IREN Group

Interim report on operations at 30 September 2010

Board of Directors of 12 November 2010

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

Contents

IREN, the multiutility company listed on the Italian Stock Exchange, was established on 1 July 2010 as a result of the merger between IRIDE and ENÌA. The company operates in the following sectors: electrical energy (production, distribution and sales), thermal energy for district heating (production and sales), gas (distribution and sales), integrated water service management, environmental services (waste collection and disposal) and public administration services.

IREN is structured into a holding company which handles strategic, development, coordination and control activities and five operating companies (also known as Top-Level Companies) that ensure the coordination and development of business lines:

- IREN Acqua Gas operates in the integrated water cycle sector;
- IREN Energia operates in the electrical and thermal 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 the management of heat production plants for district heating in Reggio Emilia.

Electrical energy production: thanks to a large number of electrical energy and heat production plants for district heating, IREN has a total production capacity of 7,400 GWh/year, including the capacity guaranteed by Edipower.

Gas Distribution: serving more than one million customers through a network stretching 8,800 kilometres.

Electrical Energy Distribution: with over 7,200 kilometres in low and medium voltage networks, electrical energy is distributed to more than 710,000 customers in Turin and Parma.

Integrated water cycle: with more than 14,900 kilometres in water mains, 5,689 kilometres in sewage pipes and 813 treatment plants, the Group serves more than 2,400,000 residents.

Environmental cycle: with 122 equipped ecological stations, 2 waste-to-energy plants, 2 dumps, the Group serves 111 municipalities, totalling more than 1,200,000 residents.

District heating: thanks to more than 900 kilometres of underground double piping, the IREN Group provides more than 60 million cubic metres in heat, serving more than 550,000 people.

Gas, electrical and thermal energy sales: the Group sells more than 4.1 billion cubic metres in gas, over 12 billion GWh in electrical energy and more than 2,300 GWh_t in thermal energy for district heating.

KEY FIGURES OF THE IREN GROUP

2009		First 9 months of 2010	First 9 months of 2009	% Change
	Income statement figures (*millions of Euro*)			
3,161	Revenue	2,384	2,414	-1.2
567	Gross operating profit	411	420	-2.1
315	Operating profit	210	248	-15.3
196	Profit before tax	177	146	21.2
51	Consolidated profit for the period	116	22	n.a.
	Statement of financial position figures (*millions of Euro*)	*At 30.09.10*	*At 31.12.09*	
	Net invested capital	4,314	3,976	8.5
	Equity	1,930	1,921	0.5
	Net financial position	-2,384	-2,056	16.0
2009	**Financial/economic indicators**	*First 9 months of 2010*	*First 9 months of 2009*	
17.94%	GOP/Revenue	17.24%	17.40%	
	Debt/Equity	1.2	1.1	
2009	**Technical and trading figures**	*First 9 months of 2010*	*First 9 months of 2009*	
15,051	Electrical energy sold (GWh)	11,011	11,075	(0.6)
2,525	Heat energy produced (GWh_t)	1,713	1,515	13.1
64	District heating volume (mln m^3)	65	61	5.5
3,446	Gas sold (mln m^3)	2,146	1,904	12.7
192	Water distributed (mln m^3)	141	144	(2.0)
934,806	Waste treated (tonnes)	744,792	718,503	3.7

COMPANY OFFICERS

Board of Directors

Chairman	Roberto Bazzano (1)
Deputy Chairman	Luigi Giuseppe Villani (2)
CEO	Roberto Garbati (3)
General Manager	Andrea Viero (4)
Directors	Franco Amato (5)
	Paolo Cantarella (6)
	Gianfranco Carbonato (7)
	Alberto Clò (8)
	Marco Elefanti (9)
	Ernesto Lavatelli (10)
	Ettore Rocchi
	Alcide Rosina (11)
	Enrico Salza (12)

Board of Statutory Auditors

Chairman	Aldo Milanese
Standing Auditors	Lorenzo Ginisio
	Giuseppe Lalla
Supplementary Auditors	Massimo Bosco
	Emilio Gatto

Manager in charge of drawing up the corporate accounting documents

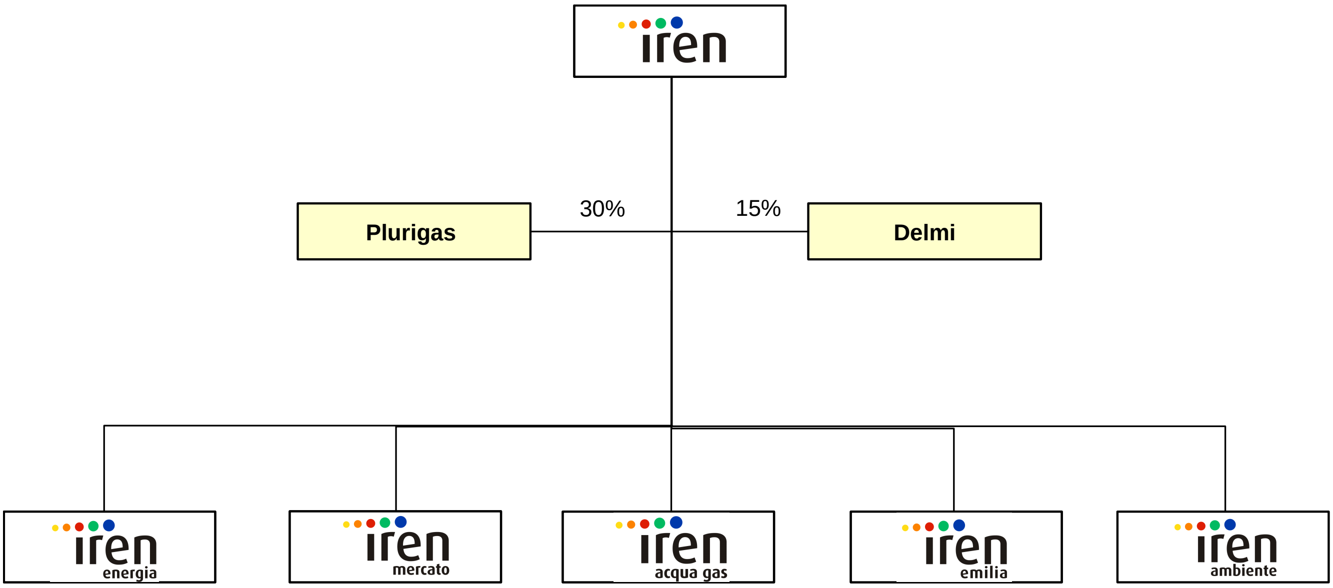
Massimo Levrino

Independent auditors

KPMG S.p.A.

(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 member of the Supervisory Body
(12) Chairman of the Internal Control Committee

THE IREN GROUP: CORPORATE STRUCTURE



The diagram shows the main IREN Holding investee companies.

IREN ENERGIA

Production of cogeneration electrical and heat energy

IREN Energia's installed capacity totals approximately 2,300 MW, of which around 1,400 MW is generated directly and around 900 MW through the subsidiaries Edipower and Energia Italiana. Specifically, Iren Energia avails of 20 electrical energy production plants: 12 hydroelectric and 8 thermoelectric cogeneration plants, for a total of roughly 1,360 MW of electrical power and 1,830 MW of thermal output, 730 MW of which through cogeneration. All primary energy sources used – hydroelectric and cogeneration sources – 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 use 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 protect the environment.

IREN Energia's total heat capacity is equal to 1,830 MW_t, of which 40% is generated by Group-owned cogeneration plants, while the remainder comes from conventional heat generators. The annual heat production was in the region of 2,461 GWh_t in 2009, with district heating volumes of roughly 64 million cubic metres. IREN Energia currently has numerous investments in the hydroelectric and cogeneration sectors in place, aimed at strengthening its position as an energy producer. These investments will allow an increase of approximately 370 MW in installed capacity, from the current 2,300 MW.

Distribution of electrical energy to non-eligible customers

Through its subsidiary, AEM Torino Distribuzione, IREN Energia distributes electrical energy throughout the entire area encompassing the cities of Turin and Parma (approximately 1,085,000 residents). About 4.2 TWh of electrical energy was distributed.

Services to Local Authorities and Global Service

Iride Servizi, a subsidiary of IREN Energia, provides the city of Turin with street lighting services, traffic lighting, heating and electrical systems management in municipal buildings and technological global service management of the Turin Court House.

The electronic infrastructures and connections in the cities of Turin and Genoa are managed by the subsidiaries AemNet and SasterNet respectively.

District heating

The district heating and gas distribution activities in Piedmont's capital are performed by AES Torino (51% owned by IREN Energia S.p.A.), which owns one of Italy's most extensive district heating networks (approximately 363 km of double piping in 2009). The gas network which extends to 1,323 km serves roughly 500,000 end customers.

Following the merger with Enìa, IREN Energia now also owns the district heating network of Parma and Reggio Emilia, with around 30,000 supply points.

IREN MERCATO

Procurement and marketing of Electrical energy, Natural Gas, Energy and Heating services

Through Top-Level Company IREN Mercato, the Group carries out business in the field of procurement, wholesale and sale to end customers of electrical energy and gas, heating and energy services. Commercial activities on the free market implemented both directly and through industrial investments in local trading companies, mainly located in the Northwest and the Tyrrhenian area, resulted in the management of approximately 2.4 billion cubic metres of natural gas in 2009. By contrast, in the electrical energy sector the total volume of energy sold in 2009 was approximately 14 TWh. Through a joint venture with E.ON, IREN Mercato is also participating in the building of the 2nd regasification plant authorised in Italy, an off-shore regasification plant with an authorised capacity of 3.75 billion cubic metres of gas per annum, off the coast of Livorno (OLT). Moreover, IREN Mercato participates, in the joint venture with Sorgenia, in the company LNG MedGas Terminal which is developing the 2nd regasification project of the IREN Group to be realised in Calabria for a total of 12 billion cubic metres per annum. The project is currently at the planning permission stage.

IREN ACQUA GAS

Integrated Water Services

SPL (Top-Level Company) IREN Acqua Gas, through the operating subsidiaries Mediterranea delle Acque and Idrotigullio and through the investee Am.Ter, manages the water services in the Genoa Province, serving around 900,000 residents.

IREN Acqua Gas is currently one of Italy's leading sector operators, supplying water amounting to 107 million cubic metres in 2009.

IREN EMILIA

IREN Emilia is an IREN Group company that operates in the methane gas distribution sector, waste collection and environmental health, and coordinates the activities of regional companies in Emilia Romagna for the operational management of the integrated water cycle, electrical networks and district heating.

IREN Emilia manages more than 5,600 kilometres of the gas network in 71 municipalities in the provinces of Parma, Piacenza and Reggio Emilia, performs environmental health services for 111 municipalities and carries out operations on more than 11,400 kilometres of the water network, serving 110 municipalities. The local low, medium and high pressure distribution network has a planned maximum withdrawal capacity of 726,879 Sm3/h.

The delivery of methane gas takes place thanks to the division of the area into 58 gas distribution plants. Distribution plants may vary, both in terms of the number and the area they cover, depending on the typical operational requirements of each region.

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 122 equipped ecological stations, has allowed the basin served to achieve 53% better results.

IREN AMBIENTE

IREN Ambiente is committed to using its plants for waste treatment and disposal activities, electrical and heat energy generation and biogas production.

The undifferentiated component of the waste collected is to be used, adopting different disposal methods, for the search for better usage of the waste resource, according to a hierarchy which sees the recovery of energy through waste-to-energy operations and the captation of biogas at the top and, finally, the disposal in a rubbish dump.

In addition, aware of the environmental impact of dumping waste, in certain cases IREN Ambiente arranges for prior mechanical selection which allows a humid fraction to be identified, rich in organic substance, to be stabilised biologically.

IREN Ambiente handles more than 930,000 tonnes of waste per annum, with 11 treatment and storage plants, 2 waste-to-energy plants (Piacenza and Reggio Emilia), 1 dump, (Poiatica - Reggio Emilia), 2 composting plants (Reggio Emilia) and 1 automatic selection plant for urban waste (Parma).

IREN Group Personnel

The Group had a workforce of 4,871 staff as at 30 September 2010. The table below shows a breakdown by individual Group in relation to top-level companies.

