# Annual Report

at 31 December **2017**

iren

# Summary

## Introduction



## Directors' **report**



## **Consolidated** Financial Statements and Notes to Financial Statements



## **Separate** Financial Statements and Notes to Financial Statements

# COMPANY OFFICERS

**Board of Directors** [1]

| | |
|---|---|
| Chairperson | Paolo Peveraro [2] |
| Deputy Chairperson | Ettore Rocchi [3] |
| Chief Executive Officer | Massimiliano Bianco [4] |
| Directors | Moris Ferretti[5] |
| | Lorenza Franca Franzino [6] |
| | Alessandro Ghibellini [7] |
| | Fabiola Mascardi |
| | Marco Mezzalama [8] |
| | Paolo Pietrogrande [9] |
| | Marta Rocco [10] |
| | Licia Soncini [11] |
| | Isabella Tagliavini [12] |
| | Barbara Zanardi [13] |

**Board of Statutory Auditors** [14]

| | |
|---|---|
| Chairperson | Michele Rutigliano |
| Standing Auditors | Emilio Gatto |
| | Annamaria Fellegara |
| Supplementary Auditors | Giordano Mingori |
| | Giorgio Mosci |

**Financial Reporting Manager**

Massimo Levrino

**Independent Auditors**

PricewaterhouseCoopers S.p.A. [15]

(1) Appointed by the Shareholders' Meeting of 9 May 2016 for the three years 2016-2017-2018.
(2) Appointed Chairperson by the Shareholders' Meeting of 9 May 2016.
(3) Appointed Deputy Chairperson at the meeting of the Board of Directors of 9 May 2016.
(4) Appointed Chief Executive Officer at the meeting of the Board of Directors of 9 May 2016.
(5) Member of the Remuneration and Appointments Committee, appointed on 12 May 2016.
(6) Member of the Transactions with Related Parties Committee, appointed on 12 May 2016.
(7) Member of the Control and Risk Committee (from 20 December 2016 named "Control, Risk and Sustainability Committee"), appointed on 12 May 2016.
(8) Member of the Control and Risk Committee (from 20 December 2016 named "Control, Risk and Sustainability Committee"), appointed on 12 May 2016.
(9) Member of the Control and Risk Committee (from 20 December 2016 named "Control, Risk and Sustainability Committee"), appointed on 12 May 2016. Mr Pietrogrande was also appointed Chairperson of the said Committee during the Committee meeting held on 18 May 2016.
(10) Member of the Remuneration and Appointments Committee, appointed on 12 May 2016. Ms Rocco was also appointed Chairperson of the Remuneration and Appointments Committee during the Committee meeting held on 24 May 2016.
(11) Member of the Transactions with Related Parties Committee, appointed on 12 May 2016.
(12) Member of the Remuneration and Appointments Committee, appointed on 12 May 2016.
(13) Member of the Transactions with Related Parties Committee, appointed on 12 May 2016. Ms Zanardi was also appointed Chairperson of the Transactions with Related Parties Committee during the Committee meeting held on 24 May 2016.
(14) Appointed by the Shareholders' Meeting of 28 April 2015 for the three years 2015–2016–2017.
(15) Appointed by the Shareholders' Meeting of 14 May 2012 for the nine years 2012–2020.

# NOTICE CONCERNING THE SHAREHOLDERS' MEETING

The shareholders are called to the ordinary meeting to be held at the Sala Campioli, Via Nubi di Magellano 30, Reggio Emilia on 19 April 2018 at 11 a.m., on single call, to discuss and resolve the following

**Agenda:**

1) Separate Financial Statements at 31 December 2017, Directors' Report and proposal for allocation of the profit: related and consequent resolutions.
2) Remuneration Report (section 1, under the terms of Art. 123-ter, paragraph 3 of the Consolidated Finance Act): related and consequent resolutions.
3) Appointment of the Board of Statutory Auditors and of its Chairperson for financial years 2018-2019-2020 and determination of the related fee: related and consequent resolutions.

The Chairperson of the Board of Directors
(Paolo Peveraro)

# LETTER TO SHAREHOLDERS

*“Humanity has the possibility of making development sustainable, that is of ensuring that it meets the needs of the current generation without compromising the ability of future generations to achieve their own”*

***Brundtland Report***
*World Commission on Environment and Development*

Dear Shareholders,

2017 was an important year in the Iren Group’s growth process and the accounting results presented by the Board of Directors testify to the Group’s ability to innovate its business model and to interpret the great changes of our time, characterised by an unprecedented impact speed, maintaining particularly positive results.

Above all the role of citizens/consumers has changed: they do not and no longer want to feel like a passive party in relation to the company from which they buy products or service. Along the same lines attention to safeguarding the environment, by reducing waste, recycling and reusing material and combating global warming has become increasingly important. These elements, together with the technological revolution in progress, require all companies to be increasingly fast, close and sustainable to meet the challenges of the future.

Iren intends to be a leading player in these changes and this is why, alongside the five-year business plan, it has launched a strategic observatory to 2030 in order to equip itself in the best possible way for maintaining and increasing its level of competitiveness redefining, as a consequence, Mission, Vision, Values and Code of Ethics to make them consistent with the projection of our company’s role in society.

Iren is engaged every day in improving people’s quality of life and making the businesses more competitive, to be a point of reference and excellence for our stakeholders. With particular attention to the growth of local communities, development, sustainability and the continual search for innovative solutions and with important investments in communication and in the education sector.

To improve people’s lives we began with “our” people: the colleagues who work in Iren and who are decisive for the Company’s success because every day, on the ground, they tackle and solve the most disparate problems. Having defined a common system of values and having been able to draw from the tradition and from the various skills of the companies that constituted Iren, enables our company to act in effective ways, in keeping with the service to people and their communities.

To achieve the targets expressed in the Business Plan, we foresee making 2.5 billion euro of investments to 2022, paying great attention to sustainability and innovation: the development and growth of our businesses will increasingly gain strength from discussions and collaboration in a logic of open innovation with research centres, Universities and companies with an innovative profile and will be boosted by investments in start-ups that present ideas with high innovative and technological content. Innovation that will be guaranteed also by generational turnover within the Group where we foresee the entry of more than 200 new resources under 30 by 2020.

An approach to innovation which is already a reality and which our customers can already see at first hand: we have in fact launched “New Downstream”, an innovative marketing project with the aim of transforming the simple sale of a commodity into a stimulating and satisfying experience. The new business plan aims to expand further the range of options offered thanks to several innovative projects, associated for example with electric mobility, energy efficiency and other services with great added value.

In a scenario in continual evolution such as the one described above, efficient management of the company and continual growth, both in terms of skills and quality of the services supplied, and in terms of dimensions and economic/financial indicators, represent the pillars on which to ensure future development.

Precisely in terms of growth, also in 2017 your company was a protagonist in several operations that consolidated its vocation as a leading aggregator and development driver in its core territories and in the industrial supply chains overseen.

The Iren Group ended 2017 with revenue of 3,697.1 million euro (+12.6% compared to the previous year), a Gross Operating Profit of 820.2 million euro (up 0.7% compared to 2016) and an Operating Profit of 420.3 million euro (-1.5% compared to 2016). The Group's net profit was 237.7 million euro, (+32.2% compared to 2016). At the end of 2017 Net Financial Debt amounted to 2,371.8 million euro, an improvement of approximately 85 million euro.

So good numbers, but that's not all.

Iren is a company that continues to grow maintaining great attention to its core territories. Support that is expressed through the investments provided for in the business plan to 2022, almost entirely destined for development in local areas, generating a significant effect in social and economic terms. An effect that develops further in the support for theatres and initiatives in the cultural, environmental and sporting fields that your Company provides in the areas in which it operates.

Also in 2017 the Iren Group continued the policies followed in keeping with the principles of environmental, social and financial sustainability. Also in the coming years we shall continue to pay great attention to improving further the quality of the service offered and about 1 billion euro of investments will be destined to have positive impacts on sustainability, with particular focus on decarbonisation, on the circular economy with a view to the best use of waste, on protecting water resources and on making networks more efficient to reduce waste and expand the purification capacity and, finally, on the resilience of cities, extending district heating networks, installing intelligent gas meters and with increasingly cutting-edge systems to ensure the sustainability of cities and communities.

The Business Plan to 2022 is based on a number of strategic pillars such as focus on customers, efficiency, development, environmental sustainability and caring for internal resources and it pays particular attention to satisfying Shareholders, testified by the proposal to the Shareholders' Meeting of a dividend up by 12% compared to 2016 - and in general of the management's commitment to increasing dividends by at least 10% per year - a figure which places Iren among the stocks with the best remuneration policy in the industry.

Thank you, on behalf of the Board of Directors, to all our employees for their expertise and commitment shown every day in their work, which have led to our achieving these results. Finally, I also want to thank all members of the Board of Directors and of the Board of Statutory Auditors for their decisive contribution to the growth of your Company.

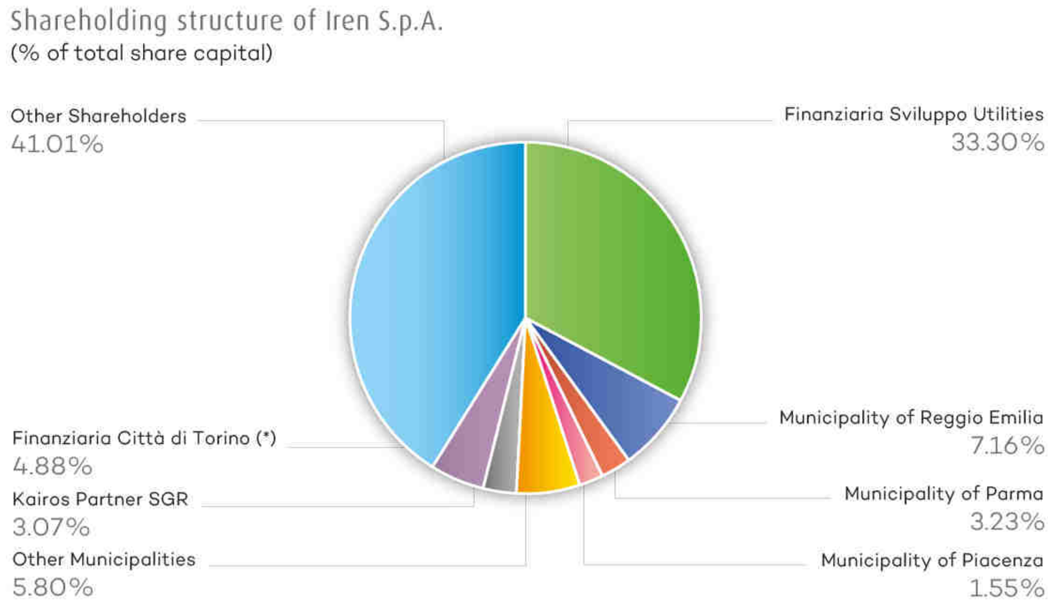
The Chairperson of the Board of Directors
(Paolo Peveraro)

# SHAREHOLDING STRUCTURE

The Company's share capital at 31 December 2017 amounted to 1,276,225,677 euro, fully paid up, and consisted of 1,213,920,212 ordinary shares with a face value of 1 euro each and 62,305,465 savings shares without voting rights with a face value of 1 euro each.

We can note that, following the conversion of the 62,305,465 savings shares into ordinary shares, made in January 2018, Iren S.p.A.'s share capital is completely made up of ordinary shares. For more details the reader is referred to the section "Events after the reporting period".

At 31 December 2017, based on available information, the Iren shareholding structure was as follows:




*Savings shares without voting rights (converted into ordinary shares in January 2018)

# A century of **history**

**1905**
The Parma municipal company for electric lighting is founded

**1907**
The Turin municipal company AEM is founded

**1922**
The Genoa municipal company for gas is founded

**1936**
The Genoa municipal company becomes AMGA

**1962**
The Reggio Emilia municipal company AMG is founded

**1965**
The Parma municipal company becomes AMPS

**1972**
The Piacenza municipal company ASM is founded

**1994**
From the Reggio Emilia municipal company AGAC is set up

# Mission

Offering our customers and our territories the best integrated management of energy, water and environmental resources with innovative and sustainable solutions to create value over time.

For everyone, every day.

**1996**
AMGA Genoa is listed on the Stock Exchange

**2000**
AEM Turin is listed on the Stock Exchange and ASM Piacenza becomes TESA

**2005**
AMPS, TESA and AGAC set up ENIA

**2006**
AEM Turin and AMGA Genoa set up IRIDE

**2007**
ENIA is listed on the Stock Exchange

**2010**
IRIDE and ENIA set up IREN

A company that has been attentive to the **development of its territories** and its **customers'** needs for more than **110 years.**

# Vision

Improving people's quality of life. Making companies more competitive. Looking at territorial growth with a focus on change. Merging development and sustainability into one unique value. We are the multi-utility company that wants to realise this future through innovative choices.

For everyone, every day.

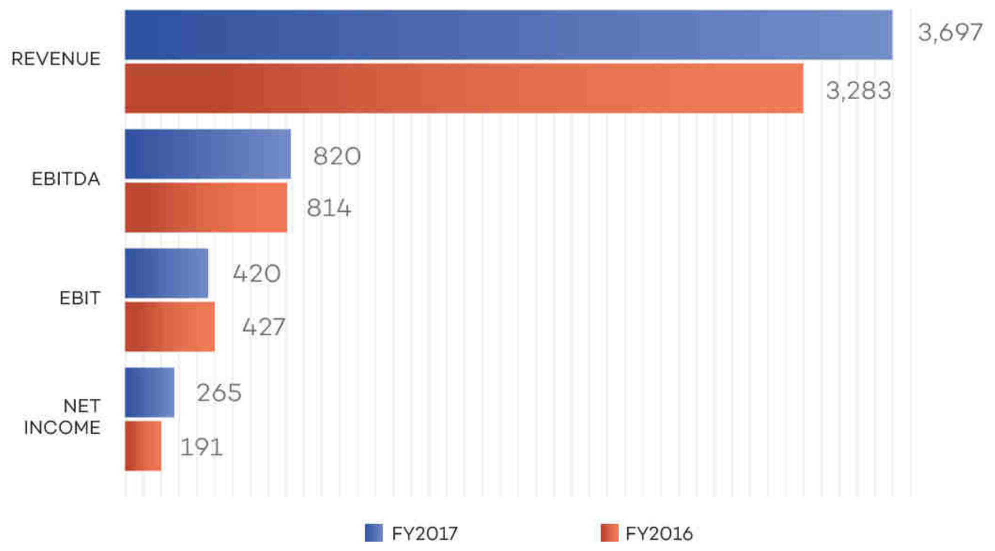
# KEY FIGURES OF THE IREN GROUP: HIGHLIGHTS OF FINANCIAL YEAR 2017

## Economic data

millions of euro

| | Financial year 2017 | Financial year 2016 Restated (*) | Changes % |
|---|---|---|---|
| Revenue | 3,697 | 3,283 | 12.6 |
| EBITDA | 820 | 814 | 0.7 |
| EBIT | 420 | 427 | (1.6) |
| Net income | 265 | 191 | 38.7 |
| | | | |
| EBITDA Margin (EBITDA/Revenue) | 22.2% | 24.8% | |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the economic balances of financial year 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of Atena (now ASM Vercelli), Atena Trading and REI - Ricupero Ecologici Industriali. For more details please see the paragraph “Content and structure of the consolidated financial statements” in the Notes to Financial Statements.

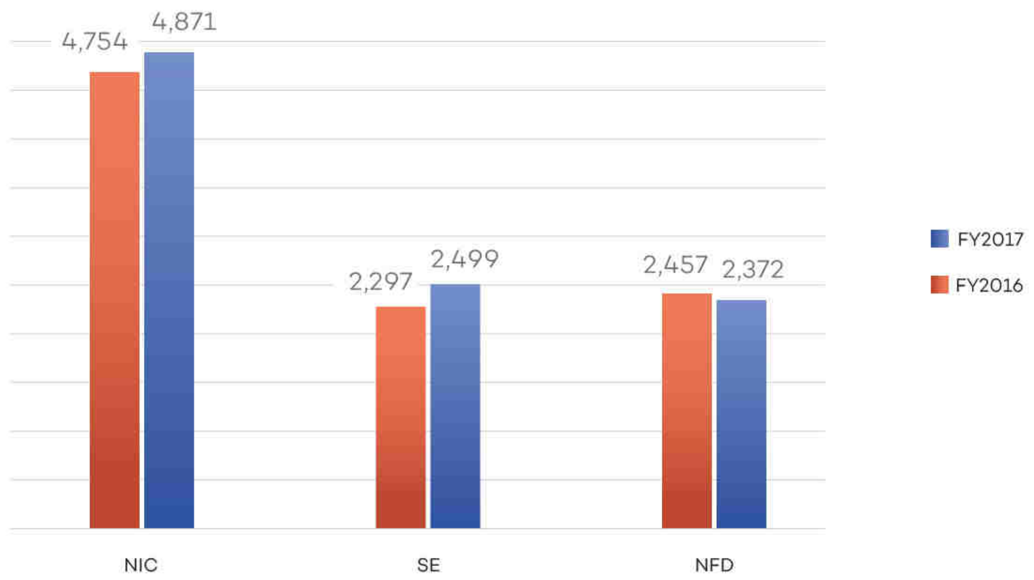


## Financial position data

millions of euro

| | 31.12.2017 | 31.12.2016 Restated (*) | Changes % |
|---|---|---|---|
| Net invested capital (NIC) | 4,871 | 4,754 | 2.5 |
| Group and non-controlling interests shareholders' equity (SE) | 2,499 | 2,297 | 8.8 |
| Net financial debt (NFD) | 2,372 | 2,457 | (3.5) |
| Debt/Equity (Net financial debt/Shareholders' equity) | 0.95 | 1.07 | |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the financial balances at 31 December 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of ATENA (now ASM Vercelli), ATENA Trading and REI - Ricupero Ecologici Industriali. For more details please see the paragraph "Content and structure of the consolidated financial statements" in the Notes to Financial Statements.

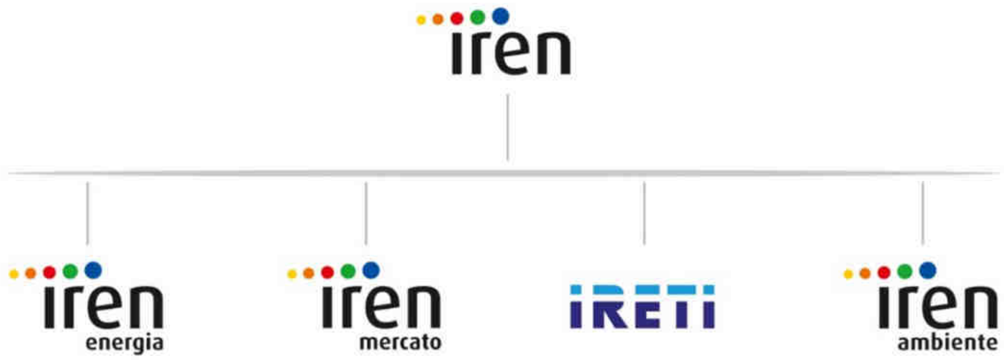



## Technical and commercial figures

| | Financial Year 2017 | Financial Year 2016 | Changes % |
|---|---|---|---|
| Electricity produced (GWh) | 9,033 | 9,074 | (0.5) |
| Thermal energy produced ($GWh_t$) | 2,996 | 2,868 | 4.5 |
| Electricity distributed (GWh) | 4,248 | 4,148 | 2.4 |
| Gas distributed (Mm3) | 1,305 | 1,250 | 4.5 |
| Water distributed (mln $m^3$) | 181 | 170 | 6.8 |
| Electricity sold (GWh) | 15,921 | 15,045 | 5.8 |
| Gas sold (mln $m^3$)* | 2,664 | 2,560 | 4.1 |
| District heating volume (mln $m^3$) | 87.1 | 84.8 | 2.7 |
| Waste handled (tonnes) | 2,015,568 | 1,813,320 | 11.2 |

* of which, 1,530 mln $m^3$ for internal use (1,547 mln $m^3$ in 2016, -1.1%)

# THE CORPORATE STRUCTURE OF THE IREN GROUP




Note that this is the organisational structure for management purposes.

The presentation includes the Companies directly and entirely controlled by Iren S.p.A. In addition, Iren S.p.A. has a direct equity interest in the associate Plurigas S.p.A. – this company was placed in voluntary liquidation by the Shareholders' Meeting of 27 March 2013.

The Group is structured according to a model which provides for an industrial holding company, with registered office in Reggio Emilia, and four companies responsible for the single business lines operating in the main operating bases of Genoa, Parma, Piacenza, Reggio Emilia, Turin and Vercelli.
The Holding is responsible for the strategic, development, coordination and control activities, while the four Business Units (BUs) have been entrusted with the coordination and guidance of the Companies operating in their respective sectors:

- Energy Business Unit operating in the sector of electricity production and district heating
- Market Business Unit active in the sale of electricity, gas and heat
- Networks Business Unit which operates in the field of the integrated water cycle, and in the gas distribution and electricity distribution sectors
- Waste Management Business Unit which performs the activities of waste collection and disposal.

The Group has an important customer portfolio and a significant number of plants in support of the operating activities:

Production of electricity and heat: a considerable number of electricity and heat production plants for urban district heating production, for a total capacity of approximately 2,850 MW of electricity.

Gas Distribution: through its network of approximately 7,984 kilometres Iren serves more than 742,000 customers.

Electricity Distribution: with 7,654 kilometres of high, medium and low voltage underground and overhead networks, the Group distributes electricity to almost 854,000 customers in Turin, Parma and Vercelli.

Integrated water cycle: with around 18,954 kilometres of pipeline networks, almost 10,393 km of sewerage networks and 1,171 treatment plants, Iren provides services to more than 2,640,000 residents.

Waste management cycle: with 145 equipped ecological stations, 3 waste-to-energy plants, 5 landfill sites, 18 treatment, selection, storage and recovery plants and 2 composting plants, the Group serves 145 municipalities for a total of approximately 2,100,000 residents and more than 2,000,000 tonnes managed in 2017.

District heating: through 923 kilometres of dual-pipe underground networks the Iren Group supplies heating for an overall volume of around 87 million m³, equivalent to a population served of over 871,000 residents.

Sales of gas, electricity and heat energy: during 2017 the Group sold almost 2.8 billion m³ of gas, just less than 16,000 GWh of electricity and approximately 3,000 $GWh_t$ of heat for the district heating networks.

**ENERGY BU**

**Cogenerative production of electricity and heat**
The Energia BU installed capacity totals approximately 2,850 MW (in electricity). Specifically, it owns 23 electricity production plants: 17 hydroelectric plants, 5 thermoelectric cogeneration plants and 1 conventional thermoelectric plant, for a total capacity of approximately 2,700 MW of electricity and 2,300 MW of heat, of which 900 MW through cogeneration. All primary energy sources used – hydroelectric and cogeneration – are eco-compatible. In particular, the hydroelectric production system plays an important role in environmental protection, as it uses a renewable and clean resource without the emission of pollutants. Hydroelectric energy reduces the need to make use of other forms of production that have a greater environmental impact. Environmental protection is a corporate priority for Iren Energia, which has always maintained that the development of hydroelectric production systems, in which it invests heavily each year, is one of the main ways to safeguard the local environment. 40% of total heat production capacity is generated by Group-owned cogeneration plants, while the remainder comes from conventional heat generators. Iren Energia oversees the Group's electricity and thermal energy planning and dispatching activities.

**District heating**
Iren Energia has the largest district heating network in the country with 923 km of dual pipes, up by 2% compared to 2016. The extension of the dual-pipe network amounts to approximately: 568 km in the territory of Turin; 10.3 km in the Municipality of Genoa, 219.7 Km in the Municipality of Reggio Emilia, 102.2 Km in the Municipality of Parma and 22.9 km in the Municipality of Piacenza.
The total volume heated at 31 December 2017 amounted to 87.1 million cubic metres, up from 2016 by 2.7%.

**Services to Local Authorities and Global Service**
On 1 January 2017, the merger by incorporation of Iren Servizi e Innovazione into Iren Energia came into effect; the former operates in the field of street and monument lighting and traffic lights, and manages, in technological global service, the thermal and electrical systems of the public buildings of the City of Turin and renewable and alternative energy. Iren Energia, in agreement with the Municipality of Turin, is continuing to carry out a structured plan of renewals aimed at improving energy efficiency and limiting consumption, which involves replacing traditional mercury lamps with LED lamps, already started by Iren Servizi e Innovazione.
On 1 January 2017, the acquisition of the "Operational Management of Thermal Systems" business unit from Iren Mercato also took effect, referring to the operational management of thermal systems for certain municipal buildings located in the Province of Genoa. On 1 October the opportunity was assessed of proceeding to optimise the management of the activities and contracts also in relation to private customers in the fields of "Heat Management" and "Conduction and Maintenance" of heating and air conditioning systems that also require the figure of third-party manager. This determined the transfer of the business unit entitled "Operational Management of Thermal Systems – private customers" by Iren Mercato to Iren Energia. The transfer was aimed at concentrating in the Energia Business Unit similar and/or complementary activities in order to obtain, as well and cost savings and simplification/greater flexibility of internal processes, also better exploitation of the synergies and professional skills achievable, and optimisation of resource management on processes deriving from integration of the same. The operation to transfer the business unit from Iren Mercato to Iren Energia, together with the merger by incorporation of Iren Servizi e Innovazione into Iren Energia both fall within the general scope of the Group's corporate restructuring project.

## MARKET BU

Through Iren Mercato the Group sells electricity, gas and heat, supplies fuel for the Group, provides customer management services to the Group's investee companies, and sells heat through the district heating network.
On 16 May 2017 the company GEA Commerciale, formerly 100% controlled by Iren Mercato, was merged by incorporation into Salerno Energia Vendite with a consequent extension of the catchment area for gas sales.
Iren Mercato operates at the national level with a higher concentration of customers served in the Centre and North of Italy and handles the sale of the energy provided by the Group's various sources on the market represented by end customers and other wholesalers.
The main Group energy sources available for its activities are the thermoelectric and hydroelectric plants of Iren Energia.
Iren Mercato also acts as "higher protection" service operator for retail customers in the electricity market in the Province of Turin and the Parma area; historically it operated in the direct sale of natural gas in the territories of Genoa and Turin, and in Emilia.
Lastly, it handles heat sales to district heating customers in the Municipality of Turin and the provincial capitals of Reggio Emilia, Parma, Piacenza and Genoa and sales development in new district heating areas.
During 2017 the new "new downstream" business line became operational; this will sell to retail customers innovative products in the areas of domotics, energy saving and domestic plant maintenance.

### Sale of Natural Gas

Total volumes of natural gas procured during 2017 were 2,799 million m³ of which 1,061 million m³ were sold to final customers outside the Group and 1,530 million m³ were used within the Iren Group both for electricity and thermal energy production and for the provision of heating services.
At 31 December 2017, gas customers managed by the Mercato Business Unit amounted to more than 897,000, spread throughout the traditional Genoa, Turin and Emilia Romagna catchment area and surrounding development areas, and customers of the new catchment areas of Vercelli brought in by Atena Trading, consolidated as from 1 May 2016 (approximately 26,000 customers) and the area in Campania brought in by Salerno Energia Vendite consolidated as from 1 May 2017 (approximately 110,000 customers). In particular, Salerno Energie Vendite is present in almost all the provinces in Campania as well as in a number of municipalities of the Basilicata and Calabria regions.

### Sale of electricity

The volumes sold in 2017 by the Mercato BU amounted to 9,818 GWh. Retail electricity customers managed at 31 December 2017 were more than 820,000, distributed mainly in the areas traditionally served, corresponding to Turin and Parma, and in the other areas covered commercially by Iren Mercato and by Atena Trading (approximately 27,000 customers).

### Sale of heat through the district heating network

Iren Mercato manages the sale of heat, purchased from Iren Energia, to customers receiving district heating in the Municipalities of Genoa, Turin and Nichelino, and in the provinces of Reggio Emilia, Piacenza and Parma. The total district heating volumes at 31 December 2017 amounted to 87.1 million m³.

### Heat service management

The resolution for the merger by incorporation of the subsidiary IREN Gestioni Energetiche S.p.A. took effect from 1 January 2017. The latter was formerly held for 100% by Iren Mercato. The merger took place simultaneously with the transfer to Iren Energia of the "Operational management of thermal systems" business unit, which included the existing contracts with Public Administrations.

## NETWORKS BU

The lead company IRETI and the business unit's subsidiaries handle the integrated water cycle, electricity distribution, natural gas distribution and other minor activities. On 1 May 2016 the company ASM Vercelli S.p.A. (formerly Atena S.p.A.) also became part of the group. The company operates in the supply of integrated water cycle services and of electricity and gas distribution in the territory of the city and in part of the Province of Vercelli.

**Integrated Water Services**

IRETI, directly and through the operating subsidiaries Iren Acqua, Iren Acqua Tigullio, and since May 2016 also ASM Vercelli (formerly Atena) as mentioned above, operates in the field of water supply, sewerage and waste water treatment in the provinces of Genoa, Savona, Piacenza, Parma, Reggio Emilia and Vercelli. With acquisition of the business unit known as “Ramo Ligure” from Acque Potabili S.p.A. with effect from 1 July 2015, IRETI extended to 4 more municipalities (Camogli, Rapallo, Coreglia Ligure and Zoagli) in the optimal territorial area of Genoa and to the Municipality of Bolano (La Spezia) management of the integrated water service. Overall in the optimal territorial areas (“Ambiti Territoriali Ottimali” - ATOs) managed at 31 December 2016 (Genoa Area, Reggio Emilia, Parma, Piacenza, Savona and La Spezia), the service was provided in 206 municipalities serving over 2.6 million residents. There are 14 municipalities served in the Province of Vercelli in addition to the capital.

With effect from 1 January 2017, subsequent to the acquisition of the additional “remaining” business unit from Acque Potabili, IRETI further extended its management services of the different phases of the water cycle (distribution of drinking water, sewerage, waste water treatment), in various municipalities in the regions of Piedmont, Valle d’Aosta, Lombardy and Veneto for a total of approximately 133 thousand residents. During 2017 the Reti BU distributed approximately 181 million cubic metres of water, through a distribution network of approximately 19,000 km. As regards waste water, the company manages a total sewerage network spanning almost 10,400 Km.

**Gas distribution**

IRETI distributes natural gas in 75 municipalities of the Provinces of Reggio Emilia, Parma and Piacenza, in the Municipality of Genoa and in 19 other municipalities nearby. Through ASM Vercelli (formerly Atena) it distributes gas in the City of Vercelli and in 11 other municipalities of the province. The distribution network made up of 7,984 km of high, medium and low pressure pipes serves a catchment area of approximately 742,000 customers. During 2017, IRETI introduced approximately 1,305 million cubic metres of gas into the network.

**Electricity distribution**

IRETI provides the electricity distribution service in the cities of Turin and Parma with approximately 7,654 km of network in medium and low voltage. ASM Vercelli S.p.A. (formerly Atena) distributes electricity in the City of Vercelli. Electricity distributed during 2017 amounted to 4,248 GWh.

**WASTE MANAGEMENT BU**

The Ambiente Business Unit carries out waste collection and disposal activities mainly through four companies: IREN Ambiente, operating in the Emilia area, AMIAT, TRM and ASM Vercelli S.p.A. (formerly Atena S.p.A.) operating in the Piedmont area. The plant network of the BU was increased with the purchase of the company REI S.r.l. situated in the Piedmont area and with the equity interest in the company ReCos S.p.A. operating in the Liguria area. During the first half of 2017 this was further expanded with acquisition of the equity investment in GAIA Asti.

The Ambiente BU carries out all the activities of the urban waste management chain (collection, selection, recovery and disposal) with particular attention to sustainable development and to environmental protection confirmed by growing levels of separated waste collection; it also manages an important customer portfolio to which it provides all the services for special waste disposal. In January 2016 the Group acquired control over TRM S.p.A., the company that manages the Turin waste-to-energy plant. This plant has a waste-to-energy capacity of approximately 500 thousand tonnes/year of waste with energy recovery and has enabled the Group to triple its waste-to-energy capacity, confirming IREN among the top three companies at the national level in terms of waste handled. In December 2016 the Group acquired the single-plant company REI S.r.l. set up for the creation of a new landfill site, to include hazardous and exclude municipal waste, based in Pianezza (TO). The company began its operating business in the second quarter of 2017. Following the award of the contract for the management of the waste service of the municipalities that are members of the Waste Catchment Area Consortium of the Asti area, Iren Ambiente acquired a 45% stake in the company G.A.I.A. S.p.A. The company is working on creating the waste processing plants and the station for the transfer of municipal waste to TRM.

# INFORMATION ON THE IREN SHARE IN 2017

**Iren share performance on the Stock Exchange**

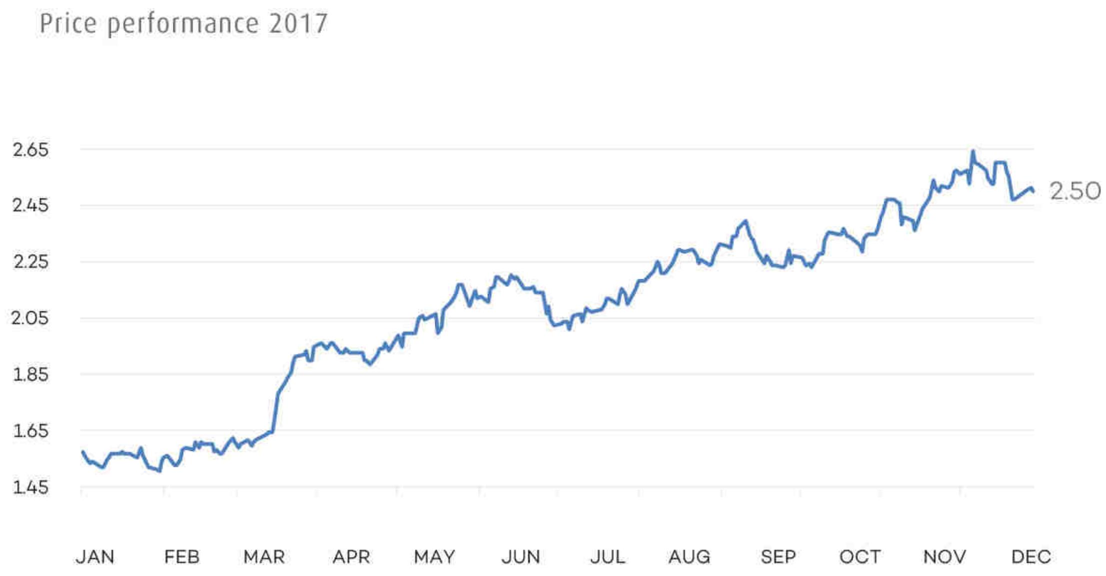
During 2017, the FTSE Italia All-share (the main Borsa Italiana index), recorded an increase of around 13.6%. This was mainly attributable to the recovery in bank securities, which in 2016 had penalised the trend and had been driven by a general increase in global stock exchange indices. In this scenario, the IREN stock rose by about 58.3%, recording the best performance compared to its most direct competitors.

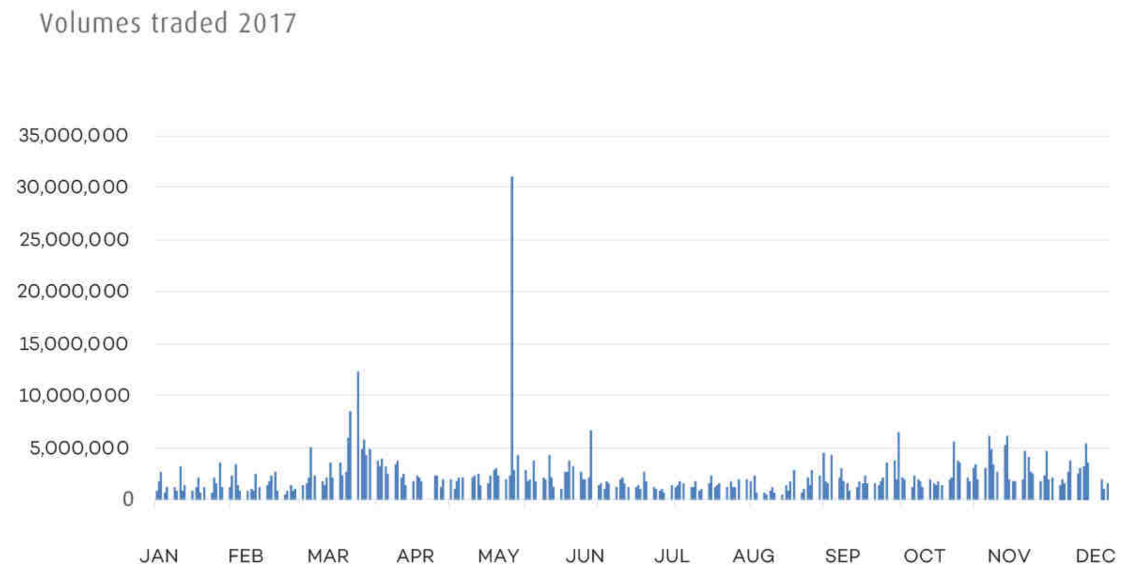
**Performance of Iren Share compared to competitors**


At 29 December 2017, the last day of Stock Exchange trading of the year, the Iren stock stood at 2.50 euro per share, with average trading volumes in 2017 of approximately 2.4 million units per day.

The average price was 2.08 euro per share reaching the highest point since the foundation of Iren (2.65 euro per share) on 6 December and a low for the year (1.50 euro per share) on 31 January.

The two charts below show the price performance and volumes traded in Iren stock in 2017.




**Share coverage**

During the year, the IREN Group was followed by eight brokers: Banca IMI, Banca Akros, Equita, Fidentiis, Intermonte, KeplerCheuvreux and Mediobanca, with the addition of Main First which activated coverage from 23 January 2017.

# **Directors'** Report

at 31 December **2017**

# MARKET CONTEXT

## THE MACROECONOMIC SCENARIO

The growth of the global economy was confirmed for the whole of 2017 in the main advanced economies and in the emerging countries. The United States and Japan, protagonists of a stabilisation of the recovery in the second half of last year, ended 2017 with GDP growth of 2.2% and 1.5% respectively.
In the emerging countries the recovery continued with respect to 2016 driven in particular by India and Brazil, while China confirmed a growth figure of around 6.8%.
The Eurozone continues its growth boosted in particular by demand for goods from abroad and from consumption, especially with reference to the expansion in the manufacturing and services sector, ending 2017 with an estimated GDP recovery of 2.4%.
Italy ended 2017 recording growth, particularly accentuated in the third quarter, closing with an estimated GDP increase on an annual basis of 1.5%. In addition, an increase in the balance of trade towards the end of the year, confirming positive trade with other countries, contributed to growth of gross domestic product, together with the recovery of demand boosted by an increase in gross fixed investments above all in the third quarter. Also in December 2017 the growth of inflation was reconfirmed: average consumer prices in 2017 recorded total growth of 1.2% compared to the previous year, driven by increases in the transport and food products sectors, a figure however far from the target set by the ECB of around 2%.

### Household spending
In the climate of improving consumer confidence compared to the previous year, which characterised 2017, household spending increased according to the latest estimates available. The improvement in the figure was due to an increase in disposable income, together with growth in employment which, according to the most recent estimates, continued on a recovering trend also in the last months of 2017.
The figure for December 2017 of the employment rate was 58.0% compared to 57.3% in December 2016; overall from the beginning of the year and up to the last data surveyed by Istat on December, approximately 173,000 new jobs were created.
The unemployment rate instead increased slightly for the entire Italian population.
Finally, there was a reduction in the level of household debt, with a ratio to disposable income at 61% on figures for the third quarter, while interest rates on loans remain at record lows.

### Investments
In 2017, and in particular in the second half of the year, the Italian economy recorded an increase in spending for investments, particularly in the category of plant and machinery. According to the latest ISTAT surveys, gross fixed investments grew in 2017 at a rate of 3%, a greater increase than that recorded in 2016 (2.8%).
The National Plan of the Ministry of Economic Development “Industry 4.0” supported investments in innovation, thanks to incentives for modernising outdated instrumental goods and for the purchase of digital products. Other funds were made available by the European Investment Bank, which in 2017 financed Italy for 12.3 billion euro (in the last 10 years the amount of EIB loans has reached a level of 100 billion euro) of which 5.3 destined for SMEs in the form of loans and guarantees.
The greater availability of credit and the improvement in the conditions of access contributed to the increase in investments, while it is worth stressing the fact that the ECB, which kept official interest rates unchanged, also repeated that it intends to keep the figures unchanged for a long period of time.

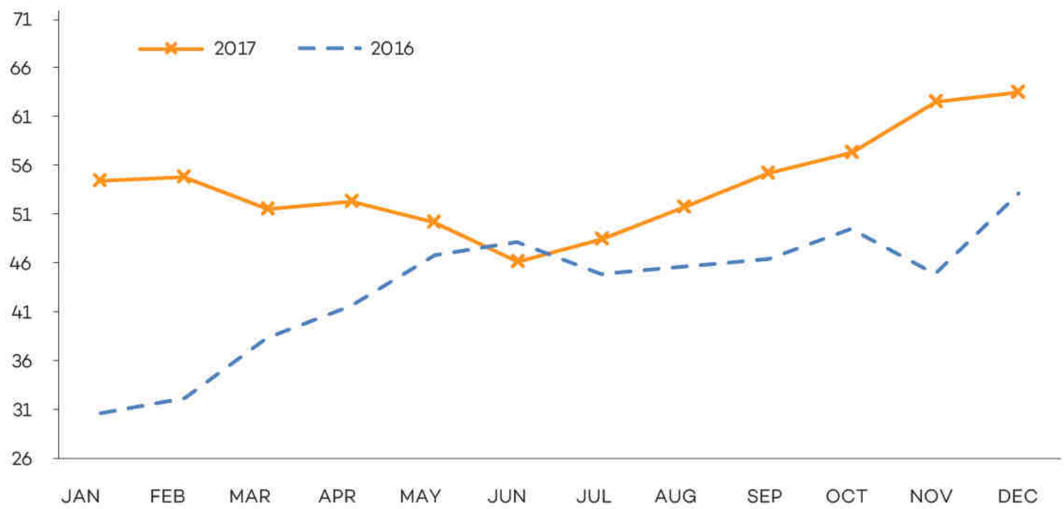
### Exports
The most up-to-date ISTAT surveys show in the period January-November 2017 a good growth rate in the EU area of imports (+8.5%) and exports (+5.7%) finishing with an increase in both items of approximately 1.2 billion euro. The figure for the balance of trade (exports less imports) in November was a positive 4.8 billion euro.

Exports to the rest of the world (+5.6%) also presented an increase similar to that of exports to the EU area, driven by the increase in sales of food products in China.

**THE OIL MARKET**

In 2017 the average spot prices of Brent came out at 54.08 $/bbl, up compared to 2016 (+24%). The average dollar/euro exchange rate in 2017 was 1.13, up slightly (+2.10%) compared to 2016. As a result of the trends described, the average quotation of the Brent price in euro came out at 47.90 €/bbl, up slightly less than the quotation in dollars (+21%).
After a first period of falling prices of crude oil due to weak demand fundamentals (in particular in the United States), in the second half of the year there was a turnaround, deriving from a consolidation of the positive trend of the global economic cycle in 2017, with growth rates higher than expected, and from greater geopolitical risks that had arisen in the international context.
Starting from the fourth quarter, this price increase was strengthened further owing to confirmation of the extension of the cut in supplies by the so-called OPEC Plus (agreement between OPEC countries and Russia), supported by positive prospects on the global economy for the next two years.

BRENT price trends ($/bbl)




Source: REF-E processing on Reuters data

## THE ELECTRICITY MARKET

### Supply and demand

Italian demand for electricity in 2017, of 320.4 TWh, was met by domestic production for 88%, while for the remaining 12% from foreign production.
The production of electricity in Italy was 284.1 TWh, up compared with 2016 by 2.9%.
In this context, domestic thermoelectric production represented 69.9% of net domestic production and was 198.7 TWh, an increase of 5.7% compared to 2016; production from hydroelectric sources was 37.5 TWh (-11.7% compared to 2016) accounting for 13.2% of domestic supply, while from geothermal, wind and photovoltaic sources production was 47.9 TWh (+4.7% compared to 2016), 16.9% of domestic supply.

In the year just ended consumption increased by 2% compared to 2016. This phenomenon regarded all zones: North +2.5%, Centre +2.4%, South +1.4% and Islands +2.0%.

**Demand and supply of accumulated electricity**
**(GWh and changes in trends)**

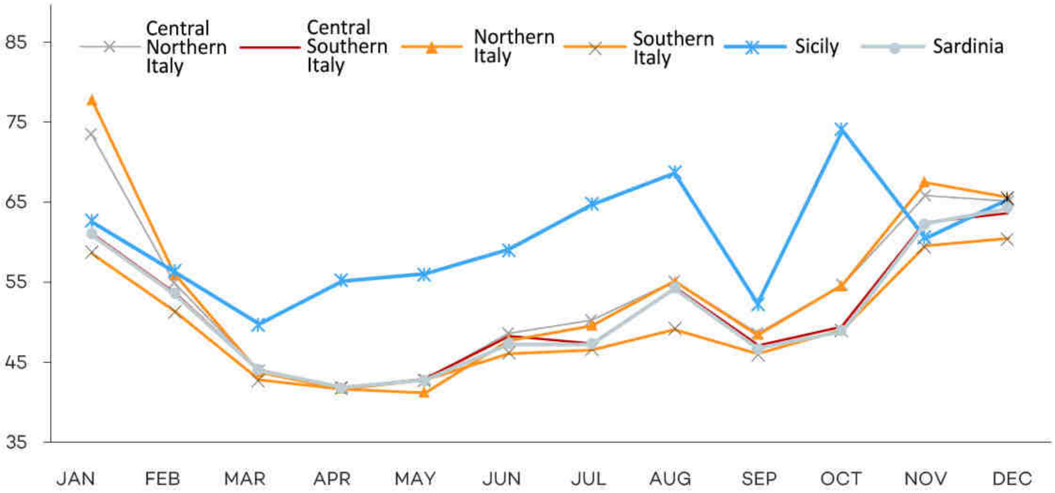
| | up to 31/12/2017 | up to 31/12/2016 | Change % |
|---|---|---|---|
| **Demand** | **320,437** | **314,261** | **2.0%** |
| **Net production** | **284,138** | **276,148** | **2.9%** |
| *Hydroelectric* | *37,523* | *42,496* | *-11.7%* |
| *Thermoelectric* | *198,670* | *187,875* | *5.7%* |
| *Geothermoelectric* | *5,785* | *5,868* | *-1.4%* |
| *Wind and photovoltaic* | *42,160* | *39,909* | *5.6%* |
| **Pumping consumption** | **-2,443** | **-2,161** | **13.0%** |
| **Foreign balance** | **38,742** | **40,274** | **-3.8%** |

*Source: Terna & GME*

### Day-Ahead Market (DAM) prices

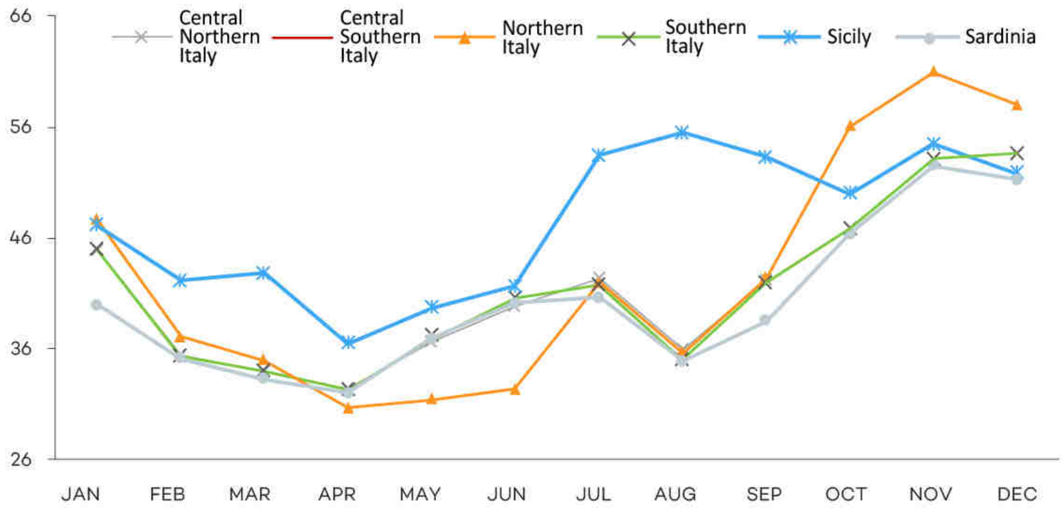
The increase in demand took the average Single National Price in 2017 up to 53.94 €/MWh. In the year the price of electricity increased compared to 2016 (when the average figure was 42.74 €/MWh), showing a similar trend for all zones, although in Sicily the price was decidedly higher than the others from March onwards.
The largest increase occurred in the North and Sicily zones (+28%), while the Centre-North recorded an increase of 27%, the Centre-South and Sardinia 24% and the South 23%. This increase was particularly sharp during the first two months of the year and during August, when the increase in the SNP compared to 2016 exceeded 50 per cent.
The SNP recorded an average increase in particular in the last quarter of 11% on an annual basis, recording in the single months an increase of 3% in October, of 13% in November and of 15% in December.
Finally, we can note that the zonal prices were more aligned with each other compared to the previous year, with the exception of Sicily which, as already said, recorded almost all year a much higher price than the other market zones.

Italian zonal price trends 2017 (€/MWh)




Source: REF-E processing of GME data

Italian zonal price trends 2016 (€/MWh)

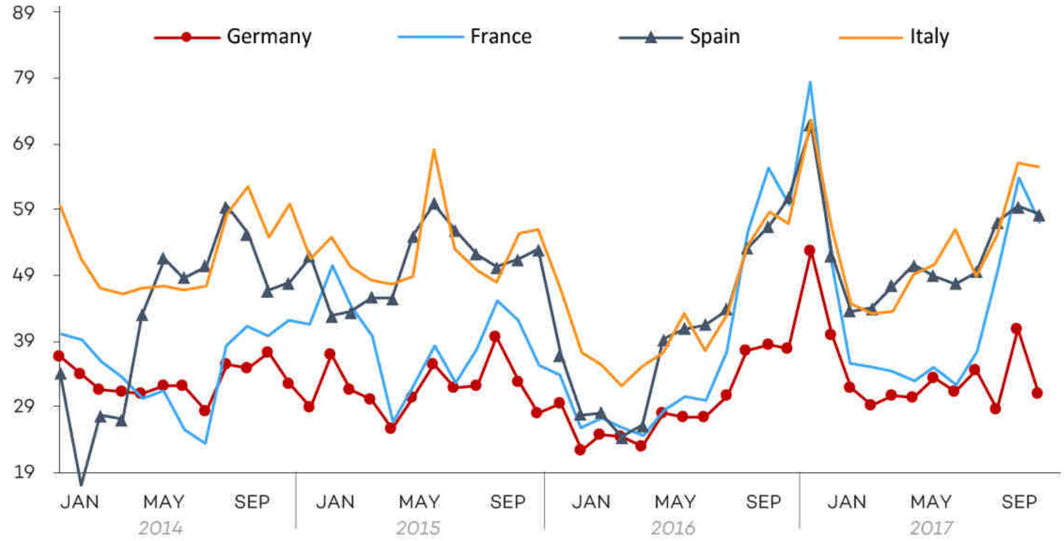



Source: REF-E processing of GME data

**Trend in main European power exchanges**

The European power exchanges recorded an average price of 43.81 €/MWh, up by 25% compared to 2016. The last quarter of 2017 instead recorded lower prices compared to the same period of 2016 (-4%). The spread with the SNP was 10.13 €/MWh, while in the previous year it had come out at 7.65 €/MWh.

European power price trends (€/MWh)




Source: REF-E processing of European Exchange data

**Futures of Baseload SNP on the EEX**

The table below shows the average prices of SNP available futures for the last quarter of 2017.

For contracts signed in November and December for expected prices gradual upward changes were recorded, in particular for the quarters Q1 18, Q2 18 and Q3 18 which recorded respectively an increase of 2.7 €/MWh, 3.4 €/MWh and 3.4 €/MWh. The forward price for 2018 followed the same upward trend, rising from 50.6 €/MWh in October to 53.6 €/MWh in December.

Focusing the analysis on what happened in the fourth quarter of 2016, all the futures considered came out at decidedly higher levels.

| Oct-17 Futures | | Nov-17 Futures | | Dec-17 Futures | |
|---|---|---|---|---|---|
| **Monthly** | **€/MWh** | **Monthly** | **€/MWh** | **Monthly** | **€/MWh** |
| Nov-17 | 55.3 | Dec-17 | 65.1 | Jan-18 | 66.5 |
| Dec-17 | 60.8 | Jan-18 | 62.6 | Feb-18 | 65.5 |
| Jan-18 | 60.4 | Feb-18 | 63.7 | Mar-18 | 62.7 |
| **Quarterly** | | **Quarterly** | | **Quarterly** | |
| Q1 18 | 56.8 | Q1 18 | 58.3 | Q1 18 | 59.5 |
| Q2 18 | 45.1 | Q2 18 | 47.0 | Q2 18 | 48.4 |
| Q3 18 | 49.5 | Q3 18 | 51.8 | Q3 18 | 52.9 |
| **Yearly** | | **Yearly** | | **Yearly** | |
| Y1 18 | 50.6 | Y1 18 | 52.6 | Y1 18 | 53.6 |

*Source: Reuters on EEX data*

**THE NATURAL GAS MARKET**

**Supply and demand**

2017 confirmed again the rise in natural gas consumption, recording +6.0% compared to 2016, for a total of 74.6 billion cubic metres consumed. The higher consumption was determined by an overall increase recorded in all three main sectors, to a greater extent by thermoelectric production (+9.0%) and industry (+6.7%) and, to a lesser extent, at the level of residential consumption (+3.5%).
The increase in residential demand compared to 2016, coming out in 2017 at around 32.6 bln m³ was mainly due to the colder temperatures recorded at the beginning of the year and between April and May, which determined an increase of approximately 0.8 bln m³.
Making a comparison between the last quarter of 2017 and the corresponding period of 2016, instead, the situation appears substantially in line.

**Uses and sources of natural gas in the period January-December 2017 and comparison with previous years**

| GAS USES (bln m³)* | 2017 | 2016 | 2015 | % change 2017 vs. 2016 | % change 2016 vs. 2015 |
|---|---|---|---|---|---|
| Industrial use | 14.3 | 13.4 | 12.8 | 6.7% | 4.7% |
| Thermoelectric use | 25.4 | 23.3 | 20.5 | 9.0% | 13.7% |
| Distribution plants | 32.6 | 31.5 | 31.5 | 3.5% | 0.0% |
| Third party network and system consumption / line pack | 2.3 | 2.2 | 2.1 | 4.5% | 4.8% |
| **Total uses** | **74.6** | **70.4** | **66.9** | **6.0%** | **5.2%** |

**Cumulative amounts at 31 December*

*Source: REF-E processing of SRG data*

| GAS SOURCES (bln m³)* | 2017 | 2016 | 2015 | % change 2017 vs. 2016 | % change 2016 vs. 2015 |
|---|---|---|---|---|---|
| Imports | 69.2 | 65.0 | 60.8 | 6.5% | 6.9% |
| Domestic production | 5.2 | 5.6 | 6.4 | -7.1% | -12.5% |
| Storage | 0.2 | -0.2 | -0.3 | (*) | -33.3% |
| **Total sources (incl. storage)** | **74.6** | **70.4** | **66.9** | **6.0%** | **5.2%** |
| Maximum capacity | 131.4 | 127.4 | 127.1 | | |
| **Load Factor** | **52.7%** | **51.0%** | **47.8%** | | |

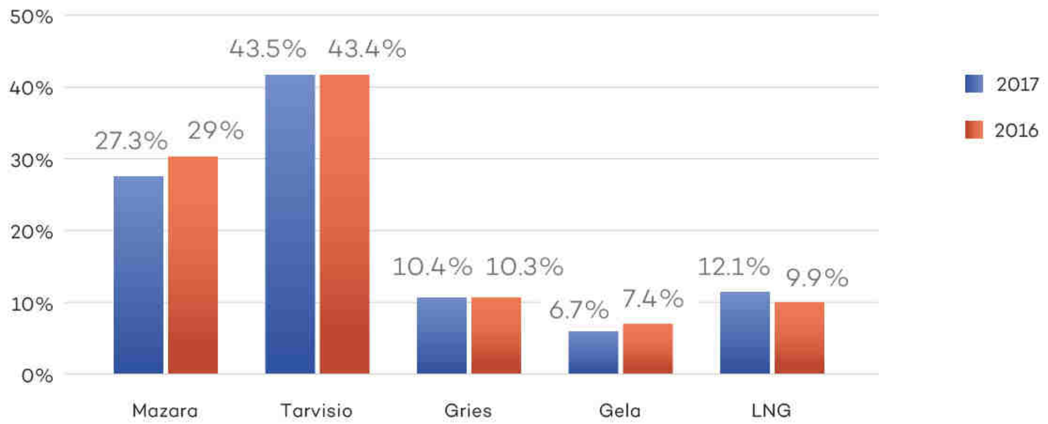
**Cumulative amounts at 31 December*

*Source: REF-E processing of SRG data*

The growth of industrial consumption led to recording at the annual level total volume consumed of 14.3 billion/m3, the highest in the last nine years, proving an economic recovery that seems to have become more stable.
The largest contribution to the total growth of consumption remains however that from thermoelectric production: rising continually, the consumption of natural gas to generate electricity came out in 2017 at a volume of 25.4 bln m³, recording a new peak with reference to the last six years. The reasons for this growth can be found mainly in the temporary unavailability of some French nuclear power stations in January and at the end of the year, with a consequent reduction of imports from France; in the lower hydroelectric production due to the low rainfall above all in the spring, which affected both our country and France and which also contributed to the reduction in imports from north of the Alps; and in the greater competitiveness of gas cycles compared to coal ones, above all in the second quarter of 2017.

As regards supply, imports from abroad rose by approximately 6.5 per cent compared to the levels of 2016, coming out at just over 69 bln m³.
The general situation of the Italian entry points connected with other countries saw Tarvisio (+7%) confirm its importance in the Italian system, with more than 30 bln m³ (approximately 43% of the total imported); in recovery imports from Passo Gries and from northern Europe (+8%), coming out at just over 7 bln m³; more or less unchanged the balance of Algerian gas coming from Mazara, perfectly in line with the levels of 2016 and just less than 19 bln m³; a slight drop in Libyan gas, with the Gela entry point down 3.4%; LNG, instead, continued to rise (+31%), with more than 80% of the total 8.4 bln m³ entering via the Rovigo/Cavarzere plant.

Imports by entry point over the total*

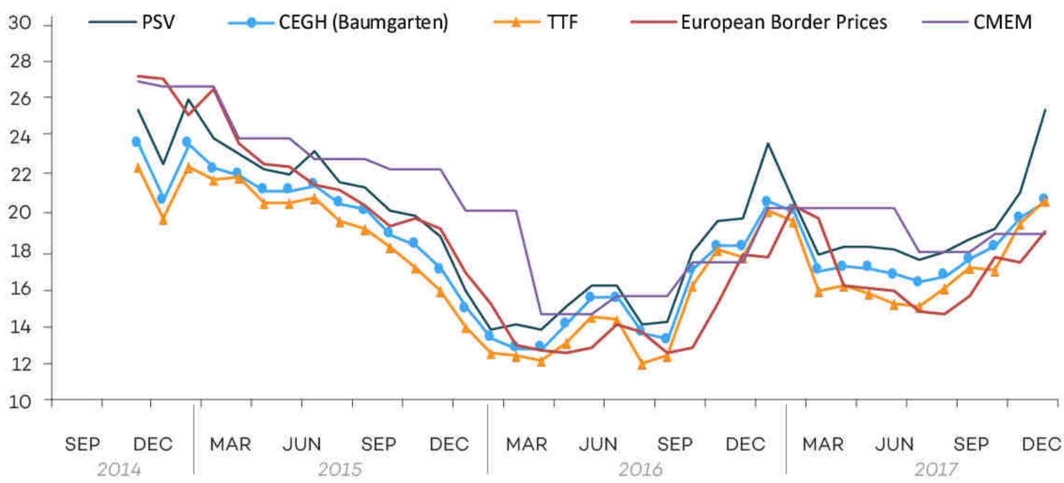



Source: REF-E processing of SRG data
*Cumulative amounts at 31 december 2017

Domestic production recorded instead another slowdown (-7.1%), down to a record low with just 5.2 bln m³ of gas produced.
The balance of storage systems (outputs +/inputs -) went instead from -0.2 bln m³ in 2016 to +0.23 bln m³ in 2017, with inputs down (-1.3%) and outputs to the grid recording a new high (11.2 bln m³ and a 13% share of total gas input into the system).

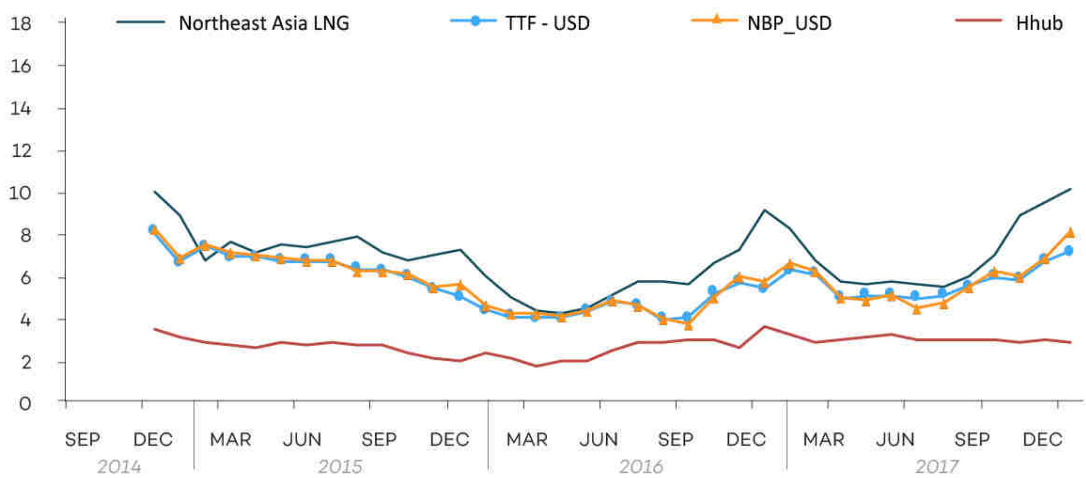
**Wholesale gas price**
In 2017, the wholesale prices of European and global natural gas show a clear rising trend. This rise was mainly due to a series of factors: the total growth of European demand, driven above all by the increase in thermoelectric consumption; the lack of availability of LNG loads at northern European terminals in the winter months; the sharp rise in Brent prices which occurred in the second half of the year (after news of the OPEC agreement reached).
In 2017 the Dutch TTF recorded an average figure for spot prices of 17.32 €/MWh, up (+23.5%) compared to the 14.03 €/MWh of 2016. The average price of the Austrian CEGH for 2017, up by 21.5%, came out instead at around 18.13 €/MWh.
On the Italian PSV, the average spot price recorded +26% compared to 2016, coming out at 19.73 €/MWh and showing one again that the Italian hub continues to remain a market with a premium compared to the other north-European markets, with a PSV-TTF spread of 2.41 €/MWh, up (+13.87% against +12.85%) compared to the previous year. The rise on the PSV was certainly partly due to the anomalous price peak recorded in the afternoon of 12 December (towards 17:30) following the accident that occurred at the Austrian Baumgarten node, with the day-ahead price reaching 75 €/MWh for around a couple of minutes.

Wholesale prices in Europe (€/MWh)




Source: REF-E processing of WGI - AEEGSI - Alba Soluzioni - Reuters data
Latest data 31 december 2017

LNG prices ($/MBtu)




Source: REF-E processing WGI data
Latest data 31 december 2017

In 2017 the European prices at the border, still in part oil-linked, followed the general upward trend and came out at an average level of 17.1 €/MWh, up by approximately 22% compared to 2016 (a year in which the average price had fallen to 14 €/MWh). The average Italian price at the border, aligned to the European figures in 2016, came out instead at 18.5 €/MWh in 2017, 1.5 €/MWh above the European average.

The situation on the GME (Energy Markets Operator) markets, in the first year of full activity, is worth noting. Here the MGAS platform was revolutionised by entry of the MGS (storage movements) and MPL (locational products) sections. The recovery of consumption certainly boosted the liquidity of the platform, on which a total of approximately 4.22 bln m³ was traded, with the MI-GAS market section confirmed as the fulcrum, occupying alone approximately 53% of volumes. MGS followed with 37%, while recourse to day-ahead sessions remained low. The prices recorded a slight increase with peaks of 19.67

€/MWh (MI), just below the PSV prices. Besides the general rising trend, here also the result of the aforementioned Baumgarten accident had an effect.
With the new structure of the MGAS platform, the average balancing price for 2017 was 19.61 €/MWh. The so-called “CMEM component”, meant to reflect the cost of procuring gas in the protected market price and defined by the Authority on the basis of the TTF forward prices, increased with an average of 19.357 €/MWh.

