of the fund F2i of the equity investment held in Sasternet S.p.A. and the agreement with E.S.TR.A. Sp.A. for the disposal of the equity investment held in GEA S.p.A.;
   - the signing with Cassa Depositi e Prestiti S.p.A., after year end, of a loan agreement for the amount of euro 100 million.

2. *Atypical or unusual transactions*
   No atypical or unusual transactions were carried out either with third parties, related parties or infragroup.

3. *Ordinary infragroup transactions and transactions with related parties*
   In compliance with Consob Resolution no. 17221 of 12 March 2010 on the adoption of rules envisaged in Art. 2391-*bis* of the Italian Civil Code, with effect from 1 January 2011 the Company adopted the "Internal regulation on transactions with related parties".
   The Notes and related tables attached to the separate Financial Statements provide an adequate description of this type of transaction, showing the extent of the trade, financial or other relations between Iren SpA and the various entities. A good part of these relations concern services provided to the customers in general (gas, water, electricity, heat, etc.) and are governed by contract rules

normally applicable to these situations. Where they do not concern current services, the transactions are governed by specific contracts, whose terms are established in accordance with normal market terms.

In accordance with IFRS, all related party transactions have also been described in the Notes to the consolidated financial statements. The Board deems these to be in the Company's interest and, as things stand, considers that the related decision-making and operating processes, adopted by the Company and its Subsidiaries in accordance with the criteria set out in the Directors' Report, in any event ensure proper conduct of activities complementary to mutual relations. In any case, the Board confirmed that it is still necessary to give the greatest attention to guarantees granted by the Parent, in favour of the main investees, for the benefit of third parties.

The Board acknowledges the monitoring carried out by the Board of Directors, the Executive Committee and the Internal Control Committee - the latter also in relation to the work of the Committee for Transactions with Related Parties to the amount receivable by Iride Servizi and other Group companies with respect to local entities with an investment in the share capital and, especially, the Municipality of Turin. With special reference to the amount due from the Municipality of Turin, the Board acknowledges that in 2012 an agreement was reached which, although not entirely fulfilled, allowed for a significant reduction in absolute terms.

4. *Remarks on compliance with the principles of correct management*

The Board, independently or through specific meetings with Senior Management, obtained information on changes in company processes and received information on general business performance and the most significant transactions performed by the Company and its subsidiaries.

Based on information received and the analyses performed, the Board can reasonably state that the action decided was implemented in compliance with law, the Articles of Association and the principles of correct management, and were not manifestly imprudent, risky or potentially in conflict of interest or likely to compromise the integrity of corporate assets.

The Board has also noted that, the Board of Directors, subject to Board of Statutory Auditors' examination as part of its internal control duties assigned by Italian Legislative Decree 39/2010 (Art. 19), with the favourable opinion of the Control and Risk Committee and in compliance with recommendations in the joint Consob-Isvap-Bank of Italy Document no. 4 of 3 March 2010, the Board of Directors approved the impairment test procedure applied by the Company to goodwill, equity investments and available-for-sale securities recognised in the financial statements, taking into consideration the results in the fair expression of such assets.

5. *Remarks on the adequacy of the organisational structure*

To the extent of its responsibilities, the Board has examined and monitored the adequacy of the Company's organisational structure by receiving information from the heads of the company departments or the competent Bodies and by consulting the internal documentation, where necessary. Iren SpA guidelines have been updated in relation to the new Group organisation. The main subsidiaries have applied Parent guidelines to guarantee the adequacy of their organisational and internal control structures. With regard to application of the aforementioned guidelines by the companies concerned, the Board has also noted the results of Internal Audit activities conducted during the year, and confirms that no malfunction or shortcomings emerged that could compromise the Company's regular business activities.

6. *Remarks on the adequacy of the internal control system*

The Board evaluated and supervised the adequacy of the internal control system by attending the meetings of the Committee, meeting the persons in charge of the various functions involved and obtaining information from internal control managers.