Company	**Workforce at 30.09.10**
IREN S.p.A.	272
IREN Energia and subsidiaries	1,055
IREN Mercato and subsidiaries	434
IREN Acqua Gas and subsidiaries	1,089
IREN Ambiente and subsidiaries	242
IREN Emilia and subsidiaries	1,779
Total	**4,871**

ELECTRICAL ENERGY PRODUCTION

GWh	First 9 months of 2010	First 9 months of 2009	% Change
SOURCES			
Gross production	5,241	5,743	(8.7)
a) Thermoelectric	*3,070*	*2,847*	*7.9*
b) Hydroelectric	*782*	*1,109*	*(29.5)*
c) WTE Production	*101*	*92*	*10.0*
d) Production from Edipower plants	*1,035*	*1,411*	*(26.6)*
e) Production from Tirreno Power plants	*253*	*285*	*(11.3)*
Purchases from the Single Buyer	1,025	1,225	(16.3)
Energy purchased on the Power Exchange	4,015	3,360	(19.5)
Energy purchased from wholesalers and imports	1,077	1,184	(9.1)
Total sources	**11,358**	**11,511**	**(1.3)**
APPLICATION			
Sales to protected customers	1,010	1,162	(13.1)
Sales on the Power Exchange	4,398	3,871	13.6
Sales to eligible end customers, wholesalers and other	5,603	6,042	(7.3)
Pumping and distribution losses	347	436	(20.6)
Total application	**11,358**	**11,511**	**(1.3)**

GAS PRODUCTION

millions of cubic metres	First 9 months of 2010	First 9 months of 2009	% Change
SOURCES			
Purchases (Plurigas and Sinit)	1,854	1,327	39.7
Purchases (other wholesalers)	292	577	(49.4)
TOTAL SOURCES	**2,146**	**1,904**	**12.7**
APPLICATION			
Gas marketed by the Group	1,393	1,089	27.9
Gas for internal use (*)	753	814	(7.6)
TOTAL APPLICATION	**2,146**	**1,904**	**12.7**

(*) Internal use involved thermoelectric plants, tolling, use in the generation of heat services and auto-consumption.

INFORMATION ON IREN SHARES IN THE FIRST 9 MONTHS OF 2010

IREN share performance on the Stock Market

The financial markets were also characterised by a negative international economic situation in the first nine months of 2010, made worse by the financial crisis affecting a number of sovereign European states (mainly Greece, Spain and Ireland) which led Governments in the Euro area to implement the necessary measures to contain debt.

Moreover, there were no decisive signs of a recovery in the real economy during the period: energy consumption (gas and electricity) showed the first signs of recovery in the first nine months of 2010, recording increases of roughly 1.8% in electricity and 7.4% in gas, compared to the same period in 2009. However, they are below the levels of demand recorded in 2008, with reductions of 5.4% and 4.9% respectively in electricity and gas. Weakness in demand, combined with oversupply in said energy sectors have characterised an unfavourable economic scenario for multiutility companies, greatly exposed to the free energy sectors with a significant impact also on the performance of the relative shares on the power exchange.

Trading in IREN shares commenced on 1 July 2010, the effective date of the Iride-Enìa merger, i.e. the moment Enìa shares were exchanged for Iride shares and when the latter changed its name to IREN.

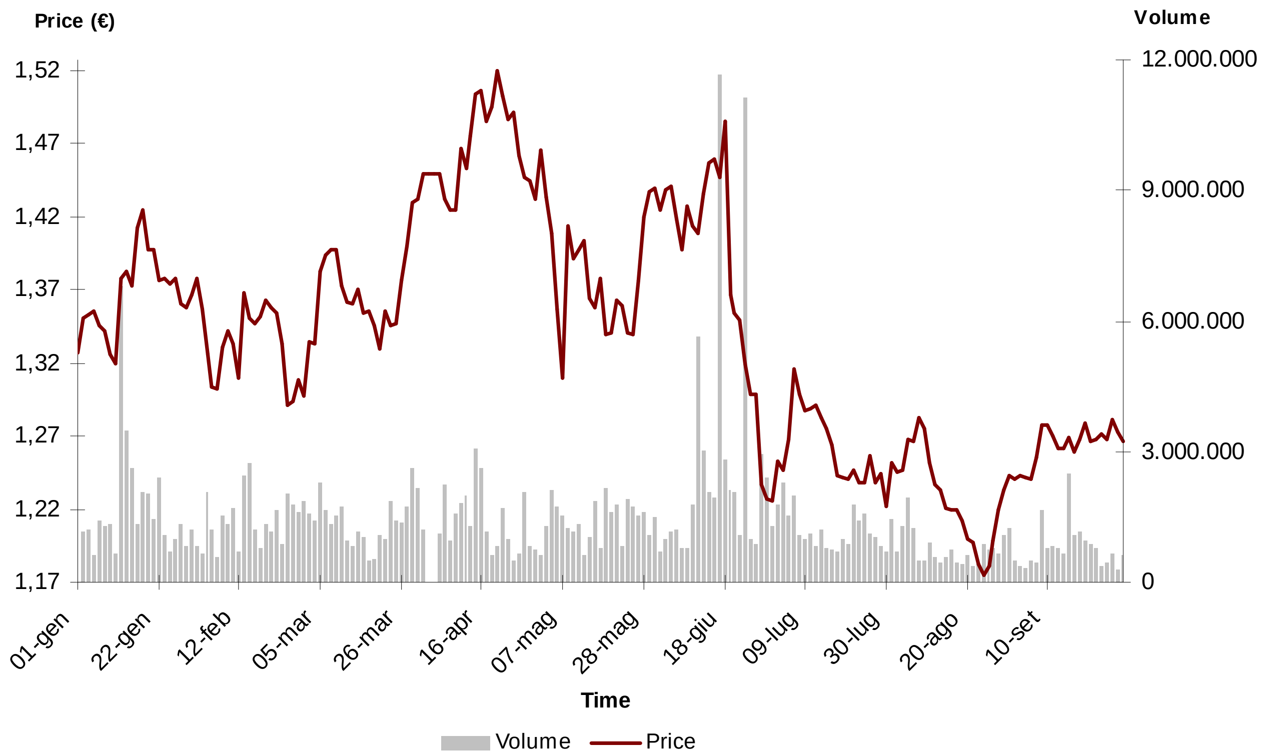
Therefore, in observing the performance of the IREN share, the Iride share must be considered for periods before 1 July 2010.

The IREN share price stood at Euro 1.27 at the end of September 2010, a fall of 4.2% compared with the figure recorded at the start of the year, with daily trading volumes of around 1.4 million.

In the same period, the average share price was Euro 1.34 per share, reaching a low of Euro 1.18 per share on 25 August 2010 and a high of Euro 1.52 per share on 21 April 2010.

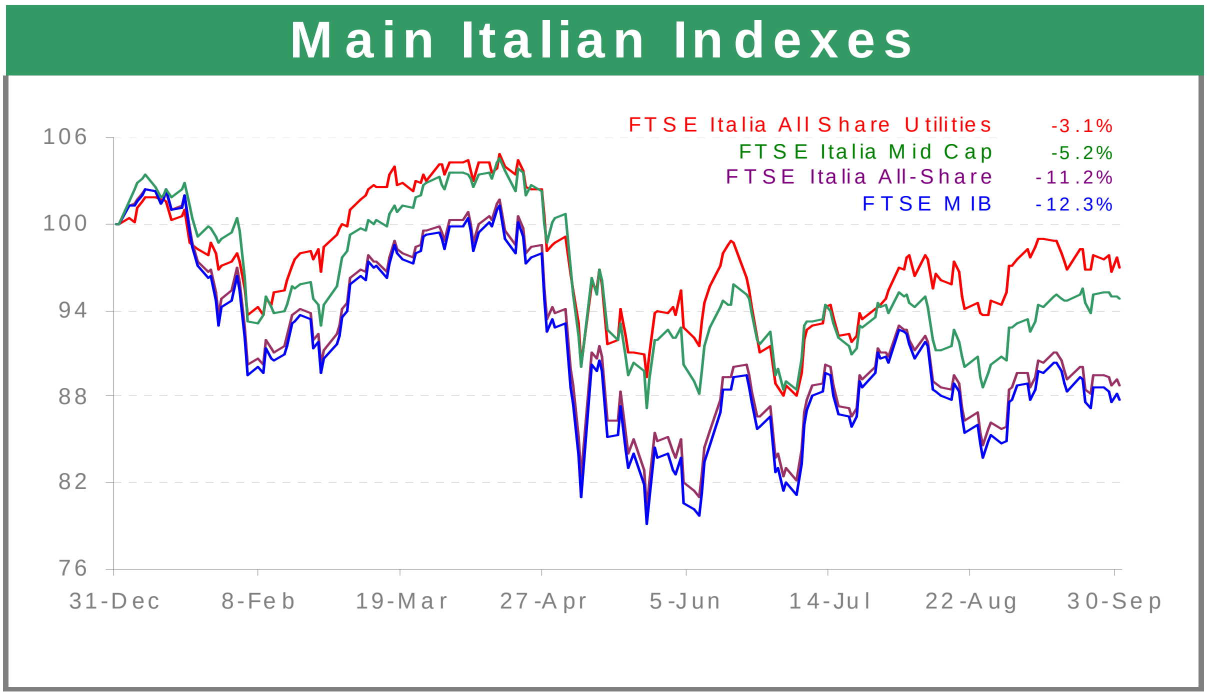
POWER EXCHANGE FIGURES, Euro/share in the first nine months of 2010	
Average price	1.34
Maximum price	1.52
Minimum price	1.18
No. of shares (000)	1,276,226

Price performance and volumes of IREN shares

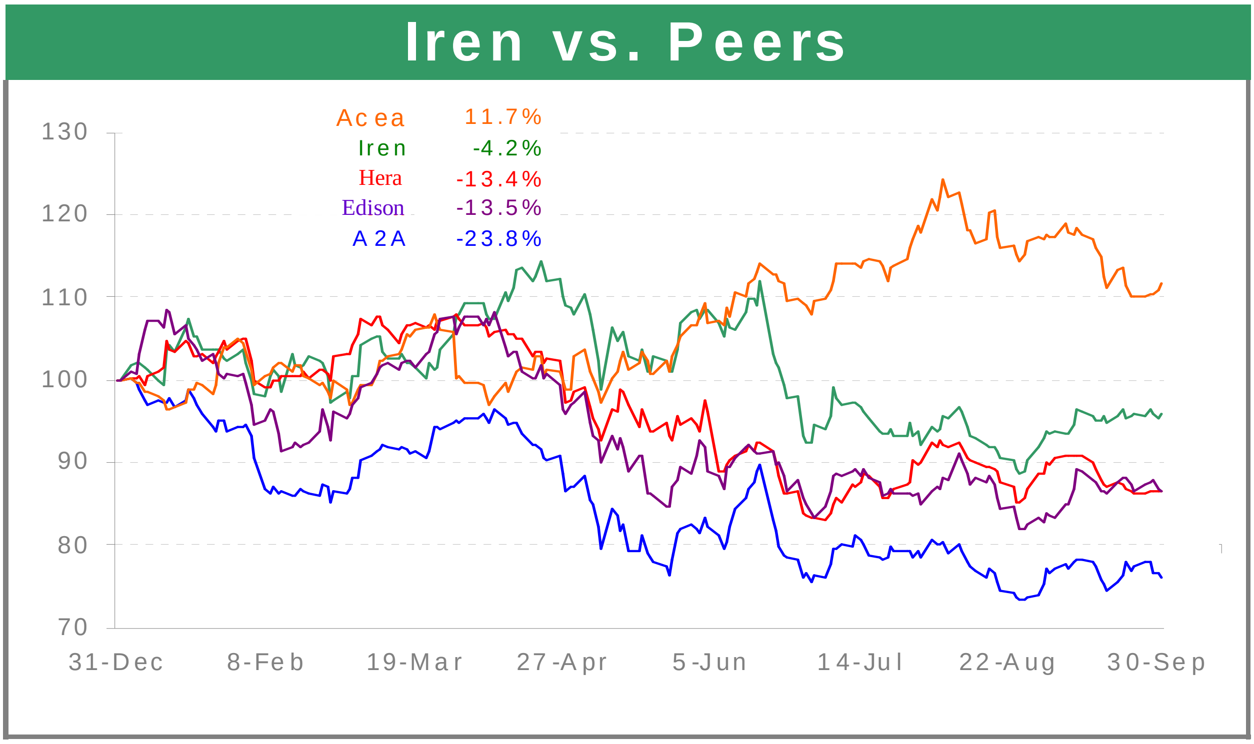


Key: January- February- March- April- May- June- July- September

The main power exchange indexes also recorded a negative trend during the period, as well as the FTSE Italia All Share Utilities index which fell by 3.1%, and is shown in the graph below.



A look at the performances of the other main multiutility company shares shows that only the Acea share increased (up 11.7%), while the others recorded decreases of more than 10%.



Share coverage
The IREN Group currently benefits from eight brokers, namely Banca IMI, Banca Leonardo, Centrobanca, Cheuvreux, Equita, Intermonte and Santander that already traded Iride shares from July 2010, with the addition of Mediobanca. Moreover, share visibility was sustained from July by intense financial communication activities which led to the Investor Relations team holding roadshows in the main European markets and in the United States, meeting roughly seventy institutional investors.