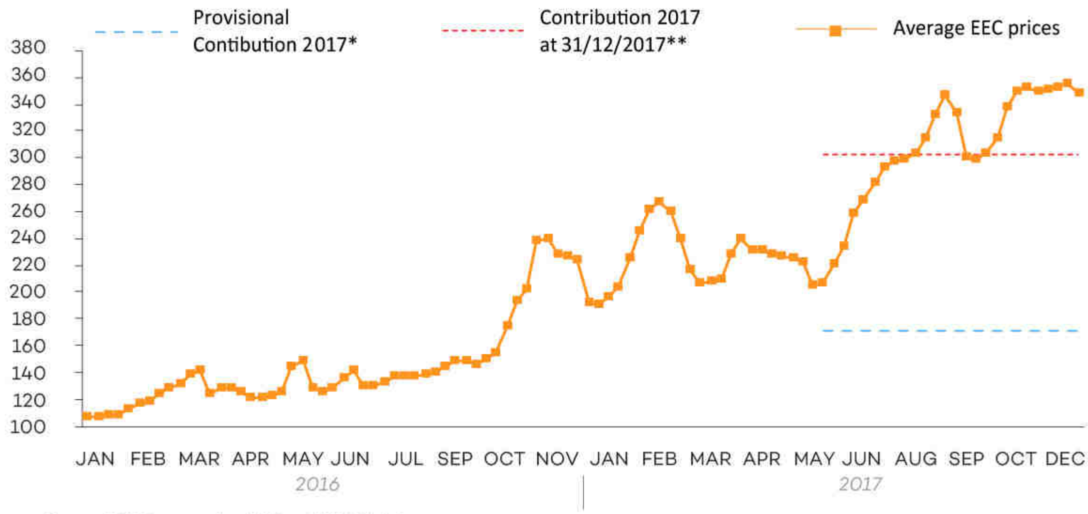
As regards the international markets, the decrease in Asian demand in the early months of the year, the low oil price and the growth of Australian and US liquefaction capacity had caused Asian spot prices to fall between the last quarter of 2016 and the first quarter of 2017 (-12%). Already during the second quarter however, the intensified policies of switching from coal to gas in China and the decline in nuclear production had contributed to boosting the arrival of LNG load and therefore to price increases. These increases then continued during the rest of the year owing to the higher oil prices (following the OPEC agreement on a production cut), the shortage of coal recorded at the start of a cold winter (with particular reference to India) and the unavailability of a number of LNG plants in the last quarter of the year, including the Australian Gorgon and the American Sabine Pass plants.
These factors therefore explain the increase in Asian spot prices during 2017, which recorded overall an average of approximately 7 $/MMbtu, up by more than 20% compared to 2016.
Also in Great Britain and the USA, the hub prices showed clear rising trends: in the United Kingdom 2017 ended on an average of 5.82 $/MMBtu compared to 4.63 $/MMBtu in 2016, while in the USA, the average price at the Henry Hub in 2017 reached 2.97 $/MMBtu, a higher level not only than the 2016 average (2.51 $/MMBtu) but also than that of 2015 (2.61 $/MMBtu).

## WHITE CERTIFICATES (EECs)

### Market trend

In 2017 the prices of Energy Efficiency Certificates (EECs) traded in the exchange recorded a significant increase, reaching in the last few weeks unprecedented price peaks, at more than 350 €/EEC. The price which had initially been indicated as possible new reference for the purpose of calculating costs in the tariff, 150 €/EEC, was more than tripled.
Right from the beginning of the year the market remained on considerable price levels, which slipped very few times below the level of 200 €/EEC. After a first significant rise above 250 €/EEC in February, the weighted average price remained generally between 200 and 240 €/EEC until the beginning of the summer, before then following a rising trend which continued up to the end of the year and which took the price to more than 300 €/EEC and up to the peaks indicated above. The annual average (268.64 €/EEC) recorded an increase of more than 85% compared to 2016.

EEC market price and tariff contribution

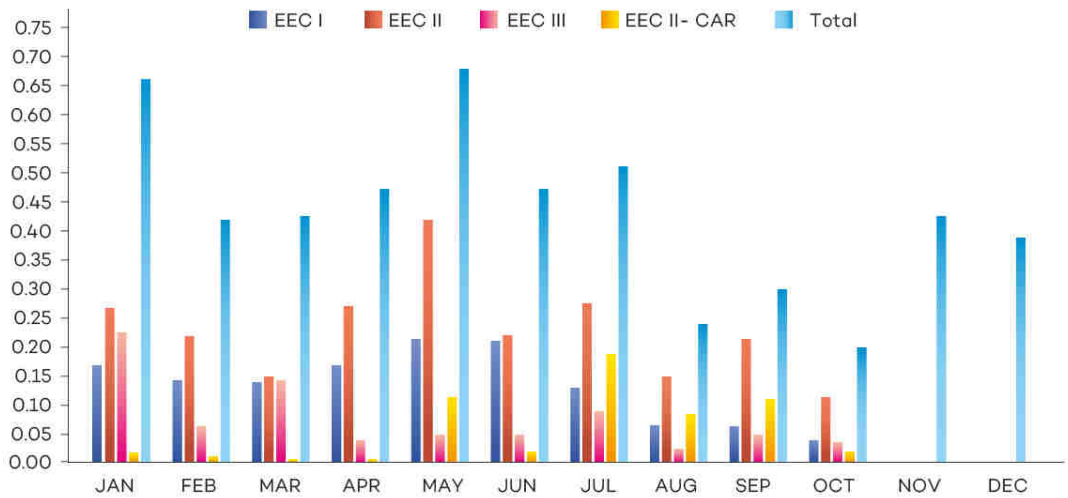



Source: REF-E processing GME and ARERA data
* ARERA, DMRT/EFC/10/2017.
** REF-E calculation using GME data, last listing 31/12/2017

The total volumes traded on the exchange recorded an increase compared to 2016: total certificates traded exceeded by approximately 0.23 million (+4.6%) the final result for 2016 (4.96 million). The trend of volumes shows peaks in January and May, while after compliance for the obligation year a gradual contraction was recorded, ending with a turnaround in November.

Monthly volumes on EEC Market (EEC millions)

*Monthly volumes from start of 2017*

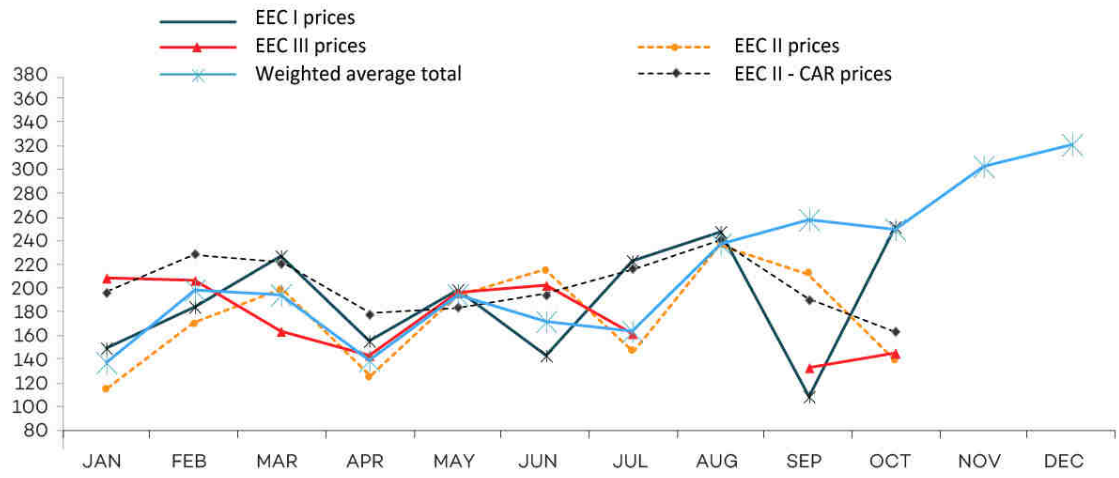



Source: REF-E processing GME data
*Since october the data have been published in aggregate form

Also on the OTC market the prices recorded significant increases: the 2017 average price was higher than that of the previous year by approximately 100 €/EEC. The highest prices were more than 300 €/EEC but they remained lower than the highs on the exchange.

OTC EEC monthly prices (€/EEC)

*Monthly prices from start of 2017*



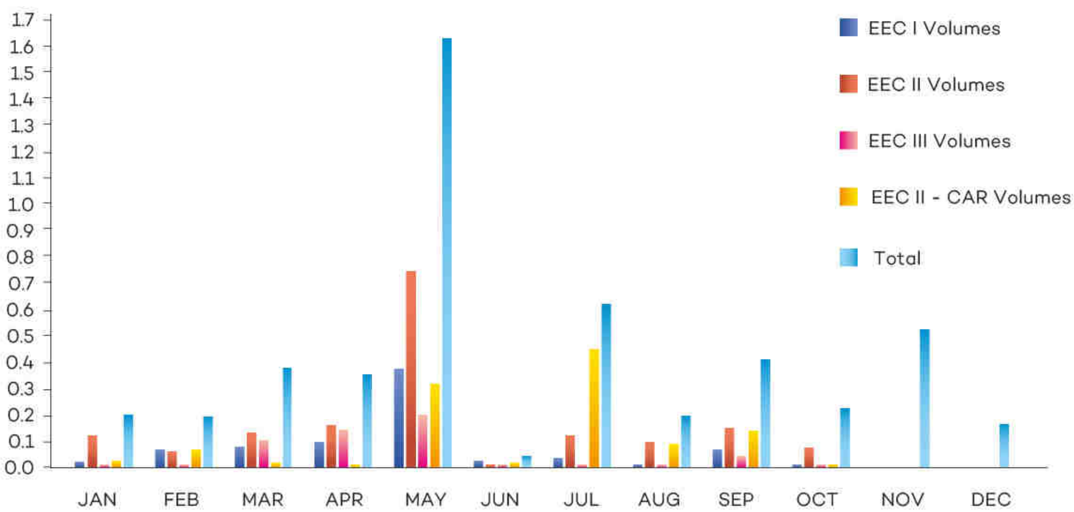

Source: REF-E processing on GME data

*Since the second week in october the data have been published in aggregate form

OTC volumes increased by 26% compared to 2016, coming out at overall levels similar to those of the exchange volumes. It is worth noting the peak reached in May, at the end of the obligation year, with a total volume traded of approximately 1.64 million EECs, more than double compared to the previous year.

OTC EEC monthly volumes (EEC millions)

*Monthly volumes from start of 2017*




Source: REF-E processing of GME data *Since the second week in october the data have been published in aggregate form

Following the first substantial price increases, the Authority had launched an enquiry which excluded a connection between the rising prices and speculative conduct on the market. The Authority itself identified as main causes the legislative and implementing innovations and the inefficiencies of the current mechanism. The price increases are in fact attributable to a supply side reduction which, with the elimination of the multiplier factors for types of projects that fall within the incentive mechanism and the increase in the obligations for distributors, was not accompanied by a proportional decrease in demand. The regulatory changes introduced entailed also the revision of the mechanism for calculating the provisional contribution, for which the market value of the previous year is no longer considered but, in the fully-implemented situation, that of the two previous years. For the 2017 provisional contribution, however it was decided to use a weighted average of the two years, with more weight assigned to 2016.

# SIGNIFICANT EVENTS OF THE PERIOD

**Conversion of Iren S.p.A. savings shares into ordinary shares by FCT Holding S.p.A. and subsequent sale**
On 2 March 2017 FCT Holding S.p.A. communicated that it had concluded the sale of 14,001,986 ordinary shares, representing 1.18% of the Iren S.p.A. ordinary share capital. After this sale, FCT Holding S.p.A. holds a 6.308% stake in the Iren share capital.
The shares sold derive from the conversion of savings shares into ordinary shares, within the settlement date of the Offer, in accordance with the conversion procedure indicated in Art. 6.9 of Iren's Bylaws.

**EIB funding for investments in modernisation and development of the electricity distribution grid**
On 28 March 2017, Iren S.p.A signed a financing contract with the European Investment Bank (EIB) for a total of 75 million euro, to be utilised over several tranches, with a duration of up to 15 years. The loan provided to Iren, on the basis of the successful economic and technical investigations by the EIB, is intended to support IRETI's Investments Plan regarding projects for the development and modernisation of the electricity grids in order to be environmentally sustainable, and for Research and Development relating to these projects. The Investments programme focuses especially on the requalification of existing plants, and the replacement of electricity meters with second generation devices. This financing strengthens the financial profile of the Group and consolidates the collaboration with the EIB, taking the proportion of EIB loans, in a direct and guaranteed form, to approximately one third of the total consolidated debt.

**Shareholders' Meeting of IREN S.p.A.**
On 20 April 2017 the Shareholders' Meeting of IREN S.p.A. approved the Company's Financial Statements in relation to financial year 2016, the 2016 Directors' Report, the first section of the 2016 Remuneration Report and resolved to distribute a dividend of 0.0625 euro per share, confirming what had been proposed by the Board of Directors.
The dividend of 0.0625 euro for each ordinary and savings share was paid starting from 21 June 2017 (ex-dividend date 19 June 2017 and record date 20 June 2017).

**Merger by incorporation of GEA Commerciale S.p.A. into Salerno Energia Vendite S.p.A.**
On 16 May 2017 the merger deed was signed for the incorporation of the subsidiary GEA Commerciale into its associate Salerno Energia Vendite, after the framework agreement already signed by Salerno Energia Holding S.p.A. and IREN Mercato S.p.A. on 6 July 2016.
Following the merger, the shareholding structure of Salerno Energia Vendite sees IREN Mercato at 50%, Salerno Energia Holding at 48.8% and Gestione Servizi Comunali for the remaining 1.2%. The governance of the company enables the Group to fully consolidate Salerno Energia Vendite as a result after the incorporation.
At the moment of the combination in May the accumulated portfolio of the two entities, which operate in natural gas sales, is around 115,000 customers, located in geographical areas of interest: in the provinces of Grosseto in Tuscany, Frosinone in Lazio, and in almost all the provinces of Campania, as well as in a number of Municipalities of the Basilicata and Calabria Regions.
The operation is part of the corporate rationalisation process outlined by the Group and, besides contributing to achievements of the customer base growth targets, will enable both the extraction of important synergies and the possibility of offering of the high-added-value services and dual-fuel contracts, expanding the territorial catchment area of reference through marketing campaigns aimed at acquiring new customers and ensuring the loyalty of current ones.

**Publication of resolution no. 548/2017/R/gas by the AEEGSI (now ARERA) and closure of the proceeding for compliance with Council of State judgements 3356/2016 and 3552/2016, on determination of the regasification tariffs of the company OLT Offshore LNG Toscana**

AEEGSI resolution no. 548/2017, published on 28 July 2017, ended the enquiry procedure launched by the same with resolution no. 607/2016/R/gas of 17 October 2016, on regasification tariffs of the terminal held and managed by OLT Offshore LNG Toscana S.p.A. (OLT), a company in which the IREN Group holds a direct and indirect equity interest for a total of 47.7% of the share capital.

The Resolution ascertained the existence of the conditions for recognition of the regulated status to the regasification terminal, confirming the right to the revenue coverage factor and to the additional remuneration on the invested capital, although with certain limitations which will apply as from 1 January 2018.

In particular, starting from that date the additional remuneration is set at 2% (floor) with additional recognition of 1% according to the use of the terminal. This mechanism for promoting efficiency will be applied only if the auctions are held to allocate the regasification capacity. If these auctions are not held, for reasons not attributable to OLT, there will be the inclusion of 3% in calculating the revenue coverage factor.

Besides this, for the purposes of defining the tariff, the costs for maritime services and the costs for self-producing electricity are recognised. In relation to these costs, as the proceeding is still in progress for defining the methods of measuring the efficient cost, a floor was provided for of 85% of the figure requested by OLT (and based on the historical cost incurred).

Lastly, the obligation to sign the transport contract for 100% of the regasification capacity of the Terminal is reduced to 5 years.

The amounts payable as final adjustment, for the period 2014-2017, will be paid by Cassa per i Servizi Elettrici Ambientali (CSEA) in five annual instalments of an equal amount.

**Renewal with increase of the EMTN (Euro Medium Term Notes) programme**

On 26 September 2017, IREN S.p.A.'s Board of Directors resolved to renew the programme for the issue of non-convertible bond loans, the Euro Medium Term Notes Programme (EMTN), adopted on 16 October 2015 and already renewed in the previous year, increasing the maximum amount of issuable bonds, also under the form of Green Bonds, totalling 2 billion euro. We can recall that in this regard, between 2015 and 2016, bond loans were already issued for around 1 billion euro.

**Green Bond and Tender Offer issues on bonds in the portfolio**

As part of the EMTN Programme, as renewed and increased by the Board of Directors on 26 September, on 17 October 2017 Iren S.p.A. concluded a Green Bond issue (Fitch rating BBB) for a duration of 10 years and for a total amount of 500 million euro. In doing this, it completed a significant optimisation course for its financial profile, which allowed the Group to rebalance funding sources between the banking system and the financial market, and to carry out important liability management operations.

Green bonds represent an innovative instrument aimed at financing/refinancing environmentally sustainable projects. Specifically, the issue in question is connected to the refinancing of a series of Group projects which can be divided into four main categories: energy efficiency, renewable sources, waste cycle and waste recycling management efficiency and treatment of waste water. The list of projects financed by Green Bonds has been defined by Iren, and its compliance with precise environmental criteria is guaranteed by the external body DNV GL.

Green Bonds have a minimum unit price of 100,000 euro and mature on 24 October 2027, paying a gross annual coupon of 1.50%. They were placed at the issue price of 98.356%. The effective gross rate of return on maturity is 1.68%, corresponding to a yield of 85 basis points above the 10-year mid-swap rate.

The settlement date was 24 October 2017, since when the bonds have been listed on the regulated market of the Irish stock exchange, where the prospectus was filed, and on the ExtraMOT Borsa Italiana market, in the recently constituted segment dedicated to Green Bonds.

As a result of this issue, a liability management operation was put into effect, with the market launch of a Tender Offer on current company bonds that will mature between 2019 and 2022, in line with the events of October 2016. The repurchase was completed on 18 October 2017, reaching a nominal amount of 92 million euro, out of a target amount of 150 million.

**Business Plan to 2022**

On 13 November 2017 the Board of Directors approved the Business Plan to 2022.

The Plan continues in line with the results obtained over the last few years and provides for strong growth of investments in support of profitability and quality of the services provided in the territories in which the Group operates, and is based on strategic guidelines aimed at anticipating new needs and innovative solutions.

These guidelines were defined analysing the most important global macro-trends expected in the coming years, and are attributable to five inter-related pillars:

- **Focus on the Customer/Citizen**, through a series of projects that link commercial and environmental aspects. On the one hand the development of the Group's commercial plan is envisaged, through the offer of products and services aimed at transforming the energy commodity into a service with high added value, in order to innovate, create loyalty and increase the customer base. At the same time, projects will be added related to energy efficiency; aimed both at the retail market and at the range of small and medium-sized enterprises, as well as the Group's entry into the E-mobility sector;
- **Efficiency/integration**, continuing the process of increasing efficiency already undertaken through the re-engineering and optimisation of processes, both specific of individual business units and transversal;
- **Development**, through the main growth drivers related above all to the regulated and quasi-regulated businesses. Particular importance is attributed both to expansion of district heating, which will enable better saturation of the existing generation and environmental (waste-to-energy) plants, and the development of the network businesses through large investments specifically in the gas sector, through completion of the ATEMs (Minimum Territorial Areas) in which the Group already has a significant stake. To this must be added the growth of the Ambiente Business Unit deriving from strengthening of the waste-to-material sector, related mainly to the development of plants devoted to treating paper, plastic and organic waste;
- **Environmental sustainability**: in keeping with the targets at 2030 set by the United Nations, resilient cities, decarbonisation, circular economy and protection of water resources are placed at the centre of the Group's strategies, with important investments related to targets for reducing carbon dioxide emissions, increasing the purification capacity and reducing water withdrawals for drinking use from the environment;
- **Growth of human capital**: the Group's strategy is focused on individual skills, thanks to integration of the selection, training and development systems, and through initiatives aimed at increasing satisfaction, motivation and meritocracy. By 2020 it is planned to double resources under 30.

On the basis of these strategic lines the IREN Group foresees:

- Growth of EBITDA of approximately 170 million euro, with Group gross operating profit at 950 million euro in 2022;
- Group profit of 260 million euro in 2022.
- dividend per share from 6.25€/c paid in 2017 to more than 10€/c in 2022, recording annual growth of at least 10%;
- An improvement in the net financial debt/EBITDA ratio, always below 3x over the period of the plan;
- cumulative investments over the period of the plan of 2.5 billion euro, for 30% related to developing the businesses and for 70% for maintenance and regulated activities;
- Confirmation in the role of aggregator hub and development driver in the core territories. In preparing the Plan a prudential approach was however adopted, not including effects of potential M&A operations.

**Conversion of 18,192,549 savings shares of Iren S.p.A. into ordinary shares**

On 20 December 2017 the Iren Board of Directors approved the conversion at par of 18,192,549 Iren savings shares, owned by FCT Holding S.p.A., into ordinary shares.

This action followed the requests for conversion received from FCT Holding, starting from 30 November 2017, related to the partial early repayment of an "exchangeable" bond issue of the company (for a total amount of 150,000,000 euro) having as underlying 80,498,014 savings shares and 290,353 ordinary shares of Iren S.p.A. owned by the said FCT Holding.

On the basis of article 6 of the Iren S.p.A. Bylaws it is in fact necessary for the disposal to third parties of the savings shares held by FCT Holding S.p.A., following the aforesaid operation, to be preceded by their conversion into ordinary shares, after verification that the transfer, for any reason, is made to parties not connected to the Municipality of Turin.

Following positive verification of this latter condition, the conversion was therefore effective, and the Company's Share Capital at 31 December 2017 was made up of 1,213,920,212 ordinary and 62,305,465 savings shares without voting rights (for both categories the face value of each share is 1 euro). As a consequence of the transfer of the shares, FCT Holding's equity interest in Iren S.p.A. amounts to 4.88% of the share capital.

**Improvement of the Iren rating to "BBB" (investment grade), with outlook stable**

The Fitch agency communicated, on 20 December 2017, that it had assigned to the Group the rating BBB with outlook stable, improving by one notch the BBB- rating, expressed in 2015 and confirmed in 2016. Fitch also confirmed the BBB rating on the senior unsecured issues.

The improvement of the Iren rating derives from several factors including:

- the structural growth of the Group's profitability and cash generation;
- the achievement, over the last few years, of significant synergies with better results than the market expectations;
- the full integration of a number of medium-sized companies, the subject of important territorial consolidation activity;
- the reduction of the cost of the debt together with early achievement of the financial flexibility target.

Finally, Fitch believes that the Group's financial ratios will remain in keeping with the BBB rating over the period covered by the new business plan (2017-2022).

**Iren-ACAM business combination**

On 29 December 2017 Iren signed an Investment Agreement with ACAM S.p.A. and 26 public shareholders of ACAM which represent, overall, 91.3% of the share capital of the same (including the Municipality of La Spezia and Liguria Patrimonio).

Applying the Agreement, on the same date the Iren S.p.A. Board of Directors approved the capital increase, accompanied by a specific explanatory report, reserved for ACAM shareholders, connected with the business combination between Iren and the Ligurian Group, which operates in the province of La Spezia, managing the integrated water service (in 24 Municipalities with approximately 210,000 residents served), managing waste management services (in 20 Municipalities with approximately 207,000 residents served) and, to a lesser extent, managing energy services.

The Board of Directors' action comes after a series of activities that began on 22 May 2017 with the presentation by Iren of the offer in the context of the transparent procedure launched by ACAM in order to identify an economic operator for its corporate and industrial aggregation.

At the end of this procedure, on 23 June ACAM approved the results of the commission appointed to analyse the offers received, including the assessment of the company, and, on the proposal of the same, identified Iren as the entity with which to carry out the aggregation.

Specifically, the Iren Board of Directors resolved to give partial execution to the delegated power conferred on it under the terms of art. 2443 of the Italian Civil Code by the Shareholders' Meeting on 9 May 2016, increasing the Company's share capital, for payment, divisible, for a total maximum amount at face value of 27,699,660.00 euro, with exclusion of option rights, by issuing a maximum of 27,699,660 new ordinary shares with the same characteristics as the ordinary shares outstanding.

These shares were exclusively for the purpose of the subscription, within the deadline of 31 May 2018, by the public shareholders of ACAM that assume the commitment to transfer to Iren their entire equity interest held in ACAM itself.

The subscription price was set at Euro 2.13 for each newly-issued "Iren S.p.A." ordinary share, of which Euro 1.00 to be attributed to share capital and Euro 1.13 as a premium. The opinion on the congruity of the issue price, and on the adequacy of the criteria proposed by the Iren Directors to determine it, was issued by an independent expert in a specific report.

The execution of the capital increase is subordinated, in the exclusive interest of Iren, to fulfilment of the following conditions precedent, defined in the Investment Agreement on which the operation is based, within the term of 31 May 2018:
- the full and effective completion of the purchase by Iren of a total equity interest in ACAM of at least 70% of the capital, which will determine control over ACAM by Iren and the related full consolidation. The price indicated in Iren's offer on which the Investment Agreement is based for the acquisition of 100% of the share capital of ACAM is 59,000,359.09 euro;
- the effective subscription of the aforementioned capital increase by a number of ACAM shareholders that represent, overall, at least 70% of the ACAM capital before the sale of its shares to Iren.

At the execution date of the sale and of the capital increase described above the subscription price of the newly-issued shares due to the subscribing ACAM shareholders will be offset with the selling price of the ACAM shares payable by Iren, while the residual price payable by the Company to the non-subscribing ACAM shareholders will be paid in cash.

In addition, the execution of the sale described above is dependent on the occurrence, within the deadline of 30 April 2018, of the following events:
- the issue of authorisation by the Italian Antitrust Authority for completion of the operation;
- the issue by the ACAM Group's lenders of consent for termination of the guarantees issued in their favour, in exchange for full repayment of the remaining amount of the existing loans;
- the weighted six-month average of the Iren stock ascertained on the day before the date of effective execution of the sale of the ACAM shares falls within the range of € 1.59 per share, as the minimum value, and € 2.66 per share, as the maximum value.

In virtue of the aforementioned Investment Agreement the ACAM public shareholders that subscribe the capital increase reserved for them must sign the shareholders' agreement in being between the Iren public shareholders, bringing to the blocking and voting syndicate governed by it all the newly-issued shares subscribed by them in the context of the capital increase (with the exception of a single shareholder, which will assume a distinct commitment not to transfer the shares subscribed). The shareholders' agreement will expire in May 2019, and will be renewed tacitly for a further two years, unless terminated.
Once it has been completed, the business combination with the ACAM Group will enable the expansion of the Iren Group's concession portfolio, with the possibility, among other things, to aim to become the Ligurian regional operator of reference in water services, and to consolidate the current positioning in waste management services.
The results of financial year 2016 for the ACAM Group show a Value of Production of 124 million euro, EBITDA of 33 million (including approximately 4 million related to non-recurring elements) and Net Financial Debt, including payables for existing derivatives, of 141 million.

# FINANCIAL POSITION, RESULTS OF OPERATIONS AND CASH FLOWS OF THE IREN GROUP

## Income statement

### IREN GROUP INCOME STATEMENT

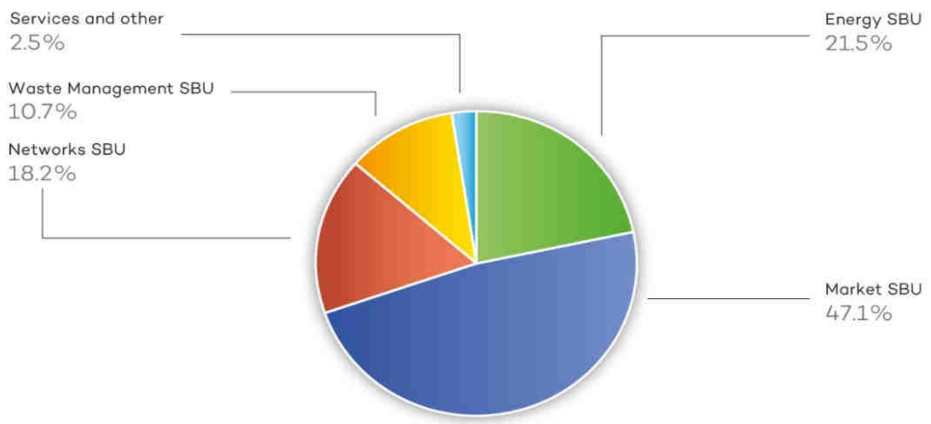
thousands of euro

| | Financial Year 2017 | Financial year 2016 Restated (*) | Change % |
|---|---|---|---|
| **Revenue** | | | |
| Revenue from goods and services | 3,448,664 | 3,042,735 | 13.3 |
| Change in work in progress | (22,792) | 14,174 | (**) |
| Other income | 271,263 | 226,106 | 20.0 |
| **Total revenue** | **3,697,135** | **3,283,015** | **12.6** |
| **Operating expenses** | | | |
| Raw materials, consumables, supplies and goods | (1,248,639) | (997,328) | 25.2 |
| Services and use of third-party assets | (1,166,638) | (1,043,889) | 11.8 |
| Other operating expense | (99,814) | (89,999) | 10.9 |
| Capitalised expenses for internal work | 27,724 | 22,328 | 24.2 |
| Personnel expense | (389,552) | (359,956) | 8.2 |
| **Total operating expenses** | **(2,876,919)** | **(2,468,844)** | **16.5** |
| **GROSS OPERATING PROFIT (EBITDA)** | **820,216** | **814,171** | **0.7** |
| **Depreciation, amortisation, provisions and impairment losses** | | | |
| Depreciation and amortisation | (321,865) | (304,614) | 5.7 |
| Provisions and impairment losses | (78,002) | (82,910) | (5.9) |
| **Total depreciation, amortisation, provisions and impairment losses** | **(399,867)** | **(387,524)** | **3.2** |
| **OPERATING PROFIT (EBIT)** | **420,349** | **426,647** | **(1.5)** |
| **Financial income and expense** | | | |
| Financial income | 46,246 | 40,087 | 15.4 |
| Financial expense | (128,678) | (177,000) | (27.3) |
| **Total financial income and expense** | **(82,432)** | **(136,913)** | **(39.8)** |
| Share of profit (loss) of associates accounted for using the equity method | 22,532 | 3,639 | (**) |
| Value adjustments on equity investments | 8,670 | 15,798 | (45.1) |
| **Profit (loss) before tax** | **369,119** | **309,171** | **19.4** |
| Income tax expense | (104,359) | (118,102) | (11.6) |
| **Net profit (loss) from continuing operations** | **264,760** | **191,069** | **38.6** |
| Net profit (loss) from discontinued operations | - | - | - |
| **Net profit (loss) for the period** | **264,760** | **191,069** | **38.6** |
| attributable to: | | | |
| - Profit (loss) attributable to shareholders | 237,720 | 179,844 | 32.2 |
| - Profit (loss) attributable to minorities | 27,040 | 11,225 | (**) |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the economic balances of financial year 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of Atena (now ASM Vercelli), Atena Trading and REI - Ricupero Ecologici Industriali. For more details please see the paragraph "Content and structure of the consolidated financial statements" in the Notes to Financial Statements.
(**) Change of more than 100%

**Revenue**

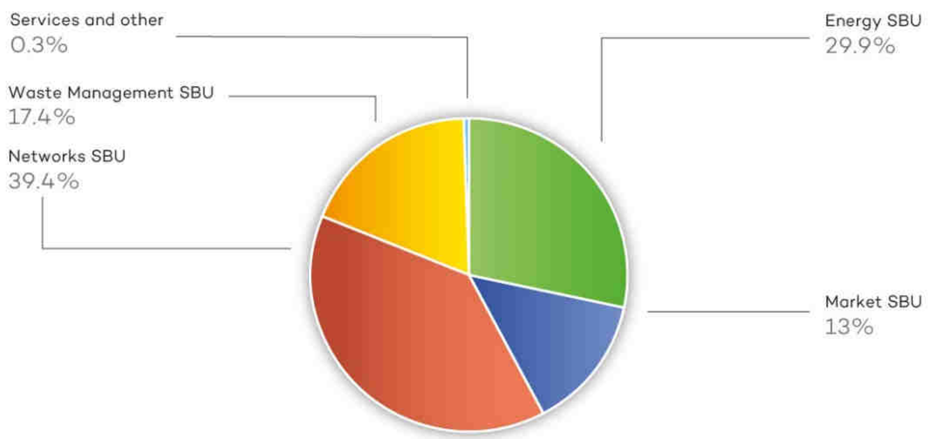
At 31 December 2017, the Iren Group achieved revenue of 3,697 million euro, up by +12.6% compared to the 3,283 million euro of 2016. The increase recorded was mainly due to the variation in electricity prices and to the higher quantities sold in addition to the expansion of the consolidation scope which from 1 January 2017 comprises: the ASM Vercelli group (formerly Atena, consolidated as of May 2016), the acquisition of the remaining municipalities previously managed by Acque Potabili, operating in management of the integrated water service, REI, a company operating in waste disposal and Salerno Energia Vendite (consolidated from 1 May 2017).




Revenue

**Gross Operating Profit (EBITDA)**

Gross operating profit amounted to 820 million euro, up slightly compared to the 814 million euro recorded in 2016. We can note that this result takes into account extraordinary charges related to the retirement incentives pursuant to art 4 of the Fornero Law, of approximately 34 million euro. All the business units, to a different extent, contributed to the improvement in the profit, very significant if measured net of the aforementioned provisions. The sole exception was the Mercato business unit which was affected by a negative energy scenario with respect to the particularly favourable one that had characterised financial year 2016, which cannot be repeated.




EBITDA

* % calculated net of the extraordinary charges related to the retirement incentive.

**Operating profit (EBIT)**

Operating profit totalled Euro 420 million, -1.5% down from the 2016 restated figure of Euro 427 million. The gross operating profit (EBITDA) trend was offset by higher amortisations and depreciations for around 17 million euro, mitigated by lower provisions and impairment losses of around 5 million euro.

**Financial income and expense**
The economic components of a financial nature showed a balance of net financial expenses of 82.4 million euro (136.9 million euro in financial year 2016). The significant reduction (-39.8%) derives from the combined effect of:

- Higher financial income of 6 million euro. The delta was mostly affected by income from fair value on derivative contracts for the non-effective portion of cash flow hedging instruments. In 2016 there was the income associated with the refund of interest, paid in previous years, in relation to the favourable judgement on the recovery of state aid ("tax moratorium").
- lower financial expenses of 48.3 million euro, the change in which resulted from several factors: the decrease in the average cost and level of the debt, the lower proportion of expenses related to liability management operations compared to the amount of repurchases of the previous financial year, the smaller impact of discounting provisions, affected by the trend in interest rates, and the change in fair value of a number of minor positions of hedging derivatives outside of hedge accounting.

**Share of Profit (loss) of associates accounted for using the equity method**
The profit (loss) of associates accounted for using the equity method amounted to +22.5 million euro (+3.6 million euro in financial year 2016).
The change between the periods in question (+18.9 million euro) is essentially attributable to:

- the pro-rata amount of profits of OLT Offshore LNG Toscana (+12.5 million euro, compared to a loss in the previous year of 2 million), achieved following the definition of the regulatory scenario and therefore of the regasification tariffs, in particular as regards the additional remuneration of the invested capital in relation to previous years;
- the profit of the ASTEA Group, affected by the capital gain made on disposal of its subsidiary ASTEA Energia;
- the results of other associates.

We can note that during the comparative period the item included the pro-rata result of ASM Vercelli (formerly ATENA), fully consolidated starting from May 2016.

**Value adjustments on equity investments**
This item (+8.7 million euro) includes mainly the effects of restating at fair value the interests previously held in Salerno Energia Vendite (+8.6 million euro) and in the Iren Rinnovabili Group (+2.8 million euro), at the date of acquiring control, and in Mestni Plinovodi in the light of the planned sale price (3.3 million euro), partially offset by the write-off of Fingas (-5.7 million euro), made following the change in the national energy strategy, which did not provide for the development of new regasification capacity.
In financial year 2016 the item amounted to +15.8 million euro and included, on the one hand, the effect of restating the fair value of the non-controlling interest held at 31 December 2015 in TRM V. on the basis of the acquisition value of the controlling stake (10.5 million euro) and, on the other, the difference between the fair value of the net assets of ASM Vercelli and ATENA Trading acquired and the purchase cost (6.2 million euro), partially offset by a number of write-downs of other equity investments of a smaller amount.

**Profit (loss) before tax**
As a result of the above trends the consolidated profit before tax came out at 369.1 million euro, significantly up on the 309.2 million euro recorded in financial year 2016 (+19.4%).

**Income tax expense**
Income taxes for the period were 104.4 million euro, a reduction of 11.6% compared to 2016, in relation to the lower effective tax rate, which came out at 28.3% (38.2% in the comparative period). The reduction in the tax rate was due to the nominal IRES rate that came down from 27.5% to 24% starting from 1 January 2017, pursuant to the 2016 Stability Law, as well as to the presence of non-taxable positive net income components.

**Net profit (loss) for the period**
Net profit (loss) for the period amounted to 264.8 million euro, a significant increase (+38.6%) compared to the profit of financial year 2016, which amounted to 191.1 million. The figure is due to the Group's profit of 237.7 million euro, while profit attributable to third-party investments amounted to 27 million - both components recorded an increase compared to the comparative period.

## Statement of Financial Position

### RECLASSIFIED STATEMENT OF FINANCIAL POSITION OF THE IREN GROUP

thousands of euro

| | 31.12.2017 | 31.12.2016 Restated (*) | Change % |
|---|---|---|---|
| Non-current assets | 5,412,159 | 5,244,309 | 3.2 |
| Other non-current assets (liabilities) | (177,981) | (148,513) | 19.8 |
| Net Working Capital | 181,869 | 170,991 | 6.4 |
| Deferred tax assets (liabilities) | 64,011 | 55,693 | 14.9 |
| Provisions for risks and employee benefits | (618,194) | (570,595) | 8.3 |
| Assets (Liabilities) held for sale | 8,724 | 2,498 | (**) |
| **Net invested capital** | **4,870,588** | **4,754,383** | **2.4** |
| Equity | 2,498,803 | 2,297,276 | 8.8 |
| *Non-current financial assets* | *(165,767)* | *(49,950)* | *(**)* |
| *Non-current financial debt* | *3,023,888* | *2,967,471* | *1.9* |
| Non-current net financial debt | 2,858,121 | 2,917,521 | (2.0) |
| *Current financial assets* | *(675,468)* | *(860,245)* | *(21.5)* |
| *Current financial debt* | *189,132* | *399,831* | *(52.7)* |
| Current net financial debt | (486,336) | (460,414) | 5.6 |
| Net financial debt | 2,371,785 | 2,457,107 | (3.5) |
| **Own funds and net financial debt** | **4,870,588** | **4,754,383** | **2.4** |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the financial balances at 31 December 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of ATENA (now ASM Vercelli), ATENA Trading and REI - Ricupero Ecologici Industriali. For more details please see the paragraph “Content and structure of the consolidated financial statements” in the Notes to Financial Statements.
(**) Change of more than 100%

The main changes in the statement of financial position for financial year 2017 are commented on below.
Non-current assets at 31 December 2017 amounted to 5,412 million euro, up by 3.2% compared to 31 December 2016, when they amounted to 5,244 million euro (+168 million euro). The change is mainly the result of technical investments in the period (+357 million euro), depreciation and amortisation (-322 million euro), the acquisition of 45% of GAIA -the waste management company of the Province of Asti- (+15 million euro) and changes in the consolidation scope related to the business unit involved in water service concessions acquired by Acque Potabili S.p.A. (25 million), the assets of Salerno Energia Vendite (37 million) and the Iren Rinnovabili Group (69 million).
For segment details on technical investments in the period, reference should be made to the section “Segment Reporting” below.
The item “Other non-current assets (liabilities)” shows a net balance of -178 million euro; the change with respect to 31 December 2016, of -29 million, is due to the recognition of long-term deferred income on grants for plant facilities in the period, related to the water sector, and to reduced assets due to the collection of receivables related to reimbursement of the amounts paid as interest at the moment of recovery of State Aid.
The Net Working Capital was 182 million euro (171 million euro at 31 December 2016); the increase (+6.4%) was substantially associated with changes in the balances related to environmental certificates and to items related to CSEA, mitigated by the trend in commercial components.
“Provisions for Risks and Employee Benefits” came out at 618 million euro; the item increased compared to the 571 million euro of 31 December 2016 mainly following the recognition of future expenses related to agreements for voluntary early termination of the employment relationship. Shareholders’ Equity amounted to 2,499 million euro, up by 8.8% compared to 31 December 2016 (2,297 million euro), essentially as a result of the effect of the profit for the period, net of dividends paid, and the increase in the reserves related to minorities, following the consolidation of Salerno Energia Vendite.
Net financial debt for 2,372 million euro, recorded a drop (-85 million euro, equal to 3.5%) compared to 31 December 2016, due mainly to the positive contribution of cash flows from operational management, which are detailed in the statement of cash flows presented below.

## CASH FLOW STATEMENT OF THE IREN GROUP

### Change in net financial debt

The statement below details the movements in the Group's net financial debt during financial year 2017.

thousands of euro

| | Financial Year 2017 | Financial year 2016 Restated (*) | Change % |
|---|---|---|---|
| **A. Opening Net financial (debt)** | **(2,457,107)** | **(2,169,369)** | **13.3** |
| **Cash flows from operating activities** | | | |
| Profit (loss) for the period | 264,760 | 191,069 | 38.6 |
| Adjustments for non-financial movements | 611,342 | 654,950 | (6.7) |
| Utilisations of employee benefits | (5,675) | (10,096) | (43.8) |
| Utilisations of provisions for risks and other charges | (26,625) | (25,011) | 6.5 |
| Change in other non-current assets and liabilities | 22,721 | (17,240) | (**) |
| Other financial changes | (17,586) | (17,236) | 2.0 |
| Taxes paid | (123,338) | (100,694) | 22.5 |
| **B. Cash flows from operating activities before changes in NWC** | **725,599** | **675,742** | **7.4** |
| **C. Cash flows from changes in NWC** | **(65,705)** | **(69,930)** | **(6.0)** |
| **D. Cash flows from/(used in) operating activities (B+C)** | **659,894** | **605,812** | **8.9** |
| **Cash flows from/(used in) investing activities** | | | |
| Investments in intangible assets, property, plant and equipment and investment property | (357,299) | (269,983) | 32.3 |
| Investments in financial assets | (17,479) | (4,823) | (**) |
| Proceeds from the sale of investments and changes in assets held for sale | 7,157 | 9,993 | (28.4) |
| Changes in consolidation scope | (66,575) | (454,956) | (85.4) |
| Dividends received | 4,143 | 7,840 | (47.2) |
| **E. Total cash flows from/(used in) investing activities** | **(430,053)** | **(711,929)** | **(39.6)** |
| **F. Free cash flow (D+E)** | **229,841** | **(106,117)** | **(**)** |
| **Cash flows from/(used in) financing activities** | | | |
| Dividends paid | (89,965) | (87,098) | 3.3 |
| Interest paid | (157,866) | (137,074) | 15.2 |
| Interest received | 15,589 | 15,707 | (0.8) |
| Change in fair value of hedging derivatives | 24,000 | 33,531 | (28.4) |
| Other changes | 63,723 | (6,687) | (**) |
| **G. Total cash flows from/(used in) financing activities** | **(144,519)** | **(181,621)** | **(20.4)** |
| **H. Change in net financial (debt) (F+G)** | **85,322** | **(287,738)** | **(**)** |
| **I. Closing Net financial (debt) (A+H)** | **(2,371,785)** | **(2,457,107)** | **(3.5)** |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the presentation of the cash flows of financial year 2016 was restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of ATENA (now ASM Vercelli), ATENA Trading and REI - Ricupero Ecologici Industriali. For more details please see the paragraph "Content and structure of the consolidated financial statements" in the Notes to Financial Statements.
(**) Change of more than 100%

The decrease in net financial debt is mainly a result of the free cash flow of the period (+230 million euro), higher than the flows of the financing activity (-145 million euro), the latter including the payment of dividends that occurred in the year. In particular, the free cash flow derives from the combined effect of the following determinants:

- operating cash flow of 660 million euro; higher than that recorded in 2016;
- cash flow from investing activity, a negative 430 million euro which, besides the technical investments of the period, includes the equity investments (17 million euro), including GAIA and, in the item "Changes in consolidation scope", the effect of consolidation of Iren Rinnovabili and subsidiaries and, to a lesser extent, of the business unit from Acque Potabili and of Salerno Energia Vendite.

The free cash flow in 2016, of -106 million euro, included the effect of the operation to acquire control over TRM, in the item "Changes in consolidation scope", which had absorbed the positive operating cash flows of the year. We can note finally that the statement of cash flows prepared according to the format of a change in cash and cash equivalents is presented in the section "Consolidated financial statements" in this document.

# SEGMENT REPORTING

The Iren Group operates in the following business segments:

- Energy (Hydroelectric Production, Combined Heat and Power, District Heating Networks, Thermoelectric Production)
- Market (Sale of electricity, gas, heat)
- Networks (Electricity Distribution Networks, Gas Distribution Networks, Integrated Water Service)
- Waste Management (Waste collection and disposal)
- Other services (Public Lighting, Global Services and other minor services).

These operating segments are disclosed pursuant to IFRS 8. Under this standard, the disclosure about operating segments should be based on the elements which management uses in making operational and strategic decisions.
For a proper interpretation of the income statements relating to individual businesses presented and commented on below, revenue and expense referring to joint activities were fully allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers.
Given the fact that the Group mainly operates in the Italian north-west area, the following segment information does not include a breakdown by geographical area.
Net invested capital compared to the figures at 31 December 2016 and income statements (up to the operating profit (EBIT)) are presented below by business segment and include a comparison with the figures for financial year 2016 restated.
In 2017 non-regulated activities contributed to the formation of gross operating profit for 27% (29% in 2016), regulated activities accounted for 45% in line with 2016, while semi-regulated activities went up from 26% in 2016 to 28% in 2017.

### Statement of financial position by business segment at 31 December 2017

millions of euro

| | Energy | Market | Networks | Waste manag. | Other services | Non-allocable | Total |
|---|---|---|---|---|---|---|---|
| Non-current assets | 1,876 | 131 | 2,272 | 933 | 32 | 168 | 5,412 |
| Net Working Capital | 50 | 10 | 59 | 50 | 13 | - | 182 |
| Other non-current assets and liabilities | (101) | (25) | (435) | (166) | 4 | - | (723) |
| **Net invested capital (NIC)** | **1,825** | **116** | **1,896** | **817** | **49** | **168** | **4,871** |
| **Equity** | | | | | | | 2,499 |
| **Net financial debt** | | | | | | | 2,372 |
| **Own funds and net financial debt** | | | | | | | **4,871** |

## Restated statement of financial position by business segment at 31 December 2016

millions of euro

| | Energy | Market | Networks | Waste manag. | Other services | Non-allocable | Total |
|---|---|---|---|---|---|---|---|
| Non-current assets | 1,876 | 67 | 2,152 | 972 | 21 | 156 | 5,244 |
| Net Working Capital | 25 | (8) | 114 | 8 | 31 | - | 171 |
| Other non-current assets and liabilities | (90) | (2) | (390) | (162) | (16) | - | (661) |
| **Net invested capital (NIC)** | **1,811** | **57** | **1,877** | **818** | **36** | **156** | **4,754** |
| **Equity** | | | | | | | 2,297 |
| **Net financial debt** | | | | | | | 2,457 |
| **Own funds and net financial debt** | | | | | | | **4,754** |

## Income Statement by business segment 2017

millions of euro

| | Energy | Market | Networks | Waste manag. | Other services | Netting and adjustments | Total |
|---|---|---|---|---|---|---|---|
| Total revenue and income | 1,104 | 2,418 | 936 | 551 | 127 | (1,438) | 3,697 |
| Total operating expenses | (849) | (2,307) | (600) | (402) | (157) | 1,438 | (2,877) |
| **Gross Operating Profit (EBITDA)** | **255** | **111** | **336** | **149** | **(31)** | **-** | **820** |
| Am./depr., net provisions and impairment losses | (117) | (42) | (157) | (81) | (2) | - | (400) |
| **Operating profit (EBIT)** | **138** | **69** | **179** | **67** | **(33)** | **-** | **420** |

## Restated Income Statement by business segment 2016

millions of euro

| | Energy | Market | Networks | Waste manag. | Other services | Netting and adjustments | Total |
|---|---|---|---|---|---|---|---|
| Total revenue and income | 908 | 2,187 | 854 | 502 | 62 | (1,230) | 3,283 |
| Total operating expenses | (675) | (2,052) | (535) | (383) | (55) | 1,230 | (2,469) |
| **Gross Operating Profit (EBITDA)** | **234** | **135** | **319** | **120** | **7** | **-** | **814** |
| Am./depr., net provisions and impairment losses | (130) | (56) | (135) | (67) | 0 | - | (388) |
| **Operating profit (EBIT)** | **104** | **79** | **183** | **53** | **8** | **-** | **427** |

**Energy SBU**

At 31 December 2017 revenue for the period amounted to 1,104 million euro, up +21.6% on the 908 million euro of 2016.

| | | | Financial Year 2017 | Financial Year 2016 | Δ % |
|---|---|---|---|---|---|
| Revenue | | €/mln | 1,104 | 908 | 21.6% |
| Gross Operating Profit (EBITDA) | | €/mln | 255 | 234 | 9.2% |
| *EBITDA Margin* | | | *23.1%* | *25.7%* | |
| Operating Profit (EBIT) | | €/mln | 138 | 104 | 33.6% |
| Investments | | €/mln | 56 | 60 | -6.5% |
| Electricity produced | | GWh | 8,398 | 8,573 | -2.0% |
| | *from hydroelectric sources* | *GWh* | 1,111 | 1,228 | -9.5% |
| | *from cogeneration sources* | *GWh* | 5,979 | 5,360 | 11.6% |
| | *from thermoelectric sources* | *GWh* | 1,308 | 1,986 | -34.1% |
| Heat produced | | $GWh_t$ | 2,815 | 2,679 | 5.1% |
| | *from cogeneration sources* | $GWh_t$ | 2,469 | 2,340 | 5.5% |
| | *from non-cogeneration sources* | $GWh_t$ | 346 | 339 | 2.0% |
| District heating volumes | | Million $m^3$ | 87 | 85 | 2.7% |

At 31 December 2017 electricity produced was 8,398 GWh, down by -2% compared to 8,573 GWh in 2016. The drop regarded mainly the hydroelectric and thermoelectric segments.
In particular, total thermoelectric production was 7,287 GWh, of which 5,979 GWh from cogeneration sources, up by 11.6% compared to the 5,360 GWh of financial year 2016 and 1,308 GWh from thermoelectric sources in the strict sense, down by -34.1% compared to the 1,986 GWh of 2016, mainly as a result of extraordinary maintenance on the Turbigo plant.
Hydroelectric production was 1,111 GWh, down by -9.5% compared to 1,228 GWh in the corresponding period of 2016.
Heat production in the period amounted to 2,815 GWht, up by 5.1% compared to the 2,679 GWht of the previous year, as a result of a more favourable thermal season compared to the particularly mild season in financial year 2016, as well as an increase in volumes connected. Overall district heating volumes amounted to approximately 87 million $m^3$ up by 2.7% compared to the 85 million $m^3$ of financial year 2016.

Gross operating profit (EBITDA) amounted to 255 million euro, up (+9.2%) from the 234 million euro of financial year 2016.
This improvement was mainly due to the positive trend that characterised hydroelectric and thermoelectric production, which both benefited from an increase of unitary margins even though quantities fell. This was partially offset by the reduction in the operating profit of Heat Cogeneration characterised by slightly lower margins, although these were combined with greater quantities produced thanks to the favourable thermal trend. The EBITDA of the segment also benefited from a capital gain of 14.4 million euro related to the sale of plant parts in stock which more than absorbed the absence of capital gains that emerged in financial year 2016 and were no longer repeatable.

The operating profit (EBIT) of the Energy segment totalled 138 million euro, an improvement of 33.6% compared to the 104 million euro of 2016. Besides the positive trend of gross operating profit, the operating profit was characterised by lower provisions and impairment losses of approximately 13.5 million euro and lower releases of provisions of approximately 4 million euro. Depreciation and amortisation were substantially in line with financial year 2016.

**Market SBU**

At 31 December 2017 the revenue of the segment amounted to 2,418 million euro, up +10.5% from the 2,187 million euro of financial year 2016. As of May 2017 the consolidation scope of the Market SBU includes the company Salerno Energia Vendite (SEV), operating mainly in Grosseto and Salerno.

Gross operating profit (EBITDA) amounted to 111 million euro, down -17.9% compared to 135 million euro recorded in 2016. The decrease in the margin is attributable to the sale of electricity (-62%), inasmuch as 2017 did not provide the particularly positive conditions for the energy scenario that had characterised 2016: the negative change in electricity sales was only partially offset by the positive trend in gas sales (+8.3%).

The operating profit (EBIT) was Euro 69 million, down -13.3% compared to the Euro 79 million recorded in financial year 2016. The negative trend of the gross operating profit (EBITDA) was partially offset by lower provisions for impairment of receivables for roughly 18 million euro, only partially absorbed by greater depreciation and amortisation for around 3 million euro and impairment losses of around 4 million euro.

| | | | **Financial Year 2017** | **Financial Year 2016** | **Δ %** |
|---|---|---|---|---|---|
| Revenue | | €/mln | 2,418 | 2,187 | 10.5% |
| Gross Operating Profit (EBITDA) | | €/mln | 111 | 135 | -17.9% |
| *EBITDA Margin* | | | *4.6%* | *6.2%* | |
| | *from Electricity* | *€/mln* | 20 | 52 | -62.0% |
| | *from Gas* | *€/mln* | 90 | 83 | 8.3% |
| | *from Other sales services* | *€/mln* | 1 | 0 | (*) |
| Operating Profit (EBIT) | | €/mln | 69 | 79 | -13.3% |
| | | | | | |
| Investments | | | 20 | 16 | 25.7% |
| | | | | | |
| Electricity Sold | | GWh | 9,818 | 9,539 | 2.9% |
| Gas Purchased | | Million $m^3$ | 2,872 | 2,752 | 4.4% |
| | *Gas sold by the Group* | Million $m^3$ | 1,134 | 998 | 13.6% |
| | *Gas for internal use* | Million $m^3$ | 1,530 | 1,547 | -1.1% |
| | *Gas in storage* | Million $m^3$ | 208 | 207 | 0.9% |

(*) Change of more than 100%

*Sale of electricity*

The volumes of electricity sold amounted to 9,818 GWh (net of pumping, network leaks and dedicated withdrawals) up by +2.9% compared to the 9,539 GWh of financial year 2016. The 2016 figure, besides, included sales on the exchange in the first three months of the year which were carried out, from 1 April 2016, directly by the Energia BU, following a reorganisation of the Energy Management business.
Excluding the effect of this organisational event, volumes sold on the free market, including the segments of business and retail customers and wholesalers, amounted to a total of 9,167 GWh, up +23.8% compared to the 7,405 GWh of financial year 2016, and this was also due to the change in the scope related to the entry of Atena Trading as from May 2016 and of Salerno Energia Vendite as from May 2017. In particular, sales regarding business customers amounted to 4,619 GWh, increasing by 46.8% compared to the 3,147 GWh in financial year 2016, and sales in the retail customer segment amounted to 1,437 GWh, +4.9 % compared to the 1,370 GWh of financial year 2016. Increasing by 7.7% was the wholesaler segment, with sales coming out at 3,111 GWh compared to the 2,888 GWh of financial year 2016.
Sales in the protected market amounted to 528 GWh, down by -7.7% compared to 571 GWh in the corresponding period of 2016.

The gross operating profit (EBITDA) on the sale of electricity amounted to 20 million euro, down compared to 52 million euro in financial year 2016. The trend of the gross operating profit (EBITDA) was characterised by a sharp drop of the first margin of the free market owing mainly to a particularly unfavourable energy scenario characterised by a short-term increase in the costs of procuring electricity. These effects were partially offset by the higher quantities sold and the increase in the marketing components. The protected market also presented a negative trend, where the increase linked to marketing components only partially offset the extraordinary positive effects that characterised the 2016 period. The negative change in the first margin was partially absorbed by lower operating expenses.

*Sale of Natural Gas*

The volumes purchased amounted to 2,872 million $m^3$, up by +4.4% compared to the 2,752 million $m^3$ of financial year 2016.
The gas sold by the group amounted to 1,134 million $m^3$, up by +13.6% compared to the 998 million $m^3$ of the previous year, while internal consumption was 1,530 million $m^3$, down by -1.1 % compared to the 1,547 million $m^3$ of financial year 2016.

Gross operating profit (EBITDA) of gas sales amounted to 90 million euro, up +8.3% compared to the 83 million euro recorded in 2016. The increase was mainly due to the better procurement conditions guaranteed by the use of storage and to the contribution of Atena Trading consolidated starting from May 2016.

*Sales of other services*

Heat sales and other services presented a gross operating profit of 1 million euro, while they substantially broke even in financial year 2016.

**Networks SBU**

At 31 December 2017 the Networks business segment, which comprises the businesses of Gas Distribution, Electricity and the Integrated Water Service, recorded revenue of 936 million euro, up by 9.7%, compared to financial year 2016, when it was 854 million euro. The increase in revenue is attributable mainly to entry into the consolidation scope of ASM Vercelli (formerly Atena SpA) as of May 2016 and completion of the acquisition of the Acque Potabili business unit from 1 January 2017.

Gross operating profit (EBITDA) amounted to 336 million euro, up +5.5% from the 319 million euro of financial year 2016.

Net operating profit (EBITDA) totalled 179 million euro, a -2.4% decrease on the 2016 figure of 183 million euro. The positive trend of gross operating profit was more than offset by the higher depreciation and amortisation of approximately 9 million euro (of which 4.7 million euro referable to ASM Vercelli), higher provisions for risks of 4 million euro and for impairment of receivables of 8 million euro.

The main changes in gross operating profit for the segments concerned are illustrated below.

| | | Financial Year 2017 | Financial Year 2016 | Δ % |
|---|---|---|---|---|
| Revenue | €/mln | 936 | 854 | 9.7% |
| Gross Operating Profit (EBITDA) | €/mln | 336 | 319 | 5.5% |
| *EBITDA Margin* | | *35.9%* | *37.3%* | |
| *from Electricity Networks* | *€/mln* | *76* | *83* | *-9.1%* |
| *from Gas Networks* | *€/mln* | *87* | *73* | *19.5%* |
| *from Integrated Water Service* | *€/mln* | 173 | 163 | *6.7%* |
| Operating Profit (EBIT) | €/mln | 179 | 183 | -2.4% |
| | | | | |
| Investments | €/mln | 207 | 149 | 39.5% |
| *in Electricity Networks* | *€/mln* | *37* | *29* | *26.6%* |
| *in Gas Networks* | *€/mln* | *49* | *35* | *40.3%* |
| *in Integrated Water Service* | *€/mln* | 121 | 85 | 43.5% |
| | | | | |
| Electricity distributed | GWh | 4,248 | 4,148 | 2.4% |
| Gas introduced into the network | Million $m^3$ | 1,305 | 1,250 | 4.5% |
| Water sold | Million $m^3$ | 181 | 170 | 6.8% |

*Networks SBU* **-** *Electricity*

The gross operating profit amounted to 76 million euro, down by -9.1% compared to financial year 2016.
The drop in the profit was due to the absence in financial year 2017 of the accounting effect of the "regulatory lag" following application in 2016 of resolution 654/2015/R/eel. This had generated higher revenue of approximately 15 million euro, no longer repeatable in 2017. The effect of the "regulatory lag" was only partially absorbed by the contingent assets referable to the previous electrical equalisation related to the years 2010-2015, by the lower costs related to energy efficiency certificates (EECs) and by the margins of ASM Vercelli (formerly Atena), acquired in May 2016, extended along the whole year.
During the period investments for 37 million euro were made, mainly related to new connections, the construction of new LV/MV substations and LV/MV lines.

*Networks SBU* **-** *Gas Distribution*

Gross operating profit of gas distribution networks amounted to 87 million euro, up by 19.5% compared to 73 million euro in financial year 2016. The upward change in the profit was due mainly to the lower costs related to energy efficiency certificates (EECs), to the accounting for higher tariff revenue, referred

to the two years 2016-2017, connected with the plan to replace mechanical meters with electronic ones, to operating synergies, as well as to the contribution, during the whole year, of ASM Vercelli (formerly Atena).
Investments made in the period amounted to 49 million euro and regarded the provisions of AEEGSI resolutions, in particular making the network compliant with cathodic protection, the installation of electronic meters and replacement of grey cast iron pipes.

*Networks SBU* - *Water Cycle*

The gross operating profit of the period amounted to 173 million euro up by +6.7% compared to 163 million euro in financial year 2016. The increase in the margin should be chiefly attributed to the accounting for tariff adjustments, as well as to the synergies and rationalisations of operating expenses, to the change in the consolidation scope deriving from acquisition of the Acque Potabili business unit and to the results of ASM Vercelli. These positive operating trends made it possible to more than offset the absence of contingent assets for insurance reimbursements for approximately 6 million euro, which were recognised in financial year 2016, therefore not replicable.

Investments in the period totalled 121 million euro and concerned the construction, development and maintenance of distribution networks and plants, the sewerage network and in particular water treatment plants.

**Waste Management SBU**

At 31 December 2017, turnover for the segment amounted to 551 million euro, up 9.7% from the 502 million euro in financial year 2016. The increase was due to higher revenue from waste collection and intermediation of special waste, and to higher energy revenue of the disposal hubs. Entry into the consolidation scope of ASM Vercelli (formerly Atena S.p.A.) from May 2016 and of REI from 1 January 2017 contributed to the increase in revenue.

| | | **Financial Year 2017** | **Financial Year 2016** | **Δ %** |
|---|---|---|---|---|
| Revenue | €/mln | 551 | 502 | 9.7% |
| Gross Operating Profit (EBITDA) | €/mln | 149 | 120 | 24.4% |
| *EBITDA Margin* | | *27.0%* | *23.8%* | |
| Operating Profit (EBIT) | €/mln | 67 | 53 | 27.5% |
| Investments | €/mln | 27 | 23 | 17.5% |
| Electricity sold | GWh | 515 | 473 | 8.9% |
| Thermal energy produced | $GWh_t$ | 181 | 190 | -4.7% |
| Waste managed | tonnes | *2,015,568* | 1,813,320 | 11.2% |
| Emilia area separate waste collection | % | *70.1* | *68.7* | *2.0%* |
| Turin area separate waste collection | % | *44.3* | *42.9* | *3.3%* |

Gross operating profit (EBITDA) of the sector amounted to 149 million euro, up 24.4% on the 120 million euro of the corresponding period of 2016. The increase was mainly due to a return to full productivity of TRM (which in fourth quarter 2016 had been characterised by a production shutdown for maintenance) and this, together with a favourable energy scenario, led to an increase in energy revenue of the waste-to-energy plants and higher revenue for green certificates.
The consolidation of ASM Vercelli (formerly Atena S.p.A.) from May 2016 and REI from 1 January 2017 contributed to the positive trend in operating profit.

Operating profit (EBIT) totalled 67 million euro, up by 27.5% from the 2016 restated figure of 53 million euro. The positive trend in gross operating profit was partially absorbed by higher depreciation and amortisation of approximately 2 million euro, by higher provisions for impairment of receivables of approximately 3 million euro, and by provisions for risks of 14.7 million euro, of which approximately 11 million related to assessment of a prospective and potential additional expense associated with a number of disposal contracts. We can note also lower impairment of plants of 5.6 million euro.
The investments made in the period amounted to 27 million euro and refer to investments for maintenance of the various plants and investments in equipment and vehicles supporting waste collection based on the door-to-door and separation method.