As far as the Board is aware and although with improvement margins, the overall internal control system has given no sign of shortcomings, defect or malfunction which might prevent its reliability and jeopardise the positive performance of company processes. This opinion is confirmed in the compliant resolutions carried on this matter by the Board of Directors and in indications provided by the Committee of Internal Control and Risks.

Iren SpA, the first-level companies and their subsidiaries have adopted the organisational, management and control model pursuant to Legislative Decree 231/2001. With cooperation from the Internal Audit Department, the Supervisory Body performed regular controls, reporting on a half-yearly basis to the Internal Control and Risk Committee and the Board of Directors on the content and results of its action. The Board of Statutory Auditors acknowledged that the above-mentioned Body highlighted no significant critical elements in the Organisation, Management and Control model adopted by the Company.

With reference to the recent introduction of some new infringements in the application field of Legislative Decree 231/2001, the Board highlights how the Supervisory Body urged the Company to adopt the adequate measures to update the Model of Iren SpA and the Group companies.

As regards the composition of the Supervisory Body, now comprising three directors, one of whom independent, the Board stressed the need for evaluating the adequacy of the above composition in light of the evolution of the legal theory and case law for these issues.

7. *Remarks on the administration/accounting system*

The Board supervised the adequacy of the administration/accounting system for the correct representation of operational events by obtaining information from the heads of administration departments and by analysing the results of work carried out by the Independent Auditors. During the meetings held pursuant to Art. 150, paragraph 3 of the Consolidated Law on Finance, in relation to the Company and its Subsidiaries the Board of Statutory Auditors was not made aware of any censurable events and situations or inefficiencies worthy of note.

The Board acknowledges the starting of a project of targeted financial assessment, through a process analysis, the organisation of data and related systems, the harmonisation of IT processes owned by each single first-level companies. The Board highlights the need for a rapid implementation of solutions aimed at guaranteeing prompt interventions and information in view of rendering the integration of data by the Parent more rapid and efficient.

8. Remarks on the adequacy of the instructions issued by the Company to its Subsidiaries, pursuant to Art. 114, paragraph 2, Italian Legislative Decree 58/1998

The Parent has issued all necessary information to the Subsidiaries to allow their compliance with disclosure obligations in accordance with law and is essentially guaranteed by transmission of the respective Board of Directors' resolutions. The Company has also adopted a special "Regulation for the internal management and external communication of reserved and/or privileged information", with respect to which the Board has reported the opportunity to formalise, in a special procedure, the transmission modalities of information flows from Group companies to the Holding.

9. Claims or reports pursuant to Art. 2408 of the Italian Civil Code.

During the year, no reports as per Art. 2408 of the Italian Civil Code, or claims, have been submitted to the Board of Directors by whatever person.

10. Opinions issued during the year.

During the year, the Board issued opinions on the directors' fees with key duties and on the replacement of directors as per Art. 2386 of the Civil Code.

11. Information on the assignment of any additional tasks to the Independent Auditors or parties related thereto and related costs

The information obtained and the statements made by PricewaterhouseCoopers S.p.A. to the Board of Statutory Auditors reveal that in addition to audit of the separate and consolidated financial statements and the review of the interim report, to audit the tax and audit models of annual separate financial statements (unbundling), the Independent Auditors were assigned the following additional tasks:

- examination of the translation of the interim report of the financial statements;
- additional audit of extraordinary transactions;
- financial and tax due diligence activities related to the participation of the company in the tender for the purchase of TRM/AMIAT.

The total fees for these services, in addition to audit and other services as per the proposal examined by the Shareholders' Meeting, was around Euro 175 thousand.

Based on information obtained, no other tasks were assigned to the directors, members of the control bodies and employees of the Independent Auditors or their network partners.