SIGNIFICANT EVENTS OF THE YEAR

Formation of IREN S.p.A.
The merger by incorporation of Enìa into Iride became effective as of 1 July. This led to the formation of IREN S.p.A., the leading multiutility company operating at interregional level and the only totally eco-friendly energy producer.
The new IREN Group is one of the market leaders, with a top position in all business areas: leading operator in district heating, third operator in the integrated water cycle sector, third in the waste treatment sector, fifth in the gas sector in terms of sales to end customers and sixth in the electric energy sector as regards volumes sold.
The business profile of the IREN Group is based on the balanced mix of regulated and free activities, as well as in the strong upstream and downstream integration of the value chain.
The IREN Group organisational and business model is characterised by the presence of a listed holding company, IREN S.p.A., that includes five top-level companies operating in the various business sectors: IREN Energia (Turin), which manages the electrical energy and heat generation and distribution systems, as well as the technological services; IREN Mercato (Genoa), which manages the purchase, trading and sales activities of electrical energy and gas, as well as sales of heat and services; IREN Acqua Gas (Genoa), which manages the integrated water services; IREN Ambiente (Piacenza), which manages waste treatment and disposal plants and IREN Emilia (Reggio Emilia), which manages gas distribution as well as waste collection and treatment services.

First IREN S.p.A. Shareholders' Meeting

The shareholders of IREN S.p.A. met for the first time on 27 August, for the ordinary and extraordinary shareholders' meetings.
The ordinary shareholders' meeting appointed the company's new Board of Directors, which shall remain in office for the financial years 2010/2011/2012 (expiry: date of approval of the 2012 financial statements).
The thirteen members of the new Board of Directors are: Roberto Bazzano (former executive Chairman), Roberto Garbati (former CEO) Paolo Cantarella (former Director), Gianfranco Carbonato (former Director), Alberto Clò, Ernesto Lavatelli (former Director), Alcide Rosina (former Director), Luigi Giuseppe Villani, Andrea Viero (former Director and General Manager), Ettore Rocchi, Marco Elefanti, appointed from the list submitted by Finanziaria Sviluppo Utilities S.r.l. and 71 former Enìa public shareholders, with a majority vote, in addition to Franco Amato and Enrico Salza, appointed from the list submitted by Fondazione Cassa di Risparmio di Torino and the list presented by Equiter S.p.A. respectively, both with a minority vote.
The shareholders' meeting also established the fee to be paid to the Directors on the Board, set at Euro 23,000 (gross) per annum.

In relation to the commitment undertaken by Public Shareholders and set out in the Shareholder Agreements (signed on 28 April), the extraordinary shareholders' meeting amended art. 9 of the Articles of Association, inserting the public majority restriction on share ownership; therefore, 51% of share capital is and will be held by public shareholders.

Governance

Following the appointment of the new Board of Directors, the new IREN S.p.A. Executive Committee was formed, composed of: Roberto Bazzano, Chairman, Luigi Giuseppe Villani, Deputy Chairman, Roberto Garbati, CEO and Andrea Viero, General Manager.
On 30 August, the Executive Committee assigned powers and proxies, as envisaged in art. 28 of the Articles of Association in force.
On 30 August, the Board of Directors also appointed the Internal Control Committee, the Remuneration Committee and the Supervisory Board, composed as follows:

- The Internal Control Committee: Enrico Salza (Chairman), Alberto Clò and Alcide Rosina, all independent directors;
- Remuneration Committee: Paolo Cantarella (Chairman), Franco Amato and Ernesto Lavatelli;
- Supervisory Body: Marco Elefanti (Chairman), Gianfranco Carbonato and Ernesto Lavatelli.

San Giacomo Bid

Following the Framework Agreement signed on 24 May with F2i Rete Idrica Italiana S.p.A. and F2i SGR S.p.A. for the concentration and development of activities in the water sector, and the subsequent formation of San Giacomo S.r.l. – an IREN Group subsidiary -, whose shareholder agreements were published on 1 June 2010, a voluntary takeover bid was launched by San Giacomo S.r.l. (art. 102 of Legislative Decree no. 58 dated 24 February 1998 and subsequent amendments and additions) for Mediterranea delle Acque S.p.A..
The bid, given the green light on 5 July 2010, concerned a total of 11,185,853 ordinary Mediterranea delle Acque shares, equal to roughly 14.59% of share capital, with a par value of Euro 0.20 each.
The amount offered by San Giacomo per share offered under the bid was Euro 3.00.
The Bid, finalised upon delisting of Mediterranea delle Acque shares, was completed successfully on 6 August, the date on which 8,737,020 shares were offered, equal to 11.393% of the share capital of Mediterranea delle Acque, for a total amount of approximately Euro 26,211,060.
Therefore, taking into account the shares offered under the Bid, and the Mediterranea delle Acque shares already owned, San Giacomo ended up holding, upon conclusion of the Bid, 96.807% of the relative share capital.

PREPARATION CRITERIA

INTRODUCTION

On 1 July 2010, the business combination of IRIDE and Enìa Groups was concluded, with the legal effect of the merger by incorporation of Enìa into IRIDE, as explained in the Information Document drawn up according to Art. 70 of the Issuer Regulation provided to the shareholders and the market on 28 June 2010.

In particular, as provided for by the merger plan dated 1 July 2010:

a) the merging company IRIDE was renamed IREN S.p.A.;
b) the ordinary shares of IREN S.p.A. (formerly IRIDE) were exchanged with the shares held by the shareholders of Enìa at a ratio of 4.2 ordinary IREN S.p.A. shares for each ordinary Enìa share. The IREN shares were listed on 1 July, while the Enìa security was delisted;
c) the resolved share capital of IREN S.p.A. increased by Euro 444,183,894.00, standing at Euro 1,276,225,677.00 at 30 September 2010, fully subscribed and paid up, and is divided into 1,181,725,677 ordinary shares and 94,500,000 unlisted savings shares.

For the purpose of an accounting representation of the business combination which led to the creation of IREN, no elements typical of business combinations were identified and therefore, IFRS 3 was deemed inapplicable, the international accounting principle which governs business combinations, for which "one entity, the acquirer, obtains control of one or more other businesses, the acquiree".
In the case of IREN, the obligation set forth by IFRS 3 to identify one acquirer is in contrast to the desire expressed by subjects participating in the business combination which, in an extremely complex situation, have adopted, in carrying out said operation, joint decision-making approaches, which can in no way be associated with the existence of control of one of said subjects over other entities.
Therefore, it is deemed that the business combination essentially refers to the constitution of a joint venture, as set out in IAS 31.
The IFRSs do not lay down specific criteria for the accounting, by a joint venture, of assets and liabilities over which the venturers acquire joint control. In relation to said operations, international practice has mainly developed two alternative approaches:
• Fair Value: in said case, the assets and liabilities contributed by entities participating in the merger are recorded by the newly constituted entity at their fair value calculated at the date of the merger.
• Historical cost: in this case, by contrast, assets and liabilities contributed by entities participating in the merger are recorded by the newly constituted entity with the pooling of interests method with respect to the book values recorded by companies participating in the merger before the operation.
In this case in question, the directors, required to define an accounting policy in order to represent the transaction in the accounts, deem that the most suitable accounting method for representing the effects of the transaction in question is the pooling of interests method, also in continuity of the accounting policies adopted by the Iride Group in similar operations carried out previously.
For further information on the subject and all the details on the above-mentioned merger, reference should be made to the documentation prepared in accordance with the relevant laws and the applicable regulations of Consob (the Italian Commission for Listed Companies and the Stock Exchange), made available to the public according to the terms of the legislation itself.

CONTENT AND STRUCTURE

The consolidated interim report on operations at 30 September 2010 was prepared in compliance with the provisions of art. 154-ter “Financial reports” of the Italian Consolidated Finance Act (“TUF”) introduced by Italian Legislative Decree 195/2007 based on which Italian lawmakers implemented Directive 2004/109/EC (known as the Transparency directive) regarding periodic disclosure and based on Consob communication no. DEM/8041082 of 30 April 2008. Said provision replaces what was previously provided by art. 82 “Quarterly report” and Annex 3D (“Criteria for preparing the quarterly report”) of the Issuer Regulation.
The accounting standards used to prepare the report are the “International Financial Reporting Standards – IFRS” issued by the International Accounting Standards Board (“IASB”) and approved by the European Commission. “IFRS” also includes the International Accounting Standards (“IAS”) still in effect, as well as all explanatory documents issued by the International Financial Reporting Interpretations Committee (“IFRC”) and the previous Standing Interpretations Committee (“SIC”).

ACCOUNTING STANDARDS ADOPTED

The accounting policies, measurement criteria and consolidation principles adopted in the preparation of the interim report on operations of the new IREN Group are the same as those used in drafting the IRIDE Group's Consolidated Financial Statements as at 31 December 2009, to which reference should be made for a complete description of the policies and criteria, with the exception of measurement and recognition methods regarding "Service Concession Arrangements" following the entry into force of IFRIC 12 on 1 January 2010.
IFRIC 12, “Service Concession Arrangements”, defines the recognition and measurement criteria to be adopted in agreements between public and private sectors related to the development, financing, management and maintenance of infrastructures under concession. 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 shall purchase either the right to use said infrastructure, or the financial asset, or both, according to agreements made. Following the issue of the above-mentioned interpretation, 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 assets, independently from the acknowledgement of ownership in favour of the same operators included in the service concession arrangements.
Taking account of arrangements in force in the IREN Group, and based on interpretations and regulations in force to date, the application of IFRIC 12 regards the natural gas distribution sector and the integrated water service management sector. In the statement of financial position, IFRIC 12 sets out that infrastructures under concession should be restated from property, plant and equipment to intangible assets. Taking into account the tariff structure for services provided under concession, it is not possible to reliably separate the profit related to the building business from the results of operations; therefore, in consideration of the fact that a significant portion of works is contracted to third parties, investments made are recorded under intangible assets based on the cost incurred.
The amortisation of assets related to service concession arrangements remained unchanged and is still calculated based on expected economic benefits deriving from the use and residual value of the infrastructure, as provided for by the reference regulatory framework.
Moreover, as retrospective application is not possible, intangible assets to be recognised at 1 January 2009 were determined based on amounts previously recorded as property, plant and equipment in the financial statements at 31 December 2008.

Preparing the interim report on operations has required the use of estimates and assumptions that affect the values of revenues, costs, assets and liabilities. The outcome of the occurrence of the events might differ from these estimates.

Some measurement processes, especially those which are more complex such as the calculation of impairment on non-current assets, are generally carried out fully only upon drafting of the yearly financial statements, i.e. when all information required is available, except when there are impairment indicators which require an immediate measurement of any impairment losses. Similarly, the actuarial valuations required for determining the Provision for employee benefits are carried out upon drawing up of the annual financial statements.

The figures shown are compared with the corresponding 2009 figures of the IRIDE Group and with pro-forma figures of the IREN Group for the same period.
Lastly, the interim report on operations is not subject to an accounting audit.

CONSOLIDATION SCOPE

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

Parent Company:

IREN S.p.A.

Companies consolidated on a line-by-line basis:
Five Top-Level Companies were consolidated on a line-by-line basis and, through the consolidated financial statements of the latter, the subsidiaries of the Top-Level Companies:

1) IREN Energia and its subsidiaries:
- Iride Servizi and subsidiaries:
  - AEM NET
  - Sasternet
- AEM Torino Distribuzione
- CELPI
- Nichelino Energia

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

3) IREN Acqua Gas and its subsidiaries:
- Genova Reti Gas
- Gea
- LIAG
- San Giacomo and its subsidiaries:
  - Idrotigullio
  - Mediterranea delle Acque and subsidiary:
    - Immobiliare delle Fabbriche

4) IREN Emilia and its subsidiaries:
- Enìa Parma
- Enìa Piacenza
- Enìa Reggio Emilia
- Enìatel
- Consorzio GPO
- AGA
- Tema
- Zeus

5) IREN Ambiente and its subsidiaries:
- IREN Rinnovabili and its subsidiaries:
  - Enìa Solaris and subsidiary:
    - Landco
- Tecnoborgo
- Bonifica Autocisterne

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

Companies consolidated proportionally:

AES Torino (51% owned by IREN Energia, but jointly managed with the other shareholder Italgas, due to contractual agreements signed by the parties)
Società Acque Potabili (30.9% owned by IREN Acqua Gas)
Acquedotto Savona (wholly owned by Società Acque Potabili)
Acquedotto Monferrato (wholly owned by Società Acque Potabili)
Acque potabili Siciliane (57% owned by Società Acque Potabili)
Acque potabili Crotone (wholly owned by Società Acque Potabili)
OLT Offshore LNG S.p.A. (41.71% owned by IREN Mercato)
Namtra Investments Ltd (wholly owned by OLT Offshore LNG)

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 operational within the IRIDE Group domain is in the course of being implemented and adapted to the new company IREN. The model contains a methodological approach to the identification, evaluation and integrated management of Group risks.
For each of the following risk types:

- financial risks (interest rate, currency, spread)
- credit risks
- energy risks (risk factors associated to energy and/or financial markets, such as market variables or pricing choices)
- operational risks (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.
The model also regulates the roles of the various parties involved in the risk management process, which is governed by the Group's Board of Directors. The model requires the creation of a Group Risk Committee and specific Risk Commissions, which shall take a more hands-on approach regarding specific management methods for each of the types of risk.
The Risk Management department was established in the IREN Group, reporting to the CEO, and was formally assigned the following responsibilities:

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

A summary of the risk management models is shown below. For a more detailed analysis, see the section "Risk Management" in the IRIDE Group's 2009 Financial Statements.