**Services and other**

At December 2017, revenue totalled 127 million euro, up compared to the 62 million euro in the corresponding period of 2016. The activities performed are related to public lighting, traffic lights, heating systems management and other activities.

| | | **Financial Year 2017** | **Financial Year 2016** | **Δ %** |
|---|---|---|---|---|
| Revenue | €/mln | 127 | 62 | (*) |
| Gross Operating Profit (EBITDA) | €/mln | -31 | 7 | (*) |
| *EBITDA Margin* | | *-24.2%* | *11.8%* | |
| Operating Profit (EBIT) | €/mln | -33 | 8 | (*) |
| | | | | |
| Investments | €/mln | 47 | 22 | (*) |

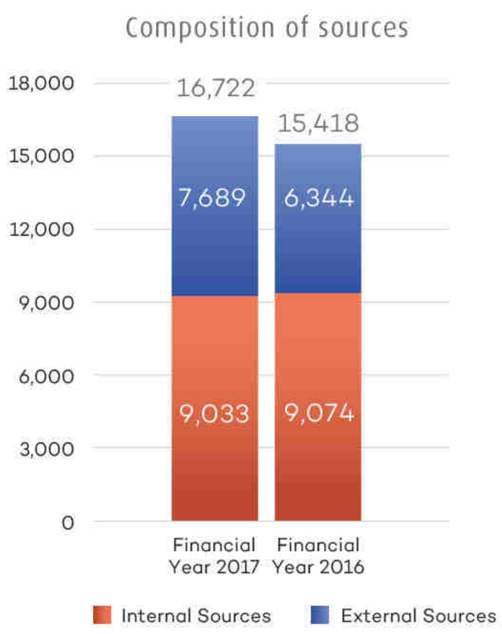
(*) Change of more than 100%

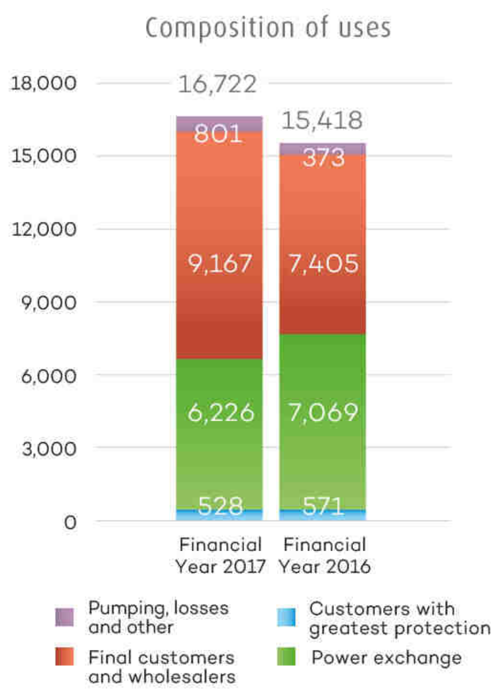
There was a gross operating loss (EBITDA) of -31 million euro, down compared to the profit of 7 million euro in 2016.
The sharp drop in earnings was mainly due to the accounting in the “Services and other” segment - an extraordinary cost transversal to all business segments - for the expenses set aside to cover the retirement incentive pursuant to art. 4 of the Fornero Law, for approximately 34 million euro.
Net of this extraordinary item the EBITDA of the “Other services and other” segment would have been 3 million euro, down compared with the previous financial year owing to the absence of profits on extraordinary projects related to public lighting and traffic lights which had characterised financial year 2016 and are not replicable.
Investments in the period amounted to 47 million euro and related largely to information technology and telecommunications.

## ENERGY BALANCES

### Electricity balance sheet

| GWh | Financial Year 2017 | Financial Year 2016 | Changes % |
|---|---|---|---|
| **SOURCES** | | | |
| The Group's gross production | 9,033 | 9,074 | (0.5) |
| *a) Hydroelectric* | *1,136* | *1,228* | (7.5) |
| *b) Cogeneration* | *5,979* | *5,360* | *11.5* |
| *c) Thermoelectric* | *1,308* | *1,986* | (34.1) |
| *d) Production from WTE plants and landfills* | *610* | *500* | 22.0 |
| Purchases from *Acquirente Unico* [Single Buyer] | 556 | 601 | (7.5) |
| Energy purchased on the Power Exchange | 4,703 | 3,519 | 33.6 |
| Energy purchased from wholesalers and imports | 2,430 | 2,224 | 9.3 |
| **Total Sources** | **16,722** | **15,418** | **8.5** |
| | | | |
| **USES** | | | |
| Sales to protected customers | 528 | 571 | (7.5) |
| Sales on the Power Exchange | 6,226 | 7,069 | (11.9) |
| Sales to eligible final customers and wholesalers | 9,167 | 7,405 | 23.8 |
| Pumping, distribution losses and other | 801 | 373 | 114.7 |
| **Total Uses** | **16,722** | **15,418** | **8.5** |

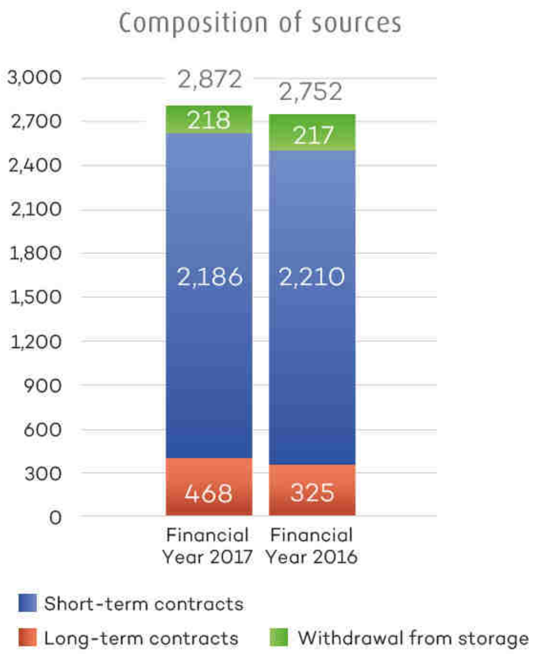


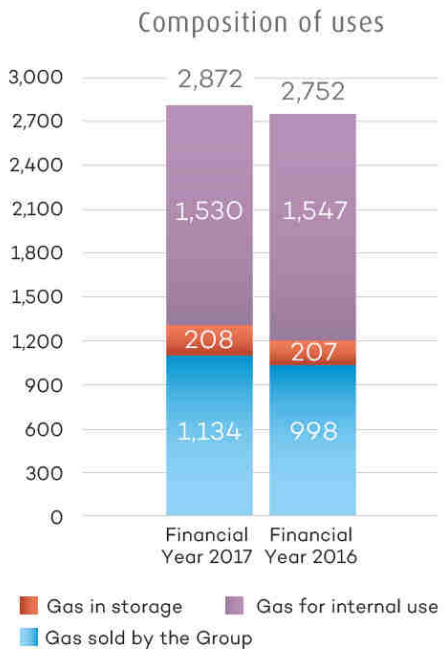



**Gas balance sheet**

| Millions of m³ | Financial Year 2017 | Financial Year 2016 | Changes % |
|---|---|---|---|
| **SOURCES** | | | |
| Long-term contracts | 468 | 325 | 44.0 |
| Short- and medium-term contracts | 2,186 | 2,210 | (1.1) |
| Withdrawals from storage | 218 | 217 | 0.5 |
| **Total Sources** | **2,872** | **2,752** | **4.4** |
| **USES** | | | |
| Gas sold by the Group | 1,134 | 998 | 13.6 |
| Gas for internal use [(1)] | 1,530 | 1,547 | (1.1) |
| Gas in storage | 208 | 207 | 0.5 |
| **Total Uses** | **2,872** | **2,752** | **4.4** |

(1) Internal use involves thermoelectric plants and use for heat services and internal consumption



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

## Income statement

### INCOME STATEMENT OF IREN S.p.A.

thousands of euro

| | Financial Year 2017 | Financial Year 2016 | Change % |
|---|---|---|---|
| **Revenue** | | | |
| Revenue from goods and services | 154,608 | 139,122 | 11.1 |
| Other income | 6,131 | 7,420 | (17.4) |
| **Total revenue** | **160,739** | **146,542** | **9.7** |
| **Operating expenses** | | | |
| Raw materials, consumables, supplies and goods | (10,636) | (9,002) | 18.2 |
| Services and use of third-party assets | (92,735) | (87,150) | 6.4 |
| Other operating expenses | (5,384) | (6,522) | (17.4) |
| Capitalised expenses for internal work | 9,746 | 9,563 | 1.9 |
| Personnel expenses | (72,519) | (71,042) | 2.1 |
| **Total operating expense** | **(171,529)** | **(164,154)** | **4.5** |
| **Gross Operating Profit (EBITDA)** | **(10,790)** | **(17,612)** | **(38.7)** |
| **Depreciation, amortisation, provisions and impairment losses** | | | |
| Depreciation and amortisation | (11,247) | (8,473) | 32.7 |
| Provisions and impairment losses | 3,071 | (956) | (*) |
| **Total depreciation, amortisation, provisions and impairment losses** | **(8,176)** | **(9,429)** | **(13.3)** |
| **Operating profit (EBIT)** | **(18,966)** | **(27,041)** | **(29.9)** |
| **Financial income and expense** | | | |
| Financial income | 285,312 | 242,176 | 17.8 |
| Financial expense | (108,039) | (145,788) | (25.9) |
| **Total financial income and expense** | **177,273** | **96,388** | **83.9** |
| Value adjustments on equity investments | - | - | - |
| *- of which non-recurring* | - | - | - |
| **Profit (loss) before tax** | **158,307** | **69,347** | **(*)** |
| Income tax expense | 8,649 | 18,910 | (54.3) |
| **Net profit (loss) from continuing operations** | **166,956** | **88,257** | **89.2** |
| Net profit (loss) from discontinued operations | - | - | - |
| **Net profit (loss) for the period** | **166,956** | **88,257** | **89.2** |

(*) Change of more than 100%

**Revenue**

Total revenue for Iren S.p.A. was 161 million euro, primarily relating to activities launched in the year for services provided to Group companies. The increase in the item was partially due to the process of rationalising the macro-structure already launched in the previous year.

**Operating expense**

Operating expense amounted to 172 million euro and includes services and use of third-party assets (93 million euro), other operating expense (7 million euro) and personnel expenses (73 million euro). The increase in operating expenses compared to the previous year was the result essentially of management of staff activities for the Group companies, transferred to Iren S.p.A. following the organisational rationalisation described above.

**Depreciation, amortisation, provisions and impairment losses**

Depreciation, amortisation and provisions amounted to around 8 million euro.

**Financial income and expense**

The balance between financial income and expense was positive at Euro 177 million. Financial income, amounting to Euro 285 million, amongst other things includes dividends from subsidiaries, associates and other companies (roughly 211 million euro), and interest income from loans to subsidiaries (54 million euro) and joint ventures (15 million euro).

Financial expense amounted to 108 million euro, and related essentially to interest expense on loans and bonds (88 million euro) and on derivatives put in place to hedge the risk of oscillating interest rates (19 million euro).

**Profit (loss) before tax**

Profit before tax was 158 million euro.

**Income tax expense**

Income taxes were a positive 9 million euro because they consist mainly of income from tax consolidation. In fact, the Company opted for participation in the national consolidation tax scheme pursuant to Art. 118 of the new Consolidated Income Tax Act (TUIR) and calculates IRES on a taxable base corresponding to the algebraic sum of taxable profits/losses of each company included in the consolidation scope.

**Net profit (loss) for the period**

Net of taxes for the year, the company recorded a profit of 167 million euro.

# Statement of Financial Position

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

thousands of euro

| | 31.12.2017 | 31.12.2016 | Change % |
|---|---|---|---|
| Non-current assets | 2,598,575 | 2,590,910 | 0.3 |
| Other non-current assets (liabilities) | (549) | 14,928 | (*) |
| Net Working Capital | 19,308 | 14,452 | 33.6 |
| Deferred tax assets (liabilities) | 8,835 | 11,513 | (23.3) |
| Provisions for risks and employee benefits | (50,586) | (49,454) | 2.3 |
| Assets held for sale | 240 | 240 | - |
| **Net invested capital** | **2,575,823** | **2,582,589** | **(0.3)** |
| Shareholders' equity | 1,703,087 | 1,604,935 | 6.1 |
| *Non-current financial assets* | *(1,551,273)* | *(1,546,441)* | *0.3* |
| *Non-current financial debt* | *2,644,420* | *2,544,137* | *3.9* |
| Non-current net financial debt | 1,093,146 | 997,696 | 9.6 |
| *Current financial assets* | *(523,259)* | *(604,383)* | *(13.4)* |
| *Current financial debt* | *302,849* | *584,341* | *(48.2)* |
| Current net financial debt | (220,410) | (20,042) | (*) |
| Net financial debt | 872,736 | 977,654 | (10.7) |
| **Own funds and net financial debt** | **2,575,823** | **2,582,589** | **(0.3)** |

(*) Change of more than 100%

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

**Non-current assets**
Intangible assets, property, plant and equipment, investment property and financial assets totalled 2,599 million euro.

**Net working capital**
Net working capital was positive by 19 million euro. Deferred tax assets totalled 9 million euro, whereas provisions for risks and employee benefits amounted to approximately 51 million euro.

**Shareholders' equity**
2017 closed with equity of 1,703 million euro.

**Net financial debt**
At the end of 2017 net financial debt amounted to 873 million euro. Specifically, medium/long-term indebtedness, equal to 1,093 million euro, includes medium/long-term financial liabilities of 2,644 million euro and medium/long-term financial assets of 1,551 million euro. The latter mainly refer to loans to subsidiaries. The current net financial position totalled 220 million euro and comprises current payables due mainly to banks for 303 million euro, current financial receivables, largely from Group companies, for 454 million euro, and cash and cash equivalents amounting to 69 million euro.

## CASH FLOW STATEMENT OF IREN S.P.A.

thousands of euro

| | Financial Year 2017 | Financial Year 2016 | Change % |
|---|---|---|---|
| **A. Opening balance of cash and cash equivalents and centralised treasury management** | **1,436,206** | **1,318,420** | **8.9** |
| **Cash flows from operating activities** | | | |
| Profit (loss) for the period | 166,957 | 88,257 | 89.2 |
| Adjustments: | | | |
| Income tax expense for the period | (8,649) | (18,910) | (54.3) |
| Net financial expense (income) | (177,273) | (96,387) | 83.9 |
| Amortisation of intangible assets and depreciation of property, plant and equipment and investment property | 11,247 | 8,473 | 32.7 |
| Net impairment losses (reversals of impairment losses) on assets | 5,561 | - | - |
| Net provisions for risks and other charges | 6,985 | 8,489 | (17.7) |
| Capital (gains) losses | 1,480 | (10) | - |
| Utilisations of employee benefits | (927) | (1,167) | (20.6) |
| Utilisations of provisions for risks and other charges | (2,501) | (1,370) | 82.6 |
| Change in other non-current assets and liabilities | 15,477 | (197) | (*) |
| Other financial changes | 696 | - | - |
| Taxes received/paid | 24,073 | 10,974 | (*) |
| **B. Cash flows from operating activities before changes in NWC** | **43,126** | **(1,848)** | **(*)** |
| Change in trade receivables | (24,452) | 49,075 | (*) |
| Change in tax assets and other current assets | (29,247) | (3,531) | (*) |
| Change in trade payables | (1,076) | (4,683) | (77.0) |
| Change in tax liabilities and other current liabilities | 34,022 | (11,710) | (*) |
| **C. Cash flows from changes in NWC** | **(20,753)** | **29,151** | **(*)** |
| **D. Cash flows from/(used in) operating activities (B+C)** | **22,373** | **27,303** | **(18.1)** |
| **Cash flows from/(used in) investing activities** | | | |
| Investments in intangible assets, property, plant and equipment and investment property | (25,953) | (20,379) | 27.4 |
| Investments in financial assets | - | - | - |
| Proceeds from the sale of investments and changes in assets held for sale | - | 1,511 | (100.0) |
| Dividends received | 210,470 | 153,673 | 37.0 |
| Acquisition of business units | - | 2,354 | (100.0) |
| **E. Total cash flows from/(used in) investing activities** | **184,517** | **137,159** | **34.5** |
| **F. Free cash flow (D+E)** | **206,890** | **164,462** | **25.8** |
| **Cash flows from/(used in) financing activities** | | | |
| Dividends paid | (79,764) | (70,193) | 13.6 |
| Other changes in equity | - | - | (*) |
| New long-term loans | 550,000 | 570,000 | (3.5) |
| Repayment of non-current loans | (696,425) | (494,397) | 40.9 |
| Change in financial assets | 1,374 | 455 | (*) |
| Change in financial liabilities | 30,927 | (6,865) | (*) |
| Interest paid | (140,897) | (119,178) | 18.2 |
| Interest received | 77,702 | 73,502 | 5.7 |
| **G. Total cash flows from/(used in) financing activities** | **(257,083)** | **(46,676)** | **(*)** |
| **H. Cash flows for the period (F+G)** | **(50,193)** | **117,786** | **(*)** |
| **I. Closing balance of cash and cash equivalents and centralised treasury management (A+H)** | **1,386,013** | **1,436,206** | **(3.5)** |
| **L. Current balance of centralised treasury management - subsidiaries (*)** | **(1,316,551)** | **(1,294,888)** | **1.7** |
| **M. Closing cash and cash equivalents (I+L)** | **69,462** | **141,318** | **(50.8)** |

The following table summarises the changes in net financial debt of the Parent Company Iren S.p.A. for the years under review.

thousands of euro

| | Financial Year 2017 | Financial Year 2016 | Change % |
|---|---|---|---|
| Free cash flow | 206,890 | 164,462 | 25.8 |
| Dividends paid | (79,764) | (70,193) | 13.6 |
| Interest paid | (140,897) | (119,178) | 18.2 |
| Interest received | 77,702 | 73,502 | 5.7 |
| Change in fair value of hedging derivatives | 18,605 | 5,874 | (*) |
| Other changes | 22,382 | (21,850) | (*) |
| **Change in net financial debt** | **104,918** | **32,617** | **(*)** |

The following table reconciles equity and the result of the Parent Company Iren S.p.A. at 31 December 2017 and 31 December 2016 with those of the consolidated financial statements.

thousands of euro

| **31/12/2017** | **Shareholders' Equity** | **Profit (loss) for the period** |
|---|---|---|
| **Shareholders' equity and profit for the year of the Parent Company** | **1,703,087** | **166,956** |
| Difference between the carrying amount and associates accounted for using the equity method | 22,130 | 34,584 |
| Higher value from consolidation compared to the carrying amount of consolidated equity investments | 449,504 | 242,430 |
| Elimination of dividends from subsidiaries/associates | 0 | -210,461 |
| Elimination of intra-group margins | -56,249 | 7,593 |
| Others | 3,658 | -3,382 |
| **Equity attributable to shareholders and profit for the year** | **2,122,130** | **237,720** |

"Elimination of intra-group margins" refers to the elimination of capital gains from the sale of business units or companies within the Group. In particular, the transaction relating to the Genoa integrated water cycle carried out by the former AMGA (positive effect of 7 million euro on the income statement and negative by 35 million euro on Equity).

thousands of euro

| **31/12/2016** | **Restated Shareholders' Equity** | **Restated profit/loss for the period** |
|---|---|---|
| **Shareholders' equity and profit for the year of the Parent Company** | **1,604,935** | **88,257** |
| Difference between the carrying amount and associates accounted for using the equity method | 2,555 | -30 |
| Higher value from consolidation compared to the carrying amount of consolidated equity investments | 418,722 | 233,794 |
| Elimination of dividends from subsidiaries/associates | 0 | -153,663 |
| Elimination of intra-group margins | -63,843 | 11,571 |
| Others | 1,015 | -85 |
| **Equity attributable to shareholders and profit for the year** | **1,963,384** | **179,844** |

# EVENTS AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

**Conversion of 62,305,465 savings shares of Iren S.p.A. Into ordinary shares**

On the basis of the delegated power received from the Board of Directors on 20 December 2017, on 8 January 2018 the Deputy Chairperson of Iren S.p.A., Prof. Ettore Rocchi, carried out, with a positive result, the checks on the existence of the requirements pursuant to art. 6 of the Iren S.p.A. bylaws for investors that acquired all the remaining 62,305,465 savings shares owned by FCT Holding S.p.A. to be converted at par into Iren ordinary shares.

On the basis of the said article of the Bylaws the disposal of the savings shares held by FCT Holding S.p.A. entails in fact their conversion into ordinary shares, after verification that the transfer, for any reason, is made to parties not connected to the Municipality of Turin.

The acquisition occurred following further requests for conversion (see the explanation in "Significant events of the period") received starting from 20 December 2017, related to the "exchangeable" bonds issued by FCT Holding S.p.A. on 30 December 2015 for an amount of 150,000,000 euro that had as underlying a total of 80,498,014 Iren savings shares and 290,353 Iren ordinary shares owned by the same.

Following the aforementioned conversion the Company's share capital is made up of only ordinary shares.

**Award of 4 lots of the Consip tender for supplying electricity to the Public Administration**

The Group, through IREN Mercato, strengthened its presence as an electricity supplier to Public Administrations in the North West with the award in January 2018 of four lots of the Consip EE15 tender, for a total amount for the supply estimated at 365 million euro of revenue.

Iren Mercato is confirmed therefore, also for 2018, as a major supplier for Public Administrations in Lombardy (lots 2 and 3) and Emilia Romagna (lot 6), while it becomes one again for the Public Administrations of Piedmont and Val d'Aosta (lot 1), for a total annual volume of supplies estimated at 2.4 TWh.

Among the players that took part in the tender Iren Mercato's technical and economic offer was the most competitive and for the supplies it provides for both fixed prices and variable prices linked to the value of energy on the power exchange. In addition, thanks also the Group's renewable-source production assets, the Public Administrations involved will have the possibility of purchasing certified "green" energy for all the quantities of their energy needs. Iren Mercato will sign with Consip an agreement with a term of 12 months, with possible extension for a further six, and may take orders from Public Administrations up to exhaustion of the maximum energy ceilings provided for in each lot.

**Iren-ACAM business combination – acceptance by other ACAM public shareholders**

Following what was explained in "Significant events of the period", from the point of view of the effective progress of the business combination between Iren and the ACAM Group we can note that, between 29 December 2017 and 19 January 2018, further public shareholders representing 8.69% of the ACAM capital accepted the Investment Agreement.

Therefore, following these further acceptances, the public shareholders that are signatories to the Agreement, on the basis of which they are obliged to transfer their shares in ACAM subordinately to fulfilment of the conditions precedent, represent almost all of the shareholders of the La Spezia-based company.

At 19 January 2018, the public shareholders of ACAM that have accepted the Agreement have undertaken to subscribe a total of 25,096,150 of the 27,699,660 new Iren shares potentially issuable in the context of the capital increase reserved for them (90.6% of the total), representing 1.93% of the Iren share capital after the said increase.

**BUSINESS OUTLOOK**

The second half of 2017 confirmed the consolidation of growth both in the Euro area and more specifically at the Italian level, with estimates of an increase in GDP of approximately 1.5%. This trend was reflected in the stable increase of the SNP (the price of electricity on the Power Exchange) which rose more than 25% compared to 2016, and in the increase of more than 20% in the price of gas at the Virtual Exchange Point (PSV - Punto di Scambio Virtuale). This scenario consolidates the recovery of margins in the energy supply chain that already began during 2016 and confirms the forecasts of the business plan for gradual growth of generation margins. IREN also recorded positive results in the segment of distribution networks and waste management, which benefited from the growth of investments and synergies achieved in the period and from a stable regulatory scenario.
This performance is part of a growth process which in the last three years has seen Gross Operating Profit increasing on average by around 10% a year, confirming the soundness of the strategical decisions made and IREN’s ability to implement them in a precise and effective way. The Group’s strategy was further developed in the new business plan presented to the financial community in November 2017 which introduced the concept of “circular vision”: a strategic view at 360° which places at the centre the Customer/Citizen through action supported by efficiency, development, sustainability and attention to internal resources. These will be the elements guiding the Group’s business during 2018 with the objective of achieving the challenging targets indicated in the business plan and confirming its role as an aggregator and development driver in the North-West of Italy. From this last point of view the combination with ACAM S.p.A. - a multiutility operating in the territory of La Spezia - will be particularly important. Completion of the operation is planned in the first half of the current year.

# FINANCIAL MANAGEMENT

**General framework**

During 2017 the short-term part of the interest rate curve maintained substantial stability, while the medium/long-term part was affected by greater volatility with a rising trend. The last intervention by the European Central Bank was the cut in interest rates in March 2016. The current rate is 0%. Examining the trend in the six-month Euribor rate we can note that the parameter, which has been in negative territory since November 2015, remained stable and is currently -0.27%. The quotation of fixed rates, reflected in the 5- and 10-year IRS figures, since the last quarter of 2016 has shown a rising trend, more marked starting from the end of 2017.

**Activities performed**

During 2017, activities aimed at consolidating the financial structure of the Iren Group continued. The development of funding needs is monitored through careful financial planning, which enables requirements for new financial resources to be anticipated, taking into account the repayments of outstanding loans, the development of debt, the investments, the trend in working capital and the balance of short-term and long-term sources.

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

Examining in more detail the loan operations carried out in 2017, we can note that, as described in "Significant events of the period", a new loan contract was signed with the European Investment Bank (EIB) for 75 million euro for investments in the electricity distribution grid while, in December, a first tranche of 50 million euro was used on the EIB Waste and TLR loan of a total of 130 million euro entered into in December 2015.

Following this activity, direct loans with the European Investment Bank, with a duration of up to 15 years, remaining unused and available total 235 million euro.

In September, as decided in the scope of liability management activities in 2016, the voluntary advance redemption of the Put Bonds in the portfolio took place, for a total amount of 182 million euro. In October 2017 Iren S.p.A. completed with full success, for the third consecutive year, the placing of a bond issue, this year of the Green Bond type, for a benchmark amount of 500 million euro as part of the Euro Medium Term Notes (EMTN) Programme of 2 billion euro, as most recently renewed and increased by the Board of Directors on 26 September 2017.

In order to optimise the Group's financial structure, liability management activities were carried out with a view to taking advantage of favourable market opportunities. In particular, at the same time as the new Bond, a Tender Offer was launched on all the securities maturing from 2019 to 2022. This ended with redemption in advance of a total of 92 million euro. Bank loans for 253 million euro were also repaid in advance.

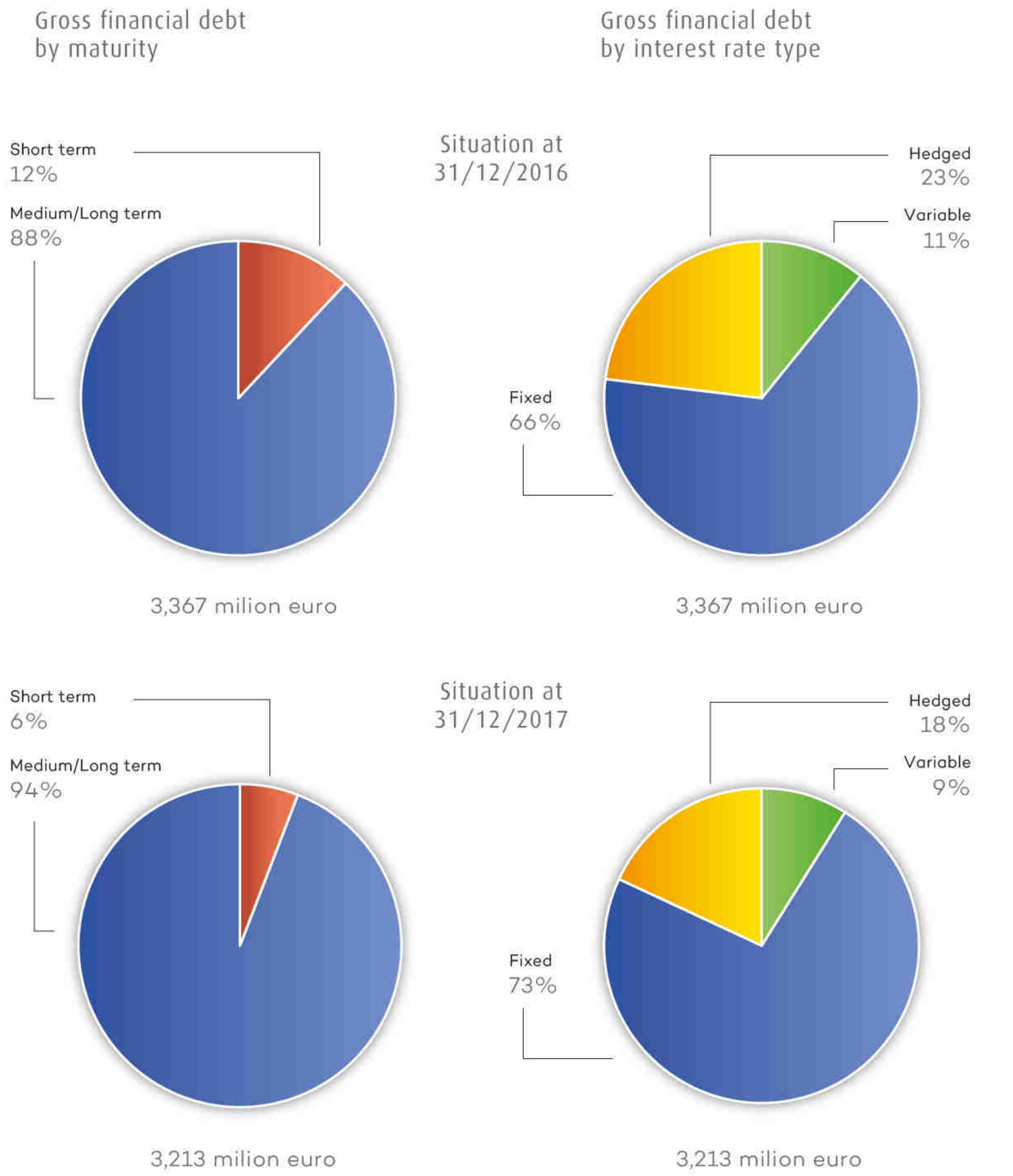
In the Group context the debt positions of the Company Iren Rinnovabili and its subsidiaries came into the consolidation scope for a total of 29 million euro, almost entirely classified among current financial liabilities as they were repaid in advance at the beginning of 2018.

Financial debt at the end of the period is made up 44% of loans and 56% of bonds.

The Iren Group is exposed to various types of financial risks, including liquidity risk, interest rate risk, and currency risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit risk of fluctuations in the interest rate. Further information can be found in the paragraph "Group Financial Risk Management" in the Notes to the Financial Statements. In the period, new Interest Rate Swap contracts were not entered into while, in the context of the liability management activity described above, five Interest Rate Swaps were extinguished for a total amount of 10 million euro. At 31 December 2017, the portion of floating rate debt not hedged by exchange rate derivatives was 9% of gross financial debt, in line with the objective of the Iren Group which is to maintain adequate protection against significant increases in interest rates.

Overall, the activity carried out is aimed at refinancing debt with a view to improving the financial structure, structurally reducing the cost of capital and extending the average duration of financial debt.

The composition of gross financial debt by maturity and rate type, compared with the situation at 31 December 2016, is shown below.




**Rating**

In December 2017 the Fitch agency increased Iren's rating by a notch, taking it to BBB with stable outlook. Fitch also confirmed the BBB rating on the senior unsecured issues. The reasons that led to the improvement of the rating, already "Investment Grade", are, among others, the structural growth of the Group's profitability, the achievement, over the last few years, of significant synergies with better results than the market expectations, the full integration of a number of medium-sized companies, the reduction of the cost of the debt together with early achievement of the financial flexibility target. In support of the liquidity risk indicators, in addition to the available lines for medium/long-term funding referred to above, committed credit lines were contractualised, amounting at the end of the period to 70 million euro.

# RISKS AND UNCERTAINTIES

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 operative within the Group includes the methodological approach to integrated identification, assessment and management of the Group risks.
For each of the following risk types:
- Financial Risks (liquidity, interest rate, exchange rate);
- Credit Risk;
- Energy Risks, attributable to the procurement of gas for thermoelectric generation and to the sale of electricity, heat and gas, and to the hedging derivative markets;
- Operational risks, associated with asset ownership, involvement in business activities, processes, procedures and information flows;

specific “policies” have been defined with the primary goal of fulfilling strategic guidelines, organisational-managerial principles, macro processes and techniques necessary for the active management of the related risks. The Group’s Enterprise Risk Management model also regulates the roles of the various parties involved in the risk management process, which is governed by the Board of Directors, and calls for specific Committees to manage the financial, credit and energy risks.
As the Iren Group pays particular attention also to maintaining trust and a positive image of the Group, the Enterprise Risk Management model manages also “reputational risks”, which relate to the impacts on stakeholders of any malpractices.

The “Risk Management” Department, reporting to the Deputy Chairperson, operates within the Holding. This department is formally entrusted with the following activities:
- coordinating the process for integrated management of the Group’s risks, including those related to M&A operations;
- assessing the Group’s insurance needs, designing programmes, signing and managing policies.

A periodic assessment process is also in place with regard to adverse events in the various sectors and across all the Group’s areas in order to circumstantiate their causes and implement the most suitable methods for preventing and/or limiting the impacts of the events.

Details of the active management methods within the Group are provided below for the different types of risk.

## 1. FINANCIAL RISKS

Iren Group 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 exchange rate risk and interest rate risk.

a) Liquidity risk
Liquidity risk is the risk that financial resources available to the company will be insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.
The procurement of financial resources was centralised in order to optimise their use. In particular, centralised management of cash flows in Iren makes it possible to allocate the funds available at the Group level according to the needs that from time to time arise among the individual Companies. Cash movements are recognised in intra-group accounts along with intra-group interest income and expense.
A number of investees have an independent financial management structure in compliance with the guidelines provided by the Parent Company.

b) Exchange rate risk
Except as indicated under the section on energy risk, the Iren Group is not significantly exposed to exchange rate risk.

c) Interest rate risk
The Iren Group is exposed to interest rate fluctuations especially with regard to the measurement of financial expenses related to indebtedness. The Iren Group's strategy is to limit exposure to the risk of interest rate volatility, maintaining at the same time a low cost of funding.
Compliance with the limits imposed by the policy are verified during the Financial Risk Committee meetings with regard to the main metrics, together with analysis of the market situation, interest rate trends, the value of hedges and confirmation that the conditions established in covenants have been met.

## 2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables deriving from the sale of electricity, district heating, gas and the provision of energy, water and environmental services. The receivables are spread across a large number of counterparties, belonging to non-uniform customer categories (retail and business customers and public bodies); some exposures are of a high amount and are constantly monitored and, if necessary, covered by repayment plans. The Iren Group's Credit Management units devoted to credit recovery are responsible for this activity.
In carrying on its business, the Group is exposed to the risk that the receivables may not be honoured on maturity with a consequent increase in their age and in insolvency up to an increase in receivables subject to arrangement procedures or unenforceable. This risk reflects the current economic and financial situation.
To limit exposure to credit risk, a number of tools have been activated. These include analysing the solvency of customers at the acquisition stage through careful assessment of their creditworthiness, transferring the receivables of discontinued and/or active customers to external credit recovery companies and introducing new recovery methods for managing legal disputes.
The receivable management policy and creditworthiness assessment tools, as well as monitoring and recovery activities differ in relation to the various categories of customers and types of service provided.
Credit risk is hedged, for some types of business customers, with opportune forms of first-demand bank or insurance guarantees issued by subjects of leading credit standing.
An interest-bearing guarantee deposit is paid for some types of services (water, natural gas, "protected customer" electricity sectors) in compliance with regulations governing these activities. This deposit is reimbursed if the customer uses payment by direct debit from a current account.
The payment terms generally applied to customers are related to the legislation or regulations in force or in line with the standards of the free market; in the event of non-payment, default interest is charged for the amount indicated in the contracts or by the legislation.
Provisions set aside for impairment of receivables accurately reflect the effective credit risk through assessments based on analysis of the individual receivable items recorded in the databases, specifically taking into account ageing, as well as comparison with historical losses on receivables and determination of the average non-payment rate.
The procedures for monitoring and reporting credit risks are also strengthened, in order to identify promptly possible countermeasures.
In addition, on a quarterly basis, the Risk Management Department collects and integrates the main data on trade receivables of the Group companies, in terms of type of customers, status of the contract, business chain and ageing band. Some of the above assessments are carried out at intervals of less than three months or when there is a specific need.

## 3. ENERGY RISK

The Iren Group is exposed to price risk, on the energy commodities traded, these being electricity, natural gas, environmental emission certificates, etc., as both purchases and sales are impacted by fluctuations in the price of such commodities directly or through indexing formulae. Exposure to exchange rate risk, typical of oil-based commodities, is present, but is attenuated thanks to the development of the European

organised markets that trade the gas commodity in the euro currency and no longer indexed to oil products.
The Group's strategy is to minimise the need to turn to the financial markets for hedges, both by aligning the indexing of the commodities purchased and sold and by exploiting, vertically and horizontally, its various business segments.
For this purpose, the Group carries out planning of the production of its plants and purchases and energy and natural gas sales, in relation to both volumes and price formulae. The objective is to obtain a sufficient stability in the margins through:

- for the electricity supply chain, the opportune balancing of internal production and energy from the futures market with respect to the demand coming from the Group's customers, with adequate recourse to the spot market;
- for the natural gas supply chain the priority of alignment of the indexing of the commodity in purchase and sale.

For a more detailed analysis of the risks dealt with up to now, reference should be made to the paragraph "Group Financial Risks Management" in the Notes to Financial Statements.

## 4. OPERATIONAL RISKS

This category includes all the risks which, in addition to those already noted in the previous paragraphs, may influence achievement of the targets, i.e. relating to the effectiveness and efficiency of business transactions, levels of performance, profitability and protection of the resources against losses.
The Group's Enterprise Risk Management model has as its objective the integrated and synergistic management of risks.
The process of managing the Group's risks entails that, for each business line and operating area, the activities performed are analysed and the main risk factors connected with achievement of the objectives are identified. Following the identification activity, the risks are assessed qualitatively and quantitatively (in terms of magnitude and probability of occurrence), thus making it possible to identify the most significant risks. The analysis also involves an assessment of the current and prospective level of control of the risk, monitored by means of specific key risk indicators.
The above stages make it possible to structure specific treatment plans for each risk factor.
Along all the management phases, each risk is subjected on a continuous basis to a process of control and monitoring, which checks whether the treatment activities approved and planned have been correctly and effectively implemented, and whether any new operational risks have arisen. The process of managing operational risks is associated with a comprehensive and structured reporting system for presenting the results of the risk measurement and management activity.
Each process stage is performed in accordance with standards and references defined at Group level. The Group's risk position is updated at least quarterly, indicating the extent and level of control of all risks monitored, including financial, credit and energy risks. The risk reporting is sent to the top management and to the risk owners, who are involved in the management activity. The risk analysis also supports the preparation of planning tools.

Of particular note are:

a. Legal and regulatory risks
The legislative and regulatory framework is subject to possible future changes, and therefore is a potential risk. In this regard a Department operates, reporting directly to the Chief Executive Officer, and dedicated to continual monitoring of the relevant legislation and regulations in order to assess their implications, guaranteeing their correct application in the Group.
b. Plant-related risks
As regards the amount of the Group's production assets, plant-related risks are managed with the approach described above in order to correctly allocate resources in terms of control and preventive measures (preventive/predictive maintenance, control and supervisory systems, emergency and continuity plans, etc.).

For the most important plants the Risk Management department periodically conducts surveys, from which it can accurately detail the events to which such plants could be exposed and consequent preventive action.
The risk is also hedged by insurance policies designed considering the situation of the single plants.

c. IT Risks

IT Risks (Cyber Risks) are defined as the set of internal and external threats which can compromise business continuity or cause civil liability damage to third parties in the event of loss or divulgation of sensitive data.
From an internal point of view, the operational risks regarding information technology are closely related to the business of the Iren Group, which operates network infrastructures and plants, including through remote control, accounting operational management and invoicing systems and energy commodity trading platforms. The Iren Group 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. At the same time, problems related to supervision and data acquisition on physical systems could cause plant shutdowns and collateral and even serious damage.
A breakdown of invoicing systems could also determine delays in issuing bills and the related collections, as well as damage to reputation.
To mitigate such risks, specific measures have been adopted, such as redundancies, highly-reliable systems and appropriate emergency procedures, which are periodically subject to simulations, to ensure their effectiveness.
The Iren Group is also exposed to the risk of cyber attacks aimed both at acquiring sensitive data and at stopping operations, causing damage to plants and networks and compromising service continuity. Market benchmarks also show that attacks aimed at acquiring companies' and third-party data are increasingly frequent, with consequent civil liability and sanctions, including serious ones, and at acquiring industrial secrets. Measures are being prepared to improve the cyber security management system through renewal of the perimeter security technologies, construction of a process for detecting and managing security events and incidents and preparation of a vulnerability management system.

The operational risk management process also aims at optimising the Group's insurance programmes.

5. STRATEGIC RISKS

the Iren Group has adopted a Business Plan with a time horizon at 2022 which defines its strategic orientations and the related industrial objective from which the economic and financial figures of reference derive. The said objectives refer to:

a) making the Group's organisation and processes more efficient;
b) development (investments in regulated and quasi-regulated sectors, increase of the customer base, energy efficiency);
c) consolidation of the regulated sectors (renewal of concessions: gas distribution, integrated water cycle and waste-management segment);
d) external growth;
e) energy scenario;
f) Sustainability and ESG (Environment, Social, Governance) targets.

In application of the Group's policies, the said Plan was subjected to a risk assessment carried out by the Risk Management Department and to the related stress tests, which have shown the substantial resistance including in the face of adverse events characterised by specific sensitivities. Besides the risk analysis associated with the Plan, the Risk Management Department contributes with risk assessments specific to merger & acquisition operations which are involving the Iren Group companies.

# TRANSACTIONS WITH RELATED PARTIES

On 13 March 2015 the Board of Directors of Iren, with the opinion in favour of the Transactions with Related Parties Committee ("TRPC", entirely made up of Independent Directors), adopted a new version of the *"Internal Regulation on Transactions with Related Parties"*, already approved on 30 November 2010 and amended on 6 February and 3 December 2013 ("TRP Internal Regulation"), in implementation:

- of the provisions relating to transactions with related parties pursuant to Article 2391-*bis* of the Italian Civil Code;
- of the provisions pursuant to Art. 114 of Italian Legislative Decree no. 58 of 24 February 1998 (the "Testo Unico della Finanza" - [Consolidated Finance Act]);
- the Regulation containing provisions on transactions with related parties, adopted by CONSOB with its Resolution no. 17221 of 12 March 2010 as subsequently amended (the "CONSOB Regulation").

The current internal TRP Regulation is published on the Iren website (www.gruppoiren.it) and, in brief, it provides for:

a) identification of the perimeter of related parties;
b) definition of a transaction with a related party;
c) identification of so-called transactions for small amounts;
d) less important transactions and the related procedure;
e) more important transactions and the related procedure;
f) identification of cases of exclusion;
g) establishment of the Committee for Transactions with Related Parties;
h) transactions for which the Shareholders' Meeting is responsible;
i) amendments to the Articles of Association to be submitted to Iren's Extraordinary Shareholders' Meeting;
j) forms of disclosure.

The Regulation was defined in coordination with the provisions of the administrative and accounting procedures pursuant to Art. 154-*bis* of the CFA.
The Regulation was issued in application of current legislation on transactions with related parties and its purpose is, in particular:

(i) to regulate the performance of transactions with related parties by IREN, directly or through subsidiaries, identifying internal procedures and rules capable of ensuring the substantial and procedural transparency and correctness of such transactions, and
(ii) to establish the methods of fulfilling the related disclosure obligations, including those provided for in the legal and regulatory measures in force and applicable.

On 15 March 2016, after an enquiry carried out by the Transactions with Related Parties Committee, the Board of Directors of Iren also adopted an Operating Procedure for the management of Transactions with Related Parties, which supplements and details the provisions of the aforesaid Internal Regulation on the subject of transactions with related parties.

Iren and its subsidiaries carry out related-party transactions in accordance with the principles of transparency and fairness. These transactions mainly concern services provided to customers in general (gas, water, electricity, heat, etc.) or following concessions and awards of services, in particular for the waste management segment, and are governed by the contracts applied in such situations.
Where the services provided are not the above, the transactions are governed by specific agreements whose terms are established, where possible. in accordance with normal market conditions. If these references are not available or significant, the contractual conditions are defined also in consultation with independent experts and/or professionals.

Information on financial and economic transactions with related parties is included in the Notes to Consolidated Financial Statements in chapter "VI. Information on transactions with Related Parties", and in paragraph "XII. Annexes to the Consolidated Financial Statements", as an integral part of the same.

# REGULATORY FRAMEWORK

The main legislative references related to the Group's sectors of competence are presented below.

## *LOCAL PUBLIC SERVICES OF GENERAL ECONOMIC INTEREST AND LEGISLATION OF GENERAL INTEREST*

### *Regulations relating to local public services of economic importance*

The rules on local public services resulting from the regulatory framework are contained in the Italian Law no. 221 of 17/12/2012 as amended converting Italian Law Decree no. 179 of 18/10/2012 containing further urgent measures for growth of the country, Art. 34, as amended by Italian Law Decree no. 150 of 30/12/2013 - Extension of terms provided for by legislative measures, Art. 13 *Terms on the subject of local public services,* in force since 1 March 2014.
On the basis of the legislative framework indicated, direct assignments granted as of 1 October 2003 to partially publicly-owned companies already listed on the Stock Exchange at that date, and to those controlled by them, cease at the expiry date provided for in the service contract; assignments that do not provide for an expiry date cease, with no extension possible, on 31 December 2020.
The functions of organising local public network services of economic relevance, including those belonging to the municipal waste sector, deciding on the form of management, determining the relevant utility tariffs, assigning the management and the associated control, are performed exclusively by governing bodies within the optimal geographical territories or areas.

With the 2015 Stability Law as amended (Italian Law no. 190 of 23 December 2014), measures were introduced in order to promote aggregation processes and to strengthen the industrial management of local public network services of economic significance. Paragraph 611 of Article 1 of the aforesaid law states that, starting from 1 January 2015, the Regions and Local Authorities must begin a process of rationalising the companies and equity investments directly and indirectly held.
To this end the next paragraph, 612, of the same Law states, with a view to a reorganisation and reduction of investee companies, that the presidents of regions and the autonomous provinces of Trento and Bolzano, the Presidents of provinces, Mayors and other top management of the administrations pursuant to paragraph 611, in relation to the respective fields of competence, must define and approve, by 31 March 2015, an operational plan to rationalise the companies and equity investments directly or indirectly held, the methods and implementation times, and a detailed description of the savings to be achieved. This plan, accompanied by a specific technical report, must be sent to the competent regional auditing section of the Court of Auditors and published on the institutional website of the administration involved. By 31 March 2016, the above-mentioned entities must prepare a report on the results achieved, which must be sent to the competent regional auditing section of the Court of Auditors and published on the institutional website of the administration involved. Publication of the plan and the report fulfils the disclosure obligation. With judgement no. 144 handed down on 16 June 2016, the Constitutional Court rejected the constitutional legitimacy questions raised by the Veneto Region against the regulations whereby the Stability Law of 2015 had intended to intervene so as to reduce public territorial entities' equity investments and the related costs, pursuant to paragraphs 611 and 612 above. The rejection of the question, which was raised with reference to the legitimacy of the criteria identified, is motivated by the general objective of saving for the State Treasury and referring to the combining of each criterion with a matter covered by central government powers.

On 13 August 2015 Italian Law 124/2015 containing "Powers delegated to the Government on the reorganisation of the public administrations", better known as the Madia Law on Reform of the PA, was published in Official Journal no. 187.
The measure contains 14 important delegated legislative powers: public management, reorganisation of central and peripheral state administration, digitalisation of the PA, simplification of administrative procedures, rationalisation and control of investee companies, countering corruption, and transparency.
Implementing Art. 7 of the Madia Law, Italian Legislative Decree no. 97 of 25 May 2016, which came into effect on 23 June 2016, was published in the Official Journal: "Revision and simplification of the rules on the subject of preventing corruption, disclosure and transparency, correcting Italian Law no. 190 of 6 November 2012 and Italian Legislative Decree no. 33 of 14 March 2013".

Listed companies [as defined in Art. 2 lett. p) of the Consolidated Law on Investees] continue to be excluded from the rules of Italian Legislative Decree 33/2013.
With Decision no. 1134 of 8 November 2017, the ANAC issued the "New guidelines for implementation of the legislation on preventing corruption and transparency by companies and private-law entities controlled and invested in by public administrations and economic public bodies", which confirm the exclusion of listed companies from the legislation, except that it applies only to activities of public interest carried out by companies belonging to a listed group but invested in directly by a Public Administration.

Implementing Art. 2 of the Madia Law, Italian Legislative Decree no. 127 of 30 June 2016 was published in the Official Journal. It contained "Rules for the reordering of regulations on service conferences", and replaced Articles 14, 14-bis, 14-ter, 14-quater and 14-quinquies of Italian Law no. 241 of 7 August 1990. The main changes are:

- the "simplified" conference: no meetings are provided for but only the electronic transmission of documents. A decision is made in at the most 45 days (90 days when administrations responsible for environmental, landscape and territorial protection, cultural assets or for protecting people's health are involved). Tacit consent is provided for;
- the conference "simultaneous" with the meeting: this will be held only when strictly necessary, that is in the event of: a) particularly complex decisions; b) when in the simplified conference dissent has occurred or in any case conditions have been indicated (or requests for planning changes made), which make necessary a new assessment by the administrations. The conference meeting will be attended by only one representative of the State administrations, one for each Region and one for each Local Authority. The conference comes to an end in 45 days (90 days when administrations responsible for environmental, landscape and territorial protection, cultural assets or for protecting people's health are involved). Also in this case the tacit consent mechanism is provided for.

Implementing Article 5 of the Madia Law, Italian Legislative Decree no. 222 of 25 November 2016 was published in the Official Journal. It contained "Identification of proceedings subject to authorisation, certified start-of-work reporting (Segnalazione Certificata di Inizio di Attività - SCIA), tacit consent and communication, and definition of the administrative systems applicable to certain activities and proceedings". The Decree indicates for each activity the related administrative system and, therefore, whether it is free, whether a communication, an SCIA, a single or conditional SCIA, an authorisation, or an authorisation plus the SCIA is necessary. Articles 18 and 19 of the Madia Law contain guiding criteria for defining consolidated legislative decrees on local public services of general economic interest and on public investee companies.

With judgement 251/2016 the Constitutional Court, following an appeal by the Veneto Region, declared the Madia reform "partially unconstitutional" where "it states that the implementing legislative decrees must be adopted after acquiring the opinion provided by the Unified Conference, instead of after agreement in the State-Regions Conference". When "it is not possible to identify a subject for which the State is responsible in which to classify, principally, the law appealed against, because there is, instead, a combination of state and regional responsibilities, relating to subjects associated with an inextricable tangle, it is necessary for the state legislator to observe the principle of loyal collaboration and provide for adequate instruments to involve the Regions (and the local authorities), defending their responsibilities".
Reference is made in particular to 4 points of the delegating law:

1. Public governance
2. Reordering of the rules on equity investments
3. Local public services of general economic interest
4. Public employment.

In point 9 of the judgement the Court declares expressly that the pronouncements of unconstitutionality are limited to the delegating rules of Italian Law 124/2015, the subject of the appeal, and do not extend to the related implementing provisions.

While the Consolidated Law on Local Public Services of General Economic Interest, the scheme of which was approved, has lapsed following Constitutional Court judgement no. 251/2016, the Consolidated Law on Public Investee Companies was published in the Official Journal with Italian Legislative Decree no. 175 of 19 August 2016, and came into force on 23 September 2016. On 9 June 2017 the Cabinet approved definitively the provisions supplementary and corrective to Italian Legislative Decree no. 175/2016. Among the main significant changes for the Group's activities we can note:

- confirmation that the provisions of the Consolidated Law apply to listed companies only if expressly provided for;
- the admissibility of equity investments in companies whose corporate purpose is the production of energy from renewable sources;
- the possibility for the administrations to keep or acquire equity investments in companies that produce services of general economic interest and outside the geographical area provided that the latter have in progress or obtain the award of the service through public tender procedures, subject to in-house rules that must guarantee that more than 80% of their turnover is in favour of the public shareholder.

***Code on public works contracts***

Implementing a number of EU directives, with Italian Legislative Decree no. 50 of 18 April 2016, the Government approved the new Contracts Code, corrected with the subsequent measure of 15 July 2016.
With subsequent ANAC Resolutions, the Authority approved the following Guidelines:

- Guideline no. 1, containing "General guidance on the award of services related to architecture and engineering";
- Guideline no. 2, containing "Economically most advantageous offer";
- Guideline no. 3, containing "Appointment, role and duties of the single manager of the proceeding for the award of contracts and concessions";
- Guideline no. 4, containing "Procedures for the award of public contracts of an amount less than the community significance threshold, market surveys and formation and management of the lists of economic operators";
- Guideline no. 5, containing "Criteria for choosing the tender commissioners and for registering experts in the obligatory National Register of the members of selection boards";
- Guideline no. 6, containing "Indication of the adequate evidence and of shortcomings in the execution of a previous work contract which can be considered significant to demonstrate the circumstances for exclusion pursuant to Art. 80, paragraph 5, lett. c) of the Code".
- Implementing guideline no. 7, related to registration in the List of the awarding administrations and the awarding entities that operate through direct awards in relation to their in-house companies.

On 15 February 2017 the new regulation on the ANAC exercising the supervisory activities was published on the Authority's website.
Italian Legislative Decree no. 56 of 19 April 2017 "Provisions supplementary and corrective to the Legislative Decree of 18 April 2016" was published. It contains numerous additions and corrections to the text of the Code, renamed "Public Contracts Code". Among other things, the reasons for exclusion pursuant to Art. 80 of the code were added to, with the false communications pursuant to arts 2621 and 2622 of the Italian Civil Code. A specific provision on identifying the labour cost for the purpose of determining the auction base price and the register of approval testers were also introduced.
The measure corrects and supplements the code in order to perfect the legislative framework without weakening it, with the objective of guaranteeing the development of the sector as the said delegated law aimed to do.

***Anti-Mafia Code***

Italian Legislative Decree No. 159 of 6 September 2011, subsequently supplemented and amended by Italian Legislative Decree 153/2014 approved the Code on anti-Mafia laws and prevention measures, which consolidates all provisions of the fight against organised crime into one law.
In particular we can note elimination of the "atypical information", annual validity of anti-Mafia information, rather than half-yearly, and obtainment of anti-Mafia communications solely from the Prefecture, and no longer from the Chamber of Commerce.
Italian Law Decree 90/2014, converted into Italian Law 114/2014 in Art. 29, amending Art. 1 paragraph 52 of Italian Law 190/2012, states that it becomes obligatory to consult the "White list", established at the Prefectures and that registration in the lists takes into account the anti-Mafia communications and information required by Italian Legislative Decree 159/2011, also for activities other than those for which the lists were established. The activities defined as at higher risk of infiltration are listed in paragraph 53

of Art. 1 of Italian Law 190 /2012 (e.g.: hot charters, waste transport and disposal for third parties, road transporters for third parties, extraction, supply and transport of soil and inert materials, etc.).
An ANAC communication of 23 June 2015 provides for annotation in the electronic criminal records and in the Database of Anti-Mafia Disqualifying Information.
Since 7 January 2016 the Single National Database of Anti-Mafia Documentation (Banca Dati Nazionale Unica per la Documentazione Antimafia - BDNA) for issuing anti-Mafia communications and information has been fully operational.
As provided for in arts 87 and 90 of Italian Legislative Decree 159/2011, as amended, anti-Mafia communications and information are provided through consultation of the BDNA by subjects pursuant to Art. 97, paragraph 1 of Italian Legislative Decree 159/2011, duly authorised.

Italian Legislative Decree 97/2016, entitled "Revision and simplification of the rules on the subject of preventing corruption, disclosure and transparency, correcting Italian Law no. 190 of 6 November 2012 and Italian Legislative Decree no. 33 of 14 March 2013, under the terms of Article 7 of Italian Law no. 124 of 7 August 2015, on the subject of reorganisation of the public administrations" in Art. 40 extended the monitoring previously limited to public administrations also to companies pursuant to Art. 2-bis of Italian Legislative Decree no. 33/2013 relating to administrative transparency.

***Compensation for antitrust damage***

The legislative decree that transposes the European directive on the subject of compensation for antitrust damage (the so-called private enforcement antitrust) was published in the Official Journal of 19 January 2017. This is the measure on private entities, damaged by antitrust offences, holding the right of action before the civil courts to ask for compensation for damages, making use of what is ascertained by the AGCM.

***Corruption between private entities***

On 14 April 2017 Italian Legislative Decree no. 38/2017 came into force. This transposes into our legislation framework decision 2003/568/JHA of the European Council on the subject of combating corruption in the private sector.
The main changes relate to:
- revision of Art. 2635 of the Italian Civil Code;
- introduction into the Italian Civil Code of the new Art. 2635 bis "Instigating corruption between private entities" and its addition among the cases relevant under the terms of Italian Legislative Decree 231/2001.

***Reform of the Bankruptcy Law***

Italian Law no. 155 of 19 October 2017 was published in Official Journal no. 254 of 30 October 2017. This delegates power to the Government "for the reform of the rules on companies in crisis and insolvency". By 14 November 2018 the Government must prepare a set of rules on arrangement procedures, resolving crises of over-indebtedness and the privileges and guarantees system.

***GAS DISTRIBUTION***

***General regulations***

The rules on the Gas Distribution service were profoundly modified by the provisions of the Letta Decree, approved with Italian Legislative Decree no. 164 of 2000, which introduced competition into the Italian natural gas market by deregulating gas imports, exports, transport, dispatch and sales.
In a Decree of 19 January 2011 the Ministry of Economic Development determined the geographical areas for the natural gas distribution sector and with Ministerial Decree no. 226 of 12/11/2011, the so-called Criteria Decree (updated most recently with Ministerial Decree no. 106 of 20/05/2015) the Regulation on public tender criteria and the assessment of bids for the assignment of gas distribution services was adopted.
The terms for calling the tenders, initially set at six months from entry into force of the regulation, have been extended several times, most recently with Italian Law no. 21 of 25 February 2016 (containing

Conversion, with amendments, of Italian Law Decree no. 210 of 30 December 2015, containing the extension of terms provided for in legislative measures published in OJ General Series no. 47 of 26 February 2016) which established that the terms pursuant to Art. 3, paragraph 1, of the aforementioned regulation 226/2011, as amended, related to non-publication of the call for tenders pursuant to annex 1 attached to the said regulation, are extended respectively by twelve months for the areas of the first grouping, by fourteen months for the areas of the second grouping, by thirteen months for the areas of the third, fourth and fifth grouping, by nine months for the areas of the sixth and seventh grouping and by five months for the areas of the eighth grouping, in addition to the extensions current at the date of entry into force of the conversion law of the present decree.
The launches of the tenders for ATEM are envisaged as of today according to the following calendar, which takes into account the term for publication of the call for tenders. The deadlines already passed will be rescheduled:

- Reggio Emilia - tender extended for two years owing to earthquake - 11 November 2016
- Parma – 11 July 2016
- Piacenza 1 West – 11 December 2016
- Piacenza 2 East – 11 September 2017
- Genoa – 11 April 2017
- Vercelli – 11 October 2016

With Resolution 382/2012/R/gas, the standard service contract template for natural gas distribution was published.

On 22 May 2014 a Decree was issued by the Ministry of Economic Development containing "Approval of the document 'Guidelines on criteria and application methods for measuring the refund value of the natural gas distribution plants'". This was published in the Official Journal, General Series, no. 129 of 6 June 2014 together with the document, which is annexed to the said decree and is an integral part of it, containing "Guidelines on criteria and application methods for measuring the refund value of the natural gas distribution plants".
On 24 July 2014 the AEEGSI (ARERA starting from 1 January 2018) published Resolution no. 367/2014 and Annex A – concerning the Gas distribution services tariff regulation system, with reference to the regulation period 2014-2019 for Territorial Area managements and other rules on the subject of tariffs, which was appealed by the Company, together with the Ministerial Decree of 22 May 2014.
The Lombardy RAC, Second Section - rejecting the appeals lodged by Iren Emilia and Genova Reti Gas (companies merged into IRETI) against AEEGSI Resolution no. 367/14 - handed down respectively Judgements no. 2740/2015 and 2736/2015, filed on 22 December 2015, with which it rejected both appeals with costs compensated. Appeals were lodged against the above judgements.
As regards the Ministerial Decree of 22 May 2014 and subsequent amendments and additions containing "Approval of the document 'Guidelines on criteria and application methods for measuring the refund value of the natural gas distribution plants'", we can specify that in the context of the same judgement pending before the Lazio RAC against the Guidelines, an appeal was also lodged with recourse for additional reasons against Ministerial Decree 106/2015, which modifies numerous provisions of Ministerial Decree 226/2011 (known as the Criteria Decree). Currently the appeal to the Council of State against judgement no. 11242/2016 is pending. This judgement rejected the appeals lodged for cancellation of the above measures.
On 22 June 2015 the AEEGSI issued Resolution 296/2015/R/com with which it approved the "AEEGSI Rules on functional separation (unbundling) obligations for companies operating in the electricity and gas sectors (TIUF)" which establishes, among other things, an obligation to unbundle the communication policy and the brand between sale and distribution companies.
Italian Legislative Decree 56/2017 in O.J. no. 103 of 5 May 2017 (Code on Public Works Contracts), supplemented the rules and provided a clarification on the scope of application of Italian Legislative Decree no. 50 of 18 April 2016, on tenders for the award of the gas distribution service.

***Default service***

With Resolution ARG/gas 99/11, the Authority had introduced rules for the retail sale of natural gas, with particular reference to the methods of purchase and loss of liability of withdrawals, to rules on non-fulfilment by final customers of their payment obligations (default) to completion of the structure provided for regarding last resort services, regulating the default service (DS), aimed at ensuring the

balancing of the distribution network in relation to withdrawals of gas made directly by the final customer (without a supplier), that owns the supply point for which the conditions are not met for the commissioning of a supplier of last resort, or it is, in any case, impossible to commission a supplier of last resort.
This Resolution was initially considered unconstitutional and suspended by the Lombardy RAC with judgement no. 3296 of 29/12/2012, a judgement then overturned by the Council of State which accepted the appeal lodged by the AEEG against this pronouncement.
Very briefly the Council of State, following the AEEGSI's pleadings, decided that the default service is associated with the balancing service and that the same cannot be considered sales activity but, rather, as ex post settlement activity of the objective debt relationships created following withdrawals made by customers that have remained connected to the distribution network.
This was also considering the fact that the typical risk of sales activity does not exist, since the default of the final customer served is almost fully socialised and made chargeable to the community.
The matter was the subject of numerous actions, most recently AEEGSI resolution no. 258/2015/R/com challenged by Ireti S.p.A. with the fourth appeal for additional reasons. As of today the judgement on the merit of the appeal is pending and a public hearing to deal with the same has not yet been set.

The AEEGSI published Res. 70/2016/R/gas and CD 71/2016/R/gas, with which, on the basis of its findings, it proposed to define the procedure for the presentation and assessment of applications with which Distributors can ask to be exonerated, partially or totally, from the payments provided for in the event of failure to disconnect Re-Delivery Points. The replies from the Distributors are in progress.
On 4 August 2016 the AEEGSI published Resolution 465/2016/R/gas "Public tender procedures for the identification of suppliers of last instance and suppliers of the default distribution service, starting from 1 October 2016". The measure incorporates some of the proposals expressed by the Operators in the consultation on CD 71/2016/R/gas and, among other things, intervenes on the following aspects:

- Elimination of the obligation to proceed with legal actions in cases of RDPs (Re-Delivery Points) with "historical" consumption of less than 500 Sm3/year.
- The invoicing of legal expenses "without prejudice to what is otherwise ordered by the court at the moment of deciding on the legal costs";
- The establishment of a Blacklist, with activation subordinated to payment of what is due when the same CF appears on another Redelivery Point.

With the subsequent Resolution 513/2017/R/gas of 6 July 2017, finally, the Authority defined the detailed rules for assessing claims aimed at partial payment or exoneration from payment of the amount provided for in cases of failure to physically cut off redelivery points provided in the distribution default service.

## *ELECTRICITY DISTRIBUTION*

### *General regulations*

Italian Legislative Decree no. 79 of 16 March 1999 (the "Bersani Decree") established a general regulatory framework for the Italian electricity market which gradually introduced competition in the production of electricity and sale to eligible customers, against the retention of a regulated monopoly arrangement for transmission and distribution.
Italian Law no. 290 of 27 October 2003 established the re-unification of ownership and management of the transmission grid. Measures were adopted in 2007 to guarantee unbundling. As already specified in the section Gas distribution, with Resolution 296/2015/R/COM the AEEGSI establishes functional unbundling obligations also for electricity operators. More specifically we can note the obligation to unbundle the communication policy and the brand between sale and distribution companies and, in particular in the electricity sector, also between sales on the free market and greater protection service. It is specified that interfacing with final customers must involve the use of distinct information channels, physical spaces and personnel.