12. *The Company's adoption of the Corporate Governance Code issued by Borsa Italiana S.p.A.*
On 18 December 2012, the Board of Directors has adopted a new version of its Code of Conduct, which adopts the contents of the Code of Conduct of listed companies issued by Borsa Italiana S.p.A. in the edition updated and issued in December 2011. Following the adhesion to the Code of Conduct, the Board of Directors has drawn up the Report on Corporate Governance and Ownership Structure, pursuant to Art. 123-bis of the Consolidated Law on Finance, in compliance with information obligations with respect to Shareholders and the market.
Based on information available to the Board of Statutory Auditors, the Report provides a detailed description of the provisions of the Code implemented by the Company during the year, and therefore has no additional remarks.

13. *Remarks and proposals regarding the separate and consolidated financial statements*
The separate and consolidated financial statements at 31 December 2012 were prepared in application of IFRS, as duly described by the Directors in the Notes to the financial statements.

The audit and control of the technical fairness of the separate and consolidated financial statements is the duty and responsibility of the Independent Auditors PricewaterhouseCoopers S.p.A., which were assigned the task in accordance with Articles 155 and 156 of the Consolidated Law on Finance. PricewaterhouseCoopers S.p.A. expressed an unqualified opinion in its report issued today, in which it states that the separate financial statements were clearly stated and give a true and fair view of the financial position of the Company, the results of its operations and its cash flows.
Having verified the preparation process for the separate and consolidated financial statements and the related opinions issued by PricewaterhouseCoopers S.p.A., the Board has no remarks to make concerning the technical fairness of the financial statements.
Where deemed useful, the Board expressed indications and recommendations with a view to enhancing the methods and tools used in running the company, and on the correct application of regulations in force.
During the supervisory activity carried out and based on information obtained by the auditing company, no censurable event, omissions or irregularities worthy of note and that require comment, have been reported, nor is it necessary to submit any remarks or proposals to the Shareholders' Meeting.

In view of the above, the Board acknowledges that the information provided by the Board of Directors was complete and adequate, and was consistent with the figures shown in the financial statements. It makes no remarks and proposals as regards the approval of the financial statements at 31 December 2012 and the proposal of the Board of Directors to allocate the profit for the year.

With the Shareholders' Meeting held to approve the 2012 financial statements the mandate assigned to the Board of Directors by the Shareholders' Meeting of 27 August 2010 expires. The Board of Statutory Auditors therefore invites Shareholders to act accordingly.

Turin, 29 April 2013

The Board of Statutory Auditors

Paolo Peveraro, chairman

Aldo Milanese, standing auditor

Annamaria Fellegara, standing auditor

SUMMARY OF RESOLUTIONS PASSED BY THE SHAREHOLDERS' MEETING

The Ordinary Shareholders' Meeting:

- having viewed the Financial Statements as 31 December 2012 and the Board of Directors' Report on Operations;
- having viewed the Report by the Board of Statutory Auditors;
- having viewed the Report by the Independent Auditor PriceWaterhouseCoopers S.p.A.;
- having acknowledged the proposed allocation of the profit for the year, i.e. euro 70,311,187.34 as follows:
  - euro 3,515,559.37 i.e. 5% of the profit for the year, to legal reserve;
  - euro 66,746,602.91 to Shareholders' dividend, amounting to euro 0.0523 for each of the 1,181,725,677 ordinary shares and of the 94,500,000 savings shares payable from 4 July 2013 with coupon detachment date 1 July 2013 on shares held as at 3 July 2013 (record date);
  - to extraordinary reserve the residual amount, i.e. euro 49,025.06;

resolves

1) to approve the Financial Statements of Iren S.p.A. at 31 December 2012 and the Report on Operations prepared by the Board of Directors;
2) to approve the proposed allocation of the profit for the year, i.e. euro 70,311,187.34 as follows:
   - euro 3,515,559.37 i.e. 5% of the profit for the year, to legal reserve;
   - euro 66,746,602.91 to Shareholders' dividend, amounting to euro 0.0523 for each of the 1,181,725677 ordinary shares and of the 94,500,000 savings shares payable from 4 July 2013 with coupon detachment date 1 July 2013 on shares held as at 3 July 2013 (record date);
   - to extraordinary reserve the residual amount, i.e. euro 49,025.06.

Iren S.p.A.
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