1. FINANCIAL RISKS

The 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 and interest rate risks. Derivatives are not used or held for purely trading purposes.

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 individual 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 Company.
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 Company.

The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored.
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.
With regard to liquidity risk potentially deriving from contractual clauses allowing counterparties to withdraw financing should certain events occur (default risk and covenants), note that the clauses in IREN loan agreements do not contain critical elements. For certain IREN medium/long-term loan agreements, commitments involve financial index covenants (i.e. Debt/EBITDA, EBITDA/Financial expense). Checks are on an annual basis and limits were defined with adequate prudence criteria. Moreover, other covenants such as the Change of Control clause have been provided for, which sets forth that the IREN Group 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 medium/long-term loan agreements of some Group companies also involve financial index covenants (Net Financial Indebtedness/EBITDA, Net Financial Indebtedness/Equity).

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. The 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.

2. CREDIT RISK

The 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, given related to the sale of electrical energy, district heating and gas to retail and business customers, public entities and the provision of water and waste management services (Environmental Hygiene Tariff pursuant to Legislative Decree 22/97).
In order to control credit risk, whose operational management is entrusted to the individual regional departments, methods have been defined for credit monitoring and control and strategies defined to reduce credit exposure, including the management of legal disputes regarding the customer and the services provided.

The internal business credit policy and ex ante instruments for the evaluation of creditworthiness and monitoring and recovery activities differ in relation to both the different customer categories and the size of the consumption bands.
In order to improve the analysis monitoring capacity, new instruments have been introduced over the last few years aimed at the acquisition of commercial information and customer payment experience, operational management of past due credit recovery, outsourcing telephone reminder activities of a number of customer segments and the management of inbound calls resulting from written reminders.
Credit risk is covered, for certain types of business customers, with the appropriate forms of bank or insurance guarantees on first request issued by entities with top credit standings. For certain

business customers with very high volumes of electrical energy and gas consumption, the appropriate credit insurance policy was underwritten to cover the risk of non-payment.
For other types of service (e.g. water, natural gas, protected electricity), in compliance with the legislative provisions that regulate their activities, provision is made for the payment of an interest-bearing guarantee deposit, which must be repaid if the customer uses direct debit/postal domiciliation with current account debiting as the repayment method.
The payment conditions generally applied to the customer are based on the legislation or regulations in force, and in line with market standards; in the event of non-payment, arrears interest is debited according to the amount indicated in the supply contracts and established by the applicable regulations.

Accrual to the provision for doubtful debts accurately reflects the actual credit risks. In fact, for a targeted quantification each receivable amount recorded on the database is analysed, also taking into account ageing, with subsequent accrual.

3. ENERGY RISK

The IREN Group is exposed to 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 chains.
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.

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 objective of the Enterprise Risk Management model, in the course of implementation in the IREN Group, also on the basis of the models implemented at former IRIDE and former Enìa, is the integrated and synergic management of risks and adheres to a management process structured into the following phases:

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

Each process stage is performed in accordance with standards and references defined at Group level.
The operating part of the process is managed by local Risk Managers, who are responsible for specific areas in coordination with a central structure providing orientation and supervision.
The operational risk management process also aims at optimising 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 significant 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 measures entail the Group's exposure to regulatory, technical, commercial, economic and financial risks (obtainment of licences, application of new technologies, respect for commercial brands, 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.

c. IT Risks

The major operational risks linked to the IT system are IREN Mercato's risks from interfacing with the Power Exchange.
IREN Mercato 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, which are periodically subjected to efficiency testing. So far these procedures have proved to be efficient and no damage has ever occurred.

FINANCIAL POSITION, RESULTS AND CASH FLOWS FOR THE FIRST NINE MONTHS OF 2010

As amply detailed previously, the IREN Group was established on 1 July 2010 as a result of the merger by incorporation of Enìa into Iride. The IREN Group income statement and balance sheet are shown below, as well as the pro-forma financial statements which the comments refer to.
In relation to the pro-forma figures, it should be pointed out that the 2009 Pro-forma Consolidated Financial Statements were drawn up in order to simulate, according to measurement criteria consistent with the criteria applied by IRIDE in drafting its consolidated financial statements and in compliance with the reference legislation, the effects of the merger on IRIDE's economic performance and balance sheet, in observance of the following general rule:

- with reference to the Balance sheet, in the assumption that the extraordinary transaction occurred at the end of the reference period of said Balance sheet, i.e. 31 December 2009;
- in relation to the Income statement, in the assumption that the extraordinary transaction occurred at the start of the reference period of said Income statement, i.e. 1 January 2009.

As at 30 September 2010, the income statement shows the figures in the assumption that the extraordinary transaction occurred at the start of the reference period of said Income statement, i.e. 1 January 2010, while the balance sheet at 30 September 2010 already shows the situation of the new Group and, therefore, does not show any differences between the statutory IREN Group figures and the pro-forma figures.

Income Statement

IREN GROUP CONSOLIDATED INCOME STATEMENT – FIRST NINE MONTHS OF 2010

(Amounts in thousands of Euro)

	First 9 months of 2010	First 9 months of 2009 (1) (2)	% Change
REVENUE			
Revenue from goods and services	1,712,185	1,538,903	11.3
Change in contract work in progress	2,399	358	(*)
Other revenue and income	118,822	129,618	(8.3)
Total revenue	**1,833,406**	**1,668,879**	**9.9**
OPERATING EXPENSE			
Purchase of raw materials, consumables, supplies and goods	(891,581)	(857,791)	3.9
Services and use of third-party assets	(467,534)	(366,784)	27.5
Other operating expense	(48,900)	(66,746)	(26.7)
Capitalised expenses for internal work	13,324	13,897	(4.1)
Personnel expense	(134,935)	(104,368)	29.3
Total operating expense	**(1,529,626)**	**(1,381,792)**	**10.7**
GROSS OPERATING PROFIT	**303,780**	**287,087**	**5.8**
AMORTISATION, DEPRECIATION AND PROVISIONS			
Amortisation/depreciation	(108,217)	(82,395)	31.3
Provisions	(37,990)	(17,587)	(*)
Total amortisation, depreciation and provisions	**(146,207)**	**(99,982)**	**46.2**
OPERATING PROFIT	**157,573**	**187,105**	**(15.8)**
FINANCIAL INCOME			
Financial income	8,646	20,684	(58.2)
Financial expense	(50,599)	(113,887)	(55.6)
of which non-recurring	-	*(64,312)*	
Net financial expense	**(41,953)**	**(93,203)**	**(55.0)**
Share of profit (loss) of associates measured using the equity method	9,551	7,570	26.2
Impairment losses on investments	(29)	(1,701)	(98.3)
PROFIT BEFORE TAX	**125,142**	**99,771**	**25.4**
Income tax expense	(46,823)	(111,659)	(58.1)
of which non-recurring	-	*(38,749)*	
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**78,319**	**(11,888)**	**(*)**
Profit from discontinued operations	1,783	6,172	(71.1)
CONSOLIDATED PROFIT FOR THE PERIOD	**80,102**	**(5,716)**	**(*)**
attributable to:			
- owners of the Parent	75,596	(10,373)	(*)
- non-controlling interests	4,506	4,657	(3.2)

(*) Change of more than 100%
(1) The figures are restated to reflect the adoption of IFRIC 12.
(2) The figures are restated to reflect recognition of Aquamet under assets held for sale.

IREN GROUP PRO-FORMA CONSOLIDATED INCOME STATEMENT – FIRST NINE MONTHS OF 2010

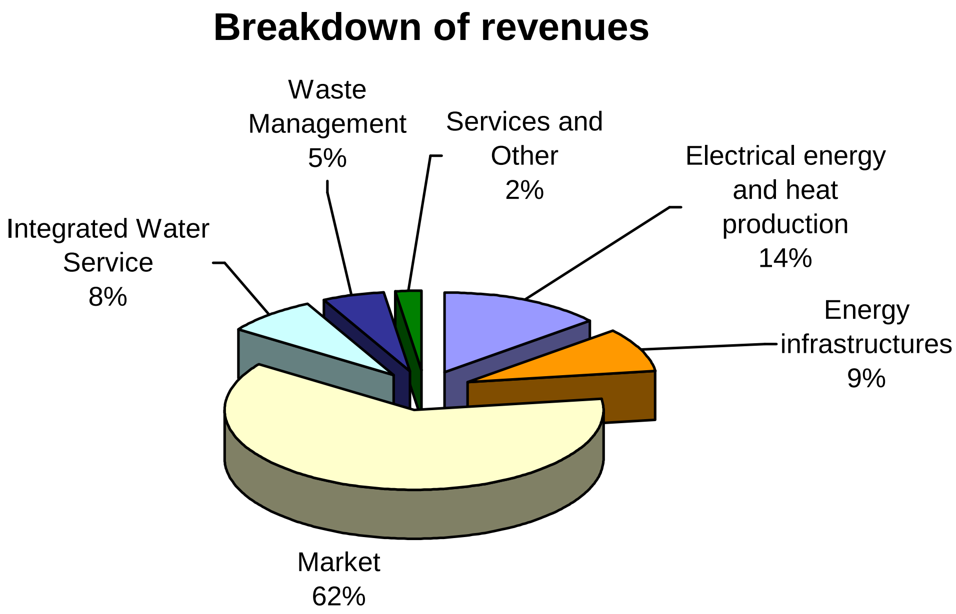
(Amounts in thousands of Euro)

	First 9 months of 2010 (pro-forma)	First 9 months of 2010 (pro-forma)	% Change
REVENUE			
Revenue from goods and services	2,242,812	2,258,352	(0.7)
Change in contract work in progress	2,469	482	(*)
Other revenue and income	139,525	155,530	(10.3)
Total revenue	**2,384,806**	**2,414,363**	**(1.2)**
OPERATING EXPENSE			
Purchase of raw materials, consumables, supplies and goods	(1,141,664)	(1,192,781)	(4.3)
Services and use of third-party assets	(603,157)	(562,466)	7.2
Other operating expense	(56,508)	(77,633)	(27.2)
Capitalised expenses for internal work	23,838	31,648	(24.7)
Personnel expense	(196,450)	(193,113)	1.7
Total operating expense	**(1,973,941)**	**(1,994,346)**	**(1.0)**
GROSS OPERATING PROFIT	**410,865**	**420,017**	**(2.2)**
AMORTISATION, DEPRECIATION AND PROVISIONS			
Amortisation/depreciation	(147,299)	(135,726)	8.5
Provisions	(54,066)	(36,336)	48.8
Total amortisation, depreciation and provisions	**(201,365)**	**(172,063)**	**17.0**
OPERATING PROFIT	**209,500**	**247,955**	**(15.5)**
FINANCIAL INCOME			
Financial income	17,824	25,175	(29.2)
Financial expense	(62,156)	(135,921)	(54.3)
of which non-recurring	-	*(64,312)*	
Net financial expense	**(44,332)**	**(110,746)**	**(60.0)**
Share of profit (loss) of associates measured using the equity method	11,613	10,395	11.7
Impairment losses on investments	(29)	(1,701)	(98.3)
PROFIT BEFORE TAX	**176,752**	**145,903**	**21.1**
Income tax expense	(62,794)	(130,247)	(51.8)
of which non-recurring	-	*(38,749)*	
PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS	**113,958**	**15,656**	**(*)**
Profit from discontinued operations	1,783	6,172	(71.1)
CONSOLIDATED PROFIT FOR THE PERIOD	**115,741**	**21,828**	**(*)**
attributable to:			
- owners of the Parent	110,072	15,442	(*)
- non-controlling interests	5,669	6,386	(11.2)

(*) Change of more than 100%

Revenue

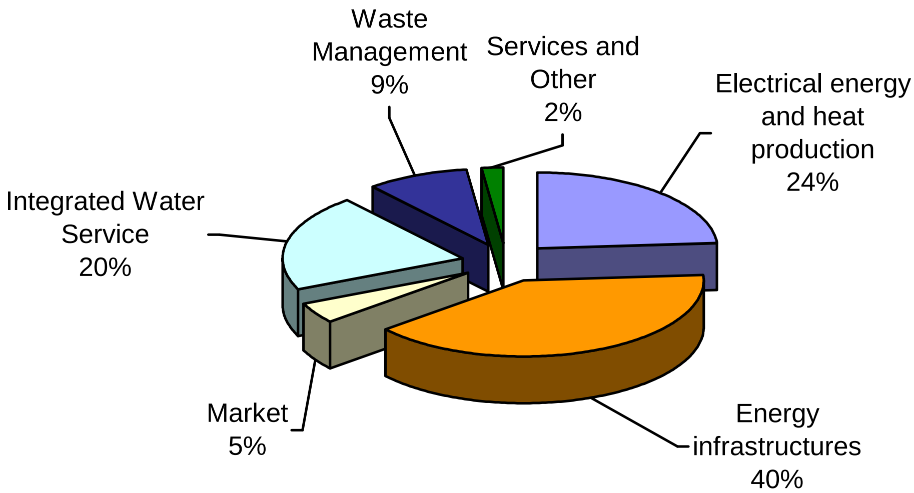
In the first nine months of 2010, the IREN Group recorded revenues of Euro 2,385 million, slightly down (-1.2%) compared to Euro 2,414 million registered in the first nine months of 2009. This trend is mainly linked to the negative price effect of commodities which outweighed the effect of higher volumes sold, and a lower contribution from green certificates accrued on hydroelectric energy and on cogeneration combined with district heating.