### *Tariff structure for transmission, distribution and metering*

With Resolutions no. 583/15/R/com, no. 653/15/R/eel, no. 654/15/R/eel and no. 658/15/R/eel, the AEEGSI established, for the 2016-2023 regulatory period, the tariff regulation for providing the electricity

transmission, distribution, metering and dispatching services and the regulation of the transmission service quality.
The fifth period or new regulatory period (NRP) has a duration of eight years and is divided into two semi-periods identified as NRP1 (2016-2019) and NRP2 (2020-2023), each of which lasting four years.
Starting from 1 January 2016 and very gradually the reform of the Authority's electricity tariffs, provided for in Italian Legislative Decree 102/14, will be implemented. The reform arrives at the end of an articulated consultation process, accompanied by several reports to Government and Parliament. When fully implemented, therefore from 2018, according to the reform, for the network services a non-progressive tariff structure is defined. This is the same for all domestic customers, and is set up on the basis of the criterion of adherence to the costs of the various services: the metering, marketing and distribution costs will be covered by per-customer fixed portion (€/year) and by a power portion (€/kW/year), while the transmission costs by an energy portion (c€/kWh). For the tariff for system expenses there remains instead a differentiation between resident customers (to which it is all applied in the energy portion like today, that is in c€ per kWh withdrawn) and non-resident customers (to which it is applied both in the fixed portion and in the energy portion).

***General system expenses***

On 26 October 2017 the Council of State ruled on the subject of the guarantees provided for in AEEGSI Resolution 268/2015 (known as the CADE) chargeable to vendors for the benefit of distributor companies also as regards system expenses. The Administrative Court confirmed its previous orientation, ordering the cancellation of the part of the said resolution  which imposes on vendors the obligation to provide guarantees in relation to distributors, affirming the principle that the general system expenses must be paid, by law, only by final customers; therefore, the imposition of guarantees to be provided by vendors for payment of these expenses is illegitimate, because this would create a transfer of the obligation not provided for by law and not permitted for the Authority in the current legislative framework, specifying the pass-through nature of the system expenses, payable by final customers to vendors, which in turn then pay them to the distributors which, in the last transfer, deliver them to the Cassa per i Servizi Elettrici e Ambientali (Energy and Environmental Services Fund).

The Authority with Resolution 109/2017/R/eel launched a proceeding to balance and consider the opposing needs of vendors and distributors not to incur, to the charge of the latter, the risk of non-payment of the general system expenses by the final customers and to this end provided for, among other things, the downward adjustment of the guarantees.
One vendor had appealed the resolution requesting a suspension which was denied by the Milan RAC but then accepted by the Council of State with an urgent precautionary decree.

The AEEGSI, now ARERA, with a press release published on 29 December 2017, after the decision of the Administrative Court mentioned above, affirmed that resolution 109/2017 contains transitory and provisional rules which are fully applied in all their parts in relation to all parties involved (distributor companies and transport users), with particular reference to the obligations to pay the general system expenses already laid down in the regulations in compliance with the current legislation covering such parties.

***INTEGRATED WATER SERVICE***

The Integrated Water Service (IWS) reform process, which began with Italian Law no. 36/94 (the Galli Law), was revised with the approval of Italian Legislative Decree no. 152 of 3 April 2006, (this too the subject of periodic important amendments) and with the issue of Art. 23-bis of Italian Law Decree no. 112 of 25 June 2008, converted with amendments into Italian Law no. 133 of 6 August 2008, related to "public services of economic significance".
Following the Referendum held on 12 and 13 June 2011 with the abrogation of Art. 23 bis, the community legislation on the minimum competition rules on the subject of public tenders for the award of management of public services of economic significance came into immediate force. With article 19 of Italian Law no. 124 of 7 August 2015, the Government was delegated to draw up a consolidated law on local public services of general economic interest, but this measure, the draft of which had already been approved by the Cabinet, lapsed following Constitutional Court judgement no. 251/2016.

As mentioned above, to define the organisation of the water service, the provisions of the consolidated law must be coordinated with those on the subject of Italian Legislative Decree 152/2006 the Environmental Code (amended by Italian Law no. 164 of 11 November 2014, which converted, with amendments, Italian Law Decree no. 133 of 11 September 2014, known as the “Sblocca Italia” law) and with the Resolutions issued by the Italian Authority for Electricity and Water services (AEEGSI). The latter, in fact, following the introduction of Italian Law Decree 201/11 known as the ‘Save-Italy’ law, was given “the functions related to the regulation and control of the water services” previously entrusted to the National Agency for Regulation and Supervision on the Subject of Water. These functions, which the Authority performs with the same powers attributed by the law setting it up, Italian Law 481/1995, make reference to several aspects of the integrated water service: from definition of the admissible costs and the criteria for determining the tariffs to cover these costs, to the responsibilities on the subject of service quality, verification of the area plans and preparation of the standard agreements for the award of the service.
The Authority for Electricity, Gas and Water AEEGSI (now ARERA) approved, among other things:
- resolution no. 664/2015/R/IDR of 28 December 2015, which governs the water tariff method for the second regulatory period 2016/2019;
- Resolution no. 656/2015/R/IDR of 23 December 2015 regarding the Standard Agreement for regulating relations between awarding bodies and operators of the Integrated Water Service - Rules on the essential minimum contents. Taking into account the observations received on the previous Consultation Documents 274/2015/R/idr and 542/2015/R/idr - the Authority adopted the Standard Agreement for regulating relations between awarding bodies and operators of the integrated water service, with which, besides, the operating agreements currently in force must be made compliant.
- AEEGSI Resolution no. 655/2015 on the contractual quality rules of the Integrated Water Service that is of each of the services that make it up in order to guarantee the distribution, availability and quality of the service to users in a uniform manner over the whole country, in particular:
    a) to define the minimum quality levels and targets of the integrated water service that is of each of the single services that make it up;
    b) to define specific and general quality levels of the services of distribution, metering and sale of water services and, to this end, to identify quality indicators of the said services, determining methods of recording the performance provided by operators at the request of users;
    c) to ensure the uniformity and completeness of the methods of measuring the execution times of the services requested by users in order to guarantee adequate service quality and to introduce automatic compensation to be paid to users, in the event of non-observance of the specific quality levels, that take into account timeliness and punctuality in the execution of the said services;
    d) to determine the obligations of automatic compensation in favour of users in the event of non-observance of the standards set.

With judgement no. 7210 of 13 April 2016, the Court of Cassation specified that the payment due on the sewerage and purification tariff as a component of the Integrated Water Services fee is not automatically excluded in the case that the related sewerage and purification plants were provided and operated by the local entity and that the failure to use the relevant services depends on the voluntary conduct of users that decide not to connect, and that it is up to the user to prove that its collection and purification systems for waste water originating from domestic premises are compatible with the overriding objectives of environmental protection and competition.

The integrated water service is also governed by Regional Laws 25/1999 and 10/2008 for the Emilia Romagna region. As regards rules on the subject of ATOs (Optimal Territorial Areas), the Emilia Romagna Region with Regional Law no. 23 of 23 December 2011 set forth the “Rules for the territorial organisation of the functions related to local public environmental services”, which lays down the rules relating to regulation of public environmental services and in particular to the territorial organisation of the integrated water service and the integrated urban waste management service in Emilia Romagna, and states that on the basis of the principles of subsidiarity, differentiation and adequacy, the entire regional territory constitutes the optimal territorial area in accordance with Articles 147 and 200 of Italian Legislative Decree no. 152 of 2006.

The Liguria Region, with Law no. 1 of 24 February 2014, attributed the functions on the subject of organisation and management of the Integrated Water Service and Integrated Waste Management.

As regards the IWS, the Law identified 5 ATOs:

- ATO West – Province of Imperia;
- ATO Centre/West 1 (Coastal ATO) - Province of Savona;
- ATO Centre/West 2 (Po Valley ATO) - Province of Savona;
- ATO Centre/East – Province of Genoa;
- ATO East – Province of La Spezia.

It should be noted that article 10 paragraph 1 of the aforementioned law was declared unconstitutional by the Constitutional Court with judgement no. 31 of 10 February 2015.

On 30 September 2015 the Province of Savona approved Resolution no. 70/2015, with which it approved the Plans of the 3 sub-areas and defined the subjects to which they were to be assigned through an in-house procedure (and therefore excluding Acquedotto di Savona, the Savona water company, merged into IRETI with effect from 1 January 2016). The resolution was appealed by the Group and as of today the proceeding is still pending.
Regional Law no. 1 of 24 February 2014 as amended had defined the optimal territorial areas identifying two Centre-West ATOs (1 and 2, respectively coastal and Po Valley ATO).
With Regional Law no. 17 of 23 September 2015 the coastal ATO Centre-West 1 was divided into two optimal territorial sub-areas (Centre-West 1 and 3, this latter known as "western").
Constitutional Court judgement no. 173, filed on 17 July 2017, entailed the abrogation of Regional Law 17/2015 in relation to the definition of the third ATO, reinstating the initial situation provided for in Regional Law 1/2014, with a single coastal area (ATO Centre-West 1) and a Po Valley area (ATO Centre-West 2).
There were two fundamental criticisms: one of a procedural nature, that the Liguria Region joined the case late, the second, of a substantial nature, that the Liguria Region had issued a law which, in reality, should have been the responsibility of the state. It is written in fact: "The Regions are given the power to modify the dimensions of the ATOs, which however must not normally be smaller than at least the provincial territory'. Exceptions to the dimensions defined by the state legislation are possible, but must observe the criteria established by the same, consisting of the unity of the hydrographic basin, uniqueness and adequacy of management. Exceptions, in addition, are permitted provided that the Region gives reasons for the decision on the basis of territorial and socio-economic differentiation criteria and on the basis of principles of proportionality, adequacy and efficiency with respect to the characteristics of the service, also as proposed by the municipalities".
As of today, following Constitutional Court judgement no. 173/2017 the Province is engaged, as the Governing Entity of the Centre-West 1 Area, in preparing and approving a new single area plan, and a new award of the integrated water service.

***WASTE MANAGEMENT SERVICE***

Integrated Waste Management is understood as all the activities of transportation, treatment and disposal of waste, including street sweeping and the management of these operations.The legislation of a general nature applicable to the Integrated Waste Management Services sector is contained at national level in the Environmental Code (Italian Legislative Decree 152/2006 amended most recently by the Ministerial Decree of 15 January 2014), Italian Law no. 68 of 22 May 2015 "Rules on the subject of crimes against the environment", in Italian Legislative Decree 36/2003 (landfills), in Italian Legislative Decree 133/2005 (incineration and co-incineration), in Presidential Decree no. 59 of 13 March 2013 (Single Environmental Authorisation), and at the regional level by Emilia Romagna Regional Laws no. 31/96, no. 25/99, no. 10/2008, no. 23/2011, and no. 13/2015 (reform of the system of regional and local government and rules on the metropolitan City of Bologna, Provinces, Municipalities and their unions) and no. 16/2015 (on the so-called "circular economy " amending Regional Law no. 31/96).

***Regional legislation***

Given that the Territorial Area Authorities ceased to exist on 31 December 2012, the Emilia Romagna Region set up the Territorial Agency of Emilia Romagna (ATERSIR), for water and waste services in which all the municipalities and provinces take part and which is responsible for the regulation functions for the entire regional territory, and determination of the urban waste disposal tariffs on the basis of the regional criteria, of the private and public plants. This agency became operational in 2012.

The Piedmont Region adopted the Regional Waste Management Plan on 30 September 2009, completing a process launched in 2007. The Plan had a 2009–2015 time horizon.
At the same time as adopting the Plan, the establishment of 3 Optimal Territorial Areas, combining the 8 previous areas divided by Province, was provided for.
Regional Law 7/2012 further modified the structure of the Areas, providing for their division into 4. The 4 current Areas are made up as follows:
a) area 1: Novarese, Vercellese, Biellese and Verbano, Cusio, Ossola;
b) area 2: Astigiano and Alessandrino;
c) area 3: Cuneese;
d) area 4: Turinese.

The ATOs have a role of planning the activities and applying the provisions of the Regional Waste Management Plan, and planning the flows and disposal tariffs.
In turn the ATOs are divided into Catchment Area Consortia which have a significant role at the management level.

The Emilia Romagna Region approved the following measures:
- R.L. 16/2015 for urban waste management, which promotes recycling and the prevention of waste production. Among the objectives to be achieved within five years, are: an increase in separate waste collection to 73%, a 25% reduction in per-capita waste production, recycling at 70%, limiting of landfills and regional self-sufficiency. Among the changes introduced by the new law: precise tariffs, that is payment on the basis of how much is conferred, incentives aimed at the most virtuous Municipalities and bonuses for companies that do better disposal;
- Resolution no. 67 of 3 May 2016 of the Legislative Assembly of Emilia Romagna “Regional Waste Management Plan” valid until 2020;
- Regional Executive Resolution no. 1238 of 1 August 2016, containing “Regional Information System: contents, frequencies and methods of populating the databases relating to municipal and special waste management of the Emilia Romagna region”;
- Regional Executive Resolution no. 1239 of 1 August 2016, (New directive for application of Article 2 of Regional Law no. 26 of 17 December 2003, and subsequent amendments and additions containing “Provisions on the subject of dangers of significant accidents connected with certain hazardous substances”);
- Regional Executive Resolution no. 1240 of 1 August 2016 (“Guidelines for the operation of municipal centres for re-use”);
- Regional Executive Resolution no. 2267 of 21 December 2016, “Provisions on waste flows pursuant to the Regional Waste Management Plan approved with Legislative Assembly Resolution no. 67 of 3 May 2016”;
- Regional Executive Resolution no. 2260 of 21 December 2016 “Establishment of the regional list of by-products”;
- Regional Executive Resolution no. 2264 of 21 December 2016, Regional Law 31/1996 - Determination of the taxable base of the special levy with reference to application of the tax related "to waste deriving from the processing of municipal waste";
- Regional Executive Resolution no. 2260 of 21 December 2016; the Region activated the “Permanent Coordination for By-products” and established the “Regional List of By-products”, in which all the regional companies that observe the requirements of the laws on the subject can register voluntarily. At the moment the first technical schedules have been approved, including one related to by-products of corn, dusts and pastes from raw ceramics, dusts from fired ceramics, and formats of raw and fired ceramics.
- Regional Law no. 24 of 21 December 2017, containing “regional rules on the protection and use of the territory”.

The Piedmont Region issued the following measure:
- Regional Council Resolution no. 140-14161 of 19 April 2016, “Regional Plan for the Management of Municipal Waste and Water Treatment Sludge”.

The Liguria Region issued the following measures:

- R.L. no. 4 of 1 March 2016, "Amendment to Regional Law no. 1 of 24 February 2014 (Rules on the Subject of Identifying Optimal Areas for Performance of the Functions related to the Integrated Water Service and to Integrated Waste Management)";
- R.L. no. 16 of 29 July 2016, "Amendments to Regional Law no. 23 of 3 July 2007 (Rules on the Special Levy for Conferring Solid Waste to Landfills)";
- R.L. no. 25 of 2 November 2016 "Amendments to Regional Law no. 27 of 29 December 2015 (Stability Law of the Liguria Region for Financial Year 2016) and to Regional Law no. 23 of 3 July 2007 (Rules on the Special Levy for Conferring Solid Waste to Landfills)".

***National legislation***

**Waste**

Prime Minister's Decree of 10 August 2016, issued on the basis of the "Sblocca Italia" Decree converted by Italian Law 164/2014, identified:

- the current national processing capacity of plants for incinerating municipal and similar waste in operation (referred to November 2015);
- the potential national processing capacity of plants for incinerating municipal and similar waste authorised and not in operation (referred to November 2015);
- the plants for incinerating municipal and similar waste with energy recovery to be built or expanded to meet the remaining national requirement for processing of this waste, divided by macro-areas and by regions. The plants thus determined, presented in the attached tables (A, B and C), are considered "strategic infrastructures and facilities of pre-eminent national interest and create an integrated and modern system for managing municipal and similar waste, guaranteeing national security in the self-sufficiency of the cycle of integrated waste management, as required by Art. 16 of Directive 2008/98/EC.

Eight new incineration plants were identified (in Marche, Umbria, Lazio, Campania, Abruzzo, Sardinia, Sicily) together with the expansion of a number of existing plants. The subsequent regional planning actions will define the precise location of the new plants.
The prohibition on conferment in landfills of waste with LCV (Lower Calorific Value) of more than 13,000 Kj/kg was definitively eliminated by the "environmental annex" (Italian Law 221/2015).
Article 182 of the "Environmental Code" was amended, providing for the exclusion from the prohibition on extra-regional disposal of non-hazardous urban waste that the President of the Region considers necessary to send for disposal out of the Region "*to deal with emergency situations caused by natural calamities for which a state of emergency is declared*".
Prime Minister's Decree of 7 March 2016 containing "Measures to implement an adequate and integrated management system for the organic fraction of urban waste, a study of the existing offer and identifying the remaining requirement pertaining to plants for the recovery of the organic fraction of urban waste from separate waste collection, divided according to regions" provided for: reduction of the negative impact on the environment caused by managing this waste, achieving the objectives set by the European Union on recycling and reduction of conferring biodegradable waste to landfills are the purposes at which the measure aims.
The Decree issued by the Ministry of Agricultural and Forestry Policies on 25 February 2016 has come into effect; this identifies the criteria and general technical rules for the regional governance of the agricultural use of livestock effluents (Title II) and waste water (Title III), as well as the production and agricultural use of digestate (Title IV).
The Ministerial Decree of 26 May 2016, containing specific "Guidelines for calculating the separate waste collection percentage for municipal waste" pursuant to Art. 205, paragraph 3-quater of Italian Legislative Decree no. 152/2006, was published in the Official Journal of 24 June 2016.
The Board of Directors of CONAI, after obtaining the opinion of the Coreve Consortium, resolved to reduce the Environmental Contribution for glass packaging. The reduction will take effect from 1 July 2017.This change will have no effect on flat-rate procedures. The contribution for glass will go down from the current 17.30 €/tonne to 16.30 €/tonne.
Italian Law no. 154 of 28 July 2016 has been in force since 25 August 2016. This contains "Powers delegated to the Government and further provisions on the subjects of simplification, rationalisation and competitiveness of the agricultural and food industries, and sanctions on the subject of illegal fishing".

This law (the so-called Agricultural Annex), was published in OJ no. 186 of 10 August 2016. We can note, in particular, Art. 10, regarding the contribution to the National Consortium for the collection and processing of used vegetable and animal oils and greases; Art. 11, on registration with the consortia and the waste collection systems provided for in Italian Legislative Decree 152/2006; Art. 12, on the subject of exercising the activity of maintenance of green areas; Art. 22, concerning the development of products coming from short supply chains, organic farming or at least farming with reduced environmental impact; lastly Art. 41, which makes a change to Art. 185 of Italian Legislative Decree 152/2006, on the subject of exclusion from waste management. Specifically, letter f) is replaced, with effects on the rules on cutting and pruning.
Ministerial Decree no. 264 of 13 October 2016 is in force. This is the "Regulation containing indicative criteria to facilitate demonstration of the existence of the requisites for classifying production residues as by-products and not as waste".
As regards 2017 the following measures came into force:

- the Ministerial Decree of 20 January 2017 "Implementation of Directive 2016/774/EU of 18 May 2016, containing a change to Annex II of Directive 2000/53/EC of the European Parliament and of the Council, on end-of life vehicles";
- Ministerial Decree no. 58 of 6 March 2017 "Regulation containing the methods, including accounting, and the tariffs to be applied in relation to enquiries and controls provided for in Title III-bis of the Second Part, and the fees payable to members of the enquiry commission pursuant to article 8-bis";
- the Ministerial Decree of 20 April 2017 "Criteria for the creation by municipalities of systems for the precise measurement of the quantity of waste conferred to the public service or of management systems characterised by the use of correctives to the service cost distribution criteria, aimed at implementing an effective tariff model commensurate with the service provided to cover all the costs related to the municipal and similar waste management services";
- the Ministerial Decree of 12 May 2017 – transposing Directive 2016/2309 transport ADR.
- The Ministerial Decree of 28 April 2017 (in OJ no. 153 of 3 July 2017), for activities subject to IEA (Integrated Environmental Authorisation), replaced Annex A of Ministerial Decree no. 141 of 26 May 2016 which had set forth the criteria for defining the amount of the financial guarantees that operators must provide as regards reclamation of the site once the activities have ceased, where these may entail a contamination of the soil or waters;
- The Prime Minister's Decree of 28 December 2017, published in O.S. no. 64 to Official Journal no. 303 of 30 December 2017, approved the single environmental declaration form for 2018.

On the website of the Ministry of the Environment the explanatory circular was also published (ref. 7619 of 30 May 2017). This is aimed at providing clarifications for uniform application and unambiguous interpretation of Ministerial Decree264/2016 containing "Indicative criteria to facilitate demonstration of the existence of the requisites for classifying production residues as by-products and not as waste". In addition, it published Circular no. 5672 of 21 April 2017 clarifying that the criteria defined by ISPRA regard exclusively the conferment of waste without preliminary processing so, even if the same are non-compliant in the parameters with those of the Ministerial Decree of 27 September 2010, no contrast can be found with the latter which instead regards conferment of waste following processing.
On 19 May 2017 the Cabinet approved the new Regulation on excavated earth and rocks. Following this Regulation, since 22 August Italian Presidential Decree no. 120 of 13 June 2017 has been in force. This reforms the rules on excavated earth and rocks, abrogating Ministerial Decree 161/2012, art. 41 bis of Italian Law Decree 69/201 and paragraph two *bis* of art 184 *bis* of the Consolidated Law on the Environment.
The Ministry of the Environment issued the Circular of 10 November 2017, regarding rules on deposited materials.
Finally, art. 194-bis of Italian Legislative Decree 152/06 has been in force since 1 January. This was introduced by Italian Law 205/17, and states that "the formalities related to methods of compiling and keeping the waste loading and unloading register and transport forms pursuant to articles 190 and 193 of the present decree may be performed in digital format". Transmission of the fourth copy of the waste transport form provided for in paragraph 2 of article 193 is permitted also via certified e-mail.

**SISTRI**
The SISTRI system came into force on 1 October 2013 for hazardous special waste operators and from 3 March 2014 for initial producers of hazardous special waste. The SISTRI sanctions, exclusively related to failure to register or pay the annual contribution, apply for a reduced amount of 50% starting from 1 April

2015 (following Italian Law 11/2015 converting the "Milleproroghe Decree" Italian Law Decree no. 192 of 31 December 2014). The SISTRI sanctions for all the other breaches apply from 1 January 2017. On 8 June, Ministerial Decree no. 78 of 30 March 2016 came into effect with the "Regulation containing the provisions relating to the functioning and optimisation of waste traceability system, implemented with article 188-bis, paragraph 4-bis of Legislative Decree no. 152 of 3 April 2006", which abrogates Ministerial Decree no. 52/2011.
The Ministerial Decree of 1 July 2016 (in OJ no. 169 of 21 July 2016) set up the Technical Committee for monitoring and coordinating the SISTRI, under the terms of Art. 11, paragraph 13, of Italian Law Decree no. 101/2013. The Ministerial Decree in question also abrogates the Ministerial Decrees of 17 September 2013 and 13 December 2013.
Italian Law Decree no. 244 of 30 December 2016 (known as the Milleproroghe Decree), converted into Italian Law no. 19 of 27 February 2017, extended the SISTRI to 31 December 2017.
The extension is valid also in relation to the halving of the sanctions concerning failure to register with the SISTRI and non-payment of the contribution for the said registration. Italian Law 205/2017 finally extended the SISTRI to 31 December 2018.

**Reclamations**
Italian Law no. 190 of 2014 has been in force since 1 January 2015. This states that in polluted sites not yet reclaimed the work required by the legislation on workplace safety and ordinary and extraordinary maintenance activity can be done, provided that it does not prejudice the reclamation activity and workers' health.

**Landfills**
At the end of September 2015 the Ministerial Decree of 24 June 2015 came into force. This is entitled "Amendment of the Ministerial Decree of 27 September 2010, on the definition of the criteria for admissibility of waste to landfill sites". The significant amendments regard in particular Arts 3, 5, 6, 7, 8 and the entire Annex 3, on the Sampling and analysis of waste.
The Cabinet Resolution of 24 March 2017 on the subject of making landfills compliant with the European legislation has also been published.
With the Circular of 14 December 2017, the Ministry of the Environment provided a number of indications useful for interpreting the criteria for admissibility of waste to landfill sites, as defined by the Ministerial Decree of 27 September 2010 (OJ no. 281 of 1 December 2010).

**Eco-crimes**
Italian Law 68/2015 of 22 May 2015 "Rules on the subject of crimes against the environment" has been in force since 29 May 2015. This introduces into the criminal code five new crimes against the environment, namely environmental pollution, environmental disaster, trafficking and abandoning highly radioactive material, impeding controls and failure to reclaim. The law in question also contains amendments to Italian Legislative Decree No. 231/2001, in particular to Art. 25-*undecies*, containing the predicate of environmental crimes. In its Report no. III/04/2015 of 29 May 2015 the Information Office [Ufficio del Massimario] of the Court of Cassation specified, with reference to Italian Law 68/2015, that the "abusive" situation is not created only by cases involving lack of authorisation, but also by cases in which the authorisations have expired.

On 18 May 2016, the Prosecutor General at the Appeal Court of Bologna, the General Manager of ARPAE, representatives from all the territorial Public Prosecutors' offices and the senior commanders of the Carabinieri NOE, the State Forestry Corps and the Ravenna Port Authority signed a Memorandum of Understanding aimed at ensuring that the regulations on eco-crimes (Law no. 68/2015) would be uniformly applied throughout the Emilia Romagna region.
The document specifically states as its final objective "the uniform application of the regulations on environmental crimes throughout the district territory, with special reference to the procedure for discharging offences under Part VI-bis of Italian Legislative Decree no. 152 of 3 April 2006".

Ministerial Decree no. 228 17 October 2016 (in OJ no. 292 of 15 December 2016) approved the "Regulation containing the definition of the minimum contents and the formats of ascertainment, charging and notification reports related to the proceedings pursuant to article 29-*quattuordecies* of Italian Legislative Decree no. 152 of 3 April 2006".

**General provisions**

The Prime Ministerial Decree of 27 March 2015 establishes the methodological notes and standard needs for Municipalities of ordinary-statute Regions in the fields of roads, transport, management of the territory and the environment (including waste).

On 17 June 2015 the Ministry of the Environment published Circular no. 12422, containing "Further criteria on the methods of applying the rules on integrated prevention and reduction of pollution in the light of the amendments introduced by Italian Legislative Decree no. 46 of 4 March 2014".

The Ministry of the Environment has published on its website the measure signed by the General Management for the Environmental Assessments and Authorisations, containing the criteria on the methods of applying the rules on the subject of integrated prevention and reduction of pollution in the light of the changes introduced by Italian Legislative Decree 46/2014 (Implementation of Directive 2010/75/EU related to industrial emissions).

At the end of 2015 the Draft Law known as "Green Economy": "Rules on the environment to promote green economy measures and to limit the excessive use of natural resources" was approved.

Since 2 February 2016 Italian Law no. 221 of 28 December 2015, the so-called "Environmental Annex", has been in force. This makes changes to the Consolidated Law on the Environment (amending articles 183, 187, 188, 190, 193), and introduces new and important amendments on the subject of WEEE, Compost, Mixing, Landfills, etc.

Italian Law Decree no. 113 of 24 June 2016 (containing "Urgent financial measures for territorial entities and the territory", in Official Journal no. 146 of 24 June 2016, in force since 25 June) was approved. This provided for specific finance to carry out the work on implementing the judgement handed down by the EU Court of Justice on 2 December 2014, relating to EU infringement procedure no. 2003/2007.

Italian Law no. 122 of 7 July 2016 has been published. This regards "Provisions for fulfilment of the obligations deriving from Italy's membership of the European Union" (European Law 2015–2016), and contains repeals of and amendments to national laws in order to make them comply with the European rules.

On 14 June 2016, the Senate Environmental Commission approved the resolution (Doc. XVIII, no. 134) on the Community Acts subject to subsidiarity opinions, making up the so-called "circular economy package", presented to the European Commission in December 2015, which contained the revision proposals for the EU Directives on waste, landfills, end-of-life vehicles, batteries and accumulators, Waste Electrical and Electronic Equipment (WEEE).

Italian Law no. 170 of 12 August 2016, has been in force since 16 September 2016. This contains "Power delegated to the Government for the transposition of European directives and implementation of other acts of the European Union" (this is the so-called 2015 European Delegation Law). The law delegates to the Government the power to adopt legislative decrees to implement the directives listed in Annexes A and B of the Law (Art. 1), and provisions laying down criminal or administrative sanctions for breaches of the obligation contained in European directives implemented in regulations or administratively, for which no criminal or administrative sanctions are already provided for (Art. 2).

Ministerial Decree no. 200 of 29 September 2016 has been in force since 18 November. This governs the ways of consulting the population on the subject of preparation, revision and updating of the external emergency plan aimed at limiting the damaging effects deriving from significant incidents, under the terms of article 21, paragraph 10, of Italian Legislative Decree 26 June 2015, no 105.

Finally, Italian Presidential Decree no. 194 of 12 September 2016"Regulation containing rules for the simplification and acceleration of administrative proceedings, in accordance with article 4 of Italian Law no. 124 of 7 August 2015", was published in the Official Journal no. 252 of 27 October 2016.

Italian Law no. 163 of 25 October 2017 was published in the Official Journal of 6 November. This gives delegated powers to the Government to transpose European directives and to implement other measures of the Union. The measure, in force since 21 November, entrusts to the Government the regulation of various matters, including also the environment.

Italian Law 167 of 20 November 2017 (the so-called European Law) in force since 12 December 2017, containing rules for fulfilling the obligations deriving from Italy's membership of the European Union, amends Italian Legislative Decree 152/2006 (the Environmental Code).

With Italian Legislative Decree no. 183 of 15 November 2017, in force since 19 December 2017, the Italian Parliament implemented the community legislation (EU directive 2015/2193) on limiting emissions into the atmosphere of certain pollutants originating from medium-sized combustion plants.

Italian Law 205/17 (2018 Budget Law), finally, established a tax credit for 3 years for businesses that purchase goods with recycled plastic materials.

**Environmental Impact Assessments - authorisations**

Since 17 January 2017 Ministerial Decree no. 245 of 25 October 2016 has been in force. This contains the regulation which determines the economic expenses chargeable to proposers to cover the costs incurred by the competent state authority for the organisation and performance of enquiry, monitoring and control activities on Environmental Impact Assessment (EIA) and Strategic Environmental Assessment (SEA) procedures.

Italian Legislative Decree 104/2017 implemented Directive 2014/52/EU, which amended the previous Directive 2011/92/EU, concerning the assessment of the environmental impact of certain public and private projects.

The most significant amendments were:

- several adjustments to the definitions contained in the Second Part of Italian Legislative Decree 152/06, among which that of "environmental impacts" stands out. This clarifies that in carrying out the assessment it is necessary to verify the direct and indirect significant effects of a project on the population, human health, biodiversity, territory, soil, water and climate as well as on the cultural heritage and landscape;
- for projects subject to national EIA, the option is introduced for the proponent to request the issue of a single environmental measure, which would coordinate and replace all the permits or authorisations in any way attributable to "environmental" factors, needed to implement the project;
- the reorganisation of the operating methods of the EIA Commission is provided for to improve the performance and effective functioning of this body and to ensure full coverage of the related operating costs to come exclusively from the tariffs paid by the proponents, and the establishment of a Technical Committee in support of the Commission, which will contribute in a decisive manner to the acceleration and increasing efficiency of the enquiries;
- an overall revision of the times for completing the proceedings, combined with precise scanning of all the procedural stages and qualification of all the terms in question as "peremptory", with consequent disciplinary and administrative/accounting responsibility of the managers and administrative replacement in the event of non-fulfilment;
- introduction of uniform rules for the EIA procedure all over the country and consequent remodulation of the legislative powers of the Regions, which are given exclusively the power to regulate the organisation and methods of exercising their administrative functions.

On the Ministry of the Environment website the Guidelines for preparing the Non-Technical Summaries of the Environmental Impact Study (EIA) and the Guidelines for preparing the Non-Technical Summaries of the Environmental Report (SEA) have been published. These are aimed at providing uniform methodological indications and preparation criteria in terms of both structure and content for these documents destined to inform the public.

For installations subject to the IEA (Integrated Environmental Authorisation): Decree no. 141 of 26 May 2016 came into force. This implements the provisions of Art. 29-sexies, para. 9-septies, of Italian Legislative Decree 152/2006. The measure, made up of eight articles, establishes, in fact, the criteria that the competent Authority must take into account in determining the amount of the financial guarantees that operators of installations subject to the IEA must give as regards the reclamation of the site once the activities have ceased, if these may entail a contamination of the soil or waters.

Italian Legislative Decree no. 222 of 25 November 2016 (the so-called SCIA 2 Decree) has been in force since 11 December 2016. This identifies proceedings subject to certified start-of-work reporting or tacit consent, and those for which explicit authorisation is necessary or prior communication is sufficient. The decree implements the provisions of Art. 5 of Italian Law 124/2015 on the reform of the P.A. and the principles in force at the European level, intervening in particular on the subject of construction –with attention also to plants powered by renewable sources – and providing for several amendments to the relevant Consolidated Law (Italian Presidential Decree 380/2001) aimed at administrative simplification.

For 2017 the following are also in force:

- Italian Presidential Decree no. 31 of 13 February 2017 "Regulation containing identification of the work excluded from the landscape authorisation or subject to simplified authorisation procedure";
- from 26 May Ministerial Decree no. 58 of 6 March 2017, which lays down the methods (including accounting) and the tariffs to be applied in relation to the enquiries and controls provided for in Title III-bis of Part II, Italian Legislative Decree no. 152/2006 (related to the IEA), and the fees payable to members of the Enquiry Commission pursuant to article 8-bis.

**WEEE – Waste Electrical and Electronic Equipment**

With Decree no. 275 of 12 October 2016, the Ministry of the Environment approved the statute of the WEEE Coordination Centre.

Ministerial Decree no. 121 of 31 May 2016 is in force. This is entitled "Regulation containing simplified methods for performing the activities of free withdrawal by distributors of very small Waste Electrical and Electronic Equipment (WEEE), and the technical requisites for making the deposit prior to the collection at the distributors and for the transport, under the terms of Article 11, paragraphs 3 and 4, of Italian Legislative Decree no. 49 of 14 March 2014".

On the subject of WEEE the Ministerial Decree of 25 July 2016 is also in force. This contains "Measures aimed at promoting the development of new technologies for the processing and recycling of waste electrical and electronic equipment", and provides for measures that attribute economic contributions to public and private subjects aimed at financing development projects for new technologies which, for example, maximise the quantity of recoverable or recyclable material or optimise the energy consumption of the WEEE recovery, recycling and processing processes.

The Ministerial Decree of 17 June 2016 is in force. This contains "Tariffs for covering the expenses deriving from the system of managing waste electrical and electronic equipment".

On the basis of the respective market share, WEEE producers are obliged to pay an annual fixed fee and a variable fee to be paid by 30 September of each year.

The Ministerial Decree of 3 March 2017 "Implementation of the delegated directives of the European Commission 2016/585/EU of 12 February 2016 as well as 2016/1028/EU and 2016/1029/EU of 19 April 2016 amending Decree no. 27 of 4 March 2014, on the restriction of certain hazardous substances in electrical and electronic equipment" is in force.

On 11 June 2017 Decree no. 68 of 9 March 2017 of the Ministry for the Environment and Protection of the Territory and the Sea came into force. This is entitled "Regulation concerning the methods of providing financial guarantees on the part of producers of electrical and electronic equipment under the terms of article 25, paragraph 1, of Italian Legislative Decree no. 49 of 14 March 2014".

**Facilities**

Ministerial Decree no. 134 of 19 May 2016 has come into force on this subject. This contains "Regulations concerning application of the Climate Correction Factor (CCF) to the formula for the efficiency of waste energy recovery in incineration plants". The measure, in force since 21 July 2016, intervenes on the one hand amending Note (4) of Annex C to Part IV of Italian Legislative Decree 152/2006, on the other repealing the Ministerial Decree of 7 August 2013 containing "Application of the formula for calculating the energy efficiency of incineration plants in relation to the climate conditions" published in OJ 193 of 19 August 2013.

We can also note the Ministerial Decree of 14 April 2017 "Rules on the conditions for access to the increase in the incentives provided for in the decree of 6 July 2012 for electricity production from plants powered by biomasses and biogas".

**Register of Environmental Operators**

With Resolution no. 5 of 3 November 2016 (in force since 1 February 2017) the National Committee of the Register of Environmental Operators identified criteria and requisites for registration, with the ordinary procedure, in categories 1 (municipal waste collection and transport), 4 (special non-hazardous waste collection and transport) and 5 (special hazardous waste collection and transport).

The National Committee of the Register with its Circular no. 1201 of 12 December 2016, establishes that the Consortia that carry on direct business activity can register in categories 9 (site reclamation) and 10 (reclamation of assets containing asbestos) of the Register of Environmental Operators proving the exclusive availability of the equipment owned by the consortium members.

The National Register with Circular no. 229 of 24 February 2017, issued clarification on applying its Resolution no. 5 of 3 November 2016. We can remind you that Resolution no. 5/2016 identified criteria

and requisites for registration, with the ordinary procedure, in categories 1 (municipal waste collection and transport), 4 (special non-hazardous waste collection and transport) and 5 (special hazardous waste collection and transport).
With Resolution no. 4 of 22 March 2017 the National Committee of the Register of Environmental Operators acted to replace, for each registration category, the prescriptions regarding the keeping and conservation of the registration orders contained in the said measures.
Circular no. 411 of 6 April 2017 specifies as regards renewal of registration in categories 1, 4 and 5 of companies which – as a result of Resolution no. 5 of 3 November 2016 (in force since 1 February 2017) – must be placed in a different sub-class or category, that this renewal "does not produce terminating effects for the entity registered in relation to relationships already in being with third parties until the end of said relationships".
We can note finally the resolution of the National Committee containing "Requisites of the Technical Manager pursuant to articles 12 and 13 of the Decree of the Ministry for the Environment and Protection of the Territory and the Sea, in agreement with the Ministry of Economic Development and the Ministry of Infrastructures and Transport, no. 120 of 3 June 2014".

Again in relation to the subject of environmental operators, a communication containing clarifications related to the requirement of entry in the Register was published on the website of the National Anti-Corruption Authority (Autorità Nazionale AntiCorruzione - ANAC). The communication follows up, repeating its content, on the judgement of Section V of the Council of State no. 1825 of 19 April 2017, which in turn confirmed what had been stated by the Abruzzo RAC, Pescara section: the RAC, called upon to resolve a question related to a call for tenders for environmental reclamation work, affirmed that entry in the register of environmental operators must be imposed as a requirement for participation.

### *European legislation*

Regulation (EU) no. 1357/2014 of the European Commission came into force on 1 June 2015; this innovates the hazardous waste classification system.
On 1 June 2015 the Decision of the European Commission 2014/955/EC came into force. This introduces a new European List of Waste that modifies Decision 2000/532/EC, transposed at the national level by Annex D of part IV of Italian Legislative Decree 152/06.
Directive no. 2015/1127, which starting from 31 July 2015 made a number of changes to Annex II of Directive 2008/98/EC on waste (containing a non-exhaustive list of recovery operations), was rectified with a deed published in November 2015. In 2016 the European Investment Bank published an (online) guide to financial Instruments available to green projects – some together with the European Commission - dedicated to financing projects in the environmental field.
Directive (EU) 2016/2284 of the European Parliament and of the Council of 14 December 2016 has been in force since 31 December 2016. This concerns the reduction of national emissions of certain atmospheric pollutants, amending Directive 2003/35/EC and repealing Directive 2001/81/EC.
Finally, the Corrigendum to Regulation (EC) no. 1013/2006 of the European Parliament and of the Council of 14 June 2006 on shipments of waste (regarding Annex IX, arts 12 and 24) was published in the Official Journal of the European Union of 1 November 2016.
The Corrigendum to Regulation (EC) no. 1272/2008 of the European Parliament and of the Council, of 16 December 2008 was published in EU OJ no. 349 of 22 December 2016. This relates to the classification, labelling and packaging of substances and mixtures, amending and repealing Directives 67/548/EEC and 1999/45/EC, and amending Regulation (EC) No 1907/2006.
Directive EU 2016/2309 of the Commission of 16 December 2016, which amends Directive 2008/68/EC of the European Parliament and of the Council relating to the internal transport of hazardous goods, was published in EU OJ 345 of 20 December 2016.
Reg. (EC) 1907/2006 (known as the REACH Regulation) was amended by two European Regulations:

- Reg. (EU) 2016/1005 of the Commission, dated 22 June 2016, which amends Annex XVII, item 6, column 2, paragraph 1 of the REACH Regulation with reference to asbestos fibres (chrysotile);
- Reg. (EU) 2016/1017 of the Commission, dated 23 June 2016, which amends Annex XVII of the REACH Regulation adding an item specific to inorganic ammonium salts.

The Opinion of the European Economic and Social Committee has been published on the subject of the "Communication of the Commission to the European Parliament, to the Council, to the European Economic and Social Committee and to the Committee of the Regions – The missing link – European

Union Action Plan for the circular economy", of the "Draft directive of the European Parliament and of the Council which amends Directive 94/62/EC on packaging and packaging waste", of the "Draft directive of the European Parliament and of the Council which amends Directive 2008/98/EC on waste", of the "Draft directive of the European Parliament and of the Council which amends Directive 1999/31/EC on the landfill of waste" and of the "Draft directive of the European Parliament and of the Council which amends Directives 2000/53/EC on end-of life vehicles, 2006/66/EC on batteries and accumulators and waste batteries and accumulators and 2012/19/EU on waste electrical and electronic equipment".
As regards financial year 2017 we can note:

- From May 2017 Regulation (EU) 2017/776 of the Commission of 4 May 2017, "amending, for the purposes of its adaptation to technical and scientific progress, Regulation (EC) No 1272/2008 of the European Parliament and of the Council on classification, labelling and packaging of substances and mixtures";
- EU Council Regulation no. 2017/997/EU on waste classification.

Commission Implementing Decision (EU) 2017/695 of 7 April 2017 was also published, on 13 April 2017. This authorises the Member States to adopt certain derogations pursuant to Directive 2008/68/EC of the European Parliament and of the Council on the inland transport of dangerous goods (notified under document C(2017) 2198).
A summary of the European Commission decisions on authorisations for the placing on the market for the use and/or for use of substances listed in Annex XIV of Regulation (EC) no. 1907/2006 of the European Parliament and of the Council concerning the Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH) was published in the EU OJ of 31 May 2017.
Commission Regulation (EU) 2016/1179 of 19 July 2016, which amends Regulation (EC) no. 1272/2008 (the so-called CLP Regulation), is related instead to the classification, labelling and packaging of substances and mixtures.
On 17 August 2017 the Commission Implementing Decision (EU) 2017/1442 of 31 July 2017 was published. This establishes conclusions on the Best Available Techniques, in accordance with Directive 2010/75/EU on industrial emissions (on the subject of integrated prevention and reduction of pollution), for large combustion plants.
Finally, Directive (EU) 2017/2102 of 15 November was issued. This contains amendments to Directive 2011/65/EU on the restriction of the use of certain hazardous substances in electrical and electronic equipment (EEE), with the ultimate end of guaranteeing the ecologically correct recovery and disposal of the waste of such equipment.

***Tariff system for waste management services***

The 2014 Stability Law established from 1 January 2014 the IUC tax (Imposta Unica Comunale - single municipal tax) comprising: a municipal property tax (IMU), a component referring to "indivisible" services (TASI) and the waste tax (TARI) destined to finance the cost of the urban waste collection and disposal service. The prerequisite for the TARI tax is the ownership or possession of properties susceptible to producing waste and commensurate with the floor surface area of the property. The rates can be reviewed by the municipalities on the basis of service quality standards.
The possibility is reconfirmed for Municipalities to assign the ascertainment and collection, as an exception to Article 52 of Italian Legislative Decree no. 446 of 15 December 1997, to entities that at the date of 30 December 2013 "performed the service of waste management or TARES ascertainment and collection".
Italian Law Decree no. 78 of 19 June 2015, Urgent provisions on territorial entities, was published in the O.J. on 19 June 2015. In particular, among the rules laid down by the Law Decree we can note Art. 7, paragraphs 4 (on extension also to the TARES of the option to entrust controls to the operator of the waste service), 7 (extension of terms on local collection at 31 December 2015), 8 (extension to the consortia of the fiscal benefits already provided for in the case of winding-up of municipal companies) and 9 which adds to Italian Law no. 147 of 27 December 2013 (2014 Stability Law) paragraph 654-*bis*, which states that any lack of revenue from receivables that turn out to be unenforceable, with reference to the environmental health tariff, the integrated environmental tariff, and the municipal tax on waste and services (TARES) should also be considered among the cost components of the TARI.
Italian Law 205/2017 extended to 2018 for Municipalities the method of making the TARI commensurate on the basis of the ordinary average criterion.

## CONCESSIONS AND ASSIGNMENTS

### *MAJOR HYDROELECTRIC SHUNT CONCESSIONS*

Constitutional Court Judgement no. 205 of 4 July 2011 pronounced the unconstitutionality of the provisions of Italian Law Decree no. 78 of 31 May 2010, converted to Italian Law no. 122 of 30 July 2010, which extended major water shunting concessions for electricity production by five years, with the option of extension by a further seven years if a combined private/public company was established by certain provinces.
As a result of the declaration of constitutional illegitimacy, the concessions expiring on 31 December 2010 are subject to continued management by the operator until takeover by the new operator, which must be chosen through a public tender.
The duration of future concessions, to be issued following a tender process, will vary between twenty and thirty years, in accordance with criteria to be established in an inter-ministerial decree in the process of being issued in agreement with the State-Regions Conference, in relation to the investments deemed necessary. The choice of the best bid for assignment of the concession will be based predominantly on the economic bid for the acquisition of water resources and on the increase in energy produced or installed power. For concessions already expired or those due to expire by 2017, the tender will be called within two years from the date of entry into force of the inter-ministerial decree that will establish the criteria and the new concession will take effect from the fifth year after the original expiry and, in any case, no later than 31 December 2017. Ownership of the business unit relating to the exercise of the concession is transferred from the outgoing to the incoming concession holder, including all pertinent legal relations.
In September 2013 the European Commission began a fact-finding inquiry, concerning several member states, on the conditions for assigning, extending or renewing water concessions for hydroelectric use and sent the Italian Government a letter of formal notice which states that certain provisions recently introduced by the Italian parliament (with Italian Law 134/2012, converting the Italian “Development” Law Decree 83/2012), as well as certain parts of the legislation of the Autonomous Provinces of Trento and Bolzano are contrary to principles and rules of community law (freedom of establishment; Art. 12 of the “Bolkestein” Directive 2006/123/EC). Discussions are in progress between the Italian Government and the European Commission on the objections raised by the latter. In the meantime, a discussion with the European Commission was begun by the main competitors, including Iren, in order to raise its awareness of the need to make the rules in each member state uniform.
The Piedmont Regional Executive President’s Decree no. 2/R of 9 March 2015 approved the new regional regulation on public water shunting concessions which changes the rules on proceedings for issuing concessions for which the Province or the Metropolitan City is responsible and introduces the possibility of overcoming the “*presumption of incompatibility owing to proximity*” producing specific documentation.

Art. 833 of Italian Law no. 205 of 27 December 2017 (2018 Budget Law) replaced art. 13 of Italian Presidential Decree no. 670 of 31 August 1972 (Statute of Autonomy of the autonomous provinces of Trento and Bolzano), providing for an expansion of the powers of the Autonomous Provinces to legislate on, among other things, methods, procedures and criteria for assigning hydroelectric concessions, their duration and the criteria for determining concession fees. This measure is not, however, applicable outside of the Autonomous Provinces of Trento and Bolzano.

The Iren Group also executes services under concessions/assignments in the following sectors:
- Distribution of natural gas
- Electricity/District Heating
- Integrated Water Service
- Environmental service management
- Other Services to municipalities

***DISTRIBUTION OF NATURAL GAS***

*Genoa area*
The natural gas distribution service in the Municipality of Genoa and the neighbouring Municipalities is carried out by IRETI S.p.A. (companies deriving from, among other things, the merger by incorporation of Genova Reti Gas, the previous Operator and of the latter's Parent Company Iren Acqua Gas into Iren Emilia S.p.A.). We can note that the concessions are currently operating under the extended regime pending the launch of public invitations to tender, the deadline for launching which is specified in the paragraph above "Gas distribution".

*Emilia Romagna area*
The natural gas distribution service in the Emilia provinces is managed by IRETI (formerly Iren Emilia S.p.A.) These assignments are currently operating under the extended regime pending the launch of public invitations to tender.

*Other geographical areas*
The Iren Group also operates in numerous other entities throughout Italy through assignments or concessions given to mixed capital companies in which Iren Group companies have a direct or indirect investment.
These concessions are currently operating under the extended regime pending the launch of public invitations to tender.
The main assignments and concessions are:
- Province of Ancona / Macerata - ASTEA S.p.A. (in which a 21.32% stake is held by the G.P.O. Consortium, which IRETI controls in turn with 62.35%): Municipalities of Osimo (AN), Recanati (MC), Loreto (AN) and Montecassiano (MC) assignment expired on 31 December 2010 and in *prorogatio*;
- Municipality of Vercelli – ASM Vercelli S.p.A. (formerly ATENA S.p.A., which IRETI controls with 60%): award of 1999 expired on 31 December 2010 and in *prorogatio*;
- Province of Livorno - ASA S.p.A. (40% owned by IRETI); Municipalities of Livorno, Castagneto Carducci, Collesalvetti, Rosignano Marittimo and San Vincenzo – award expired on 31 December 2010 and in *prorogatio*;

*Natural gas sales*
In accordance with the provisions of the "Letta" Decree on the subject of unbundling, the IREN Group carries on the business of natural gas sales mainly through Iren Mercato - which also sells electricity.
This activity is also carried out through direct or indirect investment in vendor companies including:
- Salerno Energia Vendite S.r.l. for the Grosseto area and for Central Southern Italy;
- Atena Trading S.r.l. for the Vercelli area.

***ELECTRICITY***

IRETI manages the public service of electricity distribution in the City of Turin on the basis of a ministerial concession. This concession expires on 31 December 2030. IRETI also distributes electricity in the Municipality of Parma, with the same expiry date.
Through its local business combinations, the Iren Group distributes Electricity in the following main areas:
- Vercelli area, with ASM Vercelli S.p.A.
- Marche area, with ASTEA S.p.A.;

***DISTRICT HEATING***

The district heating distribution service in the municipalities of Turin and Moncalieri, from 1 July 2014 has been managed by Iren Energia as a result of the spin-off of the heat distribution unit of the City of Turin of AES Torino.
By agreement dated 29 December 2008, the Municipality of Nichelino (Turin) assigned the concession for use of the public soil and subsoil for the laying of networks, plants and infrastructures for the district heating service for a period of 30 years, to the temporary association of companies established between Iren Energia S.p.A., Iren Mercato S.p.A. and AES Torino S.p.A., which together established Nichelino

Energia S.r.l. The company, 100% controlled by the Group, was merged by incorporation into Iren Energia with effect from 1 October 2015.

Besides the existing assignment of the distribution of district heating in the City of Turin on the basis of the Framework Agreement signed with the municipality, and in the town of Nichelino following what was described above, Iren Energia acquired an equity investment in the company Asti Energia e Calore, incorporated on 18 May 2015, to which the district heating service in the City of Asti is assigned in sub-concession.
In the public session of 22 December 2016, the Municipality of Beinasco declared that Iren Energia had won the award of the concession for use of the municipal soil and subsoil for developing the district heating network. The related agreement was signed on 27 June 2017.

***INTEGRATED WATER SERVICE***

*Genoa area*
IRETI S.p.A. holds the management assignment for the integrated water service in the 67 municipalities of the Province of Genoa, serving a total of 880,000 residents. The assignment was granted by Decision no. 8 of the Genoa ATO Authority on 13 June 2003 and will expire in 2032.
The integrated water service in the territory of the Municipalities of the Province of Genoa is managed by IRETI through the safeguarded operators. The authorised and/or safeguarded companies of the Iren Group that perform the function of operator are Iren Acqua S.p.A. (formerly Mediterranea delle Acque, 60% controlled by IRETI), Iren Acqua Tigullio S.p.A. (formerly IdroTigullio, 66.55% controlled by Iren Acqua) and AMTER S.p.A. (in which Iren Acqua, again, has a 49% stake).
IRETI also provides the drinking water distribution service in the Municipalities of Camogli, Rapallo, Coreglia and Zoagli in the Genoese ATO and the integrated water service in the Municipality of Bolano in the Province of La Spezia.
At the same time, with a deed dated 19 June 2015 effective from 1 July 2015 the company Acque Potabili S.p.A. sold to Iren Acqua Gas S.p.A. (today IRETI S.p.A.) the equity interest held in the company Acquedotto di Savona S.p.A. representing 100% of the share capital of the same. The company was merged by incorporation into IRETI with effect from 1 January 2016.

*Emilia Romagna area*
The Iren Group provides the Integrated Water Service on the basis of specific assignments granted by the respective Local Authorities, governed by agreements signed with the competent ATOs.
Based on the laws of the Emilia Romagna Region, water service Agreements provide for 10-year assignments, except for the agreement relating to the Parma ATO, which sets the expiry of the assignment at 30 June 2025, by virtue of the disposal to private entities of 35% of the AMPS capital by the Municipality of Parma in 2000 through a public offering.
The Integrated Water Services in the Parma, Piacenza and Reggio Emilia ATOs are managed by the companies of the IRETI Group. Ownership of the assets and networks of the water segment was transferred to companies wholly owned by public entities. These companies made their networks and assets available to the Iren Group on the basis of a rental contract and against the payment of a fee.

The table below contains details of existing agreements in the Group’s area of operations.

| ATO | REGIME | SIGNING DATE | EXPIRY DATE |
|---|---|---|---|
| *Genoa area* | ATO/operator agreement | 16 April 2004/5 October 2009. | 31 December 2032 |
| *Reggio Emilia* | ATO/operator agreement | 30 June 2003 | 31 December 2011 (*) |
| *Parma* | ATO/operator agreement | 27 December 2004 | 30 June 2025 |
| *Piacenza* | ATO/operator agreement | 20 December 2004 | 31 December 2011 (*) |

(*) Service extended until new agreements are defined

On 19 April 2016, ATERSIR Emilia Romagna published the tender based on a restricted procedure in the EU Official Journal for the assignment in concession of the IWS for the Province of Piacenza, including the instrumental works. IRETI submitted its bid on 10 June 2016.
In the Province of Reggio Emilia ATERSIR with Resolution CLRE/2015/7 of 17 December 2015 approved the "Proposed assignment to publicly- and privately-owned companies, with an operating private industrial partner chosen through a competitive public tender procedure".

*Other geographical areas*
The Iren Group also operates in the Integrated Water Service sector in other parts of Italy through assignments or concessions given to mixed-capital companies in which it has a direct or indirect investment. The main assignments and concessions are:

- Tuscany Coast ATO – ASA S.p.A. (in which IRETI has a 40% stake) Integrated water service in the Municipality of Livorno and other municipalities in the Province;
- Central Marche Territorial Area, Macerata (ATO3) - ASTEA S.p.A. (21.32% owned by Consorzio GPO, which is in turn 62.35% controlled by IRETI) only for the municipalities of Recanati, Loreto, Montecassiano, Osimo, Potenza Picena and Porto Recanati;
- Biella-Casale-Vercelli ATO: ASM Vercelli S.p.A. (subsidiary of IRETI) for the Vercelli area;
- Municipality of Ventimiglia: AIGA S.p.A. (in which IRETI has a 49% stake);
- Municipality of Imperia: AMAT S.p.A. (in which IRETI has a 48% stake);
- Alessandria ATO: ACOS S.p.A. (in which IRETI has a 25% stake) for the Municipality of Novi Ligure;
- Cuneo ATO: Mondo Acqua S.p.A. (in which IRETI has a 38.5% stake) – manages the Municipality of Mondovì and 7 other municipalities in the Cuneo area.

***ENVIRONMENTAL SERVICE MANAGEMENT***

The Iren Group provides waste management services on the basis of specific service assignments from the Local Authorities, governed by agreements signed with the provincial ATOs.
The table below contains details of existing agreements in the Group's area of operations.

| ATO | REGIME | SIGNING DATE | EXPIRY DATE |
|---|---|---|---|
| *Reggio Emilia* | ATO/operator agreement | 10 June 2004 | 31 December 2011 (*) |
| *Parma* | ATO/operator agreement | 27 December 2004 | 31 December 2014 (*) |
| *Piacenza* | ATO/operator agreement | 18 May 2004 | 31 December 2011 (*) |
| *Turin* | ATO/operator agreement | 21 December 2012 | 30 April 2033 (*) |

(*) Service extended until new agreements are defined
(**) the term is 20 years running from the end of provisional operation of the Waste-to-energy plant of TRM S.p.A.

We can note that the call for tenders for "The award in concession of the public service of integrated municipal and similar waste management in the territorial catchment area of Parma" (44 Municipalities) was published in the EU OJ on 14 October 2017. The term for presentation of the offer expires on 16 April 2018.

***Services provided to the Municipality of Turin***

On 31 October 2006, Iren Servizi e Innovazione took over the following from AEM Torino S.p.A.:

- the agreement signed with the Municipality of Turin for the assignment of street lighting and traffic light services in the Municipality of Turin, expiring on 31 December 2036;
- the management services assignment for the municipal heating plants, expiring on 31 December 2014;
- the management services assignment for the electrical and special systems in municipal buildings, expiring on 31 December 2014.

By a resolution of 3 November 2010, the Turin City Council decided to assign service agreements to Iren Servizi e Innovazione for the thermal plants and electrical and special systems for municipal buildings until 31 December 2017. The assignments were extended up to 31 December 2020 with a resolution of the Turin Municipal Executive Committee of 27 November 2012. Following the merger by incorporation of Iren Servizi e Innovazione into Iren Energia, with a deed of 27 December 2016, starting from 1 January 2017 Iren Energia took over the above Agreement and the above service contracts.

## FINANCIAL YEAR 2017 ENERGY AND GAS REGULATORY FRAMEWORK

The 2018 Budget Law – published in the Official Journal on 29 December 2017 and in force since 1 January 2018 – entailed respectively a change of name and expansion of the powers of the Energy Authority.
The latter was renamed ARERA – *Autorità di Regolazione per Energia, Reti e Ambiente* (Regulatory Authority for Energy, Networks and the Environment) – and has the additional task of improving the regulatory system of the waste cycle and ensuring infrastructural compliance with the objectives set by European law.
The main regulatory measures of 2017 with the greatest impact for the energy businesses of the Iren Group are presented below, together with an in-depth examination of the measures of interest for the Group pursuant to the aforementioned 2018 Budget Law.

### GAS

#### *Gas Energy Management*

**Res 512/2017 - Completion of the pilot project for conferment of capacity at electricity generation plants and Res 723/2017 - Approval of proposed update of the SNAM Network Code.**
With this resolution the Authority completed the pilot project related to conferment of capacity at Re-Delivery Points (RDPs) on the transport network that supply electricity generation plants. Starting from 1 October 2017, for these customers, monthly and daily products have been made available. The price for capacity of the monthly product is calculated applying to the price for annual capacity, re-proportioned on a monthly basis, a multiplier of 2, while the price for capacity of the daily product is calculated applying to the price for annual capacity, re-proportioned on a daily basis, a multiplier of 7.
Implementing the launch of the pilot project SNAM updated the Network Code.

**Res 737/2017 - Compliance with Council of State judgement 4825/2016, cancelling the resolution ARG/gas 89/10 - Determination, now for then, of the value of the raw material gas for the period from October 2010 up to the Gas Reform of the Authority.**
In compliance with the CoS judgement on applying the coefficient K (0.925) to the Qt component for the 2010-2011 and 2011-2012 TYs, the Authority published resolution no. 737/2017 which fixes the definitive value of the coefficient K at 0.952 for both years of the two-year period. The proceeding provides for a second stage, with closure of the enquiry by the end of July 2018, for defining the methods of settling any amounts resulting from redetermination of the coefficient K.

**Res 575/2017 - Criteria for regulating the tariffs of the natural gas transport service for the transitory period in the years 2018 and 2019.**
The resolution provides for inclusion in the tariff paid for the year the investments related to year n-1 and confirmation of the WACC (5.4% for 2018). It also establishes incentive mechanisms on investments that will come into operation starting from 2018/19 characterised by a certain benefit/cost ratio, and the value of the X-factor constant in the two years is confirmed. The resolution establishes, finally, a change in the division of revenue between entry and exit to encourage greater competitiveness of procurement and greater alignment of prices at the Virtual Exchange Point (Punto di Scambio Virtuale - PSV) with the main European hubs.

**CD 590/2017 - Final guidelines on simplification of gas settlement**
The CD introduces simplifications of gas settlement establishing the adoption of the same algorithm for balancing and adjustment.
ARERA states that, in a first stage, responsibility for procuring the gas corresponding to the delta in-out will remain with the Balancing Users (BUs) before passing to the Balancing Manager (BM). The cost of the delta in-out will be covered by applying a specific national component on the cubic metres redelivered to the regulation and measurement (regolazione e misura - ReMi) cabins.
simplifications of the correspondence matrix are also introduced: BU – DU (Distribution User) – WP (Withdrawal Point).

**Res 670/2017 - Provisions on performing adjustment sessions with reference to the years starting from 2013 and up to entry into force of the new gas settlement rules and Res 782/2017**
Resolution 670/2017 establishes that the economic adjustment items will be determined with a procedure divided into two processes: the first functional to calculation of the adjustment of the economic items attributed to the balancing user (BU) at the moment of the final balance, once more applying the algorithm already used in the balancing session and redetermining the imbalance of each BU; the second aimed at measuring the quantity due to each BU, to be offset, of the difference between quantities input and withdrawn at the redelivery point of the transport network (ReMi), dividing the annual portion paid of this difference in proportion to the withdrawals allocated in the year to the BU at the same ReMi.
On this subject, with resolution 782/2017 the Authority approved operating provisions for determining the physical and economic adjustment items for the years 2013-2016.

***Gas networks***

**Res 344/2017 – Simplifications of the process of analysing Residual Industrial Value (RIV) -Regulatory Asset Base (RAB) differences**
The resolution introduces important simplifications of the process of analysing RIV-RAB differences for differences of less than 10% at the single-municipality level, in cases in which the aggregate difference in the context is less than a pre-set threshold (to be set at the most at 6%-8%).

**CD 734/2017 - implementation of the provisions of the competition law on the subject of simplification of the procedure for assessing the refund values and calls for tenders related to award of the natural gas distribution service and Res 905/2017 – Adoption of integrated texts** The Authority presents its guidelines on the methods of implementing simplifications of the procedures for assessing the refund values (RIV) and calls for tenders, and examines a number of questions related to cases in which the values of the net fixed assets for regulatory purposes are misaligned with respect to the averages for the industry (so-called depressed RABs). The Authority gives notice that, for the purposes of the VIR-RAB comparison it will proceed to publish the standard stratification to be applied to the gross values of the fixed assets, defined starting from that of the net values (pursuant to the Infrastructures, Unbundling and Certification Department - Direzione Infrastrutture, Unbundling e Certificazione, DIUC - determination no. 4/2016), on the basis of the regulatory useful lives. Again in relation to the criteria for the revaluation of so-called depressed RABs following an award by area tender, the Authority illustrates its orientation aimed at confirming the criteria in force. After the consultation ARERA published the Integrated Text of the Authority's provisions on the subject of “determination and verification of the refund value of natural gas distribution networks for the purposes of area tenders” the Integrated Text of the Authority's provisions on the related calls for tenders.

**Res 389/2017 – Recognition of Remote Reading/Remote Management/Concentrator costs for the years 2011-2013: buy solutions**
The Authority resolved to recognise the operating expense related to remote reading/remote management and concentrators for the years 2011-2013 and to issue a subsequent measure for the costs incurred in the year 2014.

**Res 904/2017 - Provisions on recognising costs related to metering activity on natural gas distribution networks and on the application starting date of criteria for valuation of investments on the basis of standard costs**
The Authority (i) defines the methods of recognising costs related to remote reading / remote management systems and costs of concentrators for the tariff years 2018 and 2019, and establishes the criteria for defining the standard costs including installation and commissioning costs to be applied to natural gas metering units; (ii) revises the methods of recognising costs related to metrological checks; (iii) postpones to 2019 investments, with effect on the 2020 tariffs, the recognition of costs incurred according to standard logics.

**Res 522/2017 - Regulation of metering performance for redelivery points connected to natural gas distribution networks**
The resolution introduces stricter obligations on performance and replacement of meters. For accessible meters it introduces a standard aimed at recording the readings effectively acquired and not the attempts

that can be made. It assimilates, at the level of metering performance, partially accessible meters to non-accessible meters, for which it introduces both obligations to replace traditional meters with smart meters in cases in which the distribution company has not acquired at least one effective reading over the last year, and penalties for each meter on the distribution company in the event of non-fulfilment of the above replacement obligations.

**CD 484/2017 - Update of the directives for connections of biogas production plants to natural gas networks**
The Authority expresses its orientations in relation to the changes to be made to the directives for connections of biogas production plants to natural gas networks tackling subjects such as the quality, and processes for measuring the quality and quantity of the biogas input into the network.

**Res 513/2017 – applications for partial payment in the event of failure to physically cut off the RDP**
The Authority defines the detailed rules for assessing applications from distribution companies for partial payment or exoneration from payment of the amount provided for in cases of failure to physically cut off redelivery points provided in the distribution default service on the distribution network (distribution DS).
In the case of applications for exoneration that are justified by one of the five "typical" cases defined by the Authority which define non-binding uniform assessment criteria, constructed on the basis of observation of the actual individual cases, the CSEA shall consider the application automatically approved.
In the case of applications for exoneration that are justified by facts and circumstances other than those listed as typical by the Authority, the application is decided directly by the Authority with a specific measure.

**Res 859/2017 - Update of the tariffs for the gas distribution and metering services, for the year 2018**
With the measure the obligatory tariffs for natural gas distribution, metering and sale services are approved, together with the other gas tariff options, and the bi-monthly advance equalisation amounts, relating to the natural gas distribution service for 2018. The same measure approves the maximum amount of the recognition of higher charges deriving from the presence of concession fees for distributor companies that have presented an application and provided suitable documentation.

**ELECTRICITY**

***Energy management***

**CD TERNA - Capacity Market (CM) - Criteria for defining the demand curves by Area, linear in stretches, according to specific LOLE (Loss Of Load Expectation) values**
In the responses to TERNA’s consultations on the schemes for first and full implementation of the CM, several operators asked for a specific consultation on the demand curve of the CM, also highlighting the need for a simplification of the methodology for constructing the said curve. In relation to this need the present CD was issued; it illustrates a proposal to simplify the method for constructing the demand curve by Area of the CM.

**CD 592/2017 - Italian capacity market. Latest technical and economic parameters**
The CD in question is aimed at defining:
- the Authority’s guidelines on the exercise price;
- a number of considerations in relation to active participation of demand in the capacity market;
- the guidelines related to the economic parameters of the demand curve according to the methodology consulted on;
- the relation between the adequacy standard and the value of the energy not supplied for the purposes of adequacy, providing also useful indications for defining the target value of the aforementioned standard;
- the methods for managing the risk of the exercise of market power in the start-up stage of the capacity market;
- possible methods for gradual implementation of the capacity market (exercise price and related parameters).

**Res. 300/2017 - First opening of the Dispatching Services Market (DSM) to Electricity Demand and to Production Units also from Renewable Sources not already enabled and to Storage Systems. Launch of Pilot Projects with a view to establishment of the Integrated Text on Electricity Dispatching (Testo Integrato Dispacciamento Elettrico - TIDE) in keeping with the European Balancing Code**
With resolution 300/2017/R/eel, the Authority defines the criteria for participation of other resources in the DSM in the context of pilot projects; at the same time, it launches a first stage of implementing pilot schemes to make it possible to acquire useful elements for the organic reform of dispatching. Terna has defined the first two pilot projects:
Project (i) establishes participation of demand in the DSM for the purposes of providing resources for the tertiary reserve and is divided into two proposals:

- qualification of the consumer plants for participation in the DSM in the form of Virtual Consumption-Enabled Units (Unità Virtuali Abilitate di Consumo - UVACs);
- forward procurement of a quantity of network resources made available by consumer plants that have been qualified for participation in the DSM.

Project (ii) provides for participation of distributed generation in the DSM and consists of two stages:

- creation and qualification of the Virtual Production Units (Unità Virtuali di Produzione - UVAPs);
- presentation of the offers on the DSM related to UVAPs and any selection of the same by Terna, for the purpose of activating the corresponding dispatching resources.

**Res 419/2017 - Transitory valuation of effective balancing while awaiting definition of the full service rules based on nodal prices**
The Authority redefines the valuation of effective balancing, which will make it possible to provide dispatching users with price signals in keeping with the time, space and product-type dimensions that distinguish the value of energy in real time (through the use of nodal prices), thus superseding the current mechanism based on static zonal/macro-zonal aggregations.
The macro-zonal non-arbitrage fee is introduced and the methods for calculating the zonal aggregate balancing are modified enabling the reinstatement of the single pricing mechanism for the valuation of effective balancing of all non-enabled units.

## ELECTRICITY NETWORKS

### *2G Smart Metering Systems*

The regulation of the evolved version of electricity meters for low-voltage customers ("2G") and definition of the criteria for recognition of their costs, launched in 2016, continued in 2017 with the following resolutions:

**Res 222/2017 – Second generation (2G) smart metering systems: decision on the commissioning plan and on the request for admission to recognition of the investments in the specific arrangement of e-distribuzione S.p.A. –** which approves the plan on 2G meters and e-distribuzione for 2017-2031, with certain technical specifications (further metering obligations) and economic specifications (limitations on recognition of any future efficiencies/costs), defining the details of the permitted expenses.

**Res 248/2017 – 2G metering systems: adjustment of the metering obligations and making available 2G metering data and rules on updating of the data in the official central registry of the integrated information system –** which changes the management of the metering in the Integrated Information System (the "IIS") in consideration of the commissioning (for the moment by e-distribuzione) of the 2G meters.

**Res 289/2017 – Supplement to the procedure for assessing the availability of standardised technological solutions aimed at supporting incremental functions (version 2.1) of second- generation low-voltage electricity smart metering systems –** which supplements the procedure for defining the functional requisites of 2G meters (pursuant to res. 412/2014/R/efr) to assess (i) standard technological solutions for incremental solutions that take 2G to version 2.1, (ii) implementations of the power limiter, providing also for technical collaboration with AGCOM.

**Resolution 594/2017 – Provisions regarding the management of metering data in the context of the Integrated Information System, with reference to the electrical sector** – which assigns to the Integrated Information System the role of single interface for making available metering data in relation to distributor companies and transport users, in the electrical sector and confirms the adoption of the cloud-based architecture already implemented by the Single Buyer for 2G metering.

**Resolution 700/2017 – Provisions regarding application of the hourly treatment for input and withdrawal points equipped with 2G smart metering systems** – which governs the hourly treatment for input and withdrawal points equipped with 2G meters, providing for the first aggregation by the IIS of the daily fifteen-minute metering accruing in August 2018 and finally orders the hourly treatment also for public lighting points if equipped with 2G meters.

***Electricity distribution and metering tariffs***

**Res 286/2017 and 287/2017** – which establish for 2017 the provisional reference tariffs respectively for electricity distribution and for metering for distributors with more than 100,000 withdrawal points.

**CD 580/2017 - Guidelines in relation to parametric recognition of costs for smaller electricity distribution companies and first guidelines on promotion of aggregations** – as regards distributors that manage up to 100,000 withdrawal points:

- this establishes the individual tariff - unless a request is made to apply the parametric system;
- it makes definitive the 2016 provisional reference tariffs indicated in resolution 734/2016;
- it updates the reference tariffs from 2017 according to the rules of the Integrated Code on Transport (TIT).

The Authority has recently asked these distributors to stratify the electricity distribution and metering investments for the purposes of determining the individual tariffs.

**CD 683/2017 - Application of the totex approach in the electricity sector. Initial guidelines for the introduction of incentivising regulation schemes based on the overall control of expenditure** – this proposes an important reform of recognition of distributors' costs: from input-based (recognition of costs on the basis of expenses accounted for) to output-based (recognition of costs on the basis of expenses foreseen and the quality of the outputs achieved), with:

- a Totex activity plan in 5 stages structured on 4 themes (Business plan, Cost assessment, Incentive system, Management of uncertainties and control of progress);
- gradual implementation: in 2020-2023 for Terna (and possible delay for e-distribuzione), from 2024 for the other distributors with more than 300,000 PODs.

***Quality of the electricity service: resilience of the system***

In order to improve the resistance of the system to stresses and recovery of the service after prolonged and extended outages, ARERA began actions, also with new regulatory instruments, on the subject of resilience of the electricity distribution and transmission systems. In particular, in 2017 it intervened with the following measures:

**Determination 2/2017/DIEU - Guidelines for presenting the Work Plans for increasing the resilience of the electricity system –** with which it identifies a method applicable by network operators to identify the parts of the electricity networks most at risk, in relation to the various adverse meteorological phenomena (known also as critical factors: "ice sleeves", overflows/floods owing to heavy rain or "cloudbursts", and so on). In addition, analyses were begun on the expected costs and benefits for each risk reduction project.

**Res 127/2017 - Resilience of the electricity transmission and distribution systems: extension of automatic compensation to final customers, chargeable to grid operators –** this establishes that from 1 October 2017 the previous compensation of 300 euro is superseded for unplanned outages lasting for a long time and, in the case of outages caused by *force majeure*, after 72 hours of suspension and up to a maximum of 10 days the indemnity will be paid directly by the distributor or by Terna, except for a number of documented and limited cases.

**CD 645/2017 - Increasing the resilience of electricity transmission and distribution systems. Activities carried out and further guidelines** – which proposes actions for resilience (limited to “ice sleeves” on overhead lines, wind, trees falling on overhead lines owing to snow and flooding of cabins owing to rain/rivers overflowing) and Integrated Distribution Plans for distributors with more than 300,000 PODs, prepared observing minimum uniformity criteria. It also establishes possible incentive mechanisms in the field of “resistance to stresses” and “recovery” for distributors.
The Ministry of Economic Development, in addition, published its “Guidelines on adverse weather events” on 18 December 2017. These state that distributors must have specific action plans and identify the high-priority action areas according to a method agreed with ARERA.

***Arrears***

**Res 376/2017 - Refinement of the rules on arrears in the retail markets for electricity and additions to the same rules on the retail markets for electricity and natural gas**
This resolution confirms the contents of the Integrated Text on Electrical Arrears (especially the compensation chargeable to the distributors and the suspension of invoicing of the transport for serious non-fulfilment) as the shortcomings disputed by the RAC judgement have been remedied.
In addition it offers the possibility up to 31 December 2018 to invoice in a simplified manner and defines detailed rules on re-supplying a point in arrears.
It reviews, finally, the methods of applying the compensation in the event of non-communication of the results of the closing actions, with particular reference to the withdrawal points served under greater protection.

**Resolution 109/2017 - Launch of proceeding for compliance with the judgements of the Lombardy RAC, Section II, 31 January 2017, 237, 238, 243 and 244, related to Authority resolution 268/2015, on the subject of guarantees for exacting the general expenses of the electrical system**
The resolution in question launches a proceeding for compliance with the judgements of the Lombardy RAC on the subject of guarantees provided by the transport user, establishing at the same time the adjustment of the associated rules under the terms of resolution 553/2016/R/eel. Temporary urgent measures were thus adopted with a decrease in the guarantees given, also taking the arrears into account.

**CD 597/2017 and subsequent Communications and Decisions - Actions regarding the rules on contractual guarantees and invoicing of the electricity transport service** – this proposed to split the guarantees (prevalent on transport and complementary on General System Expenses - GSEs), bonus mechanisms for paying vendors, the socialisation of arrears in bills limited to a maximum 10% of the amount invoiced by the distributors and mechanisms for replenishing amounts not collected by the distributors/vendors.
After the Council of State judgement of 30 November 2017 confirming the RAC judgement, an **AEEGSI Communication** of 29/12/2017 confirms full application of res. 109/2017/R/eel:
At the same time, **Decision 4/2017/SGE** indicates the ARERA request for an urgent fiscal opinion on the possible legal change (from supplements to tariffs to tax items) of the GSEs, to arrive at a regulatory reform for determining, exacting and managing the services to cover the said GSEs.
Also as regards what is explained in the “Regulatory Framework”, “electricity distribution” section regarding GSEs, an ARERA resolution is expected at the beginning of 2018, to clarify the situation, on completion of the proceeding launched by res. 109/2017.

**FINAL CUSTOMERS**

***Superseding the Greater Protection Service***

**Res. 69/2017/ – Greater protection service: mechanism for compensating for fixed costs incurred by service providers**
The Authority establishes a mechanism aimed at guaranteeing to protection providers the coverage of the fixed costs if the exit rate of customers from the protection system is higher than that considered by the Authority in the context of the annual updating of the Marketing and Sale Remuneration (Remunerazione Commercializzazione e Vendita - RCV) components.

**Res. 375/2017 – Launch of a proceeding for defining a framework of existing regulatory instruments for the promotion of new regulatory instruments for the information and capacitation of final domestic customers and small enterprises in the retail markets of electricity and natural gas**
The measure launches a proceeding, to be completed by 30 June 2018, for defining a project to develop informative and capacitation initiatives involving final domestic customers and small businesses in the retail markets of electricity and natural gas.

**Res 555/17 - PLACET offers and minimum contractual conditions for domestic LV customers and other uses on the free market**
This measure introduces offers at free prices at equivalent protection conditions (Prezzo Libero A Condizioni Equiparate di Tutela - PLACET offers), that is to say offers that are easy to understand and compare, available from 1 January 2018. They are characterised by general supply conditions set by the Authority with the exception of the economic conditions, the levels of which are freely defined by the parties, although in accordance with a pre-set price structure. PLACET offers must by limited only to supply of the commodity, without contemplating additional services, and may not be of the dual fuel kind.

**Res 762/2017 - proposal to the Ministry of Economic Development on the List of parties authorised to sell electricity to final customers**
The resolution approves the proposal to the Ministry of Economic Development on the criteria, requisites and methods for admission of parties carrying on the business of selling electricity in the Electricity Vendors List (EVL) provided for in the so-called competition law, 124/2017. This is for the purpose of preparing the related ministerial decree.
The proposal identifies three kinds of requisites for access to the list: of honourability, of a financial nature and technical**,** distinguishing them into essential and "alerts". It also provides for division into essential requisites for registering and remaining in the List and "alert" requisites only for remaining.

***Tariffs***

**Res. 481/2017 - Tariff structure of general system expenses for the electricity sector applicable from 1 January 2018. Definition of the groups of general system expenses**
The Authority defines the new tariff structure of general system expenses in the electricity industry, which can be applied from 1 January 2018.
In particular the resolution states that the structure of the general expenses to be applied to non-domestic customers related to the components A2, A3, A4, A5, As, MCT, UC4 and UC7 must provide for two groups (“general expenses related to support for renewable energies and cogeneration” and “remaining expenses”), with a trinomial form, characterised by three rates.
The resolution also states that the logic of the two groups must also be applied to the tariffs for domestic customers, at the end of the gradual process of tariff reform, which is expected to be completed by 1 January 2018.

**Res 126/2017 - Confirmation of the values of the tariff components to cover the general expenses to non-domestic users in 2016 and in the first quarter of 2017, following conversion into law of Italian Law Decree 244/16**
The resolution in question confirmed definitively the rates of the general system expenses for the same users already resolved during 2016 and starting from 1 January 2017.

**Res 867/2017 - Deferment of completion of the reform of general system expenses for domestic customers of electricity**
The measure establishes to maintain up to 31 December 2018 the tariff structures currently in force for the component covering general expenses and for the DISPBT component, applied to customers with greater protection. The rule derives from the political request to limit the increase in the tariffs, in particular for resident domestic customers, owing to the combined effect of the increase in subsidies for large energy consumers and of the tariff reform which would have meant the elimination of the progressive component for general system expenses from 1 January 2018.

**Res 922/2017 - Completion of the reform of the tariff structure of general system expenses for non-domestic users of the electricity sector and coordination with the new system of recognising subsidies for companies with high electricity consumption. Amendments and supplements to the Integrated Code on Transport (TIT), also with reference to domestic users** - The resolution completes the tariff reform of the GSEs for non-domestic customers, implementing the previous resolution 481/2017/R/eel providing for differentiated systems according to the types:

- for the ARIM expenses a trinomial tariff structure, with the three quotas determined proportionally, according to a fixed coefficient applied to the tariffs of the network services;
- For the ASOS expenses, again a tariff structure determined by a linear combination between a trinomial tariff (with a proportion of 25%) in turn determined (as for the ARIM expenses) in proportion to the tariffs of the network services and a uniform flat rate in euro cents/KWh (with a proportion of 75%), not differentiated by voltage levels.
- application of the AS component (contained in the ARIM to cover the bonus needs) indistinctly to all customers, including those with rights to the bonus, in any case compensated through a specific upward adjustment of the bonus (see resolution 923/2017/R/eel);
- coordination with the new subsidy mechanism for companies with high electricity consumption.

*Invoicing*

**Res 129/2017/R/com – Bill 2.0: amendments and additions to Authority resolutions 501/2014/R/com and 200/2015/R/com low-voltage non-domestic customers**
The Authority intends to enable non-domestic customers to access the information set already available to domestic customers in order to enable them to assess better the adequacy of their installed power.

**Res 279/2017/R/com – Bill 2.0: incentivising mechanism for greater diffusion of bills in an electronic format directed to customers served in protection arrangements and amendments to Bill 2.0**
Participation in this reintegration mechanism is conditional on achievement of a minimum level of customers to which the discount is given (for 2016, 7% of customers served under protection).
The discount provided for normatively for customers is in fact higher than the savings that the Greater Protection provider has in not sending the customer the paper bill.

**Res 738/2016/R/com – Invoicing and rules for paying in instalments: amendments to the rules defined by Authority resolution 463/2016/R/com**
This measure took - only for 2017 - the time threshold for the obligation on distributors to pay the compensation to 3 months of estimated readings (from 2018 it will go back to 2 months).

*TV licence fee*

**Resolution 291/2017 – Criteria for distributing the flat-rate contribution chargeable to the Revenues Agency, to cover the expenses incurred by electricity vendors for debiting the licence fee in invoices, for the years 2016 and 2017**
The measure establishes the criteria for distributing the flat-rate contribution to cover the expenses incurred by electricity vendors for debiting the licence fee in invoices, for the years 2016 and 2017. This is 14 million euro for each year to be divided among the various vendors and the Single Buyer.

*Other operational matters*

**Res 228/2017 – Adoption of the Integrated Text on Measures preparing for confirmation of the contract for the supply of electricity and/or natural gas and Voluntary Reinstatement Procedure (Testo Integrato in materia di misure propedeutiche per la conferma del contratto di fornitura di energia elettrica e/o di gas naturale e procedura Ripristinatoria Volontaria - TIRV)**
The TIRV is applicable to remote contracts or contracts negotiated outside the vendor's commercial premises and governs the reinstatement procedure, accepted voluntarily both by the final customer and by the vendor, if the preventive measures have not been observed in the stage of confirming the contract.

**CD 447/2017 - Rules on the decision-making procedure for resolving disputes between final customers or users and operators or managers in the sectors regulated by the Electricity, Gas and Water Authority (Third Level)**
The consultation contains the rules for the decision-making procedure for resolving disputes between final customers/users and operators/managers in the sectors regulated by the Authority. With the introduction of the "third decision-making level" disputes are settled through an administrative intervention of the Authority.

**DISTRICT HEATING**

**CD 378/2017/R/tlr - Rules on connection contributions and methods for exercising the right of withdrawal in the remote heat service (district heating and district cooling)**
The consultation document presents the Authority's final guidelines on the criteria for determining connection contributions and methods for users to exercise the right to deactivate the supply and disconnect from the district heating network.

**DCO 438/2017/R/tlr - Regulating the contractual quality of the district heating service. Services connected with the starting, management and closure of the contractual relationship**
The document presents the Authority's final guidelines for regulating the quality of the services provided to users by the operator of the district heating service connected with the starting, management and closure of the standard relationship by the operator, and the obligations of recording and communicating contractual quality data borne by operators of the service.

**CD 725/2017/R/tlr - Rules on accounting separation obligations for operators of the remote heat service (district heating and district cooling)**
The document presents the Authority's first guidelines for introduction of accounting separation obligations for operators of the remote heat service. The obligations are structured in relation to the size of the operators. The activities and segments for the remote heat sector to which to attribute accounting items are identified. Also provided for is the introduction of a specific criterion for attributing accounting items related to the combined production of electricity and heat.

**REGASIFICATION**

*Tariffs*

**Res 141/2017 - Launch of proceeding for the formation of measures on tariffs for the use of LNG terminals for the fifth regulatory period and on accounting separation related to Small Scale LNG services**
The main issued dealt with in the resolution are:
- Cost recognition: the ARERA "is assessing" the opportunity of recognising in the tariff the costs for tugboats, mooring and the LNG necessary for self-producing electricity;
- extension of the activity perimeter to Small Scale LNG services;

- postponement of the 5th regulatory period to 2019; for 2018 the current regulation criteria and the measures for incentivising investments are confirmed;
- incentives for investments for the construction of regasification terminals aimed at obtaining community contributions for infrastructure development.

**Res. 879/2017 - Provisional determination of tariffs for the LNG regasification service of the company OLT Offshore Lng Toscana S.p.A., for the year 2018**
With this specific resolution the Authority determined the tariffs for the LNG regasification service of the company OLT Offshore Lng Toscana S.p.A., for the year 2018.

**CD 485/2017 - Criteria for regulating the tariffs of the liquefied natural gas regasification service for the fifth regulatory period and for the transitory period 2018 and 2019. General framework and lines of action**
With this CD the Authority envisages that it will: (i) launch the fifth regulatory period starting from 2020, (ii) include in the tariff recognition the pre-final figures of the investments that came into operation in the year *t-1* with respect to the year of application of the tariffs, (iii) to update the WACC in keeping with what is laid down in the TIWACC (the Integrated Text on the subject), (iv) to incentivise the investments that will come into operation in the period 2018-2019 introducing a supplement to the remuneration rate of the invested capital of 1.5% recognised for 12 years.

***Capacity assignment auctions***

**Res. 6/2017 and ff – Rules for conferring capacities for the integrated regasification and storage service, for the thermal year 2017-2018**, with which the Authority established the rules for conferring capacities for the integrated Regasification and Storage Service for the thermal year 2017 – 2018 and the methods for calculating the reserve price for auction procedures.

**Res 660/2017 - Reform of the regulations on conferring LNG regasification capacity on the basis of market mechanisms (Auctions)**
the Authority established the adoption of an ascending open auction mechanism, with valuation at the marginal cost, for conferring the annual and multi-annual regasification capacity of a pay-as-bid type for the regasification capacity associated with a single discharge for periods of less than one year. Definition of the reserve price was postponed to a subsequent measure.

**Res 739/2017 - Rules for managing the peak shaving through regasification service, in the winter period of thermal year 2017/2018**
This resolution implements the Decree of 18 October 2017, with which the MED updated the Emergency Plan confirming the use of storages with functions of peak shaving through regasifiers. It establishes that the service must be offered through a public tender procedure on the basis of the criterion of the lowest offer. The regasified gas will be sold to SNAM at a reference price defined by the Authority and will be returned by SNAM to the selected entity in April at the same price. The peak shaving expenses will be chargeable to the national system.

**OTHER GENERAL MATTERS**

***Metering instruments***

**Ministerial Decree no. 93 of 21 April 2017 – Regulation containing rules implementing the law on checks on metering instruments in service and on supervision on metering instruments compliant with Italian and European law.**
The Decree in question, in force since 18 September 2017, replaces, repealing them, the previous Ministerial Decrees related to checks on electricity, gas, water and heat meters.

***Functional unbundling***

**DCO 307/2017 – Criteria for recognition of the costs incurred by electricity and natural gas distribution companies for change of the brand and related communication policies**
The Authority published the CD in which it proposes the criteria for recognising debranding costs. The costs admitted to recognition are listed and logics of asymmetric recognition between gas and electricity are established.

***Incentives***

*Post-Green Certificates Incentive*

Starting from 2016 the incentive mechanism using Green Certificates has been replaced by a new form of incentive. The subjects that have already earned the right to Green Certificates conserve the benefit until the end of the subsidy period.
Following a specific consultation, on 3 August 2017 the Energy Services Operator (GSE) communicated new and more rapid timing for paying the former GC incentive, so as to reduce the time between production and incentive, for the moment reserved for biomass and bioliquid plants; together with the MED, and having already obtained the favourable opinion of the AEEGSI, the GSE is assessing the adoption of new timing also for the other types of plant.

*Energy efficiency certificates (EECs)*

**The Ministerial Decree of 11 January 2017 - "Determination of the national quantity targets for energy saving that must be pursued by electricity and gas distribution companies for the years from 2017 to 2020 and for approval of the new Guidelines for the preparation, execution and assessment of energy efficiency projects"**
The Decree, which came into force this past 4 April, sets the national quantity targets for primary energy saving to be achieved in the four years 2017-2020 and, within these targets, the obligations for electricity and gas distributors in the White Certificate (EEC) mechanism for the same period.
Besides the obligations assigned for the period of reference, the White Certificates issued for High Yield Cogeneration (HYC), those related to the procedures for assignment of the natural gas distribution service, and the interventions already included in the EEC mechanism, which continue to generate savings even after the end of the useful life, also contribute to the national targets.
The Decree also modified the methods of presenting energy saving projects and assessment of the savings achieved.

**Res 435/2017 - Definition of the tariff contribution to cover the costs incurred by electricity and natural gas distributors subject to the obligations in the context of the energy efficiency certificate mechanism.**
After the aforementioned Ministerial Decree and CD 312/2017 the Authority published the resolution that defines the new rules for calculating the tariff contribution paid to distributors in the context of the energy efficiency certificate (EEC) mechanism. The main changes are:
- introduction, for setting the amount of the contribution to be paid, of the "session relevant reference price", determined by the average price, weighted for the related quantities, of the transactions carried out in the session and concluded at a price within an interval of ±12% with respect to the relevant reference price of the previous session;
- reference contribution (which replaces the estimated contribution) will take into account the weighted average of the last two definitive contributions;
- the tariff contribution to be paid on the occasion of the new annual maturity of 30 November, will be, in advance, equal to the definitive contribution of the previous year, valid for a limited quantity of target held by each distributor.

**Res 634/2017 - Gradual application of the rules of the tariff contribution pursuant to the Authority's resolution 435/2017/R/efr and approval for the update of the rules on operation of the market and of the regulation for bilateral transactions in the context of the energy efficiency certificate (white certificate) mechanism**
This resolution supplements what was established in 435/2017, amending the rules on the tariff contribution to be paid to distributors subject to energy saving obligations for the purpose of increasing the graduality with which the accrual criterion is introduced in determining the contribution in the case of offsets of the targets related to previous years, starting from obligation year 2017 to arrive at full implementation with the residues of obligation year 2021.
In addition, an update is approved of the Market Rules and the Regulation for bilateral transactions of EEC prepared by the GME implementing resolution 514/2017/R/efr, in order to take into account the provisions of the inter-ministerial decree of 11 January 2017 on the unification of the types of EECs on the market.

**NATIONAL LEGISLATION**

The main national legislation of interest to the industry issued during the past year was:
- National Energy Strategy 2017;
- Competition Law no. 124 of 4/8/2017;
- Budget Law 2018 no. 205 of 27/12/2017.

***NATIONAL ENERGY STRATEGY 2017 (NES) – Final document adopted with Ministerial Decree of 10 November 2017***
The Ministry of Economic Development and that of the Environment and Protection of the Territory and the Sea presented the definitive text of the NES, the Italian Government’s planning document for managing the change in the energy system a up to 2030.
The objectives, presented below, are attributable to a number of major themes: competitiveness, security of procurement and environment.

***1. Phase Out from coal***
The objective is to close down coal-powered thermoelectric plants by the end of 2025. The NES envisages an acceleration in decarbonisation of the energy system, beginning with the use of coal and then intervening gradually on the whole sector, to achieve environmental and health advantages and contribute to achieving the European objectives of reducing climate-changing emissions.

***2. Renewable Sources***
The objective, to be achieved by 2030, is a proportion of 28% from renewable sources out of total consumption, to be divided specifically into:
- ratio between renewable and electrical sources at 55%;
- ratio between renewable and thermal sources at 30%;
- Proportion of renewables in the transport sector at 21%.

***3. Energy Efficiency***
The objective of the NES is to encourage energy efficiency initiatives that have the best cost/benefit ratio in order to reach in 2030 savings of 30% with respect to the general framework (year 2017). All sectors are involved in the process of increasing efficiency.
In this context, the process of updating and expanding the mechanism of White Certificates will continue, to simplify further access to the mechanism and optimise the methods for quantifying and recognising energy savings.

***4. System security***
The NES sets the objective of giving the energy system innovative instruments and infrastructures to guarantee the adequacy and maintenance of the security standards, guarantee flexibility of the electricity system, thanks also to technological development, in a context of growing penetration of renewable sources. Among the instruments indicated to ensure the adequacy of the system, the launch in 2018 of

the Capacity Market is planned, maintaining the availability of the gas power still necessary, with priority for flexible capacity, and integrating new resources (cross-border units, renewables, storages, active demand) into the new market.

***5. Energy market competitiveness (gas)***
The intention was confirmed to introduce the so-called gas “liquidity corridor” from the Netherlands through Germany to Italy, in order to facilitate access to the import capacity from the Northern European markets with the aim of reducing the spread between gas prices on the Italian PSV and those on the Dutch TTF. However, also following the results of the consultation, taking into account the observations of ARERA and AGCM and the clarifications by a number of European regulators, this measure will be assessed so as to be congruent with the European legislation on unbundling and on the allocation of capacity on the transport networks, and may be adopted gradually.

***6. Research and innovation***
Through the provisions of the NES 2017 it is intended finally to strengthen the public commitment and create the conditions for attracting private investments, with the objective of contributing to the development of technological solutions capable of supporting the energy transition at reasonable costs and offering opportunities for business and employment. Among the actions planned it is worth stressing the doubling of investments in clean energy research and development, from 222 million euro in 2013 to 444 million euro in 2021.

**COMPETITION LAW (Italian Law 124 of 4 August 2017)**
The Competition Law contains provisions aimed at removing the regulatory obstacles to opening of the markets, promote the development of competition and guarantee consumer protection, also applying the principles of European Union law on free circulation, competition and opening of the markets, and of the European policies on competition.
In relation to the areas of interest for the group it is worth noting the main issues dealt with:

<u>Energy sales</u>:
- cessation at 30 June 2019 of the transitory rules on protecting gas prices;
- cessation, again at 30 June 2019, of the transitory rules on greater protection of electricity prices;
- comparability of offers;
- promotion of commercial offers of electricity and gas in favour of buying groups;
- verification of the conditions for full liberalisation of the retail sale markets;
- measures to guarantee information to consumers;
- reform of the electricity and gas bonus;
- provisions on huge bills;
- measures for the transparency of the electricity and gas market.

<u>Gas distribution</u>:
- VIR – RAB delta: the Authority’s assessments;
- assessing tenders: simplified procedures;
- requisites of participants in gas tenders in company groups;
- responsibility of the distributor in the event of prolonged unavailability of metering data.

<u>Production and energy efficiency</u>:
- small electricity distribution companies;
- functional unbundling and debranding;
- methods for recognising costs;
- separation rules for operators of Closed Distribution Systems (CDSs).

**2018 Budget Law – Italian Law no. 205 of 27 December 2017**
As regards the main provisions on the subject of energy, the Law:
- provides for the creation of a National Action Plan in the water sector, divided into two sections “reservoirs” and “pipelines”;

- updates the rules on large shunt concessions for hydroelectric purposes strengthening the powers of the autonomous Provinces of Trento and Bolzano.
- introduces new provisions aimed at countering the problem of huge adjustments in bills, meaning that of all parties in the supply chain (i.e. no longer the vendors alone) will take responsibility, limiting the period for which it will be possible to demand adjustments to 2 years and giving a mandate to the Authority to define, within 60 days from the law coming into force (1 January 2018), specific measures on invoicing times among such operators. The new rules will come into force on 1 March 2018 for the electricity industry and 1 January 2019 for the gas industry;
- regulates the so-called "web tax", establishing a tax at 3% on digital transactions related to services performed using electronic instruments. The rule will come into force starting from 1 January 2019 and will not be extended to e-commerce and selling goods;
- quantifies the amount of funds that will go to support initiatives aimed at improving sustainable mobility around Italy (100 million euro a year from 2019 to 2033);
- orders the MED to publish a specific decree identifying criteria and methods aimed at encouraging the spread of vehicle-to-grid technology;
- in the context of checks and sanctions on renewable plants that receive incentives, it states that, in order to safeguard the energy production from renewable sources of such plants, the Energy Services Operator (GSE) must order the reduction of the incentive of an amount between 20% and 80% depending on the size of the breach. If the breaches are then reported spontaneously by the party responsible outside of a check and control proceeding, the cuts would be further reduced by one third;
- provides for the establishment of a specific protocol between ISTAT and Single Buyer, to collect the data obtained by the Integrated Information System on electricity and gas consumption;
- confirms, not inserting rules in this regard, the amount of the TV Licence in bills at 90 euro a year.

The main extensions defined by the Law are instead presented below:

- On the subject of subsidies for homes (Ecobonus), the following are extended to 31 December 2018 (i) the tax deductions at 65% for work to replace winter heating systems with plants featuring class A condensation boilers and installation at the same time of highly-evolved temperature regulation systems, belonging to classes V, VI, VIII; (ii) the reduction to 50% of the deduction for expenses incurred for the purchase and installation of windows and related fittings, sun screens and replacement of winter heating systems with plants featuring class A condensation boilers; (iii) the deduction of 50% for expenses incurred for the purchase and installation of winter heating systems featuring heat generators powered by combustible biomasses, up to a maximum amount of the deduction of 30,000 euro;
- owners of sustainable biomass, biogas and bioliquid plants, that will cease by 31 December 2018 to benefit from incentives on the energy produced, are granted the right to make use – up to 31 December 2021 or for five years from when the systems come into operation – of a further incentive on the energy produced, according to the provisions of paragraphs 149 and 151 of the 2016 stability law: this incentive is 80% of the one identified by the Ministerial Decree of 6 July 2012 for new systems and is paid by GSE starting from the day after the previous incentive comes to an end;
- On the subject of large energy efficiency projects – not less than 35,000 TOE/year and whose period of recognition of white certificates finished at the end of 2014 – the period of recognition of the incentives pursuant to art. 14, paragraph 11 of Italian Legislative Decree 102/2014 is extended to 31 December 2018, provided that these projects have actually been started up by 31 December 2018;
- the following are extended to 31 December 2018: (i) the period in which the formalities and obligations related to waste management prior to the rules of the waste traceability control system (SISTRI) continue to apply and the sanctions related to the said system do not apply, and (ii) the final term of effectiveness of the contract with the current SISTRI concessionaire. Art. 194-bis was also introduced into the so-called Environmental Code (Italian Legislative Decree 152/06) for the purpose of introducing rules aimed at simplifying the waste traceability procedure and recovering the contributions payable related to the SISTRI;
- The super-depreciation and hyper-depreciation measures, which enable companies and professionals to increase the depreciation rate of instrumental goods, for new investments made, are extended to 31 December 2018.

# PERSONNEL AND TRAINING

**Personnel**

At 31 December 2017, the employees working for the Iren Group totalled 6,285, up compared to the 6,226 employees of the previous financial year. The table below provides a breakdown of personnel at 31 December 2017, divided into Holding and Business Units (first-level companies and related subsidiaries), compared with the figure at 31 December 2016.

| Company | Workforce at 31.12.2017 | Workforce at 31.12.2016 |
|---|---|---|
| Iren S.p.A. | 945 | 927 |
| IRETI and subsidiaries | 1,952 | 1,921 |
| Iren Ambiente and subsidiaries | 2,266 | 2,276 |
| Iren Energia | 653 | 617 |
| Iren Mercato and subsidiaries | 469 | 485 |
| **Total** | **6,285** | **6,226** |

The change in the workforce compared to 31 December 2016 is due to:

- continuation of the reorganisation plan of the Iren Group's subsidiaries, implementing the Business Plan adopted, which, starting from 1 January 2017 entailed the incorporation of Iren Servizi e Innovazione into Iren Energia and of Iren Gestioni Energetiche into Iren Mercato, with the consequent transfer, from Iren Mercato to Iren Energia, of the business unit related to managing the operating activities associated with increasing energy efficiency, controlling and managing the construction and Operations & Maintenance of thermal plants and special conditioning plants;
- Entry into the Group of the company REI S.p.A. in the context of the Ambiente Business Unit (6 resources) and of the business unit from Acque Potabili S.p.A. related to the integrated water service concessions of 31 municipalities in Northern Italy in the context of the Reti BU (39 resources), and, starting from 1 May 2017, of the company Salerno Energia Vendite in the context of the Mercato BU (25 resources), a company into which the former subsidiary GEA Commerciale was merged;
- completion of the first voluntary retirement incentive process, pursuant to Art. 4 of Italian Law 92/2012, launched during financial year 2014 with the objective of creating a generational change in the context of the Iren Group together with continuation of the policy on the subject of limiting workforces.

We can note that the number of employees at 31 December 2017 does not include employees belonging to Iren Rinnovabili and its subsidiaries, a total of 135 people, because these companies were consolidated at the end of the year and do not contribute to determining the Group's personnel expenses.

**Training**

Also in 2017 training was confirmed in its role of supporting and accelerating the processes of change and transformation in progress within the Iren Group.
The result of organic planning that aims to organise and strengthen skills and abilities linked to roles and duties, the training tends increasingly to a prospect of continuity along the entire professional life of the personnel, accompanying them in the aspects associated with the introduction of new ways of working, updating specific technical knowledge, safety and enhancing relational and behavioural skills. This makes it an important support not only for the enhancement of the role acquired but also for the requalification of the professionalism included in internal mobility paths, through targeted and dedicated actions.

During 2017 the Iren Group's employees were provided with a total of approximately 104,000 hours of training (+7% compared to 2016) with more than 5,500 employees – 88% of the average workforce (+5%) - who took part in at least one training initiative, with an average of approximately 16.5 hours per capita (+6%).

The proportion of training on the subject of safety, quality and the environment, with respect to the total hours, was approximately 40%, with a per capita average of 6.6 hours, while specialist training was more than 48% (per capita average of 8 hours). Managerial training increased sharply, representing more than 6% (1.7% in 2016), thanks to the creation of initiatives aimed at Managers, Executives and Heads of Department with extension of participation also through Webinar Live.
The training initiative planning activity was confirmed as a strong point for 2017, with teaching by both internal trainers and external consultants (so-called in-house training), which represented 90% of total hours, with the development of approximately 350 courses provided in more than 2,000 editions. Only 10% of the initiatives were purchased from a catalogue (so-called outsourced training).
The economic commitment, net of expenses for personnel in training and internal trainers, was approximately 570,000 euro (-17% compared to the previous year), of which approximately 91% self-financed from the Fonservizi inter-professional fund.

# ORGANISATION AND IT SYSTEMS

**Organisation**

During 2017 numerous actions continued on reorganising the Group; these were launched in 2015-2016 and are aimed mainly at strengthening the unitary nature of governance, achieving the objectives of operational effectiveness and efficiency and focusing on the business in keeping with the provisions of the Strategic Guidelines of the 2016-2021 Business Plan approved by the Board of Directors of IREN S.p.A. on 19 October 2016, and repeated and strengthened in the Business Plan to 2022 approved on 13 November 2017.
As the Group is very oriented to "efficiency" and to "innovation/digital transformation", where "efficiency*",* for Iren, is the continual and profitable implementation of the business model, while "innovation" is the implementation of a culture and of opportunities for increasing every day the Group's value for its own advantage and for that of all stakeholders (shareholders, citizens, customers, local communities, suppliers, employees, etc.), during 2017 new projects in this sense were launched, together with a profound process of "organisational/cultural" change management with at the centre essentially three main directions: customer relations, improving the service and performance, and human resources.
As examples we can note the main projects on the subjects of:

- *customer relations*: among others, a complex programme was begun with the aim of redesigning the entire customer management and relation process, from the first contact to invoicing, with the introduction of an innovative Customer Relationship Management (CRM) system;
- *improving the service and performance:* among the various themes dealt with, in the context of the Reti Business Unit an innovative project (the so-called "Networks Project") was launched and is nearing completion. This ensures a new Asset Management model which leads, as its main results, to greater focus on efficiency, synergies, quality, continuity and security of the services, to strengthening the uniformity of relations with territorial customers, to the diffusion of best practices and to innovation, optimisation and development of skills. In addition, within the same project, the development of a Work Force Management (WFM) was launched; this will involve gradual automatic scheduling of the final accounting, maintenance and estimation activities. In the same way, in the context of the Ambiente Business Unit, the so-called "Just Iren Project" was launched. This provides for the synergistic application of a new management, operational and IT model capable of improving the management of the waste collection, sweeping and conferment process.
  The management of information and data in digital format will also make it possible to facilitate interaction with Customers/Citizens, simplifying the business processes and enabling immediate responses and solutions;
- *human resources*: among others, a project to develop a Performance Management System was launched, in order to spread a uniform *"Performance Culture*" throughout the Group, creating an "open" and continuous environment for personal development and for managing resources in a meritocratic framework, mapping and updating the corporate "human assets", identifying strong points and areas for improvement, using integrated HR Systems in order to connect performance to promotion opportunities, career paths, development and training routes, assessment of technical and managerial skills, and so on, taking as a reference the Group's job system.

In addition, the corporate rationalisation operations continued, enabling the completion, with operations to transfer businesses and/or units internal to the corporate perimeter, of the Group Organisational Model, and its strengthening with the entry of new businesses acquired following Merger & Acquisition operations, also through forms of functional coordination, where other forms of corporate integration were not possible.

**Information Technology**

2017 saw the launch and continuation of important projects that were strategic for the Group, associated with the Business Transformation of Iren Mercato, the Work Force Management system for Ireti, the review of the operating processes of Iren Ambiente, the Review of the Payments Cycle, the Creation of Group Reporting, and the consolidation and rationalisation of the Infrastructures.
An overview of the main projects is provided below. These are divided by Business Unit or relate to multiple aspects of the Group's business.

In the CORPORATE area:

- the project for porting the Payroll from the previous system to a new software resident on an external platform was completed, with release into production starting from the February wage slip;
- unification of the Presences (Time) management system is nearing completion;
- Again in the human resources area the "Personnel Budget" project was launched; this proposes to define and implement a budgeting, planning, forecasting and final data import model, which will cover completely the activities of planning, reporting and analysis; a Performance Management project was also launched;
- the activities to develop the strategic project for Revision of the Payments Cycle Processes continued; in particular, stage 1 was completed (approval Work Flow, Purchase Request, Purchase Orders, Accounting for Work and Management of payable supplier invoices) and the release stage of all the other components (Logistics and Warehouse, Bravo Solution, STR final accounting) are nearing completion;
- All the stages of the strategic project of Group Management Reporting have been completed; this is aimed at monitoring the economic, equity, financial, industrial, operating and commercial performance by IREN's Top Management and operating structures.
- the "Receivables DWH" project is in progress; this has the purpose of integrating, in a DataWareHouse system, all the economic data of turnover, collection and receivables of all the consolidated companies that are part of the Group;
- finally, in the first half of the year, the Salerno Energia Vendite systems were integrated into the Iren ONE platform following the incorporation into the same of GEA Commerciale and the consequent acquisition of control by Iren Mercato.

In relation to the ENERGY BU, in 2017 a project was developed to extend the process related to reporting faults in the Municipalities in which the contract was won to manage public lighting (Asti, Biella and surrounding municipalities). In particular a new app entitled "Città in Luce" (City in Light) was created, with the consequent mapping of the processes of managing reports.
In the Power Management area, management of the new intraday markets was launched on the offer management platform and, in the district heating field, an activity entitled "TLR Reporting", for preparing and analysing indicators for operational monitoring of this activity, is nearing completion.
Activities are also in progress in the field of energy efficiency, through a software solution and the installation of devices at the Group's buildings/plants, to enable the Energy Manager to monitor and analyse consumption to identify the actions needed to optimise the Group's energy consumption.

For the WASTE MANAGEMENT BU, the stage of the GEOSAI project aimed at creating an automated process of data download from the GPS systems and their management on the ECOS system, and the implementation of a WEB Portal for reporting work by external service providers was completed.
The subsequent stages were absorbed into the new "JUST IREN" Project. The new initiative involves a profound innovation of environmental services, with digitalisation of the management models and use of innovative technologies for the planning and operational management of the services.
In July the Study phase was launched, with the aim of defining the User Requisites and Functional Analysis (Defining the Process Model, Data Model, User Requisite Structuring, Technological Scouting) for the Ambiente BU Divisions (Emilia, Turin and Vercelli).
At present the stage of As-Is and To-Be Mapping of the processes and related data models has been completed. Definition of the user needs and functional requisites, the technological Scouting, the

organisational impacts and the necessary change management activities is nearing completion, and 2018 work will continue on defining the systems architecture and technologies and the development projects will be launched.
Again for the Ambiente BU the "Plant Waste Flow Budget Management" project is in progress and activities related to legislative changes on the subject of TARI (waste tax) are continuing.

As regards the MERCATO BU, as part of the "Market Transformation" initiative the tenders have been awarded for the final part of the following projects, which have consequently been launched:

- "Strategic CRM" (Pre Sales & Sales) and "Operational CRM" (Post Sales, Analytics & Document Composition). These respectively have the objective of implementing a new system for managing offers and commercial campaigns (by automating the contractualisation processes) and implementing a new system for managing commercial performance;
- the project for implementation of a single Billing system for the commodities Gas, Electricity and District Heating, and of a Middleware system for integrating the various application components. In November there was the "go-live 0" with the release of the first functions of the new architecture to users for the commodities Electricity and Gas.

With the launch of the Market Transformation Programme the application map was completely revised, and in this context it was chosen to re-plan the Receivables Workflow project, which will share with the projects to implement the CRM and the new Billing system the release milestones (go-live 1, 2 and 3). The objective of the project is to provide the automatisms on the arrears processes related to communication with the distributors redesigning the methods of interaction with the other systems involved in the related processes.

In relation to the NETWORKS BU, the significant project for implementing a Work Force Management system was launched: Work Force Automation, Scheduler, Emergency Response, for the Gas and Water business lines, for the planning and execution of work orders and for management of Emergency Responses. In particular in June the tender was awarded for acquisition and creation of the software platform, and at the end of July the implementation project was launched for the Gas part, with the go-live of the first system components at the beginning of January 2018. During 2018 this work will continue with completion of the Gas part, development for the Water Service supply chain and the project launch for the electricity distribution sector.
Again in the Reti BU context, numerous software developments associated with regulatory changes provided for by the AEEG are ongoing.

In the field of Territorial Information Systems the GEOIREN project is continuing. This saw the release of the Web component in the Gas segment. In the first quarter of 2018 release of the complete web system is planned, together with the launch of implementation of the unified update system.
In the Remote Control area, the District Heating Remote Management system in the Emilia area is being extended.
In the context of Remote Reading/Remote Management of gas meters in October the tendering process was completed and at the end of November the reading acquisition system was released. At the end of December the first stage of the radio frequency network was implemented in the Emilia area and in the Municipality of Genoa. During the first half of 2018 the issue of a second release of the system is planned and extension of network coverage will continue.

The initiatives relating to consolidation and rationalisation continue on the infrastructure front, in particular:

- the software selection has been completed for the single backup system and the migration project has been launched;
- In the Security context, the instrument for assessing vulnerability was implemented;
- in the Distributed context the new MDM (Mobile Device Management) system was implemented and the instrument for end-to-end monitoring was selected; this will be implemented in the first half of 2018;

The project to review the free phone numbers and call centre infrastructure was completed. The infrastructure was in fact centralised and the telephone numbers of the Mercato BU were rationalised. During 2018 the release of the advance functions for the Mercato BU is planned, together with the migration of the free phone numbers of the other BUs to the new infrastructure.

# QUALITY, ENVIRONMENT AND SAFETY

As expressed in its corporate mission, the Iren Group provides integrated services that target safeguarding the environment and personnel safety. As customer needs and expectations are evolving constantly, strongly backed by market competitiveness, calling for flexible organisational models and streamlined management systems and requiring monitoring of efficiency in terms of expected results, the Group has developed an Integrated System (Quality, Environment and Safety) as a means to achieve the predefined objectives. The Integrated System is structured in such a way as to envisage adequate control of all operating processes affecting service quality, adopting an approach based increasingly on customers, workers' safety and environmental protection.
The core principles of the Integrated System policy are:

- customer satisfaction;
- attention to the social and environmental aspects;
- safety for personnel;
- efficiency in performing the service;
- supply and contract quality;
- constant improvement;
- compliance with the Code of Ethics;
- respect for and enhancement of people;
- attention to and governance of risks, with continual analysis of the context of the organisation and the needs and expectations of the parties involved;
- innovation and change;
- sustainable development
- responsibility and cooperation with the community of stakeholders.

The Integrated System policy is adopted by all Group personnel and has created strong synergies between the operating structures.

Iren, Iren Ambiente, Iren Energia, Ireti, AMIAT, Iren Laboratori, Iren Acqua and Iren Acqua Tigullio have systems certified according to the international standards ISO 9001 (Quality), ISO 14001 (Environment) and OHSAS 18001 (Safety). In addition, Iren Mercato is certified with reference to the international standards ISO 9001 (Quality) and OHSAS 18001 (Safety) and to the Certiquality 66 Technical Document related to Green Energy Sales.
We can note that, among the companies mentioned, Iren, Ireti, AMIAT, Iren Laboratori, Iren Acqua and Iren Acqua Tigullio renewed precisely in 2017 their certifications on the basis of the international standard ISO 9001 (Quality), ISO 14001 (Environment) and OHSAS 18001 (Safety). In addition, as regards ISO 9001 and ISO 14001, they made the transition to the 2015 revision of the above standards, updating their management system on the basis of the new regulatory requirements.

In particular, the Management System was redefined on the basis of a single structure (High Level Structure) that ISO has defined for all the reference standards for certification (Quality, Environment, Safety, Energy Efficiency, Business Continuity, Security of Information, etc.).
This structure provides for Analysis of the Risks associated with operations and with the products/services offered on the basis of an analysis of the company's internal and external context. A method was therefore developed for identifying and assessing these risks, and this was then applied to each process involved, for Iren and for each Group company.
Starting from the risks identified the documentation was also re-examined and the applicability and adequacy of the same was assessed in relation to the various factors such as the complexity of the processes and the skills of the personnel, again in relation to the risks identified.
The Certification Body recognised the validity of the approach and of the results obtained renewing the Certifications of the above companies, with transition to the new standards.

On the basis of the expiry of the Certifications of Iren Energia (April 2018) and Iren Ambiente (June 2018), the same activities to make the respective systems compliant are being implemented.

# RESEARCH AND DEVELOPMENT

In the Iren Group technological innovation is central in strategic decisions and in defining the products and services offered by the Group.
The Business Plan to 2022, approved by the Board of Directors of IREN S.p.A. on 13 November 2017, confirms the centrality of innovation in the IREN Group's Vision which will be expressed over the period of the plan in the development of all the sectors in which it operates with the objective of making Iren an example of excellence and innovation and the multi-utility sector.

The main research, development and innovation lines on which the Iren Group is investing regard:
- energy efficiency divided into several levels and assets (customer, building, urban agglomerate, energy assets of the Group);
- study of new systems for the recovery of energy losses and an increase in the efficiency of the plants;
- advanced remote management and remote reading, smart metering and multi-metering systems;
- thermal and electrical storage systems;
- systems for energy recovery and organic waste material deriving from separate waste collection or purification sludge;
- Internet of Things ("IoT") and domotics;
- "data intelligence" ICT tools;
- optimised management of the integrated water cycle (districtualisation, identification and reduction of network losses) and instruments in support of sensors in the field;
- electrical mobility;
- "industry 4.0" solutions in support of the personnel involved in plant operation and maintenance activities, for predictive maintenance and monitoring in the field.

Iren manages the innovation processes through an open innovation model and in keeping with this model it has begun fruitful collaborations with Universities, Research Centres, Innovation Hubs and innovative start-ups. In addition it takes an active part in working groups and associations on specific research and development and promotes events such as conferences, workshops and hackathons.

2017 was characterised both by the continuation of the technical activities related to the Group's various co-financed projects and the development, also in partnership with innovative start-up companies, of internal technological projects on the basis of planning which, starting from an analysis of the long-term scenario, is aimed at giving the Group the instruments necessary to seize the opportunities and mitigate the risks deriving from the evolution of the markets in which it operates.

During 2017 the activity of seeking innovative start-ups also continued through dedicated events, such as the first IREN Startup Award, a competition launched by Iren in which more than 80 start-ups took part and which was won by Enerbrain, operating in the sector of highly-evolved management of heating and cooling plants.

On 22 February 2017, Iren won the Technology, Research & Innovation prize awarded by Top Utility, the think tank that studies public utility companies. the prize was awarded "for the number and importance of innovative projects launched over the last few years and for the ability to cooperate with other subjects in the research and development activities. Iren showed an ability to develop projects transversal to the various businesses, also through an open innovation approach". The activity will be expanded during 2018 with the launch of a "Corporate Venture Capital" programme for direct investment in start-ups.

The main projects underway are presented below. The total investment for the Iren Group is 11.3 million euro, of which 5.6 million euro being financed. In relation to these amounts, the expense incurred during 2017 was 1.7 million euro, of which approximately 1 million covered by loans.

## FINANCED RESEARCH PROJECTS IN PROGRESS

### Water Services

***BlueSCities (Horizon 2020)***

From February 2015 Iren took part in the BlueSCities project financed under H2020; this involved defining a "practical guide" to be applied in the efficient management of the integrated water cycle and of waste in urban areas. The project intended to develop a method of managing the water and waste segments, identifying the possible synergies and integrating the use of technological hubs used in the smart management of other priority areas such as energy, transport and ICT.

Partners: IREN S.p.A., Fundacio CTM Centre Tecnologic, KWR Water B.V., Joint Research Centre, VTT teknologia Tutkimuskeskus, Redinn, De Montfort University, University of Istanbul, Strane Innovation, Easton Consult, TICASS, University of Athens.

Status: The project was completed on 31 January 2017: During the last year, Iren completed its own development of a practical guide to be used by all stakeholders involved to implement methodologies and best practices applicable to the integrated management of water and environmental services. In January 2017 the final meeting with the partners of the project was held, as well as a meeting with a group of engineering students, to discuss the subject of performance indicators in the integrated water service in Genoa.

***GeoSmartCity (FP7)***

The objective of the GeoSmartCity project was to develop a platform for the rational management of subsoil data from various sources, capable of integrating different operating protocols and current standards, namely the services of the Open Geospatial Consortium (OGC), the rules for implementing the INSPIRE Directive (2007/2/EC) and linked-data technologies.

Partners: IREN S.p.A., Gisig, Sinergis srl, Intergraph CS SRO, Asplan Viak Internet AS, Epsilon Italia, Trabajos Catasrales S.A., Municipality of Genoa, Ticass, Turun Ammattikorkeakoulu, Epsilon International, Vlaamse Milieumaatschappij, Geobid SP Zoo, Universitat de Girona, Municipality of Reggio Emilia, Municipia Oeiras, Urban Data Management Society.

Status: The project was completed in February 2017. In the last stage of the project a test was carried out on the whole platform at the Genoa pilot site. In particular, the following were completed: the analysis of the register of services with the purpose of making them interoperable with the other data banks of users of the subsoil; the data of the cartographic updates with the Trimble total station and which supplemented the corporate GIS; the dissemination activities.

***SmartWaterTech (MEUR - Ministry of Education, Universities and Research)***

The project arises from the merger of two project ideas WATERTECH and SMART WATER presented under the MEUR Smart Cities tender with a view to offering a more robust analysis of the integrated water service, aiming both to manage problems related to water distribution networks, and to apply innovative models and technologies for treating waste water.

Partners: IRETI, Iren Acqua, ABC, Acquedotto Pugliese, ASTER, CAE, Digimat, Fast, Foxbit, Icampus, International University College, University of Bologna, University of Naples Federico II, University of Palermo, University of Trento, Irea-CNR.

Status: The project proposal passed the stage of assessment by the MEUR (Ministry of Education, Universities and Research); currently Iren and the project partners are waiting for the contract with the ministry to be signed.

***WATERSPY – High performance, compact, portable photonic device for pervasive water quality analysis (H2020)***

The WATERSPY project intends to develop and define a method for detecting the presence of heterotrophic bacteria in aqueous matrices such as eColi, Pseudomonas aeruginosa and salmonella. The instrument, to be developed at the prototype level for use in the field at water service supply sources (artificial lakes) and in the distribution network, provides for a stage of pre-concentration which enables the bio-sensor to bind the bacteria onto a surface which will then be analysed with laser technology. The development of an instrument which works in the range indicated could open up many possibilities in pervasive monitoring of water quality.

Partners: IREN (with IRETI and Iren Laboratori), CyRIC Ltd, Consiglio Nazionale delle Ricerche (National Research Council), Alpes Lasers SA, National Technical University of Athens, ID Quantique SA, AUG Signals Hellas, Cyprus/Italy end-users.

Status: The first activities of the project, which began at the end of 2016, regarded the definition of the specifications for the development of a prototype aimed at recognising the presence of heterotrophic bacteria using laser technology. The technique used, ATR – Attenuated Total Reflectance Spectroscopy – is being validated identifying bacteria selected with high sensitivity and without the need for a pre-incubation stage. During 2017 Iren took part in defining the instrumental specifications and coordinated the activities connected with the standardisation of the product and/or of the procedures for validating the analyses performed. The instrument will subsequently be installed at the sections of a water supply system managed by IRETI.

**Waste Management**

***Biometh-ER (Life+)***

The aim of this project is to create the first plants for the production and distribution of biomethane to end users in Italy. The plants will be designed, managed and maintained around innovative, state-of-the-art technologies; the entire system will be monitored for the duration of the project and the operating results of the pilot plants will then be examined and disclosed to the project partners involved. These plants represent a departure point for assessment of the expansion capacity of this experiment to all of the Emilia Romagna Region and for the creation of the regional biomethane distribution network.

Partners: IRETI, Iren S.p.A., Iren Rinnovabili, Centro Ricerche Produzioni Animali - C.R.P.A., Hera Ambiente, SOL.

Status: In April, the biogas production plant installation and connection operations were carried out at the Roncocesi purification plant. In the following months the possible options for use of the biogas produced were assessed, on the basis of the technical and regulatory conditions. Between the possibilities of connecting to the gas distribution network and automotive use in filling stations the second option was chosen. The activities of designing the dedicated unit (compression station and related biogas storage system) were therefore begun; at the same time the procedure for the authorisation processes was launched.

***ReQPro (Life+)***

The project was closely linked to the implementation of the tertiary treatment section at the Mancasale (RE) purification plant: the works, already financed with a contribution from the Region of Emilia Romagna, included sand filters for filtering and final disinfection using UV rays and oxygenated water, to make the water leaving the plant compliant with the requirements of Ministerial Decree 185/2003 regarding the re-utilisation of water for irrigation purposes. The objective of the project, coordinated by the C.R.P.A., was to assess the effect of water treated at the purification plant on certain crops identified in conjunction with the Consorzio di Bonifica dell'Emilia Centrale and the Po Valley Authority.

Partners: Centro Ricerche Produzioni Animali - C.R.P.A., IRETI, Consorzio di Bonifica dell'Emilia Centrale and the Po Valley Authority.

Status: The project was completed in March 2017. The latest activities carried out regarded the calibration and fine tuning, together with the installer, of the processing plant. At the same time laboratory tests were carried out on the water to be reused in order to check its suitability under the terms of the law.

**Energy**

***CELSIUS (FP7)***

The project, completed in December 2017, had the objective of pursuing increasing energy efficiency in high-density urban areas by recovering the heat produced by various emission sources.
Each partner city of the project had been given the task of producing a pilot plant to create and verify a particular method of obtaining increased energy efficiency. Specifically the demonstrator for which Iren was responsible, through IRETI, based in Genoa, achieved energy recovery using the pressure jump of the natural gas distribution network to produce electricity and heat for a small district heating network.

Partners: 20 organisations in 5 European partner cities (London, Gothenburg, Cologne, Rotterdam, Genoa).

Status: The project was completed in December 2017. During the year the demonstrator was brought into operation together with the associated measuring and monitoring activities. On the basis of the results obtained a measurement and monitoring protocol was defined, together with a list of KPIs, functional to the continuous development and improvement of the CELSIUS Toolbox.

***CHESTER (Horizon 2020)***

The project has the objective of developing and integrating an innovative solution of the Power-to-Heat-to-Power type that will enable maximisation of the exploitation of non-programmable electricity RESs and thermal RESs already combined with TLR (district heating) systems. The system involved in the study, named CHEST, making use of heat pumps, latent heat storages and Organic Rankine Cycles (ORCs), will make it possible to transform electricity into heat, store it and subsequently produce new electricity.

Partners: Iren S.p.A., Iren Energia, TECNALIA, DLR, University of Stuttgart, PLANENERGI FOND, AIGUASOL, Encontech B.V., University of Ghent, University of Ulster, Universitat Politecnica De Valencia, PNO Innovation, GOIENER.

Status: In November the proposal passed the stage of assessment by the European authorities and the project is currently in the launch stage.

*ESACOM (Piedmont Region - innovation hubs tender)*

The ESACOM (acronym of Energy SAving and COMfort optimisation) project intends to develop a platform of sensors, algorithms, databases and apps capable of providing an instrument, scalable to different levels, for data management and implementation; this is a support for energy optimisation decisions, in order to implement energy management that takes into account the effective state of well-being of the users of a building.
The project provides for the testing of the platform on two civil buildings in the city of Turin.

Partners: Iren S.p.A. (coordinator), Iren Energia, Pro Logic Informatica, Modelway, Screen 99, Eurix
Status: The project began officially in September. In the following months Iren, with the project partners, was involved in defining the general system architecture, the communication protocols and the specifications of the web portal for implementing and displaying the results of the energy regulation. The definition of the system specifications is expected to be completed by the end of March 2018, after which the development of the single elements of the platform will begin.

*EVERYWH2ERE (Horizon 2020)*

The objective of the project is to develop a power generator with "plug and play" fuel cells, easy to transport around the city for temporary electrical power in various sectors (building sites, music festivals, temporary events, exhibition centres).
The Iren Group, as a third party, will test a hydrogen skid for electricity production during events/trade fairs (uninterruptible power supply/mobile generator mode).
Partners: D'Appolonia, VTT, Powercell Sweden AB, Genport, Swiss Hydrogen, Mahytec, FHA, Delta1 gUg, Environment Park, Acciona Construccion, ICLEI, Linde Gas Italia
Status: In August the proposal passed the stage of assessment by the relevant European authorities and the project is currently in the launch stage.

*Evolution2G (EMEurope Call 2016)*

The "eVolution2G" project is intended to study in depth and test directly in the field the Vehicle to Grid (V2G) concept, that is a system in which electric vehicles have a balancing role on electricity grids.
The main innovations of the project are based on:
- Development of two light quadricycles with an innovative battery management system and a bidirectional recharge system, capable of interfacing with the electricity grid both to recharge and to "give back" its charge;
- Development of an EMCS (Energy Management and Control System) prototype, for data management according to the various subjects involved, with a view to improving the balance of the electricity network;
- Tests on prototypes of V2G recharging solutions, at both the domestic level and the public/urban level.

Partners: Iren S.p.A. (coordinator), Mecaprom, CTC Cartech Company, IDIADA Automotive Technology.
Status: In November the proposal passed the stage of assessment by the relevant European and national authorities and the project is currently in the launch stage.

*FABRIC - FeAsiBility analysis and development of on-Road charging solutions for future electric vehicles (FP7)*
The project relates to the development of a charging system for on-road electric vehicles by means of induction coils sunk into the concrete road surface. The project provides for 3 demonstrator sites, of which one in the Province of Turin in the SITAF area of the Turin-Bardonecchia motorway.

Partners: Iren S.p.A., IRETI, Turin Polytechnic, FIAT Research Centre, Pininfarina, Energrid and Scania Nissan, other international industrial partners, Italian and European SMEs.
Status: The project is nearing the completion stage. During 2017, Iren continued to support the partners tasked with developing the Italian demonstrator for all the questions related to site validation and the impact of the solution on the electricity grid. The assessment of the project results and the process of their dissemination are nearing completion.

***NEMO- Hyper-Network for electroMobility (Horizon 2020)***

The NeMo project aims to develop an e-roaming platform applied to different electricity mobility systems (recharging infrastructure and motor vehicles). The main objective is to create a “Hyper network”, namely an upper ICT infrastructure that can standardise data originating from various stakeholders and generate innovative services and applications on different verticals.
IREN’s role will consist of defining the use-cases, with special reference to the distributors’ and electricity vendors’ requirements, providing technical and regulatory expertise to identify their requirements/constraints and assessing the results and developments of the project.

Partners: Iren S.p.A., IRETI, Fiat Research Centre, TecnoSitaf, ICOOR, Renault, Verbund, TomTom, other foreign industrial partners, Italian and European SMEs.
Status: During 2017, IREN was involved in defining the system architecture and the requisites for Utilities and distributors, as well as in activities supporting the definition of the technical standards for the single components. The next activities will consist of developing the interfaces and applications of the e-roaming platform.

***FLEXMETER (Horizon 2020)***

The project, completed in December 2017, aimed to analyse the possibility of a system of multi-service smart meters (with focus on electricity meters) underpinning a single platform for collecting and transmitting data (similar to what was requested by the AEEG in Resolution 393/2013). During the project the possibilities offered by the NIALM methodologies on analyses of disaggregated electricity consumption were also assessed.