Gross operating profit

Gross operating profit (Ebitda) stood at Euro 411 million, down by 2.2% over Euro 420 million recorded in the first nine months of 2009. The decrease is mainly due to the Market and hydroelectric Production sectors, for the most part absorbed by the positive results achieved by the Heat, Energy network, Waste Management and Integrated Water Service sectors.

Ebitda breakdown



Operating profit
Operating profit reached Euro 210 million, down 15% over the first nine months of 2009, due to the aforementioned trends.
The deviation from the final figure recorded in the first nine months of 2009 is due to higher amortisation/depreciation of Euro 11 million and higher provisions totalling Euro 18 million.

The rise in amortisation/depreciation is linked to the increase in investments and the acceleration in certain amortisation/depreciation rates, while higher allocations totalling Euro 5 million were made to the provision for bad debts, and Euro 15 million to the provision for risks, of which roughly Euro 7 million for the likely payment to the Italian Authority for Electrical Energy and Gas for losses on electrical energy following State Council ruling no. 02943/210 and provisions of Euro 8 million for risks related to hydroelectric production for state payments and green certificates (Euro 6 million) and Court of Cassation ruling no. 335/08 on the water cycle (Euro 2 million).

Financial income and expense
Financial income and expense recorded a negative balance of Euro 44 million. Specifically, financial expense totalled Euro 62 million, down compared with the same period in 2009, as it includes an extraordinary component related to financial charges on the recovery of so-called “state aid” for Euro 64 million, whilst financial income amounted to Euro 18 million (-28%). The average cost of debt fell from 3.25% to 2.66%. The result for associates accounted for using the equity method was a positive 12 million, up by 14% compared with the same period in 2009.

Profit before tax
As a result of the trends indicated above, the consolidated profit before tax reached Euro 177 million, an increase of 21% compared to the first nine months of 2009.

Income tax expense
Income taxes for the first nine months of 2010 are estimated at Euro 63 million, a reduction of 52% compared to the same period in 2009, which included extraordinary components recorded during the period of Euro 39 million in relation to the recovery of so-called “state aid”. In addition, it was possible to apply non-recurring concessions in the first nine months of 2010 which had a positive impact on taxes. In particular, the non-applicability (following ministerial clarifications) in 2009 of the 1% increase in the “Robin Hood Tax” rate (additional IRES) and the tax concession for investments (known as the Tremonti Ter), envisaged by Decree Law no. 78 of 1/7/2009, converted to Law no. 102/2009, consisted of the reduction of company revenue by an amount equal to 50% of the value of investments carried out up to 30 June 2010.

Profit for the period from continuing operations
Profit from continuing operations stood at Euro 116 million, up considerably due to the cancellation of the recovery of the so-called "state aid".

Profit for the period
Net profit amounted to Euro 116 million, a considerable increase compared to Euro 22 million in the same period in 2009. Said increase discounts the recording, relative to the previous year, of the payment of state aid linked to the tax moratorium (+ Euro 103 million), higher dividends obtained from Delmi S.p.A. (+ Euro 7 million) and the positive tax impact of the Tremonti ter (+ Euro 10 million).
Net of the tax moratorium effect, net profit for the period is down 7% over the first nine months of 2009.

The main economic components are shown below, with comments for each business segment.

Generation of electrical energy and heat

The volume of business for the sector as at 30 September 2010 amounted to Euro 449 million, down by 10% compared to Euro 498 million in the first nine months of 2009.

Generation of electrical energy and heat

			2010 Cons 30.09	2009 Cons 30.09	Δ %
Revenue		€/mln.	448.9	498.1	-9.9%
Gross operating profit		€/mln.	98.4	131.1	-24.9%
Ebitda Margin			*21.9%*	*26.3%*	
Operating profit		€/mln.	39.2	85.8	-54.3%
Investments		€/mln.	133.4	59.6	123.8%
Electrical energy produced		**GWh**	**3,852**	**3,956**	-2.6%
	from hydroelectric power	*GWh*	782	1,109	*-29.5%*
	from thermoelectric power	*GWh*	3,070	2,847	*7.9%*
Heat produced		**GWh_t**	**1,713**	**1,515**	13.1%
	from cogeneration	*GWh_t*	1,278	1,077	*18.6%*
	from a non-cogeneration source	*GWh_t*	435	437	*-0.5%*

Electrical energy produced in the first nine months of 2010 totalled 3,852 GWh, down by 3% compared to the same period in 2009, due to the combined effect of higher cogeneration production (+8%) and lower hydroelectric production (-30%), due mainly to lower water levels and the scheduled unavailability of Valle Orco plants, for the Repowering of the Rosone plant, and the Pont Ventoux plant.
Heat production stood at 1,713 GWht, up by 13% compared to the same period in 2009, as a result of an increase in connected volumes and higher daytime temperatures.

The gross operating profit stood at Euro 98 million, down by 25% over the first nine months of 2009; this decrease, amounting to Euro 33 million over the previous year in absolute terms, was due to a combination of the following factors:

• down Euro 46 million in the hydroelectric sector, predominantly due to lower volumes generated (-327 GWh) and lower contribution from green certificates; in addition, 2009 benefited from prior year income for repayments of penalties that were not incurred in the first nine months of 2010;
• down Euro 6 million in the cogeneration sector, due mainly to lower margins on electrical cogeneration, only partially offset by higher volumes produced (+223 GWh).
• up Euro 21 million in the heat sector, predominantly due to greater volumes (+201 GWht from cogeneration), and higher contributions from green certificates, only partially offset by lower margins on heat generation.

Operating profit totalled around Euro 39 million (-54% compared to the first nine months of 2009).

Technical investments in the sector stood at roughly Euro 133 million and mainly regard cogeneration (Euro 106 million), almost entirely for the Torino Nord project, hydroelectric production (Euro 22 million), for the repowering of Valle Orco hydroelectric plants and investments in renewable energy (Euro 4 million).

Energy infrastructures

The Energy Networks sector, which includes the gas distribution and electrical and heat energy businesses, recorded revenues of Euro 289 million in the period, marking an increase of 12% compared to Euro 258 million in the first nine months of 2009.
The gross operating profit amounted to Euro 164 million, up by 18.4% compared to Euro 139 million in the first nine months of 2009. The operating profit amounted to Euro 106 million, up by +22% compared to Euro 87 million in the first nine months of 2009.

energy infrastructures

			2010 Cons 30.09	2009 Cons 30.09	Δ %
Revenue		€/mln.	289.1	258.1	12.0%
Gross operating profit		€/mln.	164.3	138.8	18.4%
Ebitda Margin			*56.8%*	*53.8%*	
	from Electrical Networks	*€/mln.*	63.6	49.8	*27.7%*
	from Gas Networks	*€/mln.*	68.4	58.6	*16.7%*
	from District heating	*€/mln.*	32.3	30.4	*6.3%*
Operating profit		€/mln.	106.2	87.1	21.9%
Investments		€/mln.	110.0	116.6	-5.6%
	in Electrical Networks	*€/mln.*	17.2	24.7	-30.4%
	in Gas Networks	*€/mln.*	34.7	29.4	18.0%
	in District heating Networks	*€/mln.*	27.6	19.3	43.0%
	in Regasification plants	*€/mln.*	30.5	43.2	-29.3%
Electrical energy distributed		GWh	3,187	3,177	0.3%
Gas distributed		Mln mc	1,433	1,334	7.4%
District heating volumes		Mln mc	65	61	5.5%

Electricity networks
The gross operating profit amounted to Euro 64 million, up considerably compared to Euro 50 million in the first nine months of 2009 (+27.7%). The increase was mainly due to the higher contribution margin and the positive balance of certain contingencies relating to the equalisation of previous years and the service continuity bonus.

Investments totalling roughly Euro 17 million were made during the period, mainly for the replacement of electronic meters, new connections and the construction of new HV/MV primary transformation stations.

Distribution of methane gas
The gross operating profit of gas distribution amounted to Euro 68 million, an increase of 16.7% compared to the first nine months of 2009 (Euro 59 million). The increase of roughly Euro 10 million over the corresponding period in 2009 was due to tariff increases (Euro 7 million), around Euro 3 million of which constituted by the recovery of the discrepancy due to the revision of tariff mechanisms introduced by resolution 159/08 and subsequent decisions of the Italian Authority for Electrical Energy and Gas, and higher revenues and lower sundry costs (approximately Euro 3 million).

Technical investments by the sector amounted to roughly Euro 35 million, mainly concerning the 10-year network redevelopment plan realised through the replacement of grey cast iron pipes, in compliance with the provisions of the Italian Authority for Electrical Energy and Gas resolution 168/04 and through the development of the distribution network and connections in the main areas served by the Group (Genoa, Turin, Reggio Emilia and Parma).

District heating

The district heating business unit recorded a gross operating profit of Euro 32 million, up by 6% compared to Euro 30 million in the corresponding period in 2009.
Investments totalling roughly Euro 28 million were made during the first nine months of 2010, prevalently in the Torino Nord project (Euro 15 million), Nichelino Energia (Euro 5 million) and the Emilia-Romagna region (Euro 7 million).

Regasification plant

Investments made by the sector relate to the construction of the Livorno regasification plant (OLT), amounting to Euro 30.5 million, compared with Euro 43.2 million at the end of the first nine months of 2009.

Integrated water service

The sector's volume of business amounted to Euro 255 million, an increase of 5.8% compared to Euro 241 million in the same period in 2009.

Integrated Water Service

		2010 Cons 30.09	2009 Cons 30.09	Δ %
Revenue	€/mln.	255.0	241.0	5.8%
Gross operating profit	€/mln.	83.4	78.4	6.4%
Ebitda Margin		*32.7%*	*32.5%*	
Operating profit	€/mln.	30.1	35.6	-15.4%
Investments	€/mln.	65.3	71.8	-9.1%
Water sold	Mln mc	141	144	-2.0%

The rise in revenues is mainly attributable to the tariff increases resolved by the ATOs (Optimal District Authorities) in all areas managed by the Group (Mediterranea delle Acque, Società Acque Potabili and the Emilia-Romagna region).

The gross operating profit stood at Euro 83 million, up by 6.4% compared with Euro 78 million in 2009. This change is mainly due to tariff increases resolved by the ATOs.
Both Mediterranea delle Acque and the Emilia-Romagna area also recorded a decrease in the volumes of water sold in the third quarter of 2010, when compared to the same period in 2009. The Reggio Emilia ATO approved the updating of the Integrated Water Service Tariffs by means of resolution no. 14 of 29/10/2010. These increases relate to the second half of 2010 and will be applied during said period.
The operating profit totalled Euro 30 million, down 15.4% compared to the first nine months of 2009. This decrease was a result of not only higher allocations to the provision for bad debts and the provision for risks due to ruling 335/08 from the Court of Cassation, but higher amortisation in relation to the increase in fixed capital.
Technical investments in the integrated water services management sector amounted to roughly Euro 65 million, for the construction of infrastructures set out in the Area Plan for the development of the distribution network, sewerage network and treatment systems.

Market

The volume of business of the market area amounted to Euro 1,996 million, down slightly (-2.2%) compared to Euro 2,042 million in the same period in 2009.
A summary of the economic results per business sector is shown below:

Market

		2010 Cons 30.09	2009 Cons 30.09	Δ %
Revenue	€/mln.	1,996.3	2,042.1	-2.2%
Gross operating profit	€/mln.	18.5	35.9	-48.5%
Ebitda Margin		*0.9%*	*1.8%*	
from Electrical Energy	*€/mln.*	2.9	19.3	-85.0%
from Gas	*€/mln.*	12.3	12.1	1.7%
from Heating and District Heating	*€/mln.*	3.3	4.5	*-26.7%*
Operating profit	€/mln.	9.0	24.7	*-63.6%*
Electrical Energy Sold	GWh	11,011	11,075	-0.6%
Electrical energy sold net of Power Exchange purchase/sales	GWh	8,674	9,688	-10.5%
Gas purchased	Mln mc	2,146	1,904	12.7%
Gas marketed by the Group	Mln mc	1,393	1,087	28.1%
Gas for internal use	Mln mc	753	816	-7.8%

Sale of natural gas
The total volume of natural gas supplied in the first nine months of the year came to roughly Euro 2,146 million cubic metres (around Euro 1,904 million cubic metres in 2009), and refers to the gas sold both to customers outside the Group and the gas used within the Group for the generation of electrical energy and the supply of heat services.
The higher volumes sold compared to 2009 benefit from the favourable seasonal element and the effect of commercial development on both the retail market and the business market (Tirreno Power).