Partners: Iren S.p.A., Iren Energia, IRETI, Turin Polytechnic, E-On, University of Grenoble, Siveco, University of Bucharest, Telecom Italia, University of Bologna, ST Microelectronics.
Status: The project was completed in December. During 2017, after the test sites were prepared, installation of the hardware necessary for analysing the near-real-time consumption was completed; the ClickIRENpiù app, with energy empowerment tools for customers, was also released. The analyses of the project results and the activities of their dissemination are currently nearing completion.

***OTTEMPO (Piedmont Region tender - innovation hubs)***
The project aims to study and test methods for distributing, through a fibre-optic or wireless telecommunication network, the time sample, that is the exact time, with a precision in the order of microseconds for the sector of multiutility companies. In particular, the operating applications will be designed for real-time systems for the monitoring and analysis of the electricity distribution networks and the water service.

Partners: IREN S.p.a, Consorzio TOP-IX, Hal Service.
Status: The proposal passed the assessment stage in December and is currently in the launch stage.

***PLANET – (Horizon 2020)***

The project aims at developing technologies and analysing the regulatory constraints for taking synergistic advantage of the distribution networks (electricity, gas and heat). During the project: storage and conversion technologies will be modelled; multigrid intelligent automated management systems will be simulated; new business models will be created; energy conversion systems will be tested, in a physical pilot.

Partners: Iren S.p.A., Iren Energia, IRETI, Iren Mercato, Turin Polytechnic, ISMB, Teknologian tutkimuskeskus VTT Oy, HYPERTECH, CERTH, Grindrop, ITM Power (trading), VAASAETT, FGH, Sorea, Merit Consulting House.
Status: At the end of November 2017 the kick-off meeting of the project was held and the first activities are currently being launched.

***Pump-Heat – (Horizon 2020)***

The project has the objective of increasing the flexibility of conventional fossil source plants, in particular combined cycles, in order to satisfy the ever-increasing needs of the network to offset the demand fluctuations deriving from renewable sources. The project will study the combination of heat pumps with cogeneration combined cycle and conventional combined cycle plants; the combination with systems for heat and cold storage will also be analysed.
In particular, at the Iren facility of Moncalieri (TO) a pilot plant will be built, in which the technologies studied and developed during the project will be tested as regards cogeneration combined-cycle applications.

Partners: Iren S.p.A. and Iren Energia, University of Genoa, D'Appolonia, Ansaldo Energia, KTH, Aristotele University, Mitsubishi Hitachi Power Systems Europe, Mayekawa, Siemens, Alfalaval, CLA Energy, Limmat Scientific, Novener, Orlen.

Status: The project officially began in October 2017. The first activities performed involved analysing the possible layout options for integrating heat pumps and thermal storages in combined cycles (power-oriented and cogeneration). In particular, Iren was involved in analysing the application case of cogeneration combined cycles, with reference to the Moncalieri plant in which the demonstrator will be built. After the layout options have been defined, its operating conditions will be simulated (from both a technical and an economic point of view) and then the design of the single components (heat pumps and thermal storages) will begin for the various application cases.

***Store&Go – (Horizon 2020)***

The STORE&GO project will demonstrate 3 innovative Power to Gas (P2G) systems located in Germany, Switzerland and Italy, in order to identify and overcome the technical, economic, social and legal barriers. The project has the ambition of assessing the possibility of integrating the P2G storage system into leading-edge energy production and distribution systems. Iren's role will involve the study of the technical/economic possibilities of integrating P2G technology into thermoelectric production systems.

Partners: Iren S.p.A. and Iren Energia, Turin Polytechnic, HST, Atmostat, Climeworks; Studio BFP, DWGV, HSR, other university and industrial partners.

Status: The technical-economic analysis was completed, in collaboration with the Polytechnic of Turin on the combination of P2G in combined cycles in order to increase its flexibility and recovery of the energy lost in the balancing and of the combination of P2G to offset the fluctuation of non-programmable renewable sources. Currently, Iren is collaborating with the partners that are developing the pilot project which will be implemented in the Municipality of Troia (Apulia).

## OTHER INNOVATION ACTIVITIES

***IREN Startup Award***

Iren, in collaboration with Intesa Sanpaolo, organised a contest for start-ups operating in the Group's areas of action and business, with the objective of identifying a series of ideas, products and services that can contribute to innovation of the Group's assets and at the same time contribute actively to the support and growth of innovative entrepreneurship. More than 80 start-ups applied online during the summer; of these 23 were selected and gained access to a process of incubation and tutoring provided by technological and financial mentors.
The start-ups selected had the possibility of presenting their idea/product/service to two juries of Iren experts in the various sectors and businesses involved, who selected the 10 best projects.
During the final event, organised in the context of the Genoa Science Festival on 30 October, the 10 start-ups selected presented the projects to an audience of Group Managers. During the event the final winner was selected: the Turin-based company Enerbrain with an innovative solution related to energy efficiency in buildings.

### Water Services

During 2017 IREN continued to take part in the initiatives organised by WssTP (Water Supply and Sanitation Technology Platform), set up by the European Commission in order to oversee research in the water sector, also participating in the TICASS (Tecnologie Innovative per il Controllo Ambientale e lo Sviluppo Sostenibile - Innovative Technologies for Environmental Control and Sustainable Development) Consortium, a technological innovation hub of the Liguria region. In this regard, Iren is part of the WssTP working groups on the issues of Emerging Compounds, Water&ICT and Urban Water Pollution, which involve the preparation of road maps and planning and consultation documents that will be submitted to the European Commission.

More specifically, the research projects launched and completed in the first half of the year concerned:

***Acoustic data transmission***

As part of the project, launched in 2016, during 2017 a proof of concept was developed for the acoustic transmission of data through acoustic modems and commercial hydrophones made as the first demonstrator for the on-off switch of the pump serving to fill a mountain tank.
The apparatus makes it possible to send signals and data through water pipes in conditions of unavailability of data transmissions with conventional vectors (GPRS, radio link, Wi-Fi, satellite).

***Management of Water Treatment Sludge***

During 2017 activities continued on analysing and assessing sludge treatment systems aimed at reducing its quantity, making the process more efficient, improving the production of by-products (biogas or biomethane) and reducing the total management costs. The assessment includes the definition of mass balance sheets and the analysis of the costs, benefits and technical/economic implications.
In particular, a research contract was activated with TICASS, for the purpose of assessing the benefits, in terms of reducing the quantities of sludge to be disposed of, deriving from the introduction of hydrolysis treatments in purification plants managed by the Group.
Benchmarking activity will also be carried out in collaboration with universities and innovation centres in the context of existing partnerships with universities of the territories in which Iren operates.

***Projects included in the Amga Foundation's research programme***

During 2017 IREN collaborated on a number or projects included in the AMGA Foundation's programme; these projects refer to economic regulatory issues and technical-scientific questions associated with the quality of water resources. Among these, we can note the research on the "*circulation of viral pathogenic micro-organisms in sewerage liquids*", the "*standard cost of capital in the regulation of public utilities*", the *"new TOTEX TOTal EXpenditure regulatory approach", "The reporting models of the water service based on the average operating cost per inhabitant".* Additional research refers to three macro-subjects relating to developing the remote control of the third millennium, optimising purification and drinking water processes, specialist laboratory analyses, on-line measurement systems and innovative sensors.

## Energy

### *Turin LED Project*
On 30 November 2017 the project to replace in the City of Turin approximately 54,119 lighting points fitted with discharge lamps with new LED lamps was completed. The project was undertaken by Iren acting as an ESCO; in energy terms, the saving will be approximately 21.3 GWh per year, with lower emissions of approximately 3,900 TOE.

### *Industry 4.0 Programme*
During 2017, Iren continued activity on seeking innovative solutions falling under the definition of "Industry 4.0" applicable to the Energia Business Unit, with particular reference to the maintenance sector. The analysis focused on specific verticals, that is operator safety, infrastructure monitoring and big data, concentrating on the thermoelectric, hydroelectric and district heating sectors.
After the analysis activity, around twenty projects were identified; on these, during 2018, the testing stages will be launched.
With this prospect, already in 2017, research and collaboration activities were carried out with start-ups and universities to introduce innovative solutions into the corporate businesses, in order to increase the safety of personnel, reduce operating costs and increase the quality level of the activities performed.
The activities in question involved the study and adoption of remote-controlled solutions to supplement the current corporate practices adopted during inspections. During the year inspection activities were carried out on the up-stream faces of the Serrù dam and the Ceresole dam using drones and remote-operated submarine vehicles (ROVs). The testing activity was also extended to the inspection of rocky slopes overlooking the reservoirs. The solutions involved in the collaboration made it possible to reduce considerably the time take by activities performed with conventional techniques and increased the safety of the workers involved.
Again in the hydroelectric sector, and in particular at the Venaus and Telessio plants, the use was tested, in an operating context, of "smart glasses" systems in order to enable interaction between the operating field and the control room and real-time data communication. During the year activities were performed to test the smart glasses in their various modes of use. Training days were also organised for maintenance staff.

### *Installation of storage systems on the district heating network*
In the City of Turin, Iren launched the procedure for selecting the suppliers for the work to create a heat storage system serving the district heating network at the Mirafiori North site, which, added to the currently existing 15,000 $m^3$ in the city, will increase the current total capacity by a further 2,500 $m^3$.
At the same time, the work on planning the San Salvario storage system is ongoing. This is aimed at optimising network management, and extending the volumes of users served by the district heating.

### *Flexibilisation of combined cycle plants*
Iren is proceeding with work on making its combined cycle plants more flexible, to respond better to the ever-increasing needs of the electrical system and to become increasingly competitive in offering services on the auxiliary services market. These activities involve improvements on gas turbines, steam turbines, steam generators with recovery and control systems, with the purpose of keeping the plant hot, reducing the start-up and shut-down times and increasing the intake/load reduction ramps. The installation of an auxiliary steam generator is currently in progress at the Moncalieri thermoelectric plant.
In addition, during 2017, in collaboration with the Department of Mechanical, Energy and Management Engineering and Transport of Genoa University, the technical and economic feasibility study on the application of heat pumps in cogeneration combined cycles serving district heating networks with thermal storage systems was completed. This had been launched in 2016 and was the subject of subsequent further studies in the European Pump-Heat Project. In particular, the regulatory context, the possible layout schemes and the benefits provided by the solution in terms of flexibilisation of the plant (reduced imbalances, increased thermal capacity, reduced technical minimum and so on) were analysed.

***Dam seismic research contract***

During 2017 research activities continued for seismic testing of dams. Similar activities were carried out during the two years 2015-2016, on the Ceresole Reale dams, with a research contract with the Department of Structural, Building and Geotechnical Engineering of the Turin Polytechnic, in relation to developing methods for seismic testing of dams and the related accessory works, in the current scenario of the changing legislative context on the subject. In 2016-2017 analogous activities were developed on the dam made of loose material in Contrada Sabetta, serving the Bussento (SA) plant.

***Monitoring of the Ciardoney glacier***

In 2017 research activities continued on the behaviour of the Valle Orco glaciers, through monitoring of the Ciardoney glacier in the Gran Paradiso National Park. This is an initiative launched at the beginning of the 1990s in collaboration with the Italian Meteorological Society which has continued regularly through annual campaigns to check the mass balance of the glacier. The research is oriented to monitoring the reduction of glaciers in the Alps supporting the planning of the production of hydroelectric plants in Valle Orco. The May 2017 campaign recorded snow cover varying between 420 to 300 cm, for an equivalent average for the entire glacier of around 2,140 mm, the second most abundant year in 26 years of measurement after the winter of 1992-93. The measures performed in September 2017 revealed the effects of the hot summer: the ice was found to be without winter snow and with a reduction in ice thickness for an equivalent in water of approximately 1.4 metres. The accumulated balance of the reduction in ice thickness since 1992 as of today is now more than 34 metres.

***Collaboration agreement with RSE***

During 2017, Iren S.p.A. and RSE S.p.A. continued the research activities provided for in the collaboration agreement they signed with the objective of studying, analysing and testing efficient processes and technologies in the field of energy systems. Some of the main themes tackled were:

- Electricity distribution: benchmarks in the smart grid field, testing of innovative solutions, analysing systems for protecting distribution networks;
- making water networks more efficient: analysing best practices, identifying methods for reducing energy consumption, defining application guidelines for energy optimisation in managing networks;
- district heating: studying innovative heat storage systems;
- biogas: analyses of technologies for refining biogas obtained from by-products and waste, for producing biomethane, and support for the regulatory analysis of inputting into the network and dispatching of the same.

In addition, scouting of third-party financing tenders will be launched together, to fund development, research and innovation projects.

# IREN AND SUSTAINABILITY

Sustainability is at the centre of the agenda of the Iren Group which, as well as taking it on as a pillar of strategic development, reports policies and performance on it with particular regard to environmental and social issues, to those relating to the personnel, to human rights, and to combating active and passive corruption.

These issues, together with others identified as significant by the materiality analysis conducted involving the stakeholders, are reported and detailed in the Iren Group Sustainability Report which, from this year, also fulfils the function of Non-Financial Declaration (NFD) provided for in Italian Legislative Decree 254/2016. A substantial function which underlines how the strategic approach to social responsibility assumes ever-increasing importance in the long-term for the competitiveness of companies. A function which strengthens the Group’s orientation both in terms of disclosure transparency and in considering sustainability a strategic growth lever.

In 2017 the vision and the mission were updated. These are the foundations underlying the Business Plan to 2022, presented at the end of the year, which defines the following strategic lines: the customer/citizen, development and efficiency, sustainability and attention to human resources. The objectives and targets defined in these contexts, represent a contribution of the Iren Group to the aims of the UN 2030 Agenda, and increasingly make the Sustainability Report/Non-Financial Declaration – to which you are referred under the terms of Italian Legislative Decree 254/2016 – an instrument for monitoring operations, and their economic, environmental and social impacts.

The document is prepared, under the coordination of the Corporate Social Responsibility and Local Committees Department, in compliance with the GRI (Global Reporting Initiative) Standard with the electricity industry Utility supplement – G4 Sector Disclosure and is submitted for approval to the Board of Directors at the same time as the draft Separate and Consolidated Financial Statements.

# OTHER INFORMATION

**Personal data protection code**
In application of the provisions of Italian Legislative Decree 196/03 as amended, entitled the "Personal Data Protection Code", Iren S.p.A. and the main Group companies developed in past years a system for managing the processing of data and their security, in keeping with current legislation and in line with the organisational evolution that has involved the Group.
During 2017 the "Project for implementing the corporate personal data protection system" was launched for Iren S.p.A. and for the main Group companies in order to make this system compliant with the new EU Regulation 679/16 (GDPR), which substantially changes the concept of Privacy with the objective of strengthening the rights of individuals to personal data protection.
The GDPR introduces, among other things, the concepts of privacy by design and by default and of accountability, imposing on Companies the duty to set up their Privacy right from the start, adopting the best solutions, adequate for the specific level of risk, in order to minimise personal data processing.
The Project launched will be developed during 2018 and, once the creation stage has been completed, will make it possible to comply, by 28 May 2018, with the provisions of the new European Regulation on the subject of Privacy.

**Certifications pursuant to Art. 2.6.2 of the Stock Exchange Regulations**
With regard to the certifications required by Art. 2.6.2 paragraph 15 of the Stock Exchange Regulation relating to compliance with the conditions set forth under Art. 36 et seq. of the CONSOB Market Regulation, the Company does not control companies established in and governed by the laws of countries which are not members of the European Union and which are of a significant interest pursuant to the provisions of section VI, para. II of the regulation adopted by CONSOB with Resolution No. 11971/1999, as amended. Therefore the provisions contained in paragraph 1 of Art. 36 of the CONSOB Market Regulation do not apply. With regard to the conditions set forth in Art. 37 of the said Market Regulation, we can note that Iren S.p.A. is not subject to management and coordination by any other company.

**Report on Corporate Governance and Ownership Structures and Remuneration Report**
The Report on Corporate Governance and Ownership Structures and the Remuneration Report, approved by the Board of Directors and published within the legal deadline, include information not mentioned in the next section *Information on Iren's Corporate Governance*, as envisaged in art. 123-*bis* and art. 123-*ter* of Italian Legislative Decree no. 58 of 24 February 1998, and subsequent amendments and additions.

# INFORMATION ON IREN'S CORPORATE GOVERNANCE

## INTRODUCTION

IREN S.p.A. (hereinafter "IREN") is the result of the merger of Enìa S.p.A. into IRIDE S.p.A. which took effect on 1 July 2010.
The merger between IRIDE and Enìa was promoted by the controlling shareholders of the same – respectively FSU S.r.l. (controlled equally by the Municipalities of Turin and Genoa) and the Municipalities of Reggio Emilia, Parma, Piacenza and other Municipalities of the Emilia area that had signed *ad hoc* shareholders' agreements – with the objective of creating a new entity capable of developing industrial synergies and being a hub for further aggregations on the national market.

At the date of the present report two Shareholders' Agreements are in force between the public shareholders of Iren. These are listed below:

- FSU – so-called Emilian Parties Agreement – in effect from 9 May 2016.
  This agreement – which definitively superseded the previous agreement signed on 28 April 2010, as modified on 23 May 2013 (hereinafter also "First Agreement") – is attributable to a block of shareholders and votes with the aim of guaranteeing the development of the Company, its investees and its activities, and of ensuring to the same unity and stable guidance, and in particular: (i) determining methods of consultation and joint decision-making regarding certain resolutions of the Company's Shareholders' Meeting; and (ii) setting certain limits on the circulation of the shares contributed.
  The FSU-Emilian Parties Agreement is also aimed at redefining the structures and balances determined among the signatory shareholders on the basis of the First Agreement in the light of the provisions contained in the Bylaws approved by the Shareholders' Meeting of 9 May 2016, with reference to the possibility for Shareholders to benefit from the extra votes under the terms of art. 127-*quinquies* of the CFA and of the related implementing provisions.
  The FSU-Emilian Parties Agreement has a duration of 3 years and will be tacitly renewed, subject to the option to withdraw with the methods and in the terms pursuant to the Agreement, for a further two years; subsequently, any further renewal must be agreed in advance in writing.
- Emilian PartiesSub-Agreement in effect from 9 May 2016.
  This agreement – which definitively superseded the previous sub-agreement signed on 28 April 2010, as modified on 23 May 2013 (hereinafter also "First Sub-Agreement") – intends, among other things, to determine the respective rights and obligations, in order to (i) ensure unity of conduct and rules on decisions that must be taken by the Emilian signatories in the context of the provisions of the FSU-Emilian Parties Agreement; (ii) attribute a right of pre-emption in favour of the signatories in the event of sale of the Company's shares other than the shares subject to the Shareholders' Block under the terms of the Agreement; and (iii) confer on the Municipality of Reggio Emilia an irrevocable mandate to exercise on behalf of the signatories the rights attributed to these latter under the terms of the Agreement.
  The Emilian Parties Sub-Agreement will have a duration of 3 years and will be tacitly renewed, subject to the option to withdraw with the methods and in the terms pursuant to the said Sub-Agreement, for a further two years; subsequently, any further renewal must be agreed in advance in writing.

On this point, we can note that in the period between 1 January 2017 and 31 December 2017, 13 Municipalities sold, on the market, at total of 9,587,388 shares contributed to the FSU – Emilian Parties Agreement. As reported in "Significant events of the period", in addition, we can remind you that in December 2017 18,192,549 savings shares owned by the shareholder FCT Holding S.p.A. were converted into ordinary shares. Therefore at 31 December 2017 the Iren S.p.A share capital was Euro 1,276,225,677 represented by 1,213,920,212 ordinary shares and 62,305,465 savings shares without voting rights.
For completeness we can note that on 11 January 2018 all the remaining 62,305,465 savings shares were converted into Iren S.p.A. ordinary shares. Therefore the share capital is Euro 1,276,225,677, represented only by ordinary shares.

On 29 December 2017, the Iren S.p.A. Board of Directors, in the context of the business combination between Iren and the ACAM Group, resolved to give partial execution to the delegated power conferred

on it under the terms of art. 2443 of the Italian Civil Code by the Shareholders' Meeting on 9 May 2016, increasing the Company's share capital, for payment, divisible, for a total maximum amount at face value of Euro 27,699,660.00, by issuing a maximum of 27,699,660 new ordinary shares with the same characteristics of the ordinary shares outstanding. The newly-issued shares will be exclusively for the purpose of subscription, within the deadline of 31 May 2018, by the public shareholders of ACAM that assume the commitment to transfer to Iren their entire equity interest held in ACAM itself.
Execution of the capital increase is subordinated, in the exclusive interest of IREN S.p.A., to fulfilment of the following conditions precedent:

- that authorisation has been issued by the Italian Antitrust Authority and by the Market for completion of the business combination between Iren and ACAM;
- the issue by the ACAM Group's lenders of consent for termination of the guarantees issued in their favour by the ACAM Group in connection with the loans in being with these lenders, in exchange for full repayment of the remaining amount of the existing loans;
- the weighted 6-month average of the "IREN S.p.A." stock ascertained on the day before the date of effective execution of the sale by Iren of the ACAM shares falls within the range of € 1.59 per share, as the minimum value, and € 2.66 per share, as the maximum value;
- the full and effective completion of the purchase by Iren of a total equity interest in ACAM of at least 70% of the capital;
- the effective subscription of the capital increase by a number of ACAM shareholders that represent, overall, at least 70% of the ACAM capital before the sale of its shares to Iren.

In virtue of the Investment Agreement governing the combination between Iren and ACAM, the ACAM public shareholders that subscribe the Iren capital increase reserved for them must sign the shareholders' agreement in being between the Iren public shareholders, bringing to the blocking and voting syndicate governed by it all the newly-issued shares subscribed by them in the context of the capital increase (with the exception of a single shareholder, which will assume a distinct commitment not to transfer the shares subscribed).

The Company adopts a traditional corporate governance system, compliant with the principles of the "Codice di Autodisciplina delle Società Quotate" [Corporate Governance Code for Listed Companies] issued by Borsa Italiana – July 2015 edition (hereinafter the "Code").
The Board of Directors has the broadest range of powers for the ordinary and extraordinary administration of the company and, in particular, the power to take all action deemed appropriate to implement and achieve the corporate purpose, also organising the company and the Group into business segments, whether in the form of companies or operating divisions, with the sole exclusion of powers which by law or by the Articles of Association are the responsibility of the shareholders' meeting.
Under the terms of the Articles of Association (as most recently amended in relation to the new composition of the Company's share capital following the conversion of all the 80,498,014 savings shares into the same number of ordinary shares), the Board of Directors delegates its powers to one or more of its members and can also assign powers to the Chairperson, Deputy Chairperson and Chief Executive Officer provided they do not conflict with each other.

*Declaration on observance of the laws on the subject of corporate governance*

Iren's corporate governance system is in line with the provisions of the "Testo Unico della Finanza" [Consolidated Finance Act] and of the Corporate Governance Code of Listed Companies.
On 20 December 2016 Iren's Board of Directors formally resolved to endorse the recommendations of the Corporate Governance Code of Listed Companies (July 2015 edition), the substantial transposition of which had already begun during 2016, as specified in the annual Report on Corporate Governance and Ownership Structures referred to the same financial year.
The Board of Directors also approved a document which highlights the governance solutions adopted by the Company with reference to the provisions of the Code, a document published on the IREN Group's website, in the Section "*Investors– Corporate Governance* – Corporate documents".

The Articles of Association are in keeping with the rules of the Consolidated Law and the other provisions of laws or regulations applicable to listed companies.

In particular the Articles of Association state, among other things, that:

- the directors must be in possession of the requisites provided for by law and by the regulations on the subject (art. 147-*quinquies* of the Consolidated Law on Finance);
- at least two members of the Board of Directors must possess the requisites of independence established by the applicable legislation (art. 147–*ter*, paragraph 4, and art. 148, paragraph 3, CLF);
- the members of the entire Board of Directors are appointed on the basis of lists (art. 147–*ter*, paragraph one, of the CLF);
- the non-controlling shareholders have the right to appoint at least two Directors (art. 147–*ter*, paragraph 3 of the CLF);
- balanced representation between the genders must be observed in the composition of the corporate bodies (Italian Law No. 120 of 12 July 2011 on parity of access to the administration and control bodies of listed companies);
- one standing and one alternate member of the Board of Statutory Auditors must be elected from the list presented by the minority (art. 148, paragraph 2 of the CLF);
- the Chairperson of the Board of Statutory Auditors and one supplementary auditor must be appointed on the basis of the list presented by the minority (art. 148, paragraph 2-*bis* of the CFA);
- a person responsible for corporate financial reporting must be appointed, setting the requisites of professionalism and the powers and tasks attributed to the same (art. 154–*bis* of the Consolidated Act).

On 9 May 2016 the Iren Shareholders' Meeting, called *inter alia* to approve the financial statements at 31 December 2015, also proceeded to appoint the Company's Board of Directors for the three years 2016-2018, with expiry on the date of approval of the financial statements at 31 December 2018.
With a resolution of the Board of Directors meeting of 9 May 2016, the Chairperson just appointed, Paolo Peveraro, was given powers, delegated powers and responsibilities in relation to institutional relations, external relations, communication, relations with Regions and local authorities, relations with Regulators, merger & acquisition operations.
The Deputy Chairperson, Ettore Rocchi, was given powers, delegated powers and responsibilities in relation to corporate affairs, corporate compliance, committees (both Committees within the Board set up in accordance with the provisions pursuant to the Code, and Local Committees), risk management, internal auditing, corporate social responsibility.
The Chief Executive Officer, Massimiliano Bianco, was given powers, delegated powers and responsibilities in relation to administration, finance and control; personnel, organisation and information systems; procurement, logistics and services; legal affairs; Energia, Mercato, Reti and Ambiente business units, as well as wide delegated powers and powers of representation.

In compliance with the provisions of the Code, with a resolution passed at the meeting on 12 May 2016, the Board of Directors also appointed:

- a Remuneration and Appointments Committee (hereinafter also "RAC");
- a Control and Risk Committee, to which, during the meeting on 20 December 2016, it also attributed duties of consultation and proposal in relation to the Board of Directors on the subject of sustainability. In relation to these extra duties, the said Committee was renamed the Control, Risk and Sustainability Committee (hereinafter also "CRSC").

In accordance with the provisions of the CONSOB Regulation and of the specific Internal TRP Regulation, with a resolution passed at the meeting on 12 May 2016, the Board of Directors also appointed the Independent Directors' Committee for dealing with Transactions with Related Parties, named the Committee for Transactions with Related Parties (hereinafter also "CTRP").

The company's Articles of Association establish the composition and appointment methods for the Board of Statutory Auditors and the independent auditors. Duties and functions are governed by current regulations.

**BOARD OF DIRECTORS**

As mentioned above, on 9 May 2016, the Shareholders' Meeting appointed the current Board of Directors, made up of thirteen members, in office for the years 2016/2017/2018 (until approval of the separate financial statements at 31 December 2018).
The composition is as follows:

| Office | Name and Surname | Place of birth | Date of birth |
|---|---|---|---|
| Chairperson of the Board of Directors | Paolo Peveraro | Castel San Giovanni (PC) | 05 July 1956 |
| Deputy Chairperson | Ettore Rocchi | Reggio Emilia | 20 November 1964 |
| Chief Executive Officer and Central Operations and Strategy Manager | Massimiliano Bianco | Gioia del Colle (BA) | 30 August 1971 |
| Director | Moris Ferretti | Reggio Emilia | 28 May 1972 |
| Director | Lorenza Franca Franzino | Turin | 05 April 1955 |
| Director | Alessandro Ghibellini | Genoa | 15 October 1947 |
| Director | Fabiola Mascardi | Genoa | 04 December 1962 |
| Director | Marco Mezzalama | Turin | 17 September 1948 |
| Director | Paolo Pietrogrande | Rome | 19 June 1957 |
| Director | Marta Rocco | Genoa | 03 November 1969 |
| Director | Licia Soncini | Rome | 24 April 1961 |
| Director | Isabella Tagliavini | Parma | 20 October 1958 |
| Director | Barbara Zanardi | Piacenza | 3 March 1977 |

In accordance with art. 25 of the Articles of Association, resolutions of the Iren Board of Directors are carried by vote in favour by the absolute majority of Directors in office.
For the matters indicated in Art. 25.5 of the Articles of Association ("Significant Matters"), resolutions of the Board are instead carried by the vote in favour of at least 10 Directors.
Articles 18, 19 and 20 of the Articles of Association govern the appointment, methods and criteria for the presentation of lists for the appointment of Directors, which adopts the list voting system.
During financial year 2017 the IREN Board of Directors held 20 meetings.

At 31 December 2017, in the Board of Directors, made up of 13 directors, eight[1] of them possessed the requisites of independence both under the terms of the combined provisions of arts 147-*ter*, paragraph 4, and 148, paragraph 3, of the Consolidated Finance Act, and under the terms of the Code.

The Board of Directors assesses the independence of its members with regard to the principle of substance over form. The independence of directors is assessed by the Board of Directors on appointment, and thereafter on an annual basis, or when significant circumstances occur for the purposes of independence. The outcome of the Board's assessments is disclosed to the market, with the methods identified in the Code.
The annual meetings of the Independent Directors, under the terms of Application Criterion 3.C.6. of the current Code, were held on 14 February and 20 April 2017.

The Company has established a short-term bonus system (MBO) for the Chief Executive Officer of the Parent Company and the Group's Key Management Personnel: the targets are set respectively by the

[1] During the meeting on 13 February 2018, the Iren Board of Directors ascertained the existence of the requisites of independence provided for in both the provisions of the CFA (cf. arts 147-*ter*, paragraph 4, and 148, paragraph 3, CFA) and by art. 3 of the current Corporate Governance Code of Listed Companies also for the Director Alessandro Ghibellini. Therefore from 13 February 2018, on the Board of Directors there are nine directors in possession of the above requisites.

Company's Board of Directors and the Chief Executive Officer – on the proposal of the Company's Remuneration and Appointments Committee – on an annual basis and, if achieved, for the amount established at the end of an enquiry carried out by the Committee, give the right to receive the related bonus (after a resolution of the Board of Directors, as regards the figure of the Chief Executive Officer).

During its meeting on 22 December 2015, the Company's Board of Directors, on the basis of the enquiry carried out by the Remuneration and Appointments Committee, approved the 2015-2018 Long-Term Monetary Incentive Plan for the Company's Chief Executive Officer, the Group's Key Management Personnel and other resources (the so-called "Key Resources") who can contribute in a significant way to achieving the targets in the Business Plan (as approved by the Board of Directors in June 2015).

For more information on the remuneration policy, please see the Remuneration Report for financial year 2017 made available to the shareholders, in observance of the terms provided for in the current legislation, before the Shareholders' Meeting called to approve the Financial Statements at 31 December 2017.
As envisaged in the Italian Civil Code, directors with an interest in a given transaction must report such interest beforehand. In particular, on 13 March 2015 the Board of Directors approved the current text of the "Internal Regulations on Transactions with Related Parties".

**REMUNERATION AND APPOINTMENTS COMMITTEE**

The Board of Directors set up within it a Remuneration and Appointments Committee composed of non-executive directors, most of whom independent, from among whom the Chairperson is chosen.
The Committee has the functions pursuant to Principle 6.P.4. and Application Criterion 6.C.5 of the Code – on the subject of remunerations – and pursuant to Application Criteria 5.C.1. and 5.C.2 – on the subject of appointments, listed below:

a) to assess periodically the adequacy, overall consistency and actual application of the policy on remuneration of directors and key managers, by availing itself, in this last regard, of the information provided by the executive officers;
b) to formulate the relevant proposals to the Board of Directors;
c) to present proposals or express opinions to the Board of Directors on the remuneration of executive directors and other directors who hold special positions and establishing performance objectives relating to the variable component of said remuneration;
d) to monitor the application of the decisions adopted by said Board by verifying, in particular, the actual achievement of the performance targets;
e) to handle the enquiries for the preparation of the remuneration policy for the Group's executive directors and key management personnel, functional to the adoption of the measures for which the Company's Board of Directors is responsible;
f) to formulate opinions to the Board of Directors as regards the size and composition of the same and to express recommendations on the subject of professional figures the presence of which on the Board is considered opportune;
g) to express recommendations to the Board of Directors on the maximum number of positions of Director or Statutory Auditor in other Companies listed in regulated markets (including foreign ones), in financial, banking, insurance or large companies, compatible with effective performance of the duties of
   Director of Iren, taking into consideration attendance of the Directors at meetings of the Committees set up within the Board, and on exceptions to the prohibition on competition provided for in art. 2390 of the Italian Civil Code;
h) to propose to the Board of Directors candidates for this position of Director in the cases of co-option pursuant to Art. 2386 paragraph 1 of the Italian Civil Code, if it is necessary to replace Independent Directors, ensuring observance of the prescriptions on the minimum number of independent directors and on the quotas reserved for the less represented gender;
i) to carry out the enquiry on preparation of the plan for the succession of the Executive Directors, if the Board of Directors decides to adopt this plan;

The Remuneration and Appointments Committee has also been given the task of supporting the Board of Directors in the annual self-assessment activity of the Board and of its Committees under the terms of Application Criterion 1.C.1 lett. g) of the Code.

The Remuneration and Appointments Committee also has the task of examining preliminarily – with respect to the decisions for which the Board of Directors is responsible – the annual Remuneration Report pursuant to art. 123-*ter* of the CFA, to be made available to the public with a view to the annual shareholders' meeting to approve the financial statements.

The discussion and adoption of resolutions on the subject of remuneration of Directors by the Remuneration and Appointments Committee occurs in the absence of the people directly involved.

The Committee also performs the functions of Independent Directors' Committee, limited to cases where its composition meets the minimum requirements of independence and unrelatedness required by the CONSOB Regulation, in cases where transactions regard the remuneration
of Directors and Executives with strategic responsibilities of the company under the terms of art. 7.1-*bis* of the current Internal Regulation governing related-party transactions.

On 12 May 2016, IREN's Board of Directors appointed the following directors as members of the Remuneration and Appointments Committee:

- Moris Ferretti, recognising that he possessed adequate knowledge and experience on financial matters and remuneration policies;
- Marta Rocco;
- Isabella Tagliavini.

On 24 May 2016 the Committee appointed as its Chairperson Marta Rocco, in possession of the requisites of independence under the terms of arts 147-*ter*, paragraph 4, and 148, paragraph 3, CFA and under the terms of art. 3 of the Code.

In financial year 2017 the Remuneration and Appointments Committee met 15 times (of which once jointly with the Control, Risk and Sustainability Committee), preparing proposals recorded in the minutes of the Committee meetings.
As per the indications of the Code, all the meetings of the Committee were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him.

For further details reference should be made to the Report on Corporate Governance and Ownership Structures available on the website www.gruppoiren.it.

**CONTROL, RISK AND SUSTAINABILITY COMMITTEE**

In accordance with the Code, the Board of Directors has set up a Control and Risk Committee ("Control, Risk and Sustainability Committee" since 20 December 2016).
At 31 December 2017 the Committee is composed of three non-executive Directors, a majority of whom independent[2], from whom the Chairperson is chosen.
The Control and Risk Committee performs the general task of supporting, through adequate preliminary activities, the assessments and decisions of the Board of Directors relating to the internal control and risk management system, as well as those concerning approval of the periodic financial reports.
The functions pursuant to Application Criterion 7.C.1 of the Code were attributed to the Committee (namely expressing preliminary opinions with respect to resolutions of the Board of Directors on a series of questions, including the appointment / revocation and remuneration of the Manager of the Internal Audit Unit) as were those pursuant to Application Criterion 7.C.2., listed below:

[2] From 13 February 2018, all the members of the aforementioned Committee possess the requisites of independence provided for in both the provisions of the CFA (cf. arts 147-*ter*, paragraph 4, and 148, paragraph 3, CFA) and by art. 3 of the current Corporate Governance Code of Listed Companies.

- to assess, together with the Financial Reporting Manager, and after consulting the independent auditors and the Board of Statutory Auditors, the proper use of accounting policies, and in the case of groups, their uniformity for the purpose of drafting the Consolidated Financial Statements;
- to express opinions on specific aspects related to identifying the main business risks (in particular, on specific aspects related to the Risk Policies, identifying the main business risks and the Audit Plan, and on guidelines for the internal control and risk management system);
- to examine the periodic reports, concerning the evaluation of the internal control and risk management system, and those of particular significance drafted by the Internal Audit Unit;
- to monitor the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Unit;
- to ask the Internal Audit Unit to perform checks on specific areas of operations, providing simultaneous communication to the Chairperson of the Board of Statutory Auditors;
- to report to the Board, at least every six months, on the occasion of approval of the annual and interim financial report, on its activity and on the adequacy of the internal control and risk management system;
- to support, with adequate enquiries, the assessments and decisions of the Board of Directors in relation to the management of risks deriving from detrimental events of which the Board of Directors has become aware.

In performing its duties, the Committee has the right to accede to the information and corporate units necessary for it to carry out its tasks, and to avail itself of external consultants, under the terms laid down by the Board of Directors.

On 12 May 2016, Iren's Board of Directors appointed the following directors as members of the Control and Risk Committee:
- Alessandro Ghibellini;
- Marco Mezzalama;
- Paolo Pietrogrande;

considering that, on the basis of the respective professional *curricula*, all the members possessed, with their own specific skills, adequate experience in the field of risk management.

On 18 May 2016 the Committee appointed as its Chairperson Paolo Pietrogrande, in possession of the requisites of independence under the terms of arts 147-*ter*, paragraph 4, and 148, paragraph 3, CLF and under the terms of art. 3 of the Code.

With a resolution passed on 20 December 2016 the Iren's Board of Directors also attributed duties of consultation and proposal in relation to the Board of Directors on the subject of sustainability to the Control and Risk Committee, which, starting from that date, took on the name Control, Risk and Sustainability Committee.
On 14 February 2017, the Company's Board of Directors detailed these duties, establishing that the Control, Risk and Sustainability Committee, in assisting the administrative body:
- supervises the "sustainability" policies and observance of any principles of conduct adopted on the subject by the Company and its subsidiaries;
- examines the guidelines of the sustainability plan and supervises the implementation methods;
- assesses, together with the competent Group Unit and after consulting the independent auditors, the proper use of the standards adopted for the purposes of preparing the non-financial disclosures provided for in the current legislation;
- supervises the system for assessing and improving the environmental, economic and social impacts deriving from the business activities in the local areas;
- Examines the periodic reports on the implementation of the structured methods of discussion with stakeholders in the local areas in which the Group operates, in particular through the Local Committees, and those on the consistency with the CSR questions of the Group's cultural and image promotion activities.

During financial year 2017 IREN's Control, Risk and Sustainability Committee held 12 meetings (of which once jointly with the Remuneration and Appointments Committee).

As per the indications of the Code, all the meetings of the Committee were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him.

For further details reference should be made to the Report on Corporate Governance and Ownership Structures available on the website www.gruppoiren.it.

**COMMITTEE FOR TRANSACTIONS WITH RELATED PARTIES**

On 3 December 2013, following approval of the new Internal Regulation on Transactions with Related Parties and in compliance with this regulation, the Board of Directors established a special Committee for Transactions with Related Parties.
The Committee is made up of three Directors in possession of the requisites of independence provided for in Arts 147-ter paragraph 4 and 148, paragraph 3 of the Consolidated Law on Finance and of the further requisites provided for in art. 3 of the current Code. In order to guarantee the dual requirement of independence and non-relatedness in a given transaction, the CTRP is expanded to include other independent directors, *"unrelated to the transaction under review"* who are members of the Company's Board of Directors, attributing to the CTRP Chairperson the task of identifying a sub-committee (the so-called "Designated Members") composed of three independent directors unrelated to the individual related-party transaction under review.
In reference to transactions of minor significance, pursuant to the Regulation, if none of the CTRP members are independent and unrelated, and if there are no other directors on the Board of Directors with the necessary requisites for integrating the CTRP membership, the non-binding fairness opinion must be provided by an independent expert appointed by the Committee Chairperson, after consulting the Chairperson of the Board of Statutory Auditors.
For transactions of greater significance, identified as such in the Regulation, unless there are at least three independent, unrelated directors among the committee members, the Committee Chairperson appoints one, or if possible two, independent unrelated directors. If there are no independent and unrelated directors whatsoever, these activities are performed by the Board of Statutory Auditors or by an independent expert appointed by the Committee Chairperson after consulting the Chairperson of the Board of Statutory Auditors. The CTRP expresses its opinion on the execution of transactions of major and minor significance with related parties and, in general, also perform all other duties assigned on transactions with related parties pursuant to CONSOB's Regulation on Related Party Transactions.
On 12 May 2016, IREN's Board of Directors appointed the following directors as members of the Committee for Transactions with Related Parties:

- Lorenza Franca Franzino;
- Licia Soncini;
- Barbara Zanardi;

all in possession of the requisites of independence under the terms of the provisions of the CFA, and under the terms of art. 3 of the Code.

On 24 May 2016 the Committee appointed Barbara Zanardi as its Chairperson.
In financial year 2017 the CTRP met 21 times, preparing among other things opinions which are recorded in the minutes of the Committee meetings.

For further details reference should be made to the Report on Corporate Governance and Ownership Structures available on the website www.gruppoiren.it.

**MEMBERSHIP OF THE COMMITTEES**

| Remuneration and Appointments Committee | Control, Risk and Sustainability Committee | Committee for Transactions with Related Parties |
|---|---|---|
| Marta Rocco (Chairperson) | Paolo Pietrogrande (Chairperson) | Barbara Zanardi (Chairperson) |
| Moris Ferretti | Alessandro Ghibellini | Lorenza Franca Franzino |
| Isabella Tagliavini | Marco Mezzalama | Licia Soncini |

**BOARD OF STATUTORY AUDITORS**

The Board of Statutory Auditors is composed of three standing auditors and two supplementary auditors, with a three-year term of office expiring on the date of the shareholders' meeting called to approve the financial statements in their last year of office, and they can be re-elected.

The shareholders' meeting of 28 April 2015 appointed the members of the auditing body, which will remain in office for the years 2015/2016/2017 (until approval of the separate financial statements related to financial year 2017).
The membership of the Board of Statutory Auditors appointed for a 3-year term of office by the Shareholders' Meeting of 28 April 2015 is as follows:

| Office | Name and Surname | Place of birth | Date of birth |
| --- | --- | --- | --- |
| Chairperson | Michele Rutigliano | Milan | 06 October 1953 |
| Standing Auditor | Anna Maria Fellegara | Borgonovo Val Tidone (PC) | 18 January 1958 |
| Standing Auditor | Emilio Gatto | Genoa | 01 October 1969 |
| Supplementary Auditor | Giordano Mingori | Brescello (RE) | 09 November 1947 |
| Supplementary Auditor | Giorgio Mosci | Genoa | 17 May 1958 |

Arts 27 et seq. of the Articles of Association, to which reference should be made, establish list voting as the method for appointing the Board of Statutory Auditors.
The members of the Board of Statutory Auditors attend the shareholders' meetings and meetings of the Board of Directors. The presence of at least one member of the Board of Statutory Auditors at Board of Directors' meetings ensures that the Board of Statutory Auditors remains informed of activities conducted by the company and on the transactions of greatest economic, financial and equity significance performed by the company and its subsidiaries, particularly transactions in which the directors have an interest.
The Board of Statutory Auditors supervised the independence of the independent auditors and, in conducting its own activities liaised with the Internal Audit Unit and the Control, Risk and Sustainability Committee, attending their respective meetings.

In 2017 the Board of Statutory Auditors held 16 meetings.

For further details reference should be made to the Report on Corporate Governance and Ownership Structures available on the website www.gruppoiren.it.

**Financial Reporting Manager**
Mr Massimo Levrino (Manager of the Administration, Finance and Control Department)

**Independent Auditors**
PricewaterhouseCoopers S.p.A. - Appointment conferred by the Shareholders' Meeting on 14 May 2012 for nine-year period 2012-2020.

**Maximum number of positions held in other companies**

According to the Corporate Governance Code of Listed Companies - which Iren has endorsed - the directors accept the position when they believe they can devote the necessary time to diligent performance of their tasks, also taking into account the commitment associated with their working and professional activities, the number of positions of director or statutory auditor held by them in other companies listed in regulated markets (including abroad), in financial, banking and insurance companies or in large companies .

In addition, on the basis of the commitment required from the directors to perform their duties in Iren, the Board of Directors may express its orientation as regards the maximum number of positions of director or statutory auditor in the companies pursuant to the previous paragraph that can be considered compatible with fulfilment of this commitment, taking into account the participation of Directors in the Committees set up within the Board. To this end it may propose to the Shareholders to introduce into the Articles of Association particular rules aimed at regulating consistently the appointment of directors.
In the current context, the Remuneration and Appointments Committee and the Company's Board of Directors decided not to implement the provision, judging that the number of appointments currently held by the board members in other companies is compatible with performance of the duties of Director of Iren S.p.A..

**Director responsible for the internal control and risk management system**

Under the terms of Principle 7.P.3. of the Code, the Board of Directors identified within it a Director responsible for the internal control and risk management system (hereinafter the "ICRMS Director").

Starting from 4 June 2015, in relation to his appointment as Deputy Chairperson of Iren (appointment confirmed after renewal of the administrative body by the Shareholders' Meeting of 9 May 2016), the Board of Directors chose Prof. Ettore Rocchi as ICRMS Director, having considered also the delegated powers attributed to him.

As well as formulating proposals to the Control, Risk and Sustainability Committee and to the Board of Directors on certain matters (for example, on the subject of appointment / revocation and remuneration of the Manager of the Internal Audit Unit), Director responsible for the internal control and risk management system has been given the duties listed below, in accordance with Application Criterion 7.C.4 of the Code:

- to identify the main business risks, taking into account the characteristics of the activities performed by Iren S.p.A. and by its subsidiaries and check that the same are submitted periodically to examination by the Board of Directors; in IREN's governance system, the ICRMS Director also submits to examination by the Board of Directors the Risk Policies and the Audit Plan;
- to put into practice the guidelines defined by the Board of Directors, dealing with the planning, creation and management of the internal control and risk management system and checking constantly its adequacy and effectiveness;
- to adapt this system to changes in the operating conditions and the legislative and regulatory framework;
- to ask the Internal Audit Unit to perform audits on specific operating areas and on compliance with the internal rules and procedures in the execution of business operations, communicating this at the same time to the Chairperson of the Board of Directors, to the Chairperson of the Control, Risk and Sustainability Committee and to the Chairperson of the Board of Statutory Auditors;
- to report promptly to the Control, Risk and Sustainability Committee (or to the Board of Directors) on the problems and critical issues that have emerged in performance of his or her work or which he or she has in any case been informed, so that the Committee (or the Board) may take the opportune initiatives.

**Requisites of directors**

All members of the Company's Board of Directors possess the requisites of integrity, pursuant to Article 147-*quinquies* of the CFA.
At 31 December 2017, the Directors[3] Moris Ferretti, Lorenza Franca Franzino, Fabiola Mascardi, Marco Mezzalama, Paolo Pietrogrande, Marta Rocco, Licia Soncini and Barbara Zanardi also possess the requisites of independence provided for in both the provisions of the CFA (cf. arts 147-*ter*, paragraph 4,

[3] From 13 February 2018, the Director Alessandro Ghibellini also possesses the requisites of independence provided for in both the provisions of the CFA (cf. arts 147-*ter*, paragraph 4, and 148, paragraph 3, CFA) and by art. 3 of the current Corporate Governance Code of Listed Companies.

and 148, paragraph 3, CFA) and art. 3 of the current Corporate Governance Code of Listed Companies according to the Corporate Governance solutions adopted by IREN S.p.A..

**Organisational model under the terms of Italian Legislative Decree 231/2001**

Iren and the main Group companies have adopted organisation, management and control models under the terms of Italian Legislative Decree No. 231/2001 with the objective of creating a structured and organic system of procedures and control activities aimed at preventing, as far as possible, conduct that can entail committing the crimes contemplated by Italian Legislative Decree 231/2001.
Alongside the Organisation, Management and Control Model, Iren S.p.A. has adopted, with a resolution of the Board of Directors of 10 December 2010, also the Code of Ethics. This document has been updated several times over the years and was approved in its current version by the Board of Directors on 20 December 2017.
During 2017 the Holding and the main Group Companies continued the Project for substantial revision and updating of the Organisation, Management and Control Models in order to guarantee their constant consistency with the organisational changes that had occurred and with the introduction by parliament of new crimes, so that they maintain over time their effective ability to prevent 231 crimes from being committed.
The updated 231 Models were then submitted to the Oversight Committees, presented to the Boards of Directors of each Company for their approval and published in a full version on the Companies' Intranet sites.
Iren and the main Group companies set up, with resolutions of the Boards of Directors, an Oversight Committee under the terms of art. 6 of Italian Legislative Decree 231/2001, with the task of overseeing the operation and observance of the model and updating it.
In 2016 the Board of Directors of Iren S.p.A. confirmed the collegial composition of its Oversight Committee appointing three external professionals with legal, corporate governance, organisational, economic and financial skills, with the objective of meeting the requisites of autonomy, independence and professionalism required by the law.
The Board of Directors also appointed a Contact Person within the OC in order to ensure the coordination and continuity of action of the Committee itself and the constant identification of a reference in the Company.
IREN S.p.A.'s Oversight Committee, availing itself of the competent corporate units, performs checks on areas of activity considered at risk under the terms of Italian Legislative Decree 231/2001 and reports twice a year to the Board of Directors on the activities carried out and the results that have emerged. If it is considered necessary, the Oversight Committee expresses suggestions aimed at improving the system for controlling the activities and monitors its implementation.
Both the general part of the Model and the Code of Ethics are available on the Company's website.

# PROPOSALS OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS' MEETING

**PROPOSALS RELATING TO THE AGENDA ITEM "Financial Statements at 31 December 2017, Directors' Report and proposal for allocation of the profit: related and consequent resolutions".**

Dear Shareholders,

in relation to the above, we propose that you:
- approve the financial statements at 31 December 2017 which closed with a profit of 166,957,057.47 euro.
- approve the following proposal for the allocation of profit for the year:

| | |
|---|---|
| Iren S.p.A. profit for the year | 166,957,057.47 euro |
| To the legal reserve 5% of profit for the year | 8,347,852.87 euro |

To the Shareholders a dividend of a maximum Euro 91,092,527.89, corresponding to Euro 0.07 for each of the maximum 1,301,321,827 ordinary shares making up the Company's share capital, which include the maximum 25,096,150 ordinary shares that may be issued as a result of the possible subscription, by 31 May 2018, by the shareholders of ACAM S.p.A. of the share capital increase reserved for them, resolved by the Company's Board of Directors on 29 December 2017 in partial execution of the delegated power conferred on it under the terms of art. 2443 of the Italian Civil Code by the Shareholders' Meeting on 9 May 2016; the dividend will be placed in payment starting from 20 June 2018, with coupon detachment date of 18 June 2018 and record date 19 June 2018;

| | |
|---|---|
| To a specific reserve for retained earnings, the remaining amount of at least | Euro 67,516,676.71 |

Reggio Emilia, 7 March 2018

On behalf of the Board of Directors
The Chairperson
Paolo Peveraro

**Iren S.p.A.**
Via Nubi di Magellano, 30 - 42123 Reggio Emilia - Italy
Capitale Sociale i.v. Euro 1.276.225.677,00
Registro Imprese di Reggio Emilia n. 07129470014
Codice Fiscale e Partita IVA n. 07129470014

# **Consolidated** Financial Statements and Notes to Financial Statements

at 31 December **2017**

# STATEMENT OF FINANCIAL POSITION

thousands of euro

| | Notes | 31.12.2017 | of which related parties | 31.12.2016 Restated (*) | of which related parties |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property, plant and equipment | (1) | 3,449,344 | | 3,482,505 | |
| Investment property | (2) | 13,137 | | 13,483 | |
| Intangible assets with a finite useful life | (3) | 1,653,977 | | 1,466,363 | |
| Goodwill | (4) | 127,320 | | 126,314 | |
| Investments accounted for using the equity method | (5) | 161,255 | | 148,473 | |
| Other equity investments | (6) | 7,126 | | 7,171 | |
| Non-current trade receivables | (7) | 69,801 | 3,436 | 76,302 | |
| Non-current financial assets | (8) | 165,767 | 148,247 | 49,950 | 32,940 |
| Other non-current assets | (9) | 44,614 | 7,896 | 54,954 | 11,434 |
| Deferred tax assets | (10) | 277,771 | | 269,000 | |
| **Total non-current assets** | | **5,970,112** | **159,579** | **5,694,515** | **44,374** |
| Inventories | (11) | 61,984 | | 94,952 | |
| Trade receivables | (12) | 895,788 | 144,376 | 935,805 | 147,247 |
| Current tax assets | (13) | 7,365 | | 21,242 | |
| Other receivables and other current assets | (14) | 276,347 | 177 | 215,155 | 15 |
| Current financial assets | (15) | 506,382 | 461,592 | 606,561 | 552,530 |
| Cash and cash equivalents | (16) | 169,086 | | 253,684 | |
| **Total current assets** | | **1,916,952** | **606,145** | **2,127,399** | **699,792** |
| Assets held for sale | (17) | 8,724 | | 2,498 | |
| **TOTAL ASSETS** | | **7,895,788** | **765,724** | **7,824,412** | **744,166** |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the financial balances at 31 December 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of Atena S.p.A. (now ASM Vercelli), Atena Trading and Ricupero Ecologici Industriali. For more details please see the paragraph “Content and structure of the consolidated financial statements” in the Notes to the Financial Statements.

thousands of euro

| | Notes | 31.12.2017 | of which related parties | 31.12.2016 Restated (*) | of which related parties |
|---|---|---|---|---|---|
| **EQUITY** | | | | | |
| **Equity attributable to Shareholders** | | | | | |
| Share capital | | 1,276,226 | | 1,276,226 | |
| Reserves and retained earnings (losses) | | 608,184 | | 507,314 | |
| Net profit (loss) for the period | | 237,720 | | 179,844 | |
| **Total equity attributable to Shareholders** | | **2,122,130** | | **1,963,384** | |
| Equity attributable to minorities | | 376,673 | | 333,892 | |
| **TOTAL EQUITY** | **(18)** | **2,498,803** | | **2,297,276** | |
| **LIABILITIES** | | | | | |
| Non-current financial liabilities | (19) | 3,023,888 | | 2,967,471 | |
| Employee benefits | (20) | 116,483 | | 132,927 | |
| Provisions for risks and charges | (21) | 430,133 | | 322,013 | |
| Deferred tax liabilities | (22) | 213,760 | | 213,307 | |
| Other payables and other non-current liabilities | (23) | 222,595 | 583 | 203,467 | |
| **Total non-current liabilities** | | **4,006,859** | **583** | **3,839,185** | **-** |
| Current financial liabilities | (24) | 189,132 | 5,166 | 399,831 | 881 |
| Trade payables | (25) | 827,477 | 32,790 | 849,520 | 37,149 |
| Other payables and other current liabilities | (26) | 269,720 | 5 | 270,900 | 955 |
| Current tax liabilities | (27) | 15,295 | | 32,695 | |
| Provisions for risks and charges - current portion | (28) | 88,502 | | 135,005 | |
| **Total current liabilities** | | **1,390,126** | **37,961** | **1,687,951** | **38,985** |
| Liabilities related to assets held for sale | (29) | - | | - | |
| **TOTAL LIABILITIES** | | **5,396,985** | **38,544** | **5,527,136** | **38,985** |
| **TOTAL EQUITY AND LIABILITIES** | | **7,895,788** | **38,544** | **7,824,412** | **38,985** |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the financial balances at 31 December 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of Atena S.p.A. (now ASM Vercelli), Atena Trading and Ricupero Ecologici Industriali. For more details please see the paragraph "Content and structure of the consolidated financial statements" in the Notes to the Financial Statements.

# INCOME STATEMENT

thousands of euro

| | Notes | Financial year 2017 | of which related parties | Financial year 2016 Restated (*) | of which related parties |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue from goods and services | (30) | 3,448,664 | 347,030 | 3,042,735 | 313,977 |
| Change in work in progress | (31) | (22,792) | | 14,174 | |
| Other income | (32) | 271,263 | 4,888 | 226,106 | 5,064 |
| **Total revenue** | | **3,697,135** | **351,918** | **3,283,015** | **319,041** |
| **Operating expense** | | | | | |
| Raw materials, consumables, supplies and goods | (33) | (1,248,639) | (66,231) | (997,328) | (55,341) |
| Services and use of third-party assets | (34) | (1,166,638) | (29,281) | (1,043,889) | (28,428) |
| Other operating expense | (35) | (99,814) | (8,539) | (89,999) | (7,075) |
| Capitalised expenses for internal work | (36) | 27,724 | | 22,328 | |
| Personnel expense | (37) | (389,552) | | (359,956) | |
| **Total operating expense** | | **(2,876,919)** | **(104,051)** | **(2,468,844)** | **(90,844)** |
| **GROSS OPERATING PROFIT (EBITDA)** | | **820,216** | **247,867** | **814,171** | **228,197** |
| **Depreciation, amortisation, provisions and impairment losses** | | | | | |
| Depreciation and amortisation | (38) | (321,865) | | (304,614) | |
| Provisions and impairment losses | (39) | (78,002) | | (82,910) | |
| **Total depreciation, amortisation, provisions and impairment losses** | | **(399,867)** | | **(387,524)** | |
| **OPERATING PROFIT (EBIT)** | | **420,349** | **247,867** | **426,647** | **228,197** |
| **Financial income and expense** | **(40)** | | | | |
| Financial income | | 46,246 | 22,064 | 40,087 | 20,531 |
| Financial expense | | (128,678) | (80) | (177,000) | (24) |
| **Total financial income and expense** | | **(82,432)** | **21,984** | **(136,913)** | **20,507** |
| Share of profit (loss) of associates accounted for using the equity method | (41) | 22,532 | | 3,639 | |
| Value adjustments on equity investments | (42) | 8,670 | | 15,798 | |
| **Profit (loss) before tax** | | **369,119** | **269,851** | **309,171** | **248,704** |
| Income tax expense | (43) | (104,359) | | (118,102) | |
| **Net profit (loss) from continuing operations** | | **264,760** | | **191,069** | |
| Net profit (loss) from discontinued operations | (44) | - | | - | |
| **Net profit (loss) for the period** | | **264,760** | | **191,069** | |
| attributable to: | | | | | |
| - Profit/(loss) for the period attributable to shareholders | | 237,720 | | 179,844 | |
| - Profit/(loss) for the period attributable to minorities | (45) | 27,040 | | 11,225 | |
| **Earnings per ordinary and savings share** | **(46)** | | | | |
| - basic (euro) | | 0.19 | | 0.14 | |
| - diluted (euro) | | 0.19 | | 0.14 | |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the economic balances of financial year 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of ATENA (now ASM Vercelli), ATENA Trading and REI - Ricupero Ecologici Industriali. For more details please see the paragraph "Content and structure of the consolidated financial statements" in the Notes to the Financial Statements.

# STATEMENT OF OTHER COMPREHENSIVE INCOME

thousands of euro

| | Notes | Financial year 2017 | Financial year 2016 Restated (*) |
|---|---|---|---|
| **Profit/(loss) for the period - Owners of the parent and non-controlling interests (A)** | | **264,760** | **191,069** |
| **Other comprehensive income that will not be subsequently reclassified to the Income Statement** | | | |
| - effective portion of changes in fair value of cash flow hedges | | 8,043 | 33,531 |
| - changes in fair value of available-for-sale financial assets | | - | - |
| - share of other profits/(losses) of companies accounted for using the equity method | | 753 | 4,715 |
| Tax effect of other comprehensive income | | (1,508) | (9,835) |
| **Total other comprehensive income to be subsequently reclassified to the Income Statement, net of tax effect (B1)** | **(47)** | **7,288** | **28,411** |
| **Other comprehensive income that will not be subsequently reclassified to the Income Statement** | | | |
| - actuarial gains/(losses) on employee defined benefit plans (IAS 19) | | 2,963 | (1,210) |
| - portion of other profits/(losses) of companies accounted for using the equity method related to employee defined benefit plans (IAS 19) | | (196) | (276) |
| Tax effect of other comprehensive income | | (481) | 337 |
| **Total other comprehensive income that will not be subsequently reclassified to the Income Statement, net of tax effect (B2)** | **(47)** | **2,286** | **(1,149)** |
| **Total comprehensive income/(expense) (A)+(B1)+(B2)** | | **274,334** | **218,331** |
| attributable to: | | | |
| - Comprehensive income/(expense) attributable to shareholders | | 246,643 | 206,913 |
| - Comprehensive income/(expense) attributable to minorities | | 27,691 | 11,418 |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the financial balances of financial year 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of Atena S.p.A. (now ASM Vercelli), Atena Trading and Ricupero Ecologici Industriali. For more details please see the paragraph "Content and structure of the consolidated financial statements" in the Notes to the Financial Statements.

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Share premium reserve | Legal reserve |
|---|---|---|---|
| **31/12/2015** | **1,276,226** | **105,102** | **39,360** |
| Legal reserve | | | 6,225 |
| Dividends to shareholders | | | |
| Retained earnings | | | |
| Changes in consolidation scope | | | |
| Change in business combinations | | | |
| Other changes | | | |
| Comprehensive income for the period | | | |
| of which: | | | |
| - Net profit for the period | | | |
| - Other comprehensive income | | | |
| **31/12/2016 Restated (*)** | **1,276,226** | **105,102** | **45,585** |
| Legal reserve | | | 4,413 |
| Dividends to shareholders | | | |
| Retained earnings | | | |
| Changes in consolidation scope | | | |
| Change in business combinations | | | |
| Other changes | | | |
| Comprehensive income for the period | | | |
| of which: | | | |
| - Net profit for the period | | | |
| - Other comprehensive income | | | |
| **31/12/2017** | **1,276,226** | **105,102** | **49,998** |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the financial balances at 31 December 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of Atena S.p.A. (now ASM Vercelli), Atena Trading and Ricupero Ecologici Industriali. For more details please see the paragraph "Content and structure of the consolidated financial statements" in the Notes to the Financial Statements.

thousands of euro

| Cash flow hedging reserve | Other reserves and retained earnings (losses) | Total reserves and retained earnings (losses) | Profit (loss) for the period | Equity attributable to Shareholders | Equity attributable to minorities | Total Shareholders' equity |
|---|---|---|---|---|---|---|
| **(36,654)** | **321,636** | **429,444** | **118,193** | **1,823,863** | **237,803** | **2,061,666** |
| | | 6,225 | (6,225) | - | | - |
| | | - | (70,192) | (70,192) | (16,906) | (87,098) |
| | 41,776 | 41,776 | (41,776) | - | | - |
| | 3,494 | 3,494 | | 3,494 | 101,576 | 105,070 |
| | (354) | (354) | | (354) | | (354) |
| | (341) | (341) | | (341) | 1 | (340) |
| 28,233 | (1,163) | 27,070 | 179,844 | 206,914 | 11,418 | 218,332 |
| | | | 179,844 | 179,844 | 11,225 | 191,069 |
| 28,233 | (1,163) | 27,070 | | 27,070 | 192 | 27,262 |
| **(8,421)** | **365,048** | **507,314** | **179,844** | **1,963,384** | **333,892** | **2,297,276** |
| | | 4,413 | (4,413) | - | | - |
| | | - | (79,764) | (79,764) | (10,201) | (89,965) |
| | 95,667 | 95,667 | (95,667) | - | | - |
| | 4,669 | 4,669 | | 4,669 | 17,413 | 22,082 |
| | (2,708) | (2,708) | | (2,708) | | (2,708) |
| | (10,096) | (10,096) | | (10,096) | 7,880 | (2,216) |
| 6,692 | 2,233 | 8,925 | 237,720 | 246,645 | 27,689 | 274,334 |
| | | | 237,720 | 237,720 | 27,040 | 264,760 |
| 6,692 | 2,233 | 8,925 | | 8,925 | 649 | 9,574 |
| **(1,729)** | **454,813** | **608,184** | **237,720** | **2,122,130** | **376,673** | **2,498,803** |

# STATEMENT OF CASH FLOWS

thousands of euro

| | Financial year 2017 | Financial year 2016 Restated (*) |
|---|---|---|
| **A. Opening cash and cash equivalents** | **253,684** | **139,576** |
| **Cash flows from operating activities** | | |
| Profit (loss) for the period | 264,760 | 191,069 |
| Adjustments: | | |
| Income tax expense for the period | 104,359 | 118,102 |
| Share of profit (loss) of associates and joint ventures | (22,532) | (19,437) |
| Net financial expense (income) | 82,432 | 136,913 |
| Amortisation of intangible assets and depreciation of property, plant and equipment and investment property | 321,865 | 304,614 |
| Net impairment losses (reversals of impairment losses) on assets | (3,379) | 11,633 |
| Net provisions for risks and other charges | 130,527 | 100,421 |
| Capital (gains) losses | (1,930) | 2,704 |
| Utilisations of employee benefits | (5,675) | (10,096) |
| Utilisations of provisions for risks and other charges | (26,625) | (25,011) |
| Change in other non-current assets and liabilities | 22,721 | (17,240) |
| Other financial changes | (17,586) | (17,236) |
| Taxes paid | (123,338) | (100,694) |
| **B. Cash flows from operating activities before changes in NWC** | **725,599** | **675,742** |
| Change in inventories | 22,926 | 1,686 |
| Change in trade receivables | 49,938 | (77,954) |
| Change in tax assets and other current assets | (59,044) | (26,465) |
| Change in trade payables | (66,906) | (4,115) |
| Change in tax liabilities and other current liabilities | (12,619) | 36,918 |
| **C. Cash flows from changes in NWC** | **(65,705)** | **(69,930)** |
| **D. Cash flows from/(used in) operating activities (B+C)** | **659,894** | **605,812** |
| **Cash flows from/(used in) investing activities** | | |
| Investments in intangible assets, property, plant and equipment and investment property | (357,299) | (269,983) |
| Investments in financial assets | (17,479) | (4,823) |
| Proceeds from the sale of investments and changes in assets held for sale | 7,157 | 9,993 |
| Changes in consolidation scope | (66,575) | (454,956) |
| Dividends received | 4,143 | 7,840 |
| **E. Total cash flows from/(used in) investing activities** | **(430,053)** | **(711,929)** |
| **F. Free cash flow (D+E)** | **229,841** | **(106,117)** |
| **Cash flows from/(used in) financing activities** | | |
| Dividends paid | (89,965) | (87,098) |
| New non-current loans | 550,000 | 570,000 |
| Repayment of non-current loans | (721,190) | (519,647) |
| Change in financial liabilities | 66,452 | 408,447 |
| Change in financial assets | 22,541 | (30,110) |
| Interest paid | (157,866) | (137,074) |
| Interest received | 15,589 | 15,707 |
| **G. Total cash flows from/(used in) financing activities** | **(314,439)** | **220,225** |
| **H. Cash flows for the period (F+G)** | **(84,598)** | **114,108** |
| **I. Closing cash and cash equivalents (A+H)** | **169,086** | **253,684** |

(*) As provided for in IFRS 3, with completion of the Purchase Price Allocation, the financial flows of financial year 2016 were restated to take into account, at the date of acquisition, the definitive fair value of the acquired assets and liabilities of Atena S.p.A. (now ASM Vercelli), Atena Trading and Ricupero Ecologici Industriali. For more details please see the paragraph “Content and structure of the consolidated financial statements” in the Notes to the Financial Statements.