The gross operating profit stood at Euro 12.3 million, in line with the first nine months of 2009.

Sale of electrical energy
Volumes sold on the free market totalled 10,002 GWh; 9,913 GWh in 2009 (+1%).
In 2010, the availability of electrical energy from internal IREN Group production (IREN Energia, Tirreno Power), was in line with the figure recorded in the previous year, amounting to 4,104 GWh (4,240 GWh in 2009), while volumes generated by the management of Edipower tolling recorded a decrease, amounting to 1,035 GWh (1,410 GWh in 2009).
Volumes sold to end customers and wholesalers amounted to 5,518 GWh versus the 5,965 GWh of 2009; gross sales on the power exchange amounted to 4,399 GWh versus the 3,871 GWh of 2009, and the remaining part of volumes sold mainly refers to infra-group transactions and distribution losses.

The gross operating profit from sales of electrical energy amounted to Euro 2.9 million, down by Euro 16.4 million compared to the previous year (Euro 19.3 million in 2009). This fall was due to energy overcapacity and the trend in energy market scenarios.

Market development
The Group continued with customer development activities in 2010, with the dual objective of consolidating its presence in the market, through targeted customer loyalty schemes, and expanding its perimeter into areas of interest adopting market penetration measures (consolidation of sales channels and extension of telesales activities to the Emilia-Romagna area and differentiation of offers by customer segment).
The series of activities carried out allowed the Group to significantly increase the number of customers served, compared to 31 December 2009.

Sale of heat through district heating networks:
The gross operating profit amounted to Euro 3.3 million in the first nine months of 2010, compared with Euro 4.5 million in the same period in 2009.

Waste Management

Waste Management Service

			2010 Cons 30.09	2009 Cons 30.09	Δ %
Revenue		€/mln.	170.6	157.7	8.2%
Gross operating profit		€/mln.	38.1	31.5	21.0%
Ebitda Margin			*22.3%*	*20.0%*	
Operating profit		€/mln.	19.1	13.8	38.4%
Investments		€/mln.	22.1	20.2	9.4%
Waste treated		tonnes	744,792	718,503	3.7%
	Urban waste	tonnes	596,465	598,049	-0.3%
	Special waste	tonnes	148,327	120,453	23.1%

The sector's volume of business totalled Euro 171 million, against Euro 158 million in the first nine months of 2009. The increase in waste collection and disposal tariffs resolved by the ATOs and higher volumes of special waste treated were the main reasons for the increase in revenues in the period in question.
The sector’s gross operating profit amounted to Euro 38.1 million, significant growth of 21% over the Euro 31.5 million recorded in the same period in 2009. The increase was mainly due to tariff increases (Euro 7 million), and other revenues (generation of energy, recovery of materials, and dump contingencies). The methods of differentiated collection were further extended throughout the region during the period. This involved higher costs, only partially offset by lower disposal costs.

Technical investments made by the waste management sector amounted to roughly 22 million, mainly due to the progress in the completion of the Parma Integrated Waste Management Hub (equal to around Euro 13 million), for equipment to support differentiated waste collection and other disposal plants (totalling approximately Euro 9 million).

Services

Other Group services include Global Service, Facility Management, Telecommunication, Street Lighting, Cemetery services and other minor services.
Revenues amounted to Euro 71.5 million, a slight decrease of 2.9% compared to Euro 73.6 million recorded in the same period of 2009.
The fall in margins reflect the reduction agreements of existing conventions.

Services

		2010 Cons 30.09	**2009 Cons 30.09**	**Δ %**
Revenue	€/mln.	71.5	73.6	-2.9%
Gross operating profit	€/mln.	12.3	14.8	-16.9%
Ebitda Margin		*17.2%*	*20.1%*	
Operating profit	€/mln.	8.5	11.4	-25.4%

STATEMENT OF FINANCIAL POSITION

RECLASSIFIED BALANCE SHEET OF THE IREN GROUP AT 30 SEPTEMBER 2010

(Amounts in thousands of Euro)

	30.09.2010	31.12.2009	% Change
Non-current assets	4,465,580	2,858,104	56.2
Other non-current assets (liabilities)	(115,291)	11,822	(*)
Net working capital	241,238	111,903	(*)
Deferred tax assets (liabilities)	28,728	(14,125)	(*)
Provisions and employee benefits	(340,964)	(169,926)	(*)
Assets (Liabilities) held for sale	34,840	7,838	(*)
Net invested capital	**4,314,131**	**2,805,616**	**53.8**
Equity	1,930,436	1,386,603	39.2
Long-term financial assets	*(272,713)*	*(279,154)*	*(2.3)*
Medium and long-term financial indebtedness	*1,727,501*	*1,338,039*	*29.1*
Medium and long-term net financial indebtedness	1,454,788	1,058,886	37.4
Short-term financial assets	*(359,733)*	*(222,949)*	*61.4*
Short-term financial indebtedness	*1,288,640*	*583,077*	*(*)*
Net short-term financial indebtedness	928,907	360,128	(*)
Net financial indebtedness	2,383,695	1,419,013	68.0
Own funds and net financial indebtedness	**4,314,131**	**2,805,616**	**53.8**

(*) Change of more than 100%

RECLASSIFIED PRO-FORMA BALANCE SHEET OF THE IREN GROUP AT 30 SEPTEMBER 2010

(Amounts in thousands of Euro)

	30.09.2010	31.12.2009 pro-forma	% Change
Non-current assets	4,465,580	4,287,890	4.1
Other non-current assets (liabilities)	(115,291)	(127,776)	(9.8)
Net working capital	241,238	121,850	98.0
Deferred tax assets (liabilities)	28,728	9,015	(*)
Provisions and employee benefits	(340,964)	(323,513)	5.4
Assets (Liabilities) held for sale	34,840	8,980	(*)
Net invested capital	**4,314,131**	**3,976,446**	**8.5**
Equity	1,930,436	1,920,750	0.5
Long-term financial assets	*(272,713)*	*(279,153)*	*(2.3)*
Medium and long-term financial indebtedness	*1,727,501*	*1,870,294*	*(7.6)*
Medium and long-term net financial indebtedness	1,454,788	1,591,141	(8.6)
Short-term financial assets	*(359,733)*	*(249,645)*	*44.1*
Short-term financial indebtedness	*1,288,640*	*714,200*	*80.4*
Net short-term financial indebtedness	928,907	464,555	100.0
Net financial indebtedness	2,383,695	2,055,696	16.0
Own funds and net financial indebtedness	**4,314,131**	**3,976,446**	**8.5**

(*) Change of more than 100%

The main balance sheet trends in the nine months ended at 30 September 2010 are commented on below.

The increase in **non-current assets** reflects the progress of investments, with particular reference to: the generation of electrical energy with the Torino Nord project, amounting to Euro 106 million, energy infrastructures (gas networks totalling Euro 34 million, district heating networks amounting to Euro 28 million and electrical networks for Euro 23 million), the water cycle totalling Euro 65 million, the market, with the OLT project, for Euro 31 million and waste management for Euro 22 million.

The increase in **Net Working Capital** reflected the seasonal trend in trade payables and receivables and tax items.

The rise in **deferred taxes** was essentially due to the increases in the Provision for Bad Debts and the **Provision for risks**, mainly due to allocations for losses on electrical energy following State Council ruling no. 02943/2010 and ruling no. 335/08 from the Court of Cassation regarding the integrated water cycle.

The increase in **assets held for sale** was affected by the reclassification of the net assets of subsidiary Aquamet whose sale will be completed by the end of 2010.

The increase in **equity** is mainly a result of profit for the period and the distribution of dividends totalling Euro 111 million.

Higher **net financial indebtedness** is a result of temporary differences in working capital and outlay for investments. The cash flow statement shown below provides an analytical breakdown of the reasons for the changes in the first nine months of 2010.

CASH FLOW FIGURES

PRO-FORMA CASH FLOW STATEMENT OF THE IREN GROUP

(Amounts in thousands of Euro)

	First 9 months of 2010 (pro-forma)	First 9 months of 2009 (pro-forma)	% change
A. Opening cash and cash equivalents	**56,905**	**120,123**	**(52.6)**
Cash flow from operating activities			
Profit for the period	115,741	21,828	(*)
Adjustments:			
Depreciation of property, plant and equipment and amortisation of intangible assets	147,299	135,726	8.5
Net change in post-employment benefits and other employee benefits	(2,566)	(2,973)	(13.7)
Net change in the provision for risks and charges	20,017	12,086	65.6
Profit from the sale of discontinued operations net of tax effects	(1,783)	(6,172)	(71.1)
Change in advanced/deferred taxes	(19,713)	4,230	(*)
Change in other non-current assets (liabilities)	(12,485)	(627)	(*)
Dividends received	(6,665)	(5,038)	32.3
Share of profits of associates	(11,613)	(10,395)	11.7
Net impairment losses (reversals of impairment losses) on investments	29	1,701	(98.3)
B. Operating cash flow before changes in net working capital	**228,260**	**150,366**	**51.8**
Change in inventories	(2,649)	(567)	(*)
Change in trade receivables	5,923	269,639	(97.8)
Change in tax receivables and other current assets	52,882	(98,835)	(*)
Change in trade payables	(174,605)	(300,551)	(41.9)
Change in tax payables and other current liabilities	(939)	148,211	(*)
C. Cash flow generated by changes in net working capital	**(119,388)**	**17,897**	**(*)**
D. Cash flow from operating activities (B+C)	**108,872**	**168,263**	**(35.3)**
Cash flows from investing activities			
Investments in property, plant and equipment/intangible assets	(363,549)	(320,226)	13.5
Investments in financial assets	(7,717)	(6,844)	12.8
Proceeds from the sale of investments, changes in consolidation scope and assets held for sale	34,466	10,210	(*)
Transfer of discontinued operations net of cash disposed of	-	11,445	(100.0)
Dividends received	6,665	5,038	32.3
Other changes in financial assets	(681)	(1,094)	(37.8)
E. Total cash flows from investing activities	**(330,816)**	**(301,471)**	**9.7**
F. Free cash flow (D+E)	**(221,944)**	**(133,208)**	**66.6**
Cash flows from financing activities			
Dividends paid	(110,589)	(111,179)	(0.5)
Other changes in equity	4,534	(14,727)	(*)
Change in financial receivables	(55,395)	(75,731)	(26.9)
Change in financial payables	431,647	296,341	45.7
G. Total cash flow from financing activities	**270,197**	**94,704**	**(*)**
H. Cash flows for the period (F+G)	**48,253**	**(38,504)**	**(*)**
I. Closing cash and cash equivalents (A+H)	**105,158**	**81,619**	**28.8**

(*) Change of more than 100%

Net financial indebtedness stood at Euro 2,384 million at 30/09/2010, up by Euro 328 million compared to 31/12/2009, due to a negative free cash flow of Euro 222 million, in addition to the change in equity, including dividends paid, amounting to a negative Euro 106 million.
The free cash flow, a negative Euro 222 million, derives from the combined effect of the following:
- the operating cash flow was a positive Euro 109 million, down by Euro 59 million compared to the first nine months of 2009, mainly due to greater use of resources at net working capital level;

- the cash flow from investment activities, a negative Euro 331 million, was generated by investments in plant, property and equipment and in intangible assets totalling Euro 364 million (including investments in the construction of infrastructures under concession in accordance with IFRIC 12), investments in non-current financial assets totalling Euro 8 million and from the investments made and the change in assets held for sale relating to subsidiary Aquamet amounting to Euro 41 million.

MARKET CONTEXT

The domestic energy context

In the January-September 2009 period, net electrical energy production in Italy totalled 213,074 GWh, a slight increase of 2.1% compared to the same period of 2009. The demand for electrical energy, equal to 243,347 GWh (+1.7%), was 87.2% met by domestic production (+2.1%), with the remaining 12.8% coming from cross-border energy imports (-3.6%). At domestic level, thermoelectric production totalled 164,413 GWh, an increase of 5.4% over 2009 and covered 77.2% of demand. Production from hydroelectric sources was 37,937 GWh (-14% compared to 2009) covering 17.8% of demand, whilst geothermal, wind energy and photovoltaic production amounted to 10,724 GWh (+25.9%) and met 5% of demand.