# NOTES TO THE FINANCIAL STATEMENTS

**INTRODUCTION**

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

The Group is structured according to a model which provides for an industrial holding company, with registered office in Reggio Emilia, and four companies responsible for the single business lines operating in the main operating bases of Genoa, Parma, Piacenza, Reggio Emilia and Turin.

The business segments in which the Group operates are:
- Energy (Hydroelectric Production, Combined Heat and Power, District Heating Networks, Thermoelectric Production)
- Market (Sale of electricity, gas, heat)
- Networks (Electricity Distribution Networks, Gas Distribution Networks, Integrated Water Service)
- Waste Management (Waste collection and disposal)
- Other services (Public Lighting, Global Services and other minor services).

Paragraph XI, Segment reporting, includes the information required by IFRS 8.

The company's consolidated financial statements for the year to 31 December 2017 include those of the Company and its subsidiaries, (collectively referred to as the "Group" and individually as "Group entities") and the Group's equity interest in jointly-controlled companies and in associates measured using the equity method.

# I. CONTENT AND STRUCTURE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Iren Group at 31 December 2017 have been prepared in accordance with the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the provisions set forth in implementation of Art. 9 of Italian Legislative Decree No. 38/2005. The “IFRSs” also include all the revised international accounting standards (“IASs/IFRSs”) and all interpretations issued by the International Financial Reporting Interpretations Committee (“IFRC”), previously known as the Standing Interpretations Committee (“SIC”).

In drawing up these consolidated financial statements, the same accounting principles were applied as those adopted for the previous year’s statements, with the exception of certain amendments to the IFRSs, presented in the section “Accounting standards, amendments and interpretations effective from 1 January 2017”, which however did not entail significant impacts on the Iren Group’s financial statements.

The financial statement formats adopted by the Iren Group in preparing these financial statements are the same as those applied in preparing the financial statements at 31 December 2016.
In the statement of financial position, assets and liabilities are classified as “current/non-current”. Assets and liabilities classified as discontinued or held for sale are shown separately. Current assets, which include cash and cash equivalents, are those that will be realised, transferred or consumed during the Group’s ordinary operating cycle or during the twelve months following year end. Current liabilities are those for which settlement is envisaged during the Group’s ordinary operating cycle or during the twelve months following year end.
The Income Statement is classified on the basis of the nature of costs. In addition to the Operating Profit (EBIT), the Income Statement also shows the Gross Operating Profit (EBITDA) obtained by deducting total operating expense from total revenue.
The indirect method is used in the cash flow statement. The cash configuration analysed in the cash flow statement includes cash on hand and cash in current accounts.

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

## ALTERNATIVE PERFORMANCE INDICATORS

The Iren Group uses alternative performance indicators (APIs) in order to convey more effectively the information on the profitability performance of the businesses in which it operates, and on its financial and capital situation. These indicators are different from the financial indicators expressly provided for in the IAS/IFRS international accounting standards adopted by the Group.
On the subject of these measures, CONSOB issued Communication no. 92543/15 which makes applicable the Guidelines issued by the European Securities and Markets Authority (ESMA) on their presentation in the regulated information distributed or in prospectuses published. These Guidelines are aimed at promoting the usefulness and transparency of the alternative performance indicators included in regulated information or prospectuses that fall within the scope of application of Directive 2003/71/EC, in order to improve their comparability, reliability and comprehensibility.

In line with the aforementioned communications, the criteria used to construct these indicators presented in the present financial report are provided below.

**Net invested capital:** determined by the algebraic sum of Non-current assets, Other non-current assets (liabilities), Net working capital, Deferred tax assets (liabilities), Provisions for risks and employee benefits and Assets (Liabilities) held for sale. For further details on the construction of the single items that make up the indicator please see the statement of reconciliation of the reclassified balance sheet with the accounting statement presented in the annexes to the consolidated financial statements.
This API is used by the Group in the context of documents both internal to the Group and external and is a useful measure for the purpose of measuring total net assets, both current and non-current, also through comparison between the period with which the report is concerned and previous periods or financial years. This indicator also makes it possible to carry out analyses on operating performance and to measure performance in terms of operating efficiency over time.

**Net financial debt:** determined by the sum of Non-current financial liabilities net of Non-current financial assets and Current financial liabilities net of Current financial assets and of Cash and cash equivalents.
This API is used by the Group in the context of documents both internal to the Group and external and is a useful measure of the Group's financial structure, also through comparison between the period with which the report is concerned and previous periods or financial years.

**Gross Operating Profit (EBITDA):** determined subtracting total operating expenses from total revenue.
This API is used by the Group in the context of documents both internal to the Group and external and is a useful instrument for assessing the Group's operating performance (both as a whole and at the level of single Business Units), also through comparison between the operating results of the period with which the report is concerned and those of previous periods or financial years. This indicator also makes it possible to carry out analyses on operating performance and to measure performance in terms of operating efficiency over time.

**Operating profit (EBIT):** determined subtracting from Gross Operating Profit (EBITDA) amortisation, depreciation, provisions and operating impairment losses.

**Operating cash flow:** determined starting from net profit /(loss) for the period, adjusted for financial income and expenses and for non-monetary items (depreciation and amortisation, provisions, impairment…), to which are added the changes of Net working capital, utilisations of provisions and employee benefits and other operating changes.
This API is used by the Group in the context of documents both internal to the Group and external and measures the cash generation capacity of the group's operating activities and therefore its self-financing capacity.

**Free cash flow:** determined adding to the operating cash flow the financial resources used or provided by investing activities represented by investments in property, plant and equipment, intangible and financial assets, disposals, changes in the consolidation scope and dividends received.

**Investments:** determined by the sum of investments in property, plant and equipment, intangible assets and financial assets (equity investments) and presented gross of capital grants.
This API is used by the Group in the context of documents both internal to the Group and external and is a measure of the financial resources absorbed in purchases of durable goods in the period.

**Gross operating profit on revenue** determined making a proportion, in percentage terms, between gross operating profit and value of revenue.
This API is used by the Group in the context of documents both internal to the Group and external and is a useful instrument for assessing the Group's operating performance (both as a whole and at the level of single Business Units), also through comparison with previous periods or financial years.

**Net financial debt over shareholders' equity:** determined as the ratio between net financial debt and shareholders' equity including non-controlling interests.

This API is used by the Group in the context of documents both internal to the Group and external and is a useful instrument for assessing the financial structure in terms of relative proportion of financing sources between third-party funds and own funds.

**RESTATEMENT OF AMOUNTS AT 31 DECEMBER 2016**

In May 2016 the Group acquired control over ATENA (now ASM Vercelli) and ATENA Trading, while in December 2016 it acquired control over Ricupero Ecologici Industriali (REI).
For the acquisitions of ATENA (now ASM Vercelli) and ATENA Trading the definitive fair value of the identifiable assets acquired, and the identifiable liabilities assumed, was determined during the first half of 2017. Therefore in the consolidated financial statements at 31 December 2016 they were recognised provisionally, as permitted by IFRS 3.
For the acquisition of Ricupero Ecologici Industriali (REI) the definitive fair value of the identifiable assets acquired, and the identifiable liabilities assumed, was determined at the end of financial year 2017. Therefore, in the consolidated financial statements at 31 December 2016 they were recognised provisionally, as permitted by IFRS 3.
With completion of all the measurements at fair value required by IFRS 3 the value of certain identifiable assets acquired and of certain identifiable liabilities assumed recognised in the consolidated financial statements at 31 December 2016 was updated to reflect the better knowledge gained in the meantime.
On the basis of the provisions of IFRS 3, the amounts of fair value were updated with effect from the acquisition date and, therefore, all the changes were made on the statement of financial position of the Companies acquired at that date. The resulting balances in the consolidated financial statements at 31 December 2016 were restated to take the new values into account.
In detail, the changes that occurred in the fair values of the identifiable assets acquired and the identifiable liabilities assumed previously recognised determined on the statement of financial position at 31 December 2016 the following adjustments:

thousands of euro

| | **31.12.2016 Published** | **Effect of IFRS3 accounting** | **31.12.2016 Restated** |
|---|---|---|---|
| Property, plant and equipment | 3,470,706 | 11,799 | 3,482,505 |
| Intangible assets with a finite useful life | 1,448,826 | 17,537 | 1,466,363 |
| Goodwill | 131,779 | (5,465) | 126,314 |
| Deferred tax assets | 265,065 | 3,935 | 269,000 |
| Equity attributable to shareholders | 1,957,786 | 5,598 | 1,963,384 |
| Shareholders' equity attributable to minorities | 330,311 | 3,581 | 333,892 |
| Provisions for risks and charges | 313,040 | 8,973 | 322,013 |
| Deferred tax liabilities | 203,653 | 9,654 | 213,307 |

In detail, the changes that occurred in the fair values of the identifiable assets acquired and the identifiable liabilities assumed previously recognised determined on the Income Statement for financial year 2016 the following adjustments:

thousands of euro

| | Financial Year 2016 Published | Effect of IFRS3 accounting | Financial year 2016 Restated |
|---|---|---|---|
| Depreciation and amortisation | (304,435) | (179) | (304,614) |
| **OPERATING PROFIT (EBIT)** | **426,826** | **(179)** | **426,647** |
| Value adjustments on equity investments | 9,857 | 5,941 | 15,798 |
| **Profit (loss) before tax** | **303,409** | **5,762** | **309,171** |
| Income tax expense | (118,153) | 51 | (118,102) |
| **Net profit (loss) for the period** | **185,256** | **5,813** | **191,069** |
| attributable to: | | | |
| - Profit/(loss) for the period attributable to shareholders | 173,980 | 5,864 | 179,844 |
| - Profit/(loss) for the period attributable to minorities | 11,276 | (51) | 11,225 |

The effect related to accounting for business combinations presented in the item Value adjustments on equity investments, of 5,941 thousand euro, refers to the surplus, at the acquisition date, between the pro-rata fair value of the identifiable assets acquired and the identifiable liabilities assumed and the fair value of the price paid.

In detail, the changes that occurred in the fair values of the identifiable assets acquired and the identifiable liabilities assumed previously recognised determined on the presentation of cash flows for financial year 2016 the following adjustments:

thousands of euro

| | Financial Year 2016 Published | Effect of IFRS3 accounting | Financial year 2016 Restated |
|---|---|---|---|
| Profit (loss) for the period | 185,256 | 5,813 | 191,069 |
| Adjustments: | | | |
| Income tax expense for the period | 118,153 | (51) | 118,102 |
| Share of profit (loss) of associates and joint ventures | (13,496) | (5,941) | (19,437) |
| Amortisation of intangible assets and depreciation of property, plant and equipment and investment property | 304,435 | 179 | 304,614 |
| **Operating cash flow** | **605,813** | **-** | **605,812** |
| **Cash flows for the period** | **114,108** | **-** | **114,108** |

# II. CONSOLIDATION POLICIES

The consolidation scope includes subsidiaries, joint ventures and associates.

*Subsidiaries*
Entities controlled by the Group are considered subsidiaries, as defined by IFRS 10 - *Consolidated Financial Statements*.
Control exists when the Parent Company has at the same time:

- decision-making power over the investee, that is the power to direct the relevant activities of the investee, that is activities that have a significant influence on the results of the said investee;
- the right to variable (positive or negative) returns from its involvement with the entity;
- the ability to use its decision-making power to determine the amount of the returns coming from its involvement with the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.
Equity and portion of profit/loss attributable to non-controlling interests are identified separately in the consolidated statement of financial position and income statement.
Subsidiaries are consolidated on a line-by-line basis intra-group balances, transactions, unrealised income and expenses are eliminated in full.
We can note also that: a) all changes in the equity interest that do not constitute a loss of control are treated as equity transactions and therefore have a contra entry in equity; b) when a parent company transfers control to one of its investees, but continues all the same to hold an interest in the company, it measures the equity investment retained in the financial statements at fair value and recognises any gains or losses deriving from loss of control in the income statement.

*Joint ventures*
These are companies over whose activity the Group has joint control, in virtue of contractual agreements.
Joint control, as defined by IFRS 11 – *Joint Arrangements, is the "contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control".*
With reference to entities jointly owned by mixed public and private ventures, given the objective possibility for the public shareholder to influence the company not only by means of governance agreements, but also because of its nature of public entity, the existence of joint control is judged on the basis of contractual agreements, assessing the actual possibility for the private partner to jointly control strategic decisions regarding the joint venture.
Joint arrangements are divided into 2 types:

- a Joint Venture (JV) is an arrangement whereby the parties have rights to the net assets of the arrangement. Joint ventures are measured using the equity method;
- a Joint Operation (JO) is an arrangement whereby the parties are not limited exclusively to participating in the company's net profit or loss, but have rights to its assets and obligations for its liabilities. In this case the assets/revenues on which the joint operator exercises such rights and the liabilities/costs of which the joint operator assumes the obligations are fully consolidated.

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

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

# III. CONSOLIDATION SCOPE

The consolidation scope includes the companies directly or indirectly controlled by the Parent Company, plus joint ventures and associates.

On 1 January 2017, two business combinations involving Group companies took effect, which did not change the consolidation scope, but did have an impact on the structure of the Group itself:
- Merger by incorporation of the subsidiary Iren Servizi e Innovazione S.p.A. into its parent Iren Energia S.p.A.;
- Merger by incorporation of the subsidiary Iren Gestioni Energetiche S.p.A. into its parent Iren Mercato S.p.A.

The operations occurred as part of the Group's "overall" Corporate Rationalisation and Organisational Project, aimed at simplifying the equity investment structure and reducing the number of business Companies wholly held, directly or indirectly, by the Parent Company and at integrating/optimising the business processes/activities with uniform operating characteristics.

*Parent Company:*
Iren S.p.A.

*Companies consolidated on a line-by-line basis*
The four companies responsible for the single business lines and their direct and indirect subsidiaries are consolidated on a line-by-line basis

1) Iren Ambiente and its subsidiaries:
    - Amiat V and the subsidiary:
        - AMIAT
    - Bonifica Autocisterne
    - Iren Rinnovabili and the subsidiaries:
        - Greensource and the subsidiaries:
            - Enia Solaris
            - Varsi Fotovoltaico
        - Studio Alfa and the subsidiary
            - Coin Consultech
    - Montequerce
    - Ricupero Ecologici Industriali
    - TRM Holding
    - TRM V
    - TRM

2) Iren Energia

3) Iren Mercato and its subsidiary:
    - Salerno Energia Vendite

4) IRETI and its subsidiaries:
    - ASM Vercelli (formerly ATENA) and the subsidiary:

- ATENA Trading

- Consorzio GPO
- Iren Laboratori
- Iren Acqua (formerly Mediterranea delle Acque) and its subsidiaries:
  - Iren Acqua Tigullio (formerly IdroTigullio)
  - Immobiliare delle Fabbriche

For details of the subsidiaries, joint ventures and associates please see the lists included in the Annexes.

**CHANGES IN FULL CONSOLIDATION SCOPE**

The changes in consolidation scope during financial year 2017 were due to:

- the acquisition of control, in May, over Salerno Energia Vendite, in which the Group already held a 36.8% stake through GEA Commerciale (100% Iren Mercato), by merger, incorporating GEA Commerciale into Salerno Energia Vendite.
  After the operation described above, the shareholding structure of Salerno Energia Vendite is the following: Iren Mercato at 50%, Salerno Energia Holding at 48.8% and Gestione Servizi Comunali at 1.2%. The governance agreements made by the shareholders enable Iren Mercato to exercise control over the entity, managing its significant activities, exposing itself to the variable results deriving from its equity investment and using its decision-making power to determine the entity of these results.
  Salerno Energia Vendite, measured at equity up to 30 April 2017, consequently came into the full consolidation scope starting from May 2017.
  We can note that, in line with the provisions of IFRS 3, the acquisition of control over Salerno Energia Vendite entailed the remeasurement of the non-controlling interest held previously, with the consequent recognition of income of 8,635 thousand euro booked to the item “Value adjustments on equity investments” (Note 42).
  Under the terms of IFRS 3 - Business Combinations the cost of the business combination was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed.
  The fair value of the price paid in the business combination, inclusive of the fair value, at the acquisition date, of the interest in the company acquired previously owned by the Iren Group, was 16,105 thousand euro.
  The fair value, at the acquisition date, of the identifiable assets acquired and the identifiable liabilities assumed was substantially in line with the fair value of the price transferred and, therefore, in the accounting for the business combination no goodwill or gain deriving from purchase at a favourable price was recognised.
  The positive difference between the price paid, as defined above, and the corresponding portion of shareholders’ equity acquired, of 12,962 thousand euro, was allocated to the value of the customer list and residually to an automotive natural gas distribution plant held by Salerno Energia Vendite.
- the acquisition of control, at the end of December, of the Iren Rinnovabili Group, in which the Group had a 70% stake through Iren Ambiente, following the expiry of the governance agreements entered into with the other shareholder CCPL S.p.A. which made Iren Rinnovabili a jointly controlled company.
  Iren Rinnovabili and its subsidiaries Greensource, Enia Solaris, Varsi Fotovoltaico, Studio Alfa and Coin Consultech, measured at equity up to the end of December 2017, consequently came into the full consolidation scope starting from 31 December 2017.
  We can note that, in line with the provisions of IFRS 3, the acquisition of control over Iren Rinnovabili entailed the adjustment to the fair value of 70% of the stake previously accounted for using the equity method, with the consequent recognition of income of 2,837 thousand euro booked to the item “Value adjustments on equity investments” (Note 42).
  Under the terms of IFRS 3 - Business Combinations the cost of the business combination was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed.
  The fair value of the price paid in the business combination was to 17,593 thousand euro.
  The fair value, at the acquisition date, of the identifiable assets acquired and the identifiable liabilities assumed was substantially less than the fair value of the price paid and, therefore, in the accounting for the business combination goodwill of 3,544 thousand euro was recognised.

The positive difference between the price paid, as defined above, and the corresponding portion of shareholders' equity acquired, of 7,135 thousand euro, was allocated to the value of the customer list of Studio Alfa, to the stakes in STU Reggiane and BI Energia held by Iren Rinnovabili, to the photovoltaic plants in concession, and provisionally and residually to goodwill, while awaiting completion of the measurements to be made under the terms of IFRS 3 – Business Combinations.
We can note finally that, following the commitment signed with the other shareholder CCPL S.p.A. To purchase the remaining 30% stake, a financial liability of 7,540 thousand euro was recognized and Iren Rinnovabili's stake was consolidated at 100%. This change in the equity interest which does not constitute a change of control was treated as an equity transaction and entailed recognition of a negative shareholders' equity reserve of 1,519 thousand euro.

Furthermore, on 1 January 2017 IRETI acquired a business unit owned by Acque Potabili S.p.A. comprising the assets, liabilities and related legal relationships regarding the integrated water service concessions in 31 municipalities in Northern Italy. The operation completes the rationalisation process that saw the concessions held by the latter being transferred to the shareholders SMAT S.p.A. and IRETI S.p.A.
The acquisition of the unit resulted in a change to the Group's scope of assets and liabilities.
The fair value of the price paid in the business combination was to 6,059 thousand euro.
The fair value, at the acquisition date, of the identifiable assets acquired and the identifiable liabilities assumed was substantially in line with the fair value of the price transferred and, therefore, in the accounting for the business combination no value to allocate to asset elements or gain deriving from purchase at a favourable price was recognised.

The table below summarises, for the three business combinations described above, the fair value of the price paid at the acquisition date, the pro-rata book value of the assets acquired (net of goodwill) and the liabilities assumed and the adjustments made following the measurement at fair value of the assets acquired and the liabilities assumed.

thousands of euro

| | **Salerno Energia Vendite** | **Iren Rinnovabili Group (*)** | **Integrated Water Service (IWS) unit formerly Acque Potabili** |
|---|---|---|---|
| Fair value of the price paid at the acquisition date (A) | 16,105 | 17,593 | 6,059 |
| Pro-rata book value of the assets acquired (net of goodwill) and the liabilities assumed (B) | 3,143 | 10,458 | 6,059 |
| Difference (A-B) | 12,962 | 7,135 | - |
| **Adjustments made following the measurement at fair value of the assets acquired and the liabilities assumed:** | | | |
| Property, plant and equipment | 1,383 | - | - |
| Intangible assets | 35,126 | 4,382 | - |
| Investments accounted for using the equity method | - | 2,620 | - |
| Employee benefits | (10) | - | - |
| Deferred taxation | (10,574) | (1,223) | - |
| Shareholders' equity attributable to non-controlling interests | (12,962) | (2,188) | - |
| Goodwill | - | 3,544 | - |

(*) Provisional allocation while awaiting completion of the measurements to be made under the terms of IFRS 3 – Business Combinations

# IV. ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The criteria adopted in drawing up these Consolidated Financial Statements at 31 December 2017 of the Iren Group are indicated below; the accounting standards described were applied consistently by all the Group entities and have not changed with respect to those adopted at 31 December 2016, with the exception of what is indicated in the section "Accounting standards, amendments and interpretations applied from 1 January 2017".

**Property, plant and equipment**

*- Property, plant and equipment owned*

Property, plant and equipment are recognised at contribution, purchase or internal construction cost. This cost includes all directly attributable costs necessary to make the asset available for use (including, when relevant and where a real obligation exists, the present value of the estimated costs of dismantling and removing the asset and reclaiming the site on which it is located), net of trade discounts and rebates.

Financial expense related to the purchase or internal construction of items of property, plant and equipment is capitalised for the part of the cost of the asset until it becomes operative.

When significant components of property, plant and equipment have different useful lives, they are accounted for separately.

In particular, under this policy, land and buildings located on the land are to be recognised separately; only the buildings are depreciated, while the carrying amount of land is impaired, as described in the following section "Impairment losses".

Ordinary maintenance expenditure is expensed in full in the income statement. Expenditure that increases the carrying amount of the asset is charged to the asset to which it relates and depreciated over its estimated useful life, in compliance with IAS 16. Such expenditure includes expenditure that reasonably leads to an increase in future economic benefits, such as the lengthening of useful life, increase in production capacity, improvement in product quality and adoption of production processes that entail a significant reduction in production costs.

Assets under construction include expenditure related to the construction of plants incurred until the reporting date. These investments are depreciated once the asset becomes operative.

Property, plant and equipment are depreciated systematically on a straight-line basis annually using economic-technical rates determined in line with their residual useful lives. Landfills are depreciated based on the filling percentage.

Transferable assets are depreciated according to the expiry term of the related concession decrees. Continuing the action of 2016, once again in 2017 depreciation was suspended for transferable assets of the hydroelectric plants in Valle Orco (except San Lorenzo) and San Mauro, following the entry into force of Italian Law No. 134 of 7 August 2012 and the related implementing decree of 28 March 2013. These measures change the current regulations regarding the large shunt concessions for hydroelectric purposes ("hydroelectric concessions"). The new regulations establish that the outgoing operator is entitled to an amount for "wet assets" (collection, regulation works, penstocks, drain pipes included in the business unit of the outgoing operator, the "transferable assets"), calculated on the basis of the revalued historical cost, net of public capital grants, also revalued, received by the operator for the construction of these works, less normal wear. As a result of these measures, starting from 2012, for transferable assets related to expired hydroelectric concessions with a residual carrying amount lower than the estimated value to be granted to the outgoing operator (calculated on the basis of the above provisions), their depreciation has been suspended.

The rates applied are set out in the following table:

| | **Min. rate** | **Max. rate** |
|---|---|---|
| Buildings | 1.25% | 10.90% |
| Lightweight constructions | 2.00% | 10.00% |
| Vehicles | 10.00% | 25.00% |
| Sundry equipment | 5.00% | 25.00% |
| Furniture and office machines | 6.00% | 20.00% |
| Hardware | 10.00% | 50.00% |
| Facilities | 1.25% | 50.00% |

The marginal changes in rates compared to 2016 are due to the new companies that came into the full consolidation scope, the updating of the economic and technical useful lives of individual assets and the result of verification performed on these by technicians responsible for the plants.

Grants related to assets are recognised as deferred revenue and taken to the income statement over the depreciation period of the related item of property, plant and equipment.

- Leased assets

Assets held under finance leases are recognised as property, plant and equipment using the financial method with a balancing entry under payables of the same amount, as provided for by IAS 17 which, while reflecting the economic substance of operations, assimilates these operations to purchase and financing agreements. Based on the above-mentioned method, property, plant and equipment are recognised at the capital value upon subscription of the finance lease. The amounts due to the lessor are also recognised under financial payables. This liability is decreased over time in line with repayment of the lease principal. Interest on payables is recognised in the income statement based on the repayment plan, in addition to depreciation of the asset based on the expected useful life.
Conversely, under the financial method, leased out assets are not included in property, plant and equipment. The related financial asset is recognised in the Statement of financial position. It decreases over time in line with collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the repayment plan.

**Investment property**

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

**Intangible assets**

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

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

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

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

| | Years | |
|---|---|---|
| | **from** | **to** |
| Industrial patents and intellectual property use rights | 1 | 8 |
| Concessions, licences, trademarks and similar rights | 1 | 99 |
| Software | 1 | 33 |
| Other intangible assets with finite useful life | 1 | 57 |

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

Assets under development and payments on account relate to internal and external costs referring to intangible assets for which the company has not yet acquired the right and has not started to use in production. These investments are amortised from the date they begin to be used in production.
Under IAS 36, assets under development are tested for impairment annually, or whenever there is any indication of impairment, so as to check that the carrying amount matches the recoverable amount.

**Goodwill**

Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the fair value of the identifiable assets, liabilities and contingent liabilities related to the complex acquired. If, after this restatement, the value of current and contingent assets and liabilities exceeds the acquisition cost, the difference is recognised immediately in the income statement.
Any goodwill deriving from the acquisition of an associate or joint venture is included in the carrying amount of the investment.
Goodwill is allocated to one or more cash-generating units and is not amortised, but is annually tested for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on "Impairment losses").

**Non-current assets held for sale - Discontinued operations**

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

Discontinued operations represent a part of the group that has been discontinued or classified as held for sale, and:

a. represents an important business unit or geographical area of operations;
b. forms part of a single coordinated disposal plan or an important autonomous business unit or geographical area of operations;
c. is a subsidiary acquired solely with a view to resale.

If a single non-current asset is involved (e.g. a property or an investment in an associate), the recognition of profit or loss from the disposal or valuation depends on the nature of the asset.
If it is a discontinued operation and is a material component of the item "Net profit/loss from discontinued operations", a single amount is recorded represented by the total of:

i) profit or loss on the discontinued operation, net of tax effects; and
ii) the capital gain or loss, net of tax effects, recognised after the fair value measurement, net of costs to sell or actual disposal of the asset.

The income statement of the comparative period is restated in order to guarantee consistent comparison.
If the asset is immaterial, revenue and costs from the discontinued operation continue to be recognised on a line-by-line basis under the related income statement items, whilst the profit/loss from discontinued operations includes only the capital gain or loss referred to under point ii) above.

**Service concession arrangements**

The IREN Group is subject to application of IFRIC 12, which defines the recognition and measurement criteria to be adopted in agreements between public and private sectors related to development, financing, management and maintenance of infrastructures under licence agreement. In particular, should the grantor control the infrastructure by regulating and controlling the characteristics of the services supplied and the applicable prices, as well as by maintaining a residual interest in the activity, the operator will purchase either the right to use said infrastructure, or the financial asset, or both, based on the agreements made. Therefore, the operators that are included in the above cases cannot recognise the assets dedicated to the supply of the service as property, plant and equipment in the statement of financial position under assets, regardless of the acknowledgement of ownership in favour of the same operators included in the service concession arrangements.
In particular, the operator purchases a financial asset to the extent that it has an unconditioned contractual right to payment or another financial asset from, or upon instruction of, the grantor with reference to the building services. The purchased financial asset is subject to provisions set forth in IAS 32, IAS 39 and IFRS 7.
The operator purchases an intangible asset to the extent that it has a right (licence) to receive payment from users of the public utility. The right to receive payments from users is not an unconditional right to receive payments as the amounts depend on how much the utility is used. The intangible asset recognised is subject to the provisions of IAS 38.
If the operator is paid for the building services partly with a financial asset and partly with an intangible asset, the two amounts composing the payment to the operator shall be recognised separately. The payment received or to be received for both items is initially recognised at the fair value of the amount received or to be received and disclosed in the relevant revenue item.

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

**Impairment losses on non-financial assets**

The IASs/IFRSs require a company to assess whether there are any specific indications of impairment. The company performs an impairment test, which consists of estimating the recoverable amount of the asset and comparing it to its net carrying amount.
The recoverable amount is the higher of fair value less costs to sell (if an active market exists) and the value in use of the asset. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit, inclusive of taxes, by applying a discount rate, before taxes, represented by the current market assessments of the time value of money and risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. If the impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased, with a counter-item in the income statement, up to the estimated new recoverable amount. The latter amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised. The reversal of an impairment loss is not applicable to goodwill.
The value in use is generally defined by discounting the cash flows expected from use of the asset or Cash Generating Units and from the value expected from its disposal at the end of its useful life.
The Cash Generating Units were identified in keeping with the Group's organisational and business structure, as assets that generate independent incoming cash flows deriving from continuous use of the same.
Assets that are not subject to amortisation (goodwill and other intangible assets with an indefinite useful life) and intangible assets that are not yet available for use are tested for impairment annually, even if no indication of impairment exists.

**Financial instruments**

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

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

- Equity investments carried at equity
These are equity investments in associates or joint ventures, measured using the equity method, that is by recognising an amount equal to the investor's share of equity as per the most recent financial statements available, adjusted to account for the difference between the price paid and equity at the acquisition date and any intra-group transactions, if relevant.

The investor's share of profit or loss arising from application of the equity method is recognised as a "Share of profit or loss of associates and joint ventures measured using the equity method", while the share of other comprehensive income is recognised in the statement of comprehensive income.
The difference between the purchase cost and the value, pertaining to owners of the Parent, of the identifiable current and potential assets and liabilities of the associate or joint venture at the acquisition date, is recognised as goodwill, included in the carrying amount of the investment, and tested for impairment using the same procedures described in the section above.
The risk deriving from losses which exceed the investor's share of equity is provided for in provisions for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

- Other equity investments
Investments in other companies, classified as available for sale (AFS), are measured at fair value. Gains and losses deriving from changes in fair value are recognised directly in other comprehensive income up to the moment in which they are sold or have suffered an impairment loss; in this case, the total loss is reversed from other comprehensive income and recognised in the income statement for an amount equal to the difference between the acquisition cost and current fair value. If the fair value cannot be reliably determined, investments are measured at cost adjusted for impairment losses, the effect of which is recognised in the income statement.
The risk deriving from losses which exceed the carrying amount of the investment is recognised in provisions for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

- Financial assets held for trading
Upon initial recognition, financial assets held for trading are measured at purchase cost, i.e. at the fair value of the consideration paid: the transaction costs, as they are ancillary, are included in the purchase cost.
Subsequent to initial recognition, they are measured at fair value, without deducting any transaction costs that may be incurred upon sale or disposal. Changes in fair value are taken directly to the income statement.
If fair value cannot be determined reliably, such assets are measured at cost.

- Financial assets available for sale
Upon initial recognition, available-for-sale financial assets are measured at the fair value of the consideration paid (acquisition cost, including related costs).
Subsequent to initial recognition, they are measured at fair value, without deducting any transaction costs that may be incurred upon sale or disposal. Changes in fair value are recognised in other components of the statement of comprehensive income and transferred to the income statement only when the available-for-sale assets are derecognised or have undergone an impairment loss.
If the fair value of investments in instruments representing equity cannot be determined reliably, such assets are measured at cost.

- Hedging instruments
The Group uses derivative financial instruments solely to hedge its exposure to currency, interest rate and commodity risks.
A hedging relationship qualifies for hedge accounting, under IAS 39, if all of the following conditions are met:
– at the inception of the hedge, there is formal designation and documentation of the hedging relationship and the company's risk management objective and strategy for undertaking the hedge;
– the hedge is expected to be highly effective in offsetting changes in fair value (fair value hedges) or cash flows (cash flow hedges) attributable to the hedged risk;

– for cash flow hedges, an expected future transaction that is hedged must be highly probable and must present an exposure to changes in cash flows that might ultimately affect profit or loss;
– the effectiveness of the hedge can be reliably measured, i.e. the fair value or cash flows of the hedged item and the fair value of the hedging instrument can be reliably measured;
– the hedge is assessed on an ongoing basis and is considered highly effective throughout the entire life of the derivative.

Hedging instruments are measured at fair value, calculated in accordance with IFRS 13. The fair value is determined by using adequate measurement models for each type of financial instrument by using, where available, the market forward curve, both regulated and not regulated (intrinsic value). For option contracts fair value is supplemented with the time value, which is based on their residual life and the volatility of the underlying.

Taking into account the provisions of IFRS 7 on the fair value hierarchy, as extended by IFRS 13, for each category of financial instrument measured at fair value the fair value hierarchy is as follows:
- Level 1: Prices listed (not adjusted) on active markets for identical assets or liabilities;
- Level 2: Input data other than Level 1 listed prices which are observable for assets or liabilities, either directly (as in the case of prices), or indirectly (i.e. derived from prices);
- Level 3: Input data related to assets or liabilities which are not based on observable market data (unobservable data).

Hedging instruments are tested for effectiveness at each reporting date to check whether the hedge still meets the requirements for designation as effective and can be recognised using hedge accounting.
If the requirements for the application of hedge accounting are met:
- for a cash flow hedge, fair value gains or losses on the hedging instrument are recognised in the statement of comprehensive income for the effective portion of the hedge (intrinsic value), and in the income statement for the time value portion and any ineffective portion (over-hedging);
- for fair value hedges, fair value changes on both the hedging instrument and hedged item are recognised in the income statement.

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

- Other financial assets and liabilities

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

- Trade Receivables and Payables

Trade receivables and payables, with repayment dates that are in line with normal commercial practices, are not discounted as the time value of money is not material for their measurement, and are recognised at fair value (equal to their nominal amount). After initial recognition they are measured at amortised cost. Trade receivables are presented net of provisions for impairment of receivables which reflect the estimate of losses on receivables based on calculation models that consider several variables such as the kind of customer, the seniority of the receivable, the historical data on receivable collection performance and any other specific information on the customers being assessed.

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

**Inventories**

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

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

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

**Shareholders' equity**

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

**Employee benefits**

Post-employment benefits are defined according to plans which, based on their characteristics, are separated into "defined contribution" and "defined benefit" plans.
In defined contribution plans, the company obligation, limited to the payment of State contributions or to a separate fund, is calculated on the basis of contributions due. For the Group these are included under post-employment benefits accrued since 1 January 2007, payable to the INPS (the Italian Social Security Institution) fund and the share paid to the additional pension funds.
The liability relating to defined benefit plans, net of any plan assets, is calculated according to actuarial assumptions. For the Group, included in this category are post-employment benefits accrued until 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the tariff discounts for employees and former employees, additional monthly salaries (Art. 47, national labour agreement for the sector), the loyalty bonus paid to employees and contributions paid to the Premungas fund.
The present value of the liability is calculated for each employee using the projected unit credit method.
The total liability is calculated by estimating the amount payable on termination of the employment relations, taking into account economic, financial and demographic factors. This amount is recognised on a proportional basis over the period of service matured.

For post-employment benefits accrued at 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the proportional basis is not applied because at the reporting date the benefits can be considered accrued in full.
The demographic, economic and financial variables are validated annually by an independent actuary.

As regards presentation in the financial statements, the changes in liabilities connected with the obligation related to a defined benefit plan are broken down into three components:
1) operating (service cost), personnel expenses;
2) financial (finance cost), net interest income/expense;
3) measuring (remeasurement cost), actuarial gains/losses.
Gains and losses deriving from actuarial calculations regarding post-employment benefits are immediately recognised in Other comprehensive income, except for the loyalty bonus which is entirely recognised in the Income statement.

As regards disclosures, information is given on the characteristics of the plans and related amounts entered in the financial statements, as well as on the risk resulting from the plans and including a sensitivity analysis of oscillations in demographic risk.

**Provisions for risks and charges**

Provisions for risks and charges are set aside to cover liabilities of uncertain amount or due date that are recognised when, and only when, the following conditions are met:
- the company has a present obligation (legal or constructive) as a result of a past event at the reporting date;
- it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Risks for which the related liability is only potential are disclosed in the notes to the financial statements, and no provision is made.
No additional information is provided for events that are remote, i.e. where it is very unlikely they will arise, and no provision is made.
The provisions are recognised at the amount representing the best estimate of the total that the company would pay to settle the obligation, or transfer it to third parties at year end. If the discounting effect on the value of money is significant, the provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money.
On discounting, the time-related increase in the provision is recognised as financial expense.
Provisions for landfill post-closure are discounted to the present on the basis of the cash flows indicated in the report drawn up by an independent expert.
The provisions for the renewal of transferable assets was set up so as not to recognise costs for maintenance, replacements and similar work, which do not increase the carrying amount of the asset, only in the periods in which they were incurred but to distribute them among the different periods of use of those assets.

**Revenue**

Revenue is measured at fair value with respect to the amount received or due, taking account of any commercial discounts and reductions connected with quantity.
Revenue from the sale of goods is recognised when:
- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither the ownership rights nor effective control over the goods sold by the seller;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

When an uncertainty arises about the collectability of an amount already recognised, the non-collectable amount must be recognised as an expense, rather than as an adjustment of the income originally recognised.

**Grants related to assets and grants related to income**

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

**Other income**

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

**Costs for the purchase of goods and services**

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

**Financial income and expense**

Income arising from the use by others of company assets yielding interest and dividends is recognised when:
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the amount of revenue can be measured reliably.

Income is recognised on the following basis:
- interest is recognised on an accrual basis that takes into account the effective yield on the asset;
- receivables from dividends on investments are recognised when the shareholder’s right to receive payment is established. This usually coincides with the resolution passed by the related meeting.

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

Financial expense is recognised in the year in which it is incurred; expense that is directly attributable to the acquisition, construction or production of a plant is capitalised as part of the cost of that asset when:
- it is likely that it will result in future economic benefits for the company
- it can be reliably measured.

**Income tax expense**

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

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

Deferred tax assets are recognised only when their recovery is probable. The amendments to IAS 12 approved by the European Commission with Regulation (EU) 2017/1989 of 6 November 2017 provide some clarifications on the criteria to be adopted to determine whether there are sufficient taxable incomes against which to use the deductible temporary differences.
Deferred tax liabilities are calculated at the tax rates that are expected to apply for the year in which the differences are reversed.

The option for the Group tax consolidation scheme was exercised pursuant to Art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A. The latter then calculates IRES on the algebraic sum of taxable profits/losses of each company taking part in the tax consolidation scheme.
In return for the taxable income earned and transferred to the parent, the consolidated company commits to paying "tax settlements" to the parent equal to the amount of taxes owed on the income transferred, net of the transferred IRES receivables.

**Translation criteria**

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

**Emission Trading Scheme**

The Emission Trading Scheme, which came into force in the European Union on 1 January 2005, is one of the 'flexible mechanisms' permitted under the Kyoto Protocol in order to reach greenhouse gas emission targets. The target for Italy was a 6.5% reduction in $CO_2$ emissions by 2012 compared with 1990.
Italian Legislative Decree No. 30 of 13 March 2013 transposed Directive 2009/29/EC into Italian law. This directive introduced new rules for trading greenhouse gas emissions and new activities subject to application of the regulations in the period 2013-2020.
The Group actively participates in the emissions trading scheme to reduce greenhouse gas emissions and contribute to reaching the targets with respect to the national reduction plan.
Emission quotas held in the context of activities associated with achieving these targets, be they purchased or received free of charge, are accounted for as intangible assets. These quotas must initially be measured at fair value, represented by the market value in the allocation period or by the actual purchase price; the two amounts, however, are substantially the same. Emission quotas are not amortised, but eventually written down if impairment testing shows that their fair value decreases below the carrying amount.

As regards the obligations related to the period, the $CO_2$ emissions made are measured at fair value, represented by the market price, and are set aside as provisions for charges, used at the moment in which the rights are cancelled.
In the event of sale of emission quotas, together with the decrease in intangible assets, any capital gain/loss deriving from the selling price is recognised.
Any emission quotas held for trading which are still unsold at year end are recognised in the statement of financial position under the item Inventories. These quotas are measured at the lower of cost and market value.

**Other energy certificates**

Some types of energy certificates closely related to the activities performed were assigned to the Group. These are strictly connected with the performance of specific activities aimed at energy-saving and at injection into the electricity system of energy produced by renewable sources. In particular, the Group received:

- from the Energy Services Operator (GSE) an ex-green certificate incentivising tariff, as established by the Ministerial Decree of 6 July 2012, valid for the production of plants that already benefited from green certificates;
- from the Energy Services Operator (GSE), tradeable certificates that certify that energy-saving work has been performed (Energy Efficiency Certificates – “EECs”- the so-called “white certificates”).

For accounting purposes, these energy certificates are considered as follows:

- the incentivising tariff (ex-green certificates) deriving from the annual production of electricity from renewable sources is recognised on the basis of the accruals concept when the right matures;
- White Certificates are accounted for in a slightly different way according to whether the entity is obliged or not obliged to return the EECs.
  In fact, entities that are obliged to return the EECs recognise both the grant related to the obligation for the year and the cost of the EECs purchased to meet this obligation in the year of accrual. If the EECs purchased exceed the compulsory amount, the cost of the exceeding purchased certificates is discounted; conversely, if the certificates purchased are not enough to meet obligations, the cost of certificates to be purchased will be allocated to meet the compulsory amount for the year.
  Entities not obliged to return the EECs:
  - if they operate in trading activities, recognise revenue and costs of the certificates bought and sold and suspend among inventories any unsold certificates, measured at the weighted average cost.
  - if white certificates mature in the context of energy efficiency and energy saving activities, the related revenue is recognised as it accrues.

**Earnings per share**

- Basic earnings per share

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

- Diluted earnings per share

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

**ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2017**

As of 1 January 2017, the following amendments to the accounting standards, issued by the IASB and endorsed by the European Union, are obligatorily applicable:
*IAS 7 - Statement of Cash Flows.* The amendment was issued on 29 January 2016 and requires the entity to provide information on the changes in financial liabilities, both deriving from cash flows, and of a non-monetary nature, in order to enable users of financial statements to assess better the reasons for these changes. Application of the amendment entails for the Iren Group the need to provide supplementary information and, in particular, a reconciliation of the opening and closing balances of financial liabilities, distinguishing between cash changes, changes deriving from obtaining and/or losing control over investees, fair value changes and other changes. Comparative information for previous years is not required.
*IAS 12 - Income taxes.* The amendment, issued on 19 January 2016, provides some clarifications and illustrative examples on the methods of recognising deferred tax assets related to unrealised losses on debt instruments measured at fair value, and on the criteria for determining future taxable income against which the deductible temporary differences can be used. No impacts are foreseen for the Iren Group deriving from application of the amendment in question.

On 8 February 2018 Regulation (EU) 2018/182 was published; this contains a number of amendments related to the accounting standards IAS 28, IFRS 12 and IFRS 1. These amendments are applicable from 1 January 2017 as regards IFRS 12 and from 1 January 2018 for the others. The Iren Group does not foresee impacts deriving from application of these amendments.

**ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BUT NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE GROUP**

As of 1 January 2018, the following accounting standards and amendments to account standards will be applicable, as they have completed the EU endorsement process:

*IFRS 9 – Financial Instruments*. In July 2014 the IASB published the standard IFRS 9 "Financial Instruments", then endorsed in Regulation (EU) 2067/2016 of 22 November 2016. The standard is the result of a process that began in 2008 following the economic and financial crisis, with the aim of completely rewriting the accounting rules for recognition and measurement of financial instruments provided for in IAS 39. In brief the rules of IFRS 9 regard:

- the criteria for classification and measurement of financial assets and liabilities. As regards financial assets, the new standard uses a single approach based on management models of financial instruments and characteristics of contractual cash flows of financial assets, with the aim of determining the measurement criteria, replacing the various rules set forth in IAS 39. In particular, the standard provides for the following three categories for the classification of financial assets: a) financial assets carried at amortised cost; b) financial assets carried at fair value through other comprehensive income (FVOCI); c) financial assets carried at fair value through profit and loss (FVTPL).
  As regards financial liabilities, the main amendment is instead related to accounting for fair value changes of a financial liability designated as carried at fair value through profit or loss, if these are due to a change in the creditworthiness of the liability itself. According to the new standard, these changes must be recognised under other comprehensive income;
- impairment of financial assets. The standard replaces the current "incurred loss" model introducing a new impairment model based on expected losses, where "loss" means the present value of all future lost revenue, opportunely integrated to take into account future expectations ("forward-looking information"). The estimate must be made initially on the expected losses in the next 12 months; in consideration of any gradual deterioration of the receivable the estimate must be adequate to cover the expected losses along the whole life of the receivable. The standard also requires that adequate information be provided on the estimation criteria used;
- hedging operations (hedge accounting). IFRS 9 introduces a number of significant changes that mainly regard the effectiveness test, as the 80-125% threshold is abolished and replaced by an objective test that verifies the economic relationship between the hedged instrument and the

hedging instrument, accounting only for the cost of the hedge, and extending the hedged elements and the disclosure required.

The Iren Group has assessed that, as regards the application of IFRS 9, the possible impacts can derive mainly from recalculating provisions for impairment of receivables at 31 december 2017 in relation to trade receivables, to which the simplified method is applied, more specifically, the provision matrix model: this model involves identifying the default rates observed historically, applied for the entire expected life of the receivable and updated on the basis of significant future scenario elements.
The Iren Group therefore applied this model to all the companies that come within the consolidation scope: the default rates of reference were estimated using historical series related to the last 3 years for most of the companies/businesses, while they were derived from businesses/customers assimilable by type for less significant units. The future scenario elements were considered neutral and therefore the default rates were not corrected. The expected impact deriving from first adoption of the new standard at 1 January 2018 was estimated as an increase, between 2% and 5%, of provisions for impairment of trade receivables at 31 December 2017.

*IFRS 15 – Revenue from Contracts with Customers.* The standard, published by the IASB on 28 May 2014 and endorsed by the European Union on 22 September 2016 in Regulation 1905/2016, replaces IAS 18 - Revenue, IAS 11 - Construction Contracts, and interpretations SIC 31, IFRIC 13 and IFRIC 15. The new standard applies to all contracts with customers, with the exception of contracts that fall under the scope of IAS 17 - Leases, of insurance contracts and of financial instruments. The purpose of the new standard is to establish the criteria to be adopted in order to provide users of financial statements with information about the nature, amount and uncertainties associated with revenue and cash flows deriving from existing contracts with customers. In particular IFRS 15 defines a model for recognising revenue based on 5 steps:

i. identify the contract with the customer; By contract is meant a commercial agreement approved by two or more parties that creates enforceable rights and obligations. The standard contains specific rules for assessing whether two or more contracts must be combined together and for identifying the accounting implications of a contractual amendment;
ii. identify the “Performance Obligations” contained in the contract;
iii. determine the “Transaction Price”. In order to determine the transaction price it is necessary to consider, among other things, the following elements: a) any amounts collected on behalf of third parties (e.g. sales taxes), which must be excluded from the price; b) variable components of the price (such as performance bonuses, penalties, discounts, refunds, incentives, etc.); c) financial component, if the payment terms grant the customer a significant extension;
iv. allocate the price to the Performance Obligations on the basis of the “Relative Stand Alone Selling Price”;
v. recognise revenue when the Performance Obligation is satisfied. The asset or service is transferred when the customer obtains control over the asset or service and that is when it has the ability to decide and/or direct its use and obtain substantially all its benefits. The principle expressed by IAS 18, for which the revenue must be recognised looking at the benefits obtainable from the asset and assessing the probability of collecting the related receivable, is replaced. Control may be transferred at a certain moment (point in time) or in a period of time (over time).

The standard in question was further amended on 12 April 2016: the amendment, endorsed on 31 October 2017 and also applicable starting from 1 January 2018, clarifies the guidelines for identifying an obligation to sell a good or to provide one or more services, determining whether an entity acts on its own behalf (principal) or as a representative (agent), and providing indications on accounting for licences related to intellectual property.

In order to assess the impacts deriving from applying IFRS 15 to the Iren Group’s financial statements recognition activities were completed on the different contractual types that characterise the businesses in which the group operates. Specifically the analysis activity focused on:

a) contracts with gas and electricity customers, both retail and business, including contracts related to ancillary services (so-called new downstream).
The main types of offers related to administration of gas and electricity and to ancillary services were analysed in order to identify the performance obligations included in the contract and check the related

market price. The analyses carried out did not find any particular critical issues, except for the presence, in some contractual types, of free ancillary services (e.g. house insurance policies): in consideration of the large number of contracts and the amounts involved, allocation to the same of part of the transaction price would entail a reclassification among the revenue items which would be insignificant in terms of amount. Currently therefore no significant impacts on the Iren Group's financial statements are foreseen. However the opportune procedures have been activated in order to monitor the proportion of such contracts and identify promptly any critical issues in future "bundle" offers;

b) some aspects of a regulatory nature, including fees for connection to the distribution networks.

As regards the above connection contributions the regulations state that the Distributor may ask the Vendor for a partial or total refund of the costs incurred for connection/meter installation, without this entailing the transfer of control over the asset under the terms of IFRS 15. These assets cannot be associated, under the terms of paragraph 95 of IFRS 15, with a specific Vendor because they may be used in future in the service of other Vendors. They must therefore be depreciated on the basis of their economic-technical useful life and not of the duration of the contract with the Vendor. In the same way the corresponding revenue, which cannot be considered part of the fee for the distribution service, will be accounted for along the life of the relevant asset in line with what is envisaged for tariff purposes.

Further assessments on the subject of regulations, and the consequent quantification of any impacts deriving from applying IFRS 15, may be carried out in the light of the effective practice in the industry and of the resolutions issued in the early months of 2018 by the Regulatory Authority for Energy, Networks and the Environment (Autorità di Regolazione per Energia Reti e Ambiente - ARERA).

*Amendments to IFRS 2 - "Share-based payments".* Document issued by the IASB on 20 June 2016 and endorsed by the European Union on 26 February 2018 in Regulation 289/2018. The amendments, which apply for financial years starting on 1 January 2018 with the option of being applied in advance, clarify the recognition of specific types of share-based payment transactions. In particular, the amendments refer to:

- the impact of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions. In particular it is clarified that at the measurement date (i.e. at the assignment date, at the closure of each accounting period and at the settlement date) the fair value must be calculated taking into consideration the vesting and non-vesting conditions associated with market factors, such as reaching a certain market price within a predefined time period, ignoring the vesting conditions associated with business performance and presuming, unless known otherwise, that the employee remains in service;
- the recognition of share-based payment transactions that require withholding tax to be applied;
- the reclassification of transactions from cash-settled to equity-settled due to modifications of the terms and conditions of the transaction.

This is a case currently not present in the Iren Group, and therefore no impacts are foreseen from applying these new provisions.

As of 1 January 2019, the following accounting standards will be applicable, as they have completed the EU endorsement process:

*IFRS 16 – Leases.* Standard published by the IASB on 13 January 2016, intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard provides a new definition of lease, irrespective of the contractual form adopted (leasing, rental or hire) and in practice marks the end of the distinction between operating leasing and financial leasing.
IFRS 16 introduces a criterion based on the right of use for an asset to distinguish leasing contracts from services contracts, identifying as discriminating factors: identification of the asset, the right to replace the same, the right to obtain substantially all economic benefits deriving from use of the asset and the right to control use of the asset underlying the contract. On the lessee's part, the new standard provides for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value; in the income statement

depreciation and interest expense must be recognised separately. On the lessor's part the impact on the financial statements consists only of greater disclosure.
Its application in the Iren Group is planned starting from 1 January 2019 although early adoption is permitted for entities that will adopt IFRS 15.
In the coming months, detailed analysis will therefore be carried out to assess the effects the introduction it will have on the Group.

**ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION**

Endorsement by the relevant bodies of the European Union is currently in progress for the following updates and amendments to the IFRSs (already approved by the IASB):

Amendment to *IAS 40 Investment Property* which comes into force on 1 January 2018. The amendment entails a clarification on the application of paragraph 57 of IAS 40 providing guidelines on changes that can lead to classifying an asset which was not an investment property as such or vice versa. The amendment clarifies that a change in the management's intentions for the use of a property by itself does not constitute evidence of a change in use.

As regards other new standards applicable starting from financial year 2018 or subsequent years, assessments for their correct application and analyses of the presumable impacts on future financial statements are in progress.

# V. GROUP FINANCIAL 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.
A summary of the risk management and control methods is shown below with respect to financial instruments (liquidity risk, exchange rate risk, interest rate risk, credit risk) and commodity price risk related to fluctuations in the prices of energy commodities.

1. FINANCIAL RISKS
Iren Group 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 exchange rate risk and interest rate risk.

*a) Liquidity risk*
Liquidity risk is the risk that financial resources available to the company will be insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines. The procurement of financial resources was centralised in order to optimise their use. In particular, centralised management of cash flows in Iren makes it possible to allocate the funds available at the Group level according to the needs that from time to time arise among the individual Companies. Cash movements are recognised in intra-group accounts along with intra-group interest income and expense. A number of investees have an independent financial management structure in compliance with the guidelines provided by the Parent Company.
The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored, and no critical points have emerged regarding the coverage of short-term financial commitments. At the end of the period short-term bank credit facilities used by the Parent Company totalled zero.

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

Financial liabilities at 31 December 2017:

thousands of euro

| | Carrying amount | Contractual cash flows | within one year | 1-5 years | Over 5 years |
|---|---|---|---|---|---|
| Loans and bond payables (*) | 3,063,470 | (3,435,703) | (199,847) | (1,557,720) | (1,678,136) |
| Hedging of interest rate risk(**) | 82,537 | (82,537) | (19,127) | (46,812) | (16,598) |

(*) The carrying amount of “Mortgage loan and bond payables” includes both current and non-current portions.
(**) The carrying amount of “Hedging of interest rate risk” includes the positive and negative fair value of the hedging contracts.

Financial liabilities at 31 December 2016:

thousands of euro

| | Carrying amount | Contractual cash flows | within one year | 1-5 years | Over 5 years |
|---|---|---|---|---|---|
| Loans and bond payables (*) | 3,213,362 | (3,588,635) | (446,563) | (1,460,079) | (1,681,993) |
| Hedging of interest rate risk(**) | 116,188 | (116,188) | (25,111) | (66,716) | (24,361) |

(*) The carrying amount of “Mortgage loan and bond payables” includes both current and non-current portions.
(**) The carrying amount of “Hedging of interest rate risk” includes the positive and negative fair value of the hedging contracts.

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

Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suited to its needs, and the best market conditions.
During the period, the Iren Group took out new medium/long-term loans totalling 550 million euro, entirely for the Parent Company. Details of the activities performed in this area and of the individual transactions are shown in the chapter Financial Income and Expenses of the Directors’ Report.

At 31 December 2017, 77% of the residual amount payable for loans was contractualised at a fixed interest rate and 23% at a floating rate.
With regard to the liquidity risk potentially deriving from contractual clauses allowing counterparties to withdraw financing should certain events occur (default and covenant risk), we can note that the clauses in Iren’s loan agreements are being observed. In particular, for certain medium/long-term loan agreements Iren is committed to observing financial covenants (such as Debt/EBITDA, EBITDA/Financial expense ratios) with annual verification. Moreover, other covenants have been provided for. One is the Change of Control clause, which states that the Iren Group should be kept under direct and indirect control by Local Authorities. In addition, there are Negative Pledge clauses, 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 certain companies which contribute to the Group’s Net Financial Position, in particular the Project Finance contract with TRM, also envisage the observance of financial indices which have been satisfied.

*b) Exchange rate risk*
Except as indicated under the section on energy risk, the Iren Group is not significantly exposed to exchange rate risk.

*c) Interest rate risk*
The Iren Group is exposed to interest rate fluctuations especially with regard to the measurement of financial expenses related to indebtedness. The Iren Group's strategy is to limit exposure to the risk of interest rate volatility, maintaining at the same time a low cost of funding.
In a non-speculative view, the risks associated with the increase in interest rates are monitored and, if necessary, reduced or eliminated by swap and collar contracts with financial counterparties of high credit standing, for the sole purpose of hedging. At the end of the period, all the contracts entered into meet the requisite of limiting the exposure to the risk of oscillation of interest rates and, except for a few positions with insignificant impacts, they also meet the formal requirements for the application of hedge accounting.
The total fair value of the aforementioned interest rate hedges was a negative 82,537 thousand euro at 31 December 2017.

The hedging contracts entered into, together with fixed-rate loans, hedge approximately 91% of gross financial debt against interest rate risk, in line with the Iren Group's target of maintaining adequate protection against significant increases in the interest rate.

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

- a theoretical increase and decrease of 100 basis points in the Euribor interest rates over the year was applied to net financial debt;
- in any existing hedge, interest rate shock was applied to both the debt position and related hedging derivative with an extremely limited net effect on the income statement;
- the change in interest rates is also applied to any portion of interest expenses capitalised in the year.

With regard to hedging derivatives existing at year end, a 100 basis points theoretical upward and downward change was applied to the forward curve of interest rates used to measure the fair value of the hedges.
The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2017.

thousands of euro

| | **increase of 100 bps** | **100 bps decrease** |
|---|---|---|
| Increase (decrease) in net financial charges | 185 | (240) |
| Increase (decrease) in derivative fair value charges | 4,099 | (4,425) |
| Increase (decrease) in hedging reserve | 32,747 | (36,153) |

## 2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables deriving from the sale of electricity, district heating, gas and the provision of energy, water and environmental services. The receivables are spread across a large number of counterparties, belonging to non-uniform customer categories (retail and business customers and public bodies); some exposures are of a high amount and are constantly monitored and, if necessary, covered by repayment plans. The Iren Group's Credit Management units devoted to credit recovery are responsible for this activity.
In carrying on its business, the Group is exposed to the risk that the receivables may not be honoured on maturity with a consequent increase in their age and in insolvency up to an increase in receivables subject to arrangement procedures or unenforceable. This risk reflects the current unfavourable economic and financial situation.

To limit exposure to credit risk, a number of tools have been activated. These include analysing the solvency of customers at the acquisition stage through careful assessment of their creditworthiness, transferring the receivables of discontinued and/or active customers to external credit recovery companies and introducing new recovery methods for managing legal disputes.
The receivable management policy and creditworthiness assessment tools, as well as monitoring and recovery activities differ in relation to the various categories of customers and types of service provided.
Credit risk is hedged, for some types of business customers, with opportune forms of first-demand bank or insurance guarantees issued by subjects of leading credit standing.
An interest-bearing guarantee deposit is paid for some types of services (water, natural gas, "protected customer" electricity sectors) in compliance with regulations governing these activities. This deposit is reimbursed if the customer uses payment by direct debit from a current account.
The payment terms generally applied to customers are related to the legislation or regulations in force or in line with the standards of the free market; in the event of non-payment, default interest is charged for the amount indicated in the contracts or by the legislation.
Provisions set aside for impairment of receivables accurately reflect the effective credit risk through assessments based on analysis of the individual receivable items recorded in the databases, specifically taking into account ageing, as well as comparison with historical losses on receivables and determination of the average non-payment rate.
The procedures for monitoring and reporting credit risks are also strengthened, in order to identify promptly possible countermeasures.
In addition, on a quarterly basis, the Risk Management Department collects and integrates the main data on trade receivables of the Group companies, in terms of type of customers, status of the contract, business chain and ageing band. Some of the above assessments are carried out at intervals of less than three months or when there is a specific need.

With reference to credit concentration we can note the relations between the subsidiaries Iren Energia and AMIAT and the Municipality of Turin. For further details, see in particular Note 15 "Current financial assets" of the Notes to the statement of financial position.

3. ENERGY RISK

The Iren Group is exposed to price risk, on the energy commodities traded, these being electricity, natural gas, environmental emission certificates, etc., as both purchases and sales are impacted by fluctuation in the price of the said energy commodities directly or through indexing formulae. Exposure to exchange rate risk, typical of oil-based commodities, is present, but is attenuated thanks to the development of the European organised markets that trade the gas commodity in the euro currency and no longer indexed to oil products.
The Group's strategy is to minimise the need to turn to the financial markets for hedges, both by aligning the indexing of the commodities purchased and sold and by exploiting, vertically and horizontally, its various business segments.
For this purpose, the Group carries out planning of the production of its plants and purchases and energy and natural gas sales, in relation to both volumes and price formulae.
The objective is to obtain a sufficient stability in the margins through:

- for the electricity supply chain, the opportune balancing of internal production and energy from the futures market with respect to the demand coming from the Group's customers, with adequate recourse to the spot market;
- for the natural gas supply chain the priority of alignment of the indexing of the commodity in purchase and sale.

In 2016, commodity derivative contracts (Commodity swaps on TTF and PSV indices) were entered into as an energy portfolio hedge for 2017, for a total notional amount of 7 TWh. In 2017, additional commodity derivative contracts (Commodity swaps on TTF and PSV indices) were entered into for 0.5 TWh, once again to hedge the energy portfolio for 2017, and for 1.3 TWh as a hedge for the 2018 energy portfolio.

Again in 2017, additional swaps were then stipulated on PSV index for 0.6 TWh, combined with SNP (Single National Price) swaps for an equivalent notional amount, with the aim of margin stabilisation, and further swap operations on SNP for 0.1 TWh.
The fair value of agreements still in force on 31 December 2017 was a positive total of 2,284 thousand euro.

Iren Mercato trading operations involve negotiating physical and financial contracts on the electricity and gas market and financial contracts directly on the underlying commodities. These contracts may refer to various indexes (SNP, ITEC, gas indexes, etc.) and to trading on Platforms. At 31 December 2017 no financial contracts were in place that originate from such assets and are classified in the specific Trading Portfolio.

**RECOGNITION OF DERIVATIVES**

Derivatives are measured at fair value, determined on the basis of market values or, if unavailable, according to an internal measurement technique.
The Group deals with derivatives with the purpose of hedging specific interest rate or price risks.
In order to recognise derivatives, it is necessary to distinguish between transactions that meet all of the IAS 39 requirements in order to record them in compliance with the hedge accounting rules and transactions that do not abide to all of the above-mentioned requirements.

*Transactions recognised in compliance with hedge accounting rules*

These transactions may include:

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

Classification in the income statement of the ineffective component and the deferred amount transferred from equity is based on the nature of the underlying instrument; in the case of commodity derivatives, this amount is accounted for in the gross operating profit (EBITDA), while in the case of interest rate risk hedges in financial income and expenses.

*Transactions not recognised in compliance with hedge accounting rules*

The derivative is recognised at fair value in the statement of financial position.
The change in the fair value of the derivative is recognised in the income statement and is classified based on the type of underlying instrument:

- in the case of commodity derivatives, in the gross operating profit (EBITDA); specifically, the realised component is recognised to adjust the income or expense to which it refers, while the portion determined from measuring the derivative at the end of the period is classified under other expense or other income;
- in the case of interest rate risk hedges, in financial income or expenses.