Cumulated electrical energy supply and demand
(GWh and trend-based changes)

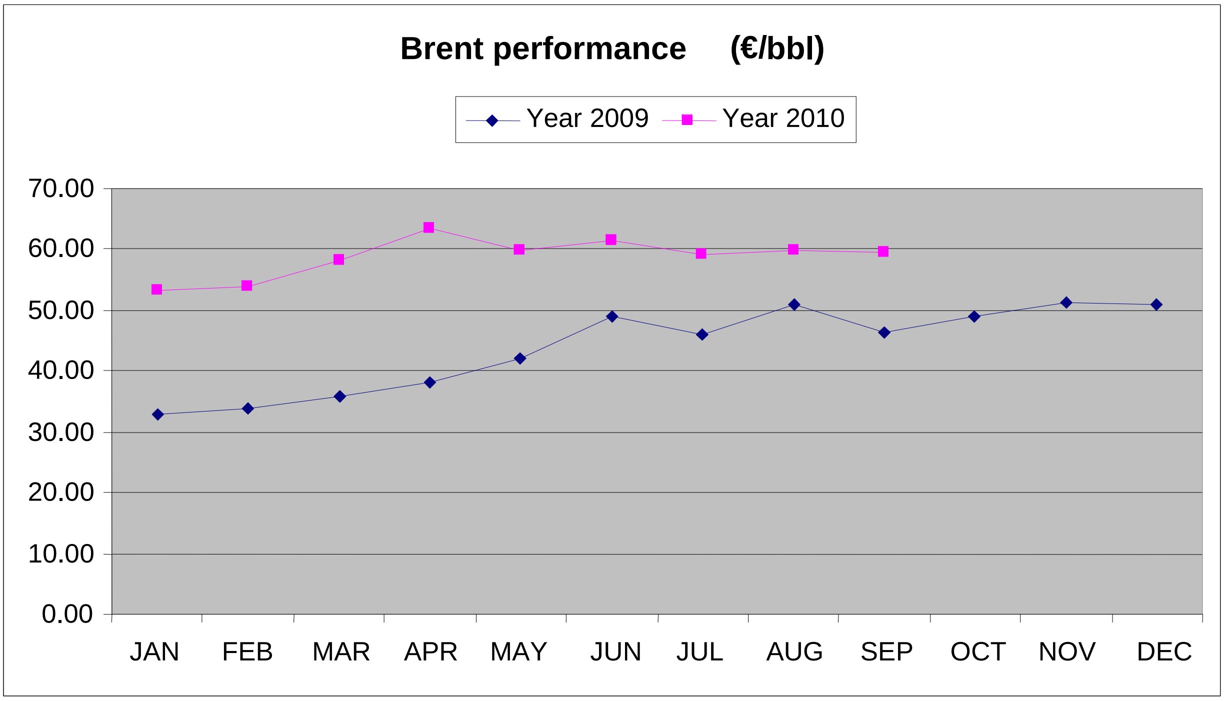
	up to 30/09/2010	**up to 30/09/2009**	**% changes**
Demand	**243,347**	**239,264**	**1.7%**
- North	110,799	108,140	2.4%
- Central region	71,014	71,020	0.0%
- South	36,417	34,870	4.4%
- Islands	25,117	25,234	-0.5%
Net production	**213,074**	**208,639**	**2.1%**
- Hydroelectric	37,937	44,113	-14.0%
- Thermoelectric	164,413	156,009	5.4%
- Geothermoelectric	3,728	3,739	-0.3%
- Wind and photovoltaic	6,996	4,778	46.4%
Foreign balance	**33,607**	**34,845**	**-3.6%**

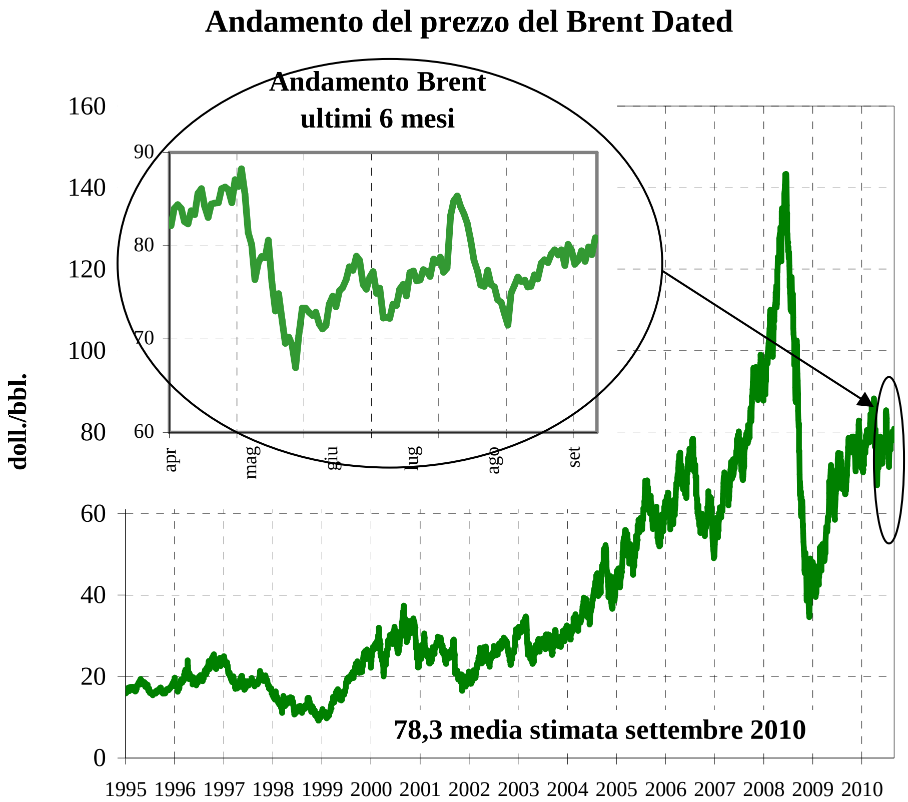
Source: RIE processing of TERNA data

The first nine months of 2010 on the whole saw a recovery in the demand for electrical energy compared to the previous year, especially in the January-July period (+2.5%). By contrast, the last two months (August and September) recorded a decrease compared to the same period in 2009 (-2.5% and -1.6% respectively). It should be pointed that 2009 saw a considerable fall in the demand for electrical energy (-5.7% compared to 2008), concentrated particularly in the first seven months of the year (-7.6%). However, the signs evident in the last two months of 2010 show a slowdown in comparison with the growth of the previous months.

During the first nine months of 2010 the average price of crude oil was Dollars/bbl 77.14, an increase compared to the same period of 2009 (+35%). The average €/$ exchange rate was 1.32, down by 0.04 cents compared to the average recorded in the same period in 2009. Due to previous trends, the average price of crude oil in Euros stood at 58.79 €/bbl in 2010, an increase of 29% over the average price in 2009.

The third quarter of 2010 was characterised by a high level of intra-month volatility in Brent Dated prices, while a look at the monthly averages shows that there were no significant fluctuations in the period, but a trend-based and moderate increase. In fact, the trend in prices over the last 12 months indicates considerable and protracted stability in oil prices which fluctuated within a moderate range of around 10 dollars (70-80 doll/bbl), rather different from recent trends.

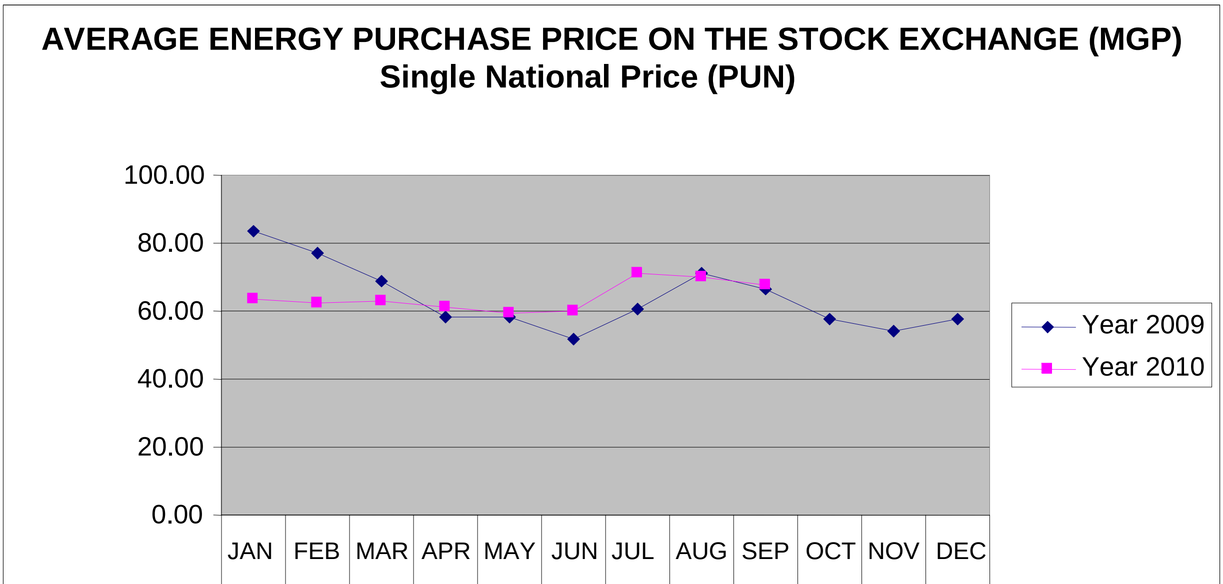




Key: Price performance of Brent Dated; 6-month performance of Brent Dated; Estimated September 2010 average

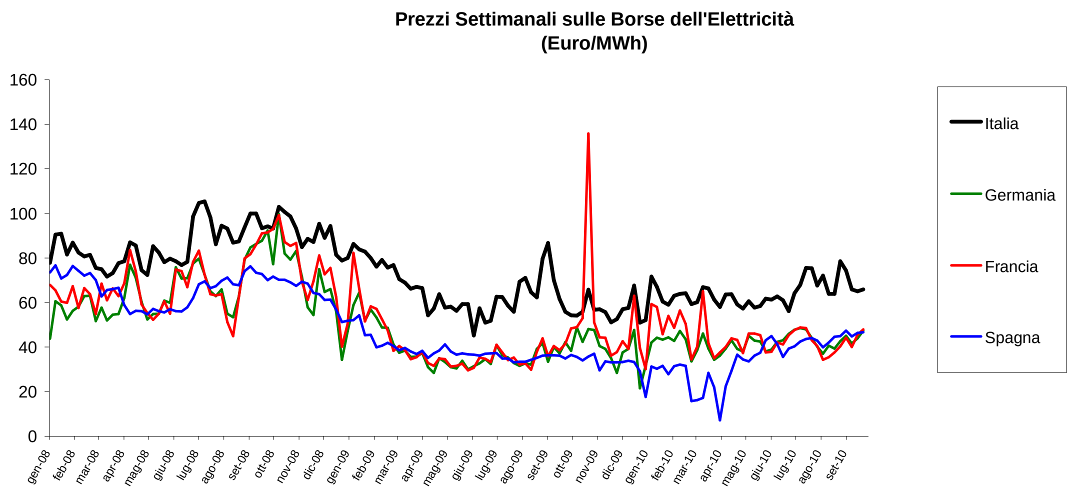
Source: Rie on Platts data

The average energy purchase price on the Power Exchange in the first nine months of 2010 stood at 64.20 €/MWh, down by 2.04 €/MWh (-3%) compared to the same period in 2009.



	JAN	FEB	MAR	APR	MAY	JUN	JUL	AUG	SEP	OCT	NOV	DEC
Year 2009	83.45	76.95	69.00	58.36	58.51	51.82	60.50	71.07	66.49	57.63	53.93	57.39
Year 2010	63.45	62.55	62.73	61.31	59.36	60.20	70.90	69.91	67.37			

Sales price trends differed greatly from one area to another: the Northern and Southern regions both recorded an increase of 6.1% YoY, prices remained essentially stable in the Central Northern and Central Southern regions and were down in the two islands (-35.3% in Sardinia and -16.7% in Sicily). The South continued to record the lowest price of 62.20 €/MWh, the other continental zones registered prices of between 65 and 66 €/MWh, and the two islands recorded the highest price: 70.85 €/MWh in Sardinia and 83.18 €/MWh in Sicily.



Key: Weekly prices on the Electricity Exchange
Italy – Germany – France – Spain
Jan – Feb – Mar – Apr – May – Jun – Jul – Aug – Sept – Oct – Nov - Dec

Stock Exchange liquidity fell by 5.4% YoY in the first nine months of 2010, standing at 62.8% (148.9 TWh), the lowest since 2007. By contrast, the Forward Electricity Account Trading Platform (Piattaforma dei Conti Energia – PCE) saw an 18% increase in trading, reaching 37.2% of electricity demand (equal to roughly 88.2 TWh).
The table below outlines and compares the January and September futures prices. The annual futures prices showed little change, ranging from 68.88 €/MWh at the start of the year to the monthly average of 68.36 €/MWh in September.

Jan-10		Sept-10	
Futures		**Futures**	
Monthly	**€/MWh**	**monthly**	**€/MWh**
Feb-10	62.10	Oct-10	65.89
Mar-10	60.56	Nov-10	69.44
Apr-10	59.04	Dec-10	68.57
quarterly		**quarterly**	
Jun-10	60.92	Dec-10	68.12
Sept-10	66.72	Mar-11	69.22
Dec-10	67.39	Jun-11	63.29
Mar-11	69.40	Sept-11	70.31
annual		**annual**	
Dec-11	68.66	Dec-11	68.36

Source: RIE processing of IDEX data

The Natural Gas Market

Natural gas withdrawn at September 2010 stood at 47,000 million cubic metres, marking an increase of 10% over the same period in 2009. Imports increased by 10% compared to 2009 and domestic production rose to 6,700 million cubic metres, signalling a 2% increase over the same period in 2009.

Total natural gas consumption per calendar year and per thermal year is shown below.

Table 2. Natural gas consumption per calendar year and per thermal year
(Gmc and change)

	2008 *	2009*	2010 *	2010 vs 2008	2010 vs 2009	Thermal Year 07*	Thermal Year 08*	Thermal Year 09*	Thermal Year 09 vs Thermal Year 07	Thermal Year 09 vs Thermal Year 08
Imports	55.0	47.8	52.6	-4%	10%	77.0	67.9	72.1	-6%	6%
National production	6.7	6.0	6.1	-10%	2%	9.1	8.3	8.2	-11%	-2%
Withdrawals from storage	-2.2	-1.3	-2.1	-5%	62%	-0.2	-0.4	0.2	-200%	-154%
Thermoelectric sector	24.5	19.8	21.1	-14%	6%	33.6	28.0	29.3	-13%	5%
Industrial sector	10.9	8.5	9.8	-10%	15%	15.0	11.8	13.1	-13%	11%
Distribution	22.0	22.1	23.7	8%	7%	34.2	33.2	35.3	3%	6%
Other	2.4	2.2	2.0	-17%	-8%	3.3	3.0	2.8	-16%	-6%
Total withdrawn	**48.7**	**42.6**	**47.0**	**-3%**	**10%**	**75.5**	**66.0**	**70.9**	**-6%**	**7%**

* Figures until 23 September
Source: Snam Rete Gas figures

Based on Snam Rete Gas figures, total volumes of gas required by the market from the start of the year were 7.8% higher than 2009, amounting to roughly 4.2 billion cubic metres, and 5% lower compared to 2008. The recession started to hit gas consumption hard from October 2008.
As regards the increase of 4.3 billion cubic metres, roughly 1.7 billion cubic metres was due to withdrawals from distribution plants (+7.4%), related in particular to more severe temperatures and their extension into late spring, 1.2 billion cubic metres due to thermoelectric uses (+6.1%) and 1.40 billion cubic metres relating to the industrial segment (+15.9%). The thermoelectric sector recorded lower consumption than pre-crisis years 2008 and 2007 of 13.8% and 11.6% respectively; the industrial sector's consumption was down by 9.3% and 10.6%.
After 7 months in which total consumption increased over the same period in 2009, August and September saw decreases of 3.7% and 2.0% respectively. The reduction was due in particular to lower use of gas for thermoelectric needs (-15.4% and -11.2%), while the industrial segment, by contrast, recorded increases of 24.2% and 17.3% when compared to 2009.

RIE source: processing of preliminary figures by Snam Rete Gas

	January-September						
Values in ml cm	***2010***	***2009***	***2008***	***2007***	***% Change 10/09***	***% Change 10/08***	***% Change 10/07***
Distribution plants	24,093	22,434	22,351	20,238	7.4%	7.8%	19.0%
Thermoelectric	21,773	20,513	25,246	24,642	6.1%	-13.8%	-11.6%
Industrial	10,187	8,785	11,232	11,392	15.9%	-9.3%	-10.6%
Third party network and market consumption (*)	2,030	2,096	2,302	1,903	-3.1%	-11.8%	6.7%
Total withdrawn	58,083	53,828	61,130	58,175	7.9%	-5.0%	-0.2%

(*) Includes: transport, exports, transport company redeliveries, reservoir/widening changes, losses, consumption and gas not accounted for.
Source: processing of Snam Rete Gas figures. Final figures up to March 2010, non-definitive figures for April-June 2010, preliminary figures for July-September 2010

At the end of July, the blockage of the Transitgas pipeline, which carries gas into the Italian network through the Passo Gries entry point (coming mainly from the Netherlands and Norway) and which, in 2009, transported more than 13 billion cubic metres (roughly 17% of imports), led the Ministry to ask operators, as a precautionary measure, to speed up the refilling of storage tanks, by availing themselves of the increase in imports from other pipelines and from regasification terminals. As a result of the guidelines from MSE (Ministry of Economic

Development), the Italian Authority for Electrical Energy and Gas implemented transitory measures on the balancing fees for transport and storage, reducing the risk of penalties in order to facilitate the use of the storage capacities conferred.
The pipeline could be out of operation for several months, but it is still unclear for how long. The blockage seems to have caused price tension on the Italian market. The price on the PSV (Italian Virtual Gas Hub) is significantly higher than the price recorded on European hubs. This led the Italian Authority for Electrical Energy and Gas (resolution VIS 108/10) to launch a preliminary enquiry on the market situation following the interruption of the Transitgas pipeline and the "persistent difficulties faced in refilling the storage sites".
According to Stogit communications, as at 31 October (end of the formal injection period), the sites will be refilled to roughly 96.5% of the total capacity conferred.

Legislative changes

Document C 5/10 for the consultation of the Italian Authority for Electrical Energy and Gas.

With document for consultation no. 5/10 of 26/03/10, the Italian Authority for Electrical Energy and Gas outlined the elements which could modify the methods of updating of the economic conditions of gas supply. In particular, given that there are no measures able to promote competition within the entire wholesale market, in order to remove the effects of the exercising of market power on the value assumed by the Qe (energy quota) and to ensure that the purchase strategies used on the wholesale market by operators guarantee an adequate pass-through of market prices in respect of end customers, provision may be made for:
- having the Single Buyer assume, also as regards gas, a similar role to the one performed in the electricity market (single supplier);
- the obligation of the operator to transfer quantities of gas to the Single Buyer, at efficient costs, equal to those intended for the civil market. The Single Buyer may therefore purchase the remaining quantities of gas on the market by deciding, as a third party, how and when to purchase the necessary quantities by determining the Qe (energy quota) on the basis of its average supply costs.

Gas Exchange

According to Ministerial Decree of 18 March 2010, from 1/10/2010 GME is to assume the role of gas market central counterparty. GME has made its intention known to launch a spot market on this date, thus transforming the P/gas from a platform to a genuine stock exchange similar to what happens on the electricity market.

Resolution ARG/Gas 89/10

The 2010 economic situation, characterised by increased competition in the upstream market due to new supply/demand relations and the availability of low cost infra-year gas assets, has allowed at least one of the operators (contrary to what generally happened in the past, the economic situation favoured the non-integrated operator as opposed to those with long-term contracts), more favourable procurement costs compared to previous thermal years and, subsequently, more space for competition. This began to be reflected on the end market with discounted offers compared to reference prices set by the Italian Authority for Electrical Energy and Gas, the first thermal year this happened. However, the Italian Authority for Electrical Energy and Gas deemed said offers insufficient to automatically reflect the new supply conditions and with resolution ARG/Gas no. 89/10, effective from 1 October 2010 and for thermal year 2010-

2011, reduced the QE (energy quota) and therefore the CCI (wholesale trade fee), by roughly 2 Eurocents/cubic metre. This figure rises in the event of an increase in the reference It index (i.e. increase in the price of reference fuels) or decreases in the opposite case.
The reduction may have repercussions on the margins of sales companies, in correlation with the specific procurement methods and on the scope and outcomes of any upstream renegotiation of long-term contracts.
A number of operators submitted an appeal against the resolution to the Regional Administrative Court of Lombardy. The Regional Administrative Court is expected to announce a judgment by the end of the year.

Resolution ARG/elt 161/10 of 28 September 2010

This resolution defined the criteria for determining the fees to be paid to the essential plants for the safety of the electrical system pursuant to articles 64 and 65 of the Italian Authority for Electrical Energy and Gas resolution no. 111/06, dated 9 June 2006.
After the first consultation document in August 2009 and the following document in May 2010, the Italian Authority for Electrical Energy and Gas reviewed the mechanism for the recognition of costs for the essential units for the safety of the electrical system.
The actual objective was to ensure compliance with the provisions of law no. 2/09, where the principle was established according to which the regulation of the essential units was to be based on “accurate mechanisms aimed at guaranteeing the minimisation of costs for the system and equal remuneration of producers".
With this resolution, a distinction continued to be made between fixed and variable costs for the purposes of calculation of the fees; however, provision is made for certain flexibility regarding the standards, in order to take account of the unique characteristics of the individual units; in particular, in the case of essential units under the cost reintegration system, an ex-post equalisation mechanism was introduced which, on the request of the user for the dispatching and prior checking of the sufficient, objective and verifiable elements provided by said party, makes it possible to recognise a different fee from the one deriving from application of standard parameters; in the case of the unit under the ordinary system, by contrast, a procedure has been defined which, on the request of the user for the dispatching and prior checking of the sufficient, objective and verifiable elements provided by said party, makes it possible – before the start of the relevant year - to make changes to the components of the variable cost recognised to a specific unit.

SIGNIFICANT EVENTS AFTER THE END OF THE QUARTER AND BUSINESS OUTLOOK

SUBSEQUENT EVENTS

San Giacomo Bid

Following the close of the Voluntary Takeover Bid, completed between 5 July 2010 and 6 August 2010, San Giacomo S.r.l. held 96.807% of the ordinary capital of Mediterranea delle Acque S.p.A..
Having passed the threshold of 95% of the share capital of Mediterranea delle Acque S.p.A. and having satisfied the legal conditions, San Giacomo S.r.l. decided to fulfil the purchase obligation (pursuant to art. 108, paragraph 1 of the Italian Consolidated Finance Act) and to exercise the purchase right (pursuant to art. 111 of the Italian Consolidated Finance Act), through a joint procedure agreed with Consob and Borsa Italiana S.p.A..
Therefore, on 18 October, San Giacomo S.r.l. went ahead with the joint procedure for the purchase of 2,448,833 ordinary Mediterranea delle Acque S.p.A. shares still in circulation (residual shares), equal to 3.193% of the relative share capital, for a price of Euro 3.00 per share, set by Consob at the same price established in the previous offer.
On the same date, San Giacomo S.r.l. informed Mediterranea delle Acque S.p.A. of the deposit of the total amount necessary for the fulfilment of the joint procedure – Euro 7,346,499.00, plus an amount for dividends accrued and not collected – for the payment of the sums due to holders of residual shares. Consequently, the transfer of ownership of residual shares to San Giacomo S.r.l. became effective.
With measure no. 6.797 of 11 October 2010, Borsa Italiana S.p.A. arranged for the delisting of Mediterranea delle Acque S.p.A. shares from the Electronic Share Market organised and managed by said Borsa Italiana S.p.A., effective from 18 October.

BUSINESS OUTLOOK

Based on available information and the forecasts for the current year, the outlook for the final quarter of 2010 is a macroeconomic scenario still characterised by the persistent weakness recorded in 2010 that has affected the demand for electrical energy and gas. By the end of 2010, the IREN Group expects to see consolidated growth in activities due to the gradual results from the investments made and an increase in profits due to the removal of extraordinary charges recorded in 2009. 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.
During the last months of 2010, the investments set out in the IREN Group industrial plan will go ahead, including construction of the new 390 MW cogeneration plant in the north-west area of Turin, in continuation of the cogeneration and district heating development plan in Turin, and the construction of the Livorno regasification terminal.
It should be noted that, thanks to the positive measures, mainly in the Cogeneration, Energy Networks and Waste Management sectors, the Group is actually in a position to confirm forecast end-of-year Ebitda at the same level as the previous year.

STATEMENT OF THE MANAGER IN CHARGE OF DRAWING UP THE CORPORATE ACCOUNTING DOCUMENTS, PURSUANT TO THE PROVISIONS OF ART. 154-BIS, PARAGRAPH 2, OF LEGISLATIVE DECREE 58/1988 (CONSOLIDATED FINANCE ACT)

The undersigned manager in charge of drawing up the corporate accounting documents of IREN S.p.A., Mr. Massimo Levrino, hereby declares, pursuant to paragraph 2 of article 154 bis of the Consolidated Finance Act, that the Interim Report on Operations at 30 September 2010 corresponds to the accounting documents, records and books.

Turin, 12 November 2010

IREN S.p.A.
The Manager in charge of drawing up the
corporate accounting documents

(Mr. Massimo Levrino).