As regards the measurement of the derivative in the statement of financial position items, the fair value of the derivative is recognised in long-term financial assets and liabilities if the related underlying item is a medium/long-term item. Conversely, the derivative is recognised in short-term financial assets and liabilities if the underlying item is settled within the reference period.

**FAIR VALUE**

In addition to the carrying amount, the fair value, along with the methods and major assumptions used to determine it, must be disclosed for every asset and liability class shown in the financial statements.

Fair value is determined as the sum of estimated future cash flows in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the curve of forward interest rates at the reporting date.
In order to provide a disclosure as complete as possible, the corresponding figure from the previous year is also indicated.

thousands of euro

| | 31.12.2017 | | 31.12.2016 | |
|---|---|---|---|---|
| | Carrying amount | Fair Value | Carrying amount | Fair Value |
| Assets for hedging derivatives | 1,812 | 1,812 | 1,439 | 1,439 |
| Bonds due at more than 12 months | (1,777,885) | (1,879,082) | (1,377,398) | (1,454,755) |
| Bonds due within 12 months | - | - | (178,554) | (186,021) |
| Loans - non-current portion | (1,148,105) | (1,232,820) | (1,458,486) | (1,563,351) |
| Loans - current portion | (137,480) | (164,114) | (198,924) | (231,554) |
| Liabilities for hedging derivatives | (84,349) | (84,349) | (117,627) | (117,627) |
| **Total** | **(3,146,007)** | **(3,358,553)** | **(3,329,550)** | **(3,551,869)** |

The amounts related to assets and liabilities for hedging derivatives in the table refer exclusively to derivatives hedging interest rate risk.

As regards financial asset and liability classes which are not included in the table above, the carrying amount is equal to fair value.

**FAIR VALUE HIERARCHY**

The following table shows financial instruments recognised at fair value, based on the measurement technique used. The various levels were defined as shown below:

- Level 1: Prices listed (not adjusted) on active markets for identical assets or liabilities;
- Level 2: Input data other than Level 1 listed prices which are observable for assets or liabilities, either directly (as in the case of prices), or indirectly (i.e. derived from prices);
- Level 3: Input data related to assets or liabilities which are not based on observable market data (unobservable data).

thousands of euro

| 31.12.2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets available for sale | | | | |
| Financial assets designated at fair value through profit or loss | | | | |
| Financial investments held for trading | | | | |
| Derivative financial assets | | 4,117 | | 4,117 |
| **Total assets** | **-** | **4,117** | **-** | **4,117** |
| Derivative financial liabilities | | (84,370) | | (84,370) |
| **Grand total** | **-** | **(80,253)** | **-** | **(80,253)** |

thousands of euro

| 31.12.2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets available for sale | 88 | | | 88 |
| Financial assets designated at fair value through profit or loss | | | | - |
| Financial investments held for trading | | | | - |
| Derivative financial assets | | 13,374 | | 13,374 |
| **Total assets** | **88** | **13,374** | **-** | **13,462** |
| Derivative financial liabilities | | (117,627) | | (117,627) |
| **Grand total** | **88** | **(104,253)** | **-** | **(104,165)** |

All the Group's hedging instruments have a fair value which can be classified at level 2. This level is measured through valuation techniques, that take, as a reference, parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different from the price of the financial instrument, or in any case that do not require a significant adjustment based on data which cannot be observed on the market.
We can also note that no transfers occurred amongst the various Levels of the fair value hierarchy.

**CAPITAL MANAGEMENT**
The capital management policies of the Board of Directors involves maintaining a high level of capital to uphold relations of trust with investors, creditors and the market, and also allowing future business development.
The Board of Directors monitors the return on capital and the level of dividends for distribution to shareholders, and aims to maintain a balance between achieving extra yield by recourse to indebtedness and the benefits and security offered by a solid equity position.

# VI. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

As indicated in the Directors' Report the information on financial and economic transactions with related parties is provided below.

**Transactions with related-party shareholder Municipalities**

Iren S.p.A. provides Finanziaria Sviluppo Utilities S.r.l., a special purpose company through which the Municipalities of Genoa and Turin hold their equity investment in Iren S.p.A., with a series of corporate services, in accordance with a specific agreement that provides for consideration for these services.

Furthermore, it is important to note the main relationships held directly with provincial capital Municipalities, as related parties on whose territory Iren operates, directly and through its subsidiaries.
The Group, through Iren Energia S.p.A. (which incorporated IREN Servizi e Innovazione S.p.A. with effect from 1 January 2017), manages services awarded by the Municipality of Turin, namely public street lighting and traffic light services, management of heating and electrical systems of buildings used as administrative offices or to provide services to the community. The services rendered by Iren Energia are governed by specific long-term agreements.
In this regard we can note that an onerous current account contract is in place between the City of Turin and Iren Energia for management of the past-due receivables related to the above activities.
Over the last three years some important work on plant regeneration and energy efficiency has been carried out. This has involved municipal street lighting systems and heating plants in numerous publicly-owned buildings.
It should be remembered that there is an agreement in place, signed during 2012 with the Municipality of Turin, which provides for the amendment of some provisions of the current service conventions between the former Iren Servizi e Innovazione S.p.A. and the Municipality itself. With *Addenda* signed in 2013, 2014 and 2015 details on the execution of the aforementioned Agreement were outlined.

The Iren Group, through Iren Mercato, supplies the Municipalities of Genoa, Reggio Emilia, Parma and Piacenza with electricity and the Municipality of Turin with heat, at the conditions normally applied to all other customers.

Iren Acqua S.p.A. and IRETI provide water services respectively to the Municipality of Genoa and to the Municipalities of Reggio Emilia, Parma and Piacenza, based on supply contracts similar to those signed with all other customers.

Through AMIAT, the Group provides the municipality of Turin with environmental health and snow clearing services, and performs post-operative management of the "Basse di Stura" landfill site in accordance with the Service Contract in being since 1 January 2013, awarded through a public tender procedure. In this regard we can note that, with effect from 1 January 2015, an onerous current account contract is in place between the City of Turin and AMIAT S.p.A. for management of the past-due receivables related to the above activities.

Iren Ambiente provides the Municipalities of Reggio Emilia, Parma and Piacenza with urban waste collection and disposal services on the basis of the conditions provided for in the existing agreements.

It is worth recalling, finally, that a settlement agreement between the Iren Group and the Municipality of Parma is in force to settle the credit/debit position with a number of Group companies.

**Transactions with joint ventures and associates**

Among the main transactions carried out by the Iren Group with joint ventures and associates, we can note:

- the supply to Asti Energia e Calore of goods and services for work on regenerating and increasing the energy efficiency of public lighting plants in the City of Asti;
- the loan granted to OLT Offshore LNG Toscana in relation to the Livorno regasification plant;
- the commercial supplies of electricity, natural gas and district heating to the company Global Service Parma;
- the sales of water and the work related to the integrated water service provided to AMTER;
- the service of disposal of residual waste produced by the Re.Cos. plants;
- the procurement of natural gas from Sinergie Italiane;
- the services, including back office, call centre, reading, printing, postal and shipment services, provided by So.Sel to the Group.

**Transactions with other related parties**

On the basis of the Internal Regulations on Transactions with Related Parties, the companies controlled, directly or indirectly, by one of the following Provincial Capitals have been identified as related parties: Municipalities of Parma, Piacenza and Reggio Emilia, as signatory Municipalities of the current Voting and Block Shareholders' Agreement between FSU (in which the Municipality of Turin and the Municipality of Genoa have equal stakes) and the so-called "Emilian Parties", and the Municipalities of Turin and Genoa.
In particular we can note that in order to supply the integrated water service in the provinces of Parma, Piacenza and Reggio Emilia, the company IRETI, with the payment of an annual lease, uses the assets of the companies Parma Infrastrutture, Piacenza Infrastrutture and AGAC Infrastrutture, controlled by the Municipalities involved.
The remaining relations with related parties controlled by the above Municipalities are mainly of a commercial nature and regard services provided to all other customers.

Quantitative information on financial transactions with related parties is provided in paragraph "XII. Annexes to the Consolidated Financial Statements", considered an integral part of these notes.

Lastly, with regard to directors, we can note that other than regarding their offices held within the Group companies there have been no transactions with the directors.
If the related conditions are fulfilled, transactions that consist of assigning remunerations and economic benefits, in any form, to members of the administration and control bodies and to key management personnel are also subject to the provisions of the Internal Regulation on transactions with related parties.

**Transactions with related parties**

During the meetings held in 2017, the Committee for Transactions with Related Parties was asked to examine transactions classified as transactions with related parties carried out between Iren or companies controlled by it, directly or indirectly, and related parties.

***Disclosure pursuant to Art. 5.8 lett. a) and 5.9 CONSOB Regulation - Transactions of major significance***

Following non-fulfilment of the condition precedent in relation to the transaction regarding the supply of financial resources~~,~~ by Iren to TRM, for the purpose of early repayment of the Project Financing in being between this latter company and a pool of banks (originally for a maximum of € 413 million), and the participation, by TRM, in the Parent Company's centralised treasury system (the so-called "2016 Transaction"), the Group's competent structures began assessments which led to ascertaining that the motivations of economic convenience which had led to the 2016 Transaction were still valid and, therefore, they decided:

(i) to present again, after enquiries by the competent bodies of Iren and TRM, an application for voluntary early repayment of the entire exposure in being at 30 June 2017 in relation to the lending banks;
(ii) to proceed with the signing, by Iren and TRM, of an agreement for intra-group financing to be destined to the repayment pursuant to point (i) and of a centralised treasury contract.

The transaction outlined above, in relation to which the Committee for Transactions with Related Parties of IREN S.p.A. expressed a favourable opinion on 10 May 2017, was classified as "of major significance" under the terms and for the purposes of article 5 of the CONSOB Regulation, as it was not covered by the exemption provided for in article 6 of the Internal TRP Regulation, involving TRM, a company in which the Municipality of Turin (a related party of Iren S.p.A.) has a significant interest as defined by CONSOB Communication no. DEM/10078683 of 24 September 2010 (hereinafter the "CONSOB Communication").
Under the terms of Art. 5, paragraphs 8 and 9, of the CONSOB Regulation, you are referred to the information contained in the Disclosure Document published on the Company's website on 19 May 2017 and updated with respect to the Disclosure Document made available to the public on 21 November 2016 with reference to the 2016 Transaction.
The effectiveness of the application for voluntary early repayment was subject to the condition precedent of receiving, by 20 June 2017, a declaration from TRM's banking counterparty in the existing derivative contract, waiving both the exercise of any right and/or option to withdraw from or terminate the said derivative contract and to demand, in the event of voluntary early repayment of the loan, the payment of any sum. The signing of the definitive intra-group loan contract by Iren and TRM was conditional on the application for voluntary early repayment becoming effective.
As per the press release made available to the public on the Company's website on 21 June 2017, we can specify that, as the event did not occur within the deadline provided for in the condition itself, the application for early repayment of the project financing to the lending banks never became effective and can never become effective as the deadline within which this condition should have been fulfilled has passed. Therefore, the aforementioned application for early repayment of the project financing must be understood, in other words, as if it had never been presented.

In addition, on 30 March 2017, after a favourable opinion from the Committee for Transactions with Related Parties of Iren S.p.A., the Board of Directors of the Company approved the transaction, classified as "of major significance" owing to its quali-quantitative aspects, regarding the integration between the Group (and, specifically, Iren Ambiente S.p.A.) and AMIU Genova S.p.A., subject to approval of the same by Genoa City Council.
Since, on 31 March 2017, the Executive Committee of Genoa City Council withdrew the draft resolution related to the above operation, the effectiveness of the resolution on the same subject passed by the Iren S.p.A. Board of Directors has remained suspended, while waiting to find out the orientation of the Genoa Executive Committee with respect to any possibility of presenting the draft resolution to the City Council again.
During its meeting on 4 May 2017, on the agenda of which was again the approval of the aforesaid business combination, the Genoa City Council resolved to adjourn discussion of the matter to the next council, which was to take office after the local elections.
In view of the above, on 11 May 2017, the IREN S.p.A. Board of Directors acknowledged that the resolution to approve the above business combination, passed by the Board of Directors on 30 March 2017, must be considered wholly ineffective.
Please refer, for completeness, to the press releases made available to the public on the Company's website.

At 31 December 2017, in relation to the aforementioned transactions, there were no further updates with respect to what is described above.

Under the terms of art. 5, paragraphs 8 and 9, of the CONSOB Regulation, you are referred to the information contained in the Disclosure Document prepared and made available to the public under the terms and for the purposes of the said Regulation (available on the website www.gruppoiren.it, in the section "Corporate Governance - Transactions with Related Parties").

In addition, we can note that, following specific enquiries, the Committee for Transactions with Related Parties (CTRP) expressed a favourable opinion on the following transactions, classified as of "minor significance" on the basis of the related significance index:

- in July 2017 the sale without recourse to Iren S.p.A. of the receivables claimed by Finanziaria Sviluppo Utilities S.r.l. in relation to the tax authorities, that arose following an application for IRES rebate from IRAP deduction related to financial years 2007-2008-2009;
- in November 2017 the transaction regarding the formalisation of a programme agreement aimed at increasing separate waste collection and recycling of municipal waste between AMIAT S.p.A. (an investee company of the Iren Group and of FCT Holding S.p.A.) and the Municipality of Turin (Related Party of the Iren Group);
- in December 2017 the transaction regarding the signing of a plan for payment of the receivable in being between IRETI S.p.A. (wholly owned by IREN S.p.A.) and Gruppo Torinese Trasporti S.p.A. (controlled indirectly by the Municipality of Turin and a Related Party of the Iren Group).

In accordance with the provisions of the text of the current internal TRP Regulation, during 2017 an update was also provided to the CTRP, by the management of the companies involved each time, on the execution of some of the transactions examined during the previous year, after a copy of the relevant documentation was received.

# VII. OTHER INFORMATION

## CONSOB COMMUNICATION NO. DEM/6064293 of 28 July 2006

**Significant non-recurring events and transactions**

During 2017 the Group did not carry out significant non-recurrent events and/or transactions, as defined in the Communication, that is to say events or transactions the occurrence of which is non-recurring or transactions or events which are not repeated frequently in the normal performance of the business.

**Positions or transactions deriving from atypical and/or unusual operations**

We can specify that during financial year 2017 the Group did not engage in any atypical and/or unusual operations, as defined in the Communication. Atypical and/or unusual operations are operations which owing to their significance/relevance, nature of the counterparties, subject of the transaction, the method by which the sales price is calculated and the timescale of the event (nearness to reporting date) may give rise to doubts with regard to the correctness/completeness of the information given in the financial statements, conflict of interest and safeguarding of the company's equity or protection of minority shareholders.

**Publication of the Financial Statements**

The Financial Statements were approved for publication by Iren S.p.A.'s Board of Directors at its meeting of 7 March 2018. The Board of Directors authorised the Chairperson, and the Chief Executive Officer to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders.

The shareholders' meeting to be called to approve the separate financial statements of the Parent Company has the right to request amendments to the aforementioned consolidated financial statements.

# VIII. NOTES TO THE STATEMENT OF FINANCIAL POSITION

Unless otherwise stated, the following tables are in thousands of euro.

## ASSETS

### NON-CURRENT ASSETS

### NOTE 1_PROPERTY, PLANT AND EQUIPMENT

The breakdown of property, plant and equipment, divided between historical cost, accumulated depreciation and carrying amount, is shown in the following table:

thousands of euro

| | Cost at 31/12/2017 | Accumulated depreciation at 31/12/2017 | Carrying amount at 31/12/2017 | Cost at 31/12/2016 | Accumulated depreciation at 31/12/2016 | Carrying amount at 31/12/2016 |
|---|---|---|---|---|---|---|
| Land | 104,498 | (1,817) | 102,681 | 101,298 | (1,551) | 99,747 |
| Buildings | 551,039 | (184,900) | 366,139 | 526,138 | (165,780) | 360,358 |
| Plant and machinery | 5,007,061 | (2,165,936) | 2,841,125 | 4,933,840 | (2,020,723) | 2,913,117 |
| Industrial and commercial equipment | 115,126 | (89,035) | 26,091 | 106,188 | (81,455) | 24,733 |
| Other assets | 166,274 | (125,138) | 41,136 | 152,836 | (116,492) | 36,344 |
| Assets under construction and payments on account | 72,172 | - | 72,172 | 48,206 | - | 48,206 |
| **Total** | **6,016,170** | **(2,566,826)** | **3,449,344** | **5,868,506** | **(2,386,001)** | **3,482,505** |

The variation in the historical cost of property, plant and equipment is shown in the following table:

thousands of euro

| | Opening balance | Increases | Decreases | Changes in consolidation scope | Reclassifications | Impairment losses for the period | Closing balance |
|---|---|---|---|---|---|---|---|
| Land | 101,298 | 146 | (52) | 666 | 2,440 | - | 104,498 |
| Buildings | 526,138 | 18,016 | (982) | 2,538 | 5,648 | (319) | 551,039 |
| Plant and machinery | 4,933,840 | 78,468 | (33,940) | 49,885 | (20,070) | (1,122) | 5,007,061 |
| Industrial and commercial equipment | 106,188 | 6,218 | (2,739) | 3,572 | 1,887 | - | 115,126 |
| Other assets | 152,836 | 12,919 | (5,099) | 1,825 | 3,793 | - | 166,274 |
| Assets under construction and payments on account | 48,206 | 44,371 | (550) | 1,698 | (21,553) | - | 72,172 |
| **Total** | **5,868,506** | **160,138** | **(43,362)** | **60,184** | **(27,855)** | **(1,441)** | **6,016,170** |

The variation in accumulated depreciation is shown in the following table:

thousands of euro

| | Opening balance | Depreciation for the period | Decreases | Changes in consolidation scope | Reclassifications | Closing balance |
|---|---|---|---|---|---|---|
| Accumulated depreciation, land | (1,551) | (269) | 1 | - | 2 | (1,817) |
| Accumulated depreciation, buildings | (165,780) | (19,344) | 895 | (652) | (19) | (184,900) |
| Accumulated depreciation, plant and machinery | (2,020,723) | (183,629) | 31,859 | (13,470) | 20,027 | (2,165,936) |
| Accumulated depreciation, ind. and comm. equipment | (81,455) | (6,231) | 2,650 | (2,485) | (1,514) | (89,035) |
| Accumulated depreciation of other assets | (116,492) | (9,738) | 5,058 | (1,542) | (2,424) | (125,138) |
| **Total** | **(2,386,001)** | **(219,211)** | **40,463** | **(18,149)** | **16,072** | **(2,566,826)** |

The column changes in consolidation scope refer to the balances acquired during the year relating to the company Salerno Energia Vendite, to the companies of the Iren Rinnovabili Group and to the business unit regarding the integrated water service concessions in 31 Municipalities in Northern Italy acquired from Acque Potabili S.p.A..
The balance of the reclassification column refers mainly to net transfers from property, plant and equipment to intangible assets of items that come within the scope of application of IFRIC 12.

Land and buildings
This item primarily includes industrial buildings connected with Group plants and related land.

Plant and machinery
This item refers to costs for electricity production plants, heat production plants, electricity distribution networks, gas distribution networks, heat distribution networks and plants related to waste disposal services not operated under concessions as per IFRIC 12. Freely transferable assets are included in the assets of electricity production plants.

Industrial and commercial equipment
This item includes costs related to the purchase of supplementary or auxiliary assets for plants and machinery, such as rubbish bins, laboratory and other equipment.

Other assets
This item refers to costs for the purchase of office furniture and machines and vehicles.

Assets under construction and payments on account
The item assets under construction includes all expenses incurred for investments in progress and not yet in operation.

Increases
The increases in the period, of 166,068 thousand euro, mainly refer to:
- development of the district-heating network and new connections to the network, including heat exchange substations, meters and remote reading appliances, for 24,988 thousand euro;
- investments in the electricity distribution grids of 28,158 thousand euro;
- investments in thermoelectric and hydroelectric plants of 29,480 thousand euro;
- investments for collection and disposal in the waste management segment of 22,830 thousand euro;
- partial repurchase of properties sold in 2012 to the Core Multiutilities Fund of 16,140 thousand euro

Depreciation and amortisation

Ordinary depreciation for financial year 2017, totalling 224,070 thousand euro, was calculated on the basis of the rates indicated in paragraph "IV. Accounting standards and measurement criteria" and considered representative of the residual useful life of the assets.

It is worth noting that in accordance with current regulations regarding the large shunt concessions for hydroelectric purposes ("hydroelectric concessions"), the outgoing operator is paid an amount, calculated as follows:

- as regards "wet assets" (collection, regulation works, penstocks, drain pipes included in the business branch of the outgoing operator, the "transferable assets"), based on the revalued historical cost, net of public capital grants, revalued, received by the operator for the construction of these assets, less normal wear;
- as regards "dry assets" (property, plant and equipment included in the business unit of the outgoing operator and not included in the "wet assets" category, the so-called non-transferable assets), based on the reconstruction value, less normal wear.

As a result of this legislation, starting from 2012, for transferable assets related to expired hydroelectric concessions with a residual carrying amount lower than the estimated amount payable to the outgoing operator (calculated based on the above provisions), the related depreciation has been suspended.

Lastly, no assets are pledged against liabilities.

**NOTE 2_INVESTMENT PROPERTY**

The following table highlights the breakdown of the item:

thousands of euro

| | Cost at 31/12/2017 | Accumulated depreciation at 31/12/2017 | Carrying amount at 31/12/2017 | Cost at 31/12/2016 | Accumulated depreciation at 31/12/2016 | Carrying amount at 31/12/2016 |
|---|---|---|---|---|---|---|
| Land | 2,859 | - | 2,859 | 2,859 | - | 2,859 |
| Buildings | 13,103 | (2,825) | 10,278 | 13,103 | (2,479) | 10,624 |
| **Total** | **15,962** | **(2,825)** | **13,137** | **15,962** | **(2,479)** | **13,483** |

The item consists mainly of properties acquired from the company Sportingenova against the settlement of part of the receivable due from that company.

The fair value of investment property is not lower than the carrying amount.

### NOTE 3_ INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

Intangible assets, broken down between historical cost and accumulated depreciation, are shown in the following table:

thousands of euro

| | Cost at 31/12/2017 | Accumulated depreciation at 31/12/2017 | Carrying amount at 31/12/2017 | Cost at 31/12/2016 | Accumulated depreciation at 31/12/2016 | Carrying amount at 31/12/2016 |
|---|---|---|---|---|---|---|
| Development costs | 1,433 | (562) | 871 | 677 | (671) | 6 |
| Industrial patents and intellectual property use rights | 86,991 | (38,808) | 48,183 | 61,636 | (19,520) | 42,116 |
| Concessions, licences, trademarks and similar rights | 2,242,143 | (911,529) | 1,330,614 | 1,987,843 | (770,518) | 1,217,325 |
| Other intangible assets | 196,972 | (83,418) | 113,554 | 133,768 | (64,466) | 69,302 |
| Assets under construction and payments on account | 160,755 | - | 160,755 | 137,614 | - | 137,614 |
| **Total** | **2,688,294** | **(1,034,317)** | **1,653,977** | **2,321,538** | **(855,175)** | **1,466,363** |

The variation in the historical cost of intangible assets is shown in the following table:

thousands of euro

| | Opening balance | Increases | Decreases | Changes in consolidation scope | Reclassifications | Impairment losses for the period | Other changes | Closing balance |
|---|---|---|---|---|---|---|---|---|
| Development costs | 677 | 930 | - | - | (174) | - | - | 1,433 |
| Industrial patents and intellectual property use rights | 61,636 | 16,006 | - | 695 | 4,610 | - | 4,044 | 86,991 |
| Concessions, licences, trademarks and similar rights | 1,987,843 | 79,631 | (1,966) | 97,815 | 78,820 | - | - | 2,242,143 |
| Other intangible assets | 133,768 | 33,760 | (15,523) | 43,207 | 115 | (1,313) | 2,958 | 196,972 |
| Assets under construction and payments on account | 137,614 | 79,093 | (1,722) | 291 | (54,521) | - | - | 160,755 |
| **Total** | **2,321,538** | **209,420** | **(19,211)** | **142,008** | **28,850** | **(1,313)** | **7,002** | **2,688,294** |

Changes in accumulated depreciation of intangible assets are shown in the following table:

thousands of euro

| | Opening balance | Depreciation for the period | Decreases | Changes in consolidation scope | Reclassifications | Other changes | Closing balance |
|---|---|---|---|---|---|---|---|
| Accumulated depreciation of development costs | (671) | (59) | - | - | 168 | - | (562) |
| Accumulated depreciation of ind. patents and intellectual property use rights | (19,520) | (14,090) | - | (628) | (526) | (4,044) | (38,808) |
| Accumulated depreciation of licences, trademarks and similar rights | (770,518) | (73,684) | 1,904 | (53,781) | (15,450) | - | (911,529) |
| Accumulated depreciation of other intangible assets | (64,466) | (14,476) | 1 | (1,390) | (129) | (2,958) | (83,418) |
| **Total** | **(855,175)** | **(102,309)** | **1,905** | **(55,799)** | **(15,937)** | **(7,002)** | **(1,034,317)** |

The column changes in consolidation scope refer to the balances acquired during the year relating to the company Salerno Energia Vendite, to the companies of the Iren Rinnovabili Group and to the business unit regarding the integrated water service concessions in 31 Municipalities in Northern Italy acquired from Acque Potabili S.p.A..
The balance of the reclassification column refers mainly to net transfers from property, plant and equipment to intangible assets of items that come within the scope of application of IFRIC 12.

Industrial patents and intellectual property use rights
This item mainly relates to the total costs borne for the purchase and internal production of corporate software and the acquisition of rights for the exclusive use of technical studies on the statistical trend of network losses, amortised over between three and five years.

Concessions, licences, trademarks and similar rights
This item is primarily composed of:
- assets recognised in application of IFRIC 12, related to the operating business segments of natural gas distribution, the Integrated Water Service and, marginally, district heating;
- the right of use of pipeline networks by virtue of the concessions granted by the Municipality of Genoa and other neighbouring municipalities;
- concessions for the use of the IT network of third party operators;

Other intangible assets
This item is primarily composed of:
- rights to use telecommunication infrastructure owned by third parties;
- emission trading quotas held for internal needs;
- costs for the commercial development of customers;
- measurement of the customer list made on allocation of the price for acquiring control over Atena Trading, Salerno Energia Vendite and Studio Alfa.

Assets under construction and payments on account
This item mainly consists of investments for concession services governed by IFRIC 12, in addition to software licences and related implementation costs.

**NOTE 4_GOODWILL**

During financial year 2017 goodwill, of 127,320 thousand euro (126,314 thousand euro at 31 December 2016), increased by 3,544 thousand euro following acquisition of control over the Iren Rinnovabili Group and decreased by 2,538 thousand euro following the determination and verification of the transfer value of the Heat Service Management business unit, on 1 October 2017, from the Mercato Cash Generating Unit to the Energia Cash Generating Unit.
Goodwill is considered an intangible asset with an indefinite useful life. Therefore, it is not amortised, but annually tested for impairment to check whether the carrying amount is still recoverable. Since goodwill does not generate independent cash flows and cannot be sold on its own, the impairment test on the goodwill recognised in the financial statements is carried out making reference to the Cash Generating Unit to which the same can be allocated. The Cash Generating Units are identified with the single Business Units and correspond to the business segments presented in the foreword to these notes. They are based on the Group's management structure and internal reporting system.
This method allows for a more effective disclosure of goodwill and future investment plans and supplies a homogeneous analysis of information communicated to the market.

The table below shows the allocation of the item goodwill to the Cash Generating Units.

thousands of euro

| | **31/12/2017** |
|---|---:|
| Ambiente | 6 |
| Energia | 4,492 |
| Mercato | 29,765 |
| Reti | 93,057 |
| **Total** | **127,320** |

The impairment test procedure at 31 December 2017 was carried out in methodological continuity with that adopted at 31 December 2016.
The impairment test consists of verifying that the carrying amount of an asset recognised in the financial statements is not more than the recoverable amount of the said asset.
The recoverable amount of an asset is the higher between fair value, less costs to sell, and the value in use.
The fair value is defined as the amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, less costs to sell.
The value in use is the present value of the estimate of future outgoing and incoming cash flows that will derive from continuous use of the asset and from its final disposal. To measure the value in use, assessments were made by using pre-tax operating cash flows, which derive from the economic and financial projections based on the medium-term Business Plan approved by the Iren Board of Directors on 13 November 2017, with an explicit horizon up to 2022, as well as the pre-tax terminal value, calculated using the perpetual yield method, if applicable, based on going concern assumptions for all businesses. It can be noted that the investments contained in the economic flows of the plan include investments for maintaining the plants and infrastructures, in keeping with the going concern assumption. The average of the perpetual yield and net invested capital was used as the control method. This is based on the reasonable assumption that, if the business is discontinued, the recovery value will be at least equal to the value of the net invested capital.
The discount rate, defined by the pre-tax weighted average cost of capital (WACC), is calculated specifically for each CGU and is included in the 5.50%-9.10% range, according to the specific business unit concerned.

The table below shows the goodwill attributed to the single Cash Generating Units, specifying for each of them the discount rate (WACC) used.
The recoverable value of the goodwill attributed to the Cash Generating Units was determined making reference to the value in use of the same.

| | **Amount at 31/12/2017** | **WACC 2017** |
|---|---:|:---:|
| Ambiente | 6 | 5.80% |
| Energia | 4,492 | 7.40% |
| Mercato | 29,765 | 9.10% |
| Reti | 93,057 | 5.50%-6.00% (1) |
| **Total** | **127,320** | |

(1) Range between 5.50% and 6.00 % according to whether they are Electricity Networks, Gas Networks or Water Networks

In general, and prudentially, the "g" growth rate was used to calculate the terminal value equal to zero at real values. In the event of standalone plans used at nominal values, the "g" growth rate used was equal to programmed inflation (1.5%).

*Energy Cash Generating Unit*
The value of goodwill, of 4,492 thousand euro, refers:
- to acquisition of control over Iren Rinnovabili at the end of December following the expiry of the governance agreements entered into with the other shareholder CCPL S.p.A. which made Iren Rinnovabili a jointly-controlled company. The goodwill of 3,544 thousand euro was provisionally recognised as the surplus between the fair value of the price paid for acquisition of control and the fair value of the identifiable assets acquired and the identifiable liabilities assumed at the acquisition date.
- to the Heat Service Management business unit transferred from the Market Cash Generating Unit to the Energy Cash Generating Unit.

No loss of value was detected when the impairment test was performed, because the recoverable value of the Energia Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

*Market Cash Generating Unit*
The value of goodwill, of 29,765 thousand euro, derives mainly from:
- the equity interest in Enìa Energia (now merged into Iren Mercato), acquired from Sat Finanziaria S.p.A. and Edison, for an amount of 16,761 thousand euro;
- the business unit purchased from ENEL at the end of 2000 and referred to electricity users of the city of Parma, for an amount of 7,421 thousand euro;
- acquisition of the business unit from ERG Power & Gas related to the marketing and sale of electricity for an amount of 3,401 thousand euro.

No loss of value was detected when the impairment test was performed, because the recoverable value of the Market Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.
We must specify that the goodwill related to the Heat Service Management business unit, transferred from the Market Cash Generating Unit to the Energy Cash Generating Unit on 1 October 2017 was adjusted downwards by 2,538 thousand euro following determination and verification of the transfer value.

*Networks Cash Generating Unit*
The value of goodwill, of 93,057 thousand euro, derives mainly from:
- acquisition from ENEL of the business unit related to the distribution and sale of electrical energy to non-eligible customers in the Municipality of Turin, in which the positive difference between the purchase cost and the fair value of acquired and identifiable assets and liabilities was recognised as goodwill for 64,608 thousand euro;
- acquisition of control over Acqua Italia S.p.A. (now Iren Acqua S.p.A.), where the positive difference between the purchase cost and the fair value of acquired and identifiable assets and liabilities was recognised as goodwill of 23,202 thousand euro;
- the business unit purchased from ENEL at the end of 2000 and referred to electricity users of the city of Parma, for an amount of 3,023 thousand euro;

No loss of value was detected when the impairment test was performed, because the recoverable value of the Networks Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

In the light of the considerations presented above the recoverable value is higher than the carrying amount of the net invested capital for all the Cash Generating Units. This difference is particularly sensitive to changes in the pre-tax weighted average cost of capital (WACC) and the definition of the Terminal Value. The definition of these two variables follows a prudential approach in terms of construction logic and absolute value. Appropriate stress tests were therefore performed on the sensitivity of the recoverable value as the two variables deteriorate, without any significant problems emerging.
In the light of the current volatility of markets and the uncertain economic prospects for the future, the company considers it opportune to point out that the regulated businesses are subject to a specific sectoral legislation which governs margins. These businesses, therefore, have more stable and more easily foreseeable margins also in turbulent market periods.

We can note that the results of the aforementioned procedures were the subject of specific approval by the Board of Directors of Iren S.p.A., as recommended in the rules issued by CONSOB, the Bank of Italy and IVASS.

**NOTE 5_INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD**

Investments accounted for using the equity method are equity investments in companies in which the Group has joint control or exercises a significant influence. We must specify that measurement at net equity is carried out on the basis of the consolidated financial statements, if prepared, of the investees.
The Group companies measured using the equity method at 31 December 2017 are shown in an annex.
Changes for the year are shown in the following tables:

**Equity investments in joint ventures**

thousands of euro

| | 31/12/2016 | Increases | Changes in consolidation scope | Write-backs-write-downs for equity | Changes with direct effect on equity | Write-downs/ Revaluations | 31/12/2017 |
|---|---|---|---|---|---|---|---|
| Acque Potabili | 20,592 | - | - | (2,903) | 170 | (385) | 17,474 |
| Iren Rinnovabili | 13,351 | 2,311 | (17,593) | 305 | (1,211) | 2,837 | - |
| OLT Offshore LNG | 16,600 | - | - | 12,487 | (9) | - | 29,078 |
| **TOTAL** | **50,543** | **2,311** | **(17,593)** | **9,889** | **(1,050)** | **2,452** | **46,552** |

The change in the consolidation scope refers to the acquisition of control over and consequent full consolidation of the company Iren Rinnovabili S.p.A. and of its subsidiaries. Acquisition of control over Iren Rinnovabili occurred at the end of December following the expiry of the governance agreements entered into with the other shareholder CCPL S.p.A. which made Iren Rinnovabili a jointly-controlled company.
The write-back of the period for Iren Rinnovabili (2,837 thousand euro) refers to adjustment to the fair value of 70% of the equity investment previously accounted for using the equity method.
The changes with direct effect on equity for Iren Rinnovabili (-1,211 thousand euro) refer mainly to the change in the stake in the investee Studio Alfa which occurred during the year.
The increase in the value of the equity investment in OLT Offshore LNG was due to the profit for the period of the company, achieved following the definition of the regulatory scenario and therefore of the regasification tariffs, in particular as regards the additional remuneration of the invested capital in relation to previous years.
In relation to OLT Offshore LNG we can note that in the Iren Group's impairment procedure the recoverable value of the equity investment recognised in the financial statements was tested. From the results of the impairment test carried out, for which use was made also of the collaboration of external independent experts in order to support the main basic assumptions, it emerged that the discounted estimated future cash flows of the company make it possible to recover the value of the total assets held by the Group in relation to the investee.

## Equity investments in associates

thousands of euro

| | 31/12/2016 | Increases | Changes in consolidation scope | Write-backs-write-downs for equity | Distribution of dividends | Changes with direct effect on equity | Reclassifications | Write-downs/Write-backs | 31/12/2017 |
|---|---|---|---|---|---|---|---|---|---|
| A2A Alfa | - | - | - | - | - | - | - | - | - |
| Acos | 9,181 | - | - | 999 | - | (166) | - | - | 10,014 |
| Acos Energia | 872 | - | - | 442 | - | - | - | - | 1,314 |
| Acquaenna | - | - | - | - | - | - | - | - | - |
| Aguas de San Pedro | 9,796 | - | - | 1,399 | - | (1,600) | - | - | 9,595 |
| Aiga | - | - | - | - | - | - | - | - | - |
| Amat | 2,296 | - | - | (114) | - | 227 | - | - | 2,409 |
| Amter | 761 | - | - | 326 | (44) | (29) | - | - | 1,014 |
| Asa | 30,345 | - | - | 2,883 | - | 676 | - | - | 33,904 |
| Astea | 20,991 | - | - | 4,464 | (2,388) | (103) | - | - | 22,964 |
| Asti Energia Calore | 24 | - | - | 15 | - | - | - | - | 39 |
| BI Energia | - | - | 1,045 | - | - | - | - | - | 1,045 |
| CSP Innovazione nelle ICT | - | - | - | (1) | - | - | 150 | - | 149 |
| Domus Acqua | 83 | - | - | (28) | - | - | - | - | 55 |
| Fingas | 5,702 | - | - | - | - | - | - | (5,702) | - |
| G.A.I.A. | - | 15,024 | - | 469 | (349) | - | - | - | 15,144 |
| Global Service Parma | 6 | - | - | - | - | - | - | - | 6 |
| Iniziative Ambientali | 456 | - | - | 1 | - | - | - | - | 457 |
| Mestni Plinovodi | 4,859 | - | - | - | - | - | (8,200) | 3,341 | - |
| Mondo Acqua | 690 | - | - | (41) | - | - | - | - | 649 |
| Nord Ovest Servizi | 4,375 | - | - | - | - | - | - | - | 4,375 |
| Recos S.p.A. | 3,579 | - | - | (34) | - | - | - | - | 3,545 |
| Rio Riazzone | 224 | - | - | (78) | - | - | - | - | 146 |
| Salerno Energia Vendite | 2,170 | - | (11,854) | 1,059 | (614) | 604 | - | 8,635 | - |
| Sinergie Italiane | - | - | - | - | - | - | - | - | - |
| Sosel | 964 | - | - | 159 | (22) | - | - | - | 1,101 |
| STU Reggiane | - | - | 5,500 | - | - | - | - | - | 5,500 |
| Tirana Acque | - | - | - | - | - | - | - | - | - |
| Valle Dora Energia Srl | 556 | - | - | 722 | - | - | - | - | 1,278 |
| **TOTAL** | **97,930** | **15,024** | **(5,309)** | **12,642** | **(3,417)** | **(391)** | **(8,050)** | **6,274** | **114,703** |

During the first half of 2017 45% of the company Gestione Ambientale Integrata dell'Astigiano S.p.A. (GAIA) was acquired through the subscription of 2,492,865 shares.
In relation to the equity investment in the company CSP Innovazione nelle ICT we can note that during the first half of 2017 the stake was increased from 6.10% to 25% through subscription of the share capital increase.

The change in the consolidation scope refers to the acquisition of control over and consequent full consolidation of the company Salerno Energia Vendite. The write-back of the equity investment refers to the restatement at fair value, at the date the controlling stake was acquired, of the non-controlling interest held at 30 April 2017.
The companies BI Energia and STU Reggiane came into the consolidation scope with the net equity method following the full consolidation of Iren Rinnovabili which holds the shares of the two companies.

The value of the equity investment in Mestni Plinovodi, which was written down in previous years, was adjusted upwards (+3,341 thousand euro) and then reclassified into assets held for sale because the sale is planned for the early months of 2018.

As regards the equity investment in Sinergie Italiane, the carrying amount of which is zero, the provisions for risks against the risk of future losses of this investee amounted to 10,000 thousand euro.

The Changes with direct effect on Equity were due mainly to the exchange difference (Aguas de San Pedro) and to changes in the cash flow hedging reserves and of those related to actuarial gains/(losses) for employee benefits.

## NOTE 6_OTHER EQUITY INVESTMENTS

This item relates to equity investments in companies over which the Group has neither control, nor joint control, nor significant influence. Since their fair value could not be reliably determined, these investments were maintained at cost, adjusted for any impairment losses.
The list of other Group equity investments at 31 December 2017 is shown in an annex.
Changes for the year are shown in the following table:

thousands of euro

| | 31/12/2016 | Increases/ Decreases | Changes in consolidation scope | Write-downs | Reclassifications | 31/12/2017 |
|---|---|---|---|---|---|---|
| A2A Scarl | 7 | - | - | - | - | 7 |
| Acque Potabili Siciliane | - | - | - | - | - | - |
| Aeroporto di Reggio Emilia | - | - | 2 | - | - | 2 |
| ASQ Network | - | - | 6 | - | - | 6 |
| Astea Energia | 7 | (7) | - | - | - | - |
| Aurora srl | - | - | 3 | - | - | 3 |
| Autostrade Centro Padane | 1,248 | - | - | - | - | 1,248 |
| BT Enia | 2,110 | - | - | - | - | 2,110 |
| C.R.P.A. | 52 | - | - | - | - | 52 |
| CIDIU | 2,294 | - | - | - | - | 2,294 |
| Consorzio Italiano Compostatori | 3 | - | - | - | - | 3 |
| Consorzio Leap | 10 | - | - | - | - | 10 |
| Consorzio Topix | 5 | - | - | - | - | 5 |
| Credito cooperativo reggiano | - | - | 5 | - | - | 5 |
| CSP Innovazione nelle ICT | 28 | 151 | - | (29) | (150) | - |
| Emilbanca BCC | - | - | 1 | - | - | 1 |
| Environment Park | 1,243 | - | - | - | - | 1,243 |
| Fondo Core MultiUtilities | 100 | - | - | - | - | 100 |
| Italeko AD. | 11 | - | - | - | - | 11 |
| RE Innovazione | 12 | - | - | - | - | 12 |
| SDB Società di biotecnologie | 10 | - | - | - | - | 10 |
| Stadio di Albaro | 27 | - | - | (27) | - | - |
| T.I.C.A.S.S. | 4 | - | - | - | - | 4 |
| **TOTAL** | **7,171** | **144** | **17** | **(56)** | **(150)** | **7,126** |

**NOTE 7_NON-CURRENT TRADE RECEIVABLES**

The item amounted to 69,801 thousand euro (76,302 thousand euro at 31 December 2016) and refers mainly to:

- the receivables of the integrated water service for tariff adjustments and for lower volumes supplied with respect to the constraint of revenue due to the operator; the current tariff method provides generally (unless the fee growth limit is reached) for their recovery through fees after two years (52,242 thousand euro);
- the receivables of the electricity transmission, distribution, and metering services deriving from the rules issued in AEEGSI Resolution no. 654/2015 on the subject of tariff regulation for the period 2016-2023 which entailed the recognition of revenue from electricity transport and of the related receivables (12,958 thousand euro);
- the receivables for invoices to be issued to the Municipality of Turin for technological renewal and increased efficiency of heating systems in a number of municipal buildings (3,436 thousand euro). For more information on the overall receivable position of the Iren Group in relation to the Municipality of Turin please see Note 15 “Current financial assets”.

**NOTE 8_NON-CURRENT FINANCIAL ASSETS**

This item, 165,767 thousand euro (31 December 2016: 49,950 thousand euro), refers to securities other than equity investments, financial receivables and the measurement of derivatives with positive fair value.

**Securities other than equity investments**

The item in question includes securities considered, on the basis of the provisions of IAS 39 – *Financial Instruments: Recognition and Measurement*, as held for sale or as investments held to maturity.

Specifically they amount to 36 thousand euro (unchanged compared to 31 December 2016) and refer to securities given as collateral, classified as held-to-maturity investments, and are measured at amortised cost.

**Non-current financial receivables and fair value of derivatives**

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Non-current financial receivables from joint ventures | - | 29,030 |
| Non-current financial receivables from associates | 3,239 | 3,687 |
| Non-current financial receivables from related-party shareholders | 145,008 | 223 |
| Non-current financial receivables from others | 15,176 | 14,925 |
| Non-current accrued financial income and prepaid expenses | 496 | 610 |
| Fair value of derivatives – non-current share | 1,812 | 1,439 |
| **Total** | **165,731** | **49,914** |

Non-current financial receivables from joint ventures present at 31 December 2016 regarded receivables from Iren Rinnovabili and its subsidiaries, which starting from 31 December 2017 come within the full consolidation scope.

Financial receivables from associates refer to receivables from the companies Re.Cos (2,083 thousand euro), Asti Energia Calore (880 thousand euro) and Acquaenna (276 thousand euro). Also present is a receivable of 487 thousand euro from the associate AIGA which was completely written off.

Receivables from related-party shareholders, of 145,008 thousand euro, regard receivables from the Municipality of Turin and relate to:

- the medium/long-term portion of receivables related to the current account that regulates relations between the subsidiary Iren Energia S.p.A. and the Municipality of Turin (131,201 thousand euro);

- application of the financial asset model provided for in IFRIC 12 to the efficiency project ("Turin LED") associated with the Public Lighting service performed under concession by Iren Energia S.p.A. in the city of Turin, for the long-term portion (13,807 thousand euro). Recognition of the financial asset is a result of maturation of the current unconditional right to receive the cash flows contractually recognised, which occurred with completion of the installation of the related LED devices.

For details of the overall receivable position of the Iren Group in relation to the Municipality of Turin please see Note 15 "Current financial assets".

Non-current financial receivables from others refer mainly to the long-term portion of the receivable deriving from the sale of the business unit comprising the telecommunications network (TLC) in Emilia-Romagna which took place during 2016.

The fair value of derivatives refers to instruments in the portfolio for hedging the risk of changes in interest rates.

## NOTE 9_OTHER NON-CURRENT ASSETS

These are detailed in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Guarantee deposits | 9,456 | 9,985 |
| Tax assets after 12 months | 25,366 | 35,211 |
| Other non-current assets | 3,281 | 1,238 |
| Non-current accrued income and prepaid expenses | 6,511 | 8,520 |
| **Total** | **44,614** | **54,954** |

Receivables for guarantee deposits refer mainly to amounts paid by Iren Mercato to the investee Sinergie Italiane in relation to the natural gas supply contract signed by the parties.

Tax assets after 12 months comprise mainly:
- credits related to payment of the demands served following entry in the list concerning 2/3 of the tax ascertained relating to the dispute over the contribution of two business units, made at the end of 1999 in favour of the company Genova Acque S.p.A. (today incorporated into Iren Acqua S.p.A.), by the then parent company AMGA S.p.A.. The payments made were accounted for among other non-current assets, on the basis of considerations of recoverability of the same in the event of possible outcomes favourable to the company in the dispute in progress.
- credits accrued following the application to deduct IRAP from the IRES taxable base, Art. 2 paragraph 1 *quater* Italian Law Decree no. 201 of 6 December 2011;

The reduction compared to 31 December 2016 was mainly due to collection of the credits related to the rebate recognised in 2016 of the amounts paid to the Revenues Agency as interest at the moment of recovery of State Aid.

Prepayments mainly include the long-term prepaid portion, relating to energy service contracts signed by the subsidiary Iren Energia S.p.A..

## NOTE 10_DEFERRED TAX ASSETS

These amounted to 277,771 thousand euro (269,000 thousand euro at 31 December 2016) and refer to deferred tax assets deriving from earnings deductible in future years. They also include the tax effect on adjustments made on IFRS first-time adoption.

For further details reference should be made to the income statement, Note 43 "Income tax expense" and to the statement in the annex.

## CURRENT ASSETS

### NOTE 11_INVENTORIES

Inventories, measured at weighted average cost, primarily comprise natural gas and consumables intended for maintenance and construction of the Group plants.
Construction Contracts refers mainly to activities performed for the Municipality of Turin.
The summary of changes occurring over the period is as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Raw materials | 70,267 | 114,274 |
| Inventory write-down provision | (8,978) | (43,124) |
| **Net** | **61,289** | **71,150** |
| Construction Contracts | 695 | 23,802 |
| **Total** | **61,984** | **94,952** |

The decrease in inventories of raw materials in the period was a result essentially of the sale of components out of the production cycle of the Turbigo thermoelectric plant, the subject of write-downs in previous years, partially offset by the increase in gas storage.
The reduction of Construction Contracts was mainly due to:
- completion of the "Turin LED" Public Lighting project, carried out under concession: when the order was completed non-current financial receivables (13,807 thousand euro) and current financial receivables (4,978 thousand euro) were accounted for;
- completion of the order for technological renewal and increased efficiency of the heating systems in a number of buildings belonging to the City of Turin: at the end of the work non-current trade receivables for invoices to be issued (3,436 thousand euro) and current trade receivables for invoices to be issued (2,676 thousand euro) were accounted for.

The inventory write-down provision was set aside and is used to take into consideration inventories that are technically obsolete and slow-moving.

At 31 December 2017 no inventories were pledged against liabilities.

## NOTE 12_TRADE RECEIVABLES

These are detailed in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Receivables from customers | 917,956 | 936,402 |
| Provisions for impairment of receivables | (166,545) | (147,844) |
| **Net receivables from customers** | **751,411** | **788,558** |
| Trade receivables from joint ventures | 783 | 7,636 |
| Trade receivables from associates | 23,641 | 23,606 |
| Trade receivables from related-party shareholders | 113,705 | 98,569 |
| Trade receivables from other related parties | 12,399 | 23,601 |
| Provisions for impairment of receivables from related-party shareholders | (6,151) | (6,165) |
| **Total** | **895,788** | **935,805** |

We can note that at 31 December 2017 factoring transactions were completed with derecognition of the receivables for a total of 44,313 thousand euro (67,675 thousand euro at 31 December 2016).

Trade receivables, gross of provisions for impairment of receivables, are broken down by maturity as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Not past due | 755,179 | 752,730 |
| Past due from 0 to 3 months | 74,845 | 84,159 |
| Past due from 3 to 12 months | 75,972 | 75,834 |
| Past due for more than one year | 162,488 | 177,091 |
| **Total** | **1,068,484** | **1,089,814** |

Receivables not past due include receivables for invoices to be issued of 445,878 thousand euro (430,210 thousand euro at 31 December 2016) which include the estimate of revenue earned for services supplied between the date of the last reading of effective consumption and the year-end date.

**Receivables from customers**
These mainly relate to receivables due for electricity, gas, water and heat supplies, environmental services and sundry services. The net balance takes into account the provisions for impairment of receivables, illustrated below, of 166,545 thousand euro (147,844 thousand euro at 31 December 2016).

**Receivables from joint ventures**
This item includes receivables from the Group joint ventures, consolidated with the equity method. These relate to normal trade transactions performed at arm’s length. For further details, please see the table of related-party transactions shown in the annex.

**Receivables from associates**
These relate to normal trade transactions performed at arm’s length. For further details, please see the table of related-party transactions shown in the annex.

**Receivables from related-party shareholders**
Receivables from related-party shareholders refer to trading transactions performed at arm’s length with territorial authorities (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and, marginally, with the company FSU. The balance takes into account provisions for impairment of receivables of 6,151

thousand euro (6,165 thousand euro at 31 December 2016). For further details, please see the table of related-party transactions shown in the annex.

**Receivables from other related parties**

These regard receivables from the companies controlled by the territorial body owners (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and refer to normal commercial transactions carried out at arm's length.

**Provisions for impairment of receivables**

The provisions for impairment feature the movements shown in the following table:

thousands of euro

| | 31/12/2016 | Provisions in the period | Utilisations | Changes in consolidation scope | Reclassifications | 31/12/2017 |
|---|---|---|---|---|---|---|
| Provisions for impairment of receivables | 147,844 | 46,195 | (35,707) | 8,194 | 19 | 166,545 |
| Provisions for impairment of receivables from related-party shareholders | 6,165 | 51 | (46) | - | (19) | 6,151 |
| **Total** | **154,009** | **46,246** | **(35,753)** | **8,194** | **-** | **172,696** |

Provisions in the period were set aside on the basis of the best estimate of probable risks deriving from non-collections of receivables. The provision was used to cover losses on receivables.

## NOTE 13_CURRENT TAX ASSETS

These amounted to 7,365 thousand euro (21,242 thousand euro at 31 December 2016) and include receivables from the tax authority for IRES and IRAP.

## NOTE 14_OTHER RECEIVABLES AND OTHER CURRENT ASSETS

These are detailed in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Receivables for revenue tax/UTIF | 4,624 | 547 |
| VAT credit | 56,440 | 14,968 |
| Other tax assets | 12,023 | 8,388 |
| **Tax assets due within one year** | **73,087** | **23,903** |
| Receivables from Cassa Servizi Energetici e Ambientali (CSEA) | 119,961 | 119,569 |
| Green certificate receivables | 45,660 | 36,957 |
| Advances to suppliers | 10,056 | 9,219 |
| Other current assets | 21,275 | 17,101 |
| **Other current assets** | **196,952** | **182,846** |
| Accruals and deferrals | 6,308 | 8,406 |
| **Total** | **276,347** | **215,155** |

We can note that at 31 December 2017 factoring transactions were completed with derecognition of receivables for green certificates and for Emission Trading for a total of 1,958 thousand euro (15,898 thousand euro at 31 December 2016).

In terms of procedures, for 2017, the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding settlements and VAT periodic payments. The companies that take part in the Group settlement procedure, besides the Parent Company Iren S.p.A., are the following: Iren Energia (incorporating Iren Servizi e Innovazione), IRETI, Iren Mercato (incorporating Iren Gestioni Energetiche), Iren Ambiente, AMIAT, Iren Rinnovabili, Enìa Solaris, Iren Acqua Tigullio (formerly IdroTigullio), Iren Acqua (formerly Mediterranea delle Acque), Greensource, Varsi Fotovoltaico (incorporating Millenaria Fotovoltaico), Immobiliare delle Fabbriche, Iren Laboratori and Bonifica Autocisterne.
We can note that the increase in VAT credit was mainly due to extension to a number of Group companies of the mechanism of VAT settlement by reverse charge or split payment.
In relation to receivables from the Cassa Servizi Energetici e Ambientali (CSEA) a portion of the amounts shown may not be collectable within the next 12 months.

**NOTE 15_CURRENT FINANCIAL ASSETS**

These are detailed in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Financial receivables from joint ventures | 439,000 | 444,234 |
| Financial receivables from associates | 6,488 | 1,913 |
| Financial receivables from Municipalities shareholders-related parties | 16,068 | 106,383 |
| Other financial receivables | 42,521 | 42,097 |
| Derivative receivables - current | 2,305 | 11,934 |
| **Total** | **506,382** | **606,561** |

All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.

**Financial receivables from joint ventures**
These regard receivables from the joint venture OLT Offshore LNG Toscana, unchanged compared to 31 December 2016 and related to renewal of the loan granted by the Group, the recoverability of which was verified in the context of the impairment test commented on in note 5. At 31 December 2016 there were also receivables from the joint venture Acque Potabili S.p.A. of 2,621 thousand euro and receivables from the Iren Rinnovabili Group, fully consolidated at 31 December 2017, of 2,613 thousand euro.

**Financial receivables from associates**
The item refers mainly to loans to Re.Cos (2,316 thousand euro), Acquaenna (1,389 thousand euro), BI Energia (308 thousand euro) and STU Reggiane (767 thousand euro). The remainder regards essentially receivables for dividends to be received.
For further details please see the schedule of related-party transactions shown in the annex.

**Financial receivables from shareholders - related parties**
These regard receivables from the Municipality of Turin on which interest accrues for the Group and they amounted to 16,068 thousand euro (106,383 thousand euro at 31 December 2016). They relate, for 12,877 thousand euro, to the short-term balance of the current account that settles transactions between the subsidiaries Iren Energia S.p.A. and AMIAT S.p.A. and the Municipality of Turin and for 3,191 thousand euro to application of the financial asset model provided for in IFRIC 12 to the efficiency project ("Turin LED") associated with the Public Lighting service performed under concession. We can note that in relation to the "Turin LED" project there are, for the portion enforceable beyond 12 months, non-current financial receivables of 13,807 thousand euro.
The accounting treatment of the aforementioned current account agreement determines a reduction of trade receivables represented as a generation of operating cash flows, and a corresponding increase in financial receivables, represented as a cash absorption in cash flows from financing activities.

These receivables form part of an overall position, totalling 249,031 thousand euro, and are divided among various accounting items according to their classification by type and maturity: Non-current trade receivables (Note 7), Non-current financial assets (Note 8), Trade receivables (Note 12) and Current financial assets (Note 15) as shown in the table presented below.
Receivables were divided by the directors between current portion and non-current portion on the basis of a reasonable forecast of their collection times estimated also following the results of the periodic meetings with the representatives of the City Council.

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| **Non-current trade receivables** | **3,436** | **-** |
| Trade receivables for services on invoices issued | 72,637 | 62,312 |
| Trade receivables for services on invoices to be issued | 6,411 | 7,222 |
| Trade receivables for electricity and other supplies | 8,093 | 8,555 |
| Provisions for impairment of trade receivables | (2,622) | (2,637) |
| **Total current trade receivables** | **84,519** | **75,452** |
| Non-current portion of financial receivables in current account | 132,925 | 2,167 |
| Non-current portion of financial receivables for interest | 1,223 | 1,223 |
| Non-current portion of financial receivables for services in concession | 13,807 | - |
| Provisions for impairment of financial receivables | (2,947) | (3,167) |
| **Total non-current financial receivables** | **145,008** | **223** |
| Current portion of financial receivables in current account | 1,889 | 99,859 |
| Current portion of financial receivables for interest | 10,988 | 6,524 |
| Current portion of financial receivables for services in concession | 3,191 | - |
| **Total current financial receivables** | **16,068** | **106,383** |
| **Total** | **249,031** | **182,058** |

**Other financial receivables**
These refer for 40,889 thousand euro to tied bank deposits of the subsidiary TRM S.p.A. deriving from the loan contract which specifies that amounts serving the instalment due, the costs regarding environmental offsets and extraordinary maintenance of the waste-to-energy plant are tied. The remainder refers to receivables for dividends to be collected, accrued income and prepaid expenses of a financial nature, sundry financial receivables and government bonds classified as available for sale.

**Derivative receivables - current**
These relate to the positive fair value of derivative contracts on commodities entered into by Iren Mercato.

## NOTE 16_CASH AND CASH EQUIVALENTS

The item “Cash and cash equivalents” is made up as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Bank and postal deposits | 168,872 | 253,105 |
| Cash and valuables in hand | 214 | 579 |
| **Total** | **169,086** | **253,684** |

Cash and cash equivalents are represented by existing liquidity on bank and postal deposits. The Group does not hold cash equivalents, intended as short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

**NOTE 17_ASSETS HELD FOR SALE**

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They amount to 8,724 thousand euro (2,498 thousand euro at 31 December 2016). This item relates to:

- for 8,200 thousand euro (not present at 31 December 2016) to the equity investment in Mestni Plinovodi, classified in this item in financial year 2017 because its sale is planned for the early months of 2018. In financial year 2016 it was classified in the item investments accounted for using the equity method;
- for 227 thousand euro (not present at 31 December 2016) to the net assets related to the concession, which expired on 31 March 2017, of the integrated water service of the Municipality of Saint Vincent (AO) for which the takeover by the new operator is being defined;
- for 140 thousand euro (unchanged compared to 31 December 2016), to the equity investment in Plurigas in liquidation. The equity investment was classified among assets held for sale because during 2014 the company ceased to operate;
- for 158 thousand euro (unchanged from 31 December 2016) to the associate Piana Ambiente.

In addition, assets held for sale include the equity investment in Fata Morgana, already completely written down in previous periods.
We can remind you that at 31 December 2016 this item included the equity investment in Ecoprogetto Tortona S.r.l., sold during the first half of 2017.

# LIABILITIES

## NOTE 18_EQUITY

Equity may be analysed as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Share capital | 1,276,226 | 1,276,226 |
| Reserves and retained earnings (losses) | 608,184 | 507,314 |
| Net profit (loss) for the period | 237,720 | 179,844 |
| **Total equity attributable to shareholders** | **2,122,130** | **1,963,384** |
| Capital and reserves attributable to minorities | 349,633 | 322,667 |
| Profit/(loss) attributable to minorities | 27,040 | 11,225 |
| **Total consolidated equity** | **2,498,803** | **2,297,276** |

**Share capital**
The share capital amounts to 1,276,225,677 euro (unchanged compared to 31 December 2016), fully paid up, and consists of 1,213,920,212 ordinary shares with a face value of 1 euro each and 62,305,465 savings shares without voting rights with a face value of 1 euro each.
The 62,305,465 Iren savings shares, held by Finanziaria Città di Torino, are not listed, have no voting rights and, except for a different priority order in the allocation of net residual assets in the event of winding-up of the company, they are subject to the same rules as ordinary shares.
In the event of sale, the savings shares are automatically converted, at par, into ordinary shares.
During financial year 2017 Finanziaria Città di Torino sold in March and December a total of 32,194,535 Iren Savings shares. We can report that in January 2018 Finanziaria Città di Torino sold 62,305,465 Iren Savings shares and therefore following the aforementioned conversion the Company's share capital is made up of only ordinary shares.

**Reserves**
The breakdown of this item is provided in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Share premium reserve | 105,102 | 105,102 |
| Legal reserve | 49,998 | 45,585 |
| Cash flow hedging reserve | (1,729) | (8,421) |
| Other reserves and retained earnings (losses) | 454,813 | 365,048 |
| **Total reserves** | **608,184** | **507,314** |

Hedging reserve
With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a contra-entry directly in equity under the hedging reserve. These contracts were entered in to hedge exposure to the risk of interest rate fluctuations on floating rate loans and to the risk of price changes in electricity and gas purchase contracts.

Other reserves and retained earnings (losses)
These mainly comprise the surplus generated from the merger of AMGA into AEM Torino and the later merger of Enìa into Iride, retained earnings and losses and the reserve including actuarial gains and losses resulting from the measurement of post-employment benefits to employees.

In 2017 this item increased mainly as a result of the retained earnings from 2016.

For further details, reference should be made to the statement of changes in equity.

## NON-CURRENT LIABILITIES

### NOTE 19_NON-CURRENT FINANCIAL LIABILITIES

They amounted to a total of 3,023,888 thousand euro (2,967,471 thousand euro at 31 December 2016).

**Bonds**

They amounted to 1,777,885 thousand euro (1,377,398 thousand euro at 31 December 2016). The item consisted entirely of positions of the Parent Company referred to Private Placement and Public Bond issues, accounted for at amortised cost, against a total nominal amount currently in issue of 1,798,440 thousand euro (1,390,619 thousand euro at 31 December 2016).

Private Placements: a) Notes maturity 2020, coupon 4.37%, amount of issue 260 million euro, currently in issue for 167,87 million euro following the buy-back (Tender Offer) carried out in 2015, 2016 and 2017; b) Notes maturity 2019, coupon 3%, amount of issue 100 million euro, currently in issue for 89.1 million euro following the tender offer in the same way as above.

Public Bonds: a) Notes maturity 2021, coupon 3%, amount of issue 300 million euro, currently in issue for 181,836 million euro following the repurchase operations described above; b) Notes maturity 2022, coupon 2.75%, amount of issue 500 million euro, currently in issue for 359,634 million euro following the tender offers of 2016 and 2017; c) Notes maturity 2024, coupon 0.875%, amount 500 million euro, in issue for the same amount; d) Green Bond maturity 2027, coupon 1.5%, amount 500 million euro, placed in October 2017, as the third Bond issue as part of the EMTN programme of a total of 2 billion euro.

The bond loans were subscribed by Italian and foreign institutional investors and are listed on the Irish Stock Exchange; the Public Bonds were given a Fitch rating.

The change in the book value of the year was due to the repayment of Notes following the Tender Offer, to the issue of the Green Bond and to allocation of the financial charges for the period calculated on the basis of the amortised cost method according to the IAS/IFRS standards.

**Non-current bank loans**

Medium/long-term loans relate exclusively to the non-current portion of loans/credit lines due at more than 12 months, granted by banks and amounted to 1,148,105 thousand euro (1,458,486 thousand euro at 31 December 2016).

Medium/long-term loans can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and maturity date, as shown in the following table:

thousands of euro

| | fixed rate | floating rate | TOTAL |
|---|---|---|---|
| min/max interest rate | 2.79% - 5.122% | 0.00% - 2.529% | |
| maturity | 2019-2027 | 2019-2032 | |
| 2019 | 58,985 | 112,029 | 171,014 |
| 2020 | 61,226 | 77,143 | 138,369 |
| 2021 | 63,555 | 50,343 | 113,898 |
| 2022 | 65,866 | 59,899 | 125,765 |
| subsequent | 239,842 | 359,216 | 599,058 |
| **Total payables at 31/12/2017** | **489,474** | **658,630** | **1,148,105** |
| **Total payables at 31/12/2016** | **551,379** | **907,107** | **1,458,486** |

All loans are denominated in euro.

The changes in medium/long-term loans during the year are summarised below:

thousands of euro

| | 31/12/2016 Total payables | Increases | Changes in consolidation scope | Repayments | Change to amortised cost | 31/12/2017 Total payables |
|---|---|---|---|---|---|---|
| - fixed rate | **551,379** | - | 600 | (62,638) | 134 | **489,474** |
| - floating-rate | **907,107** | 50,000 | - | (299,759) | 1,282 | **658,630** |
| **TOTAL** | **1,458,486** | 50,000 | 600 | **(362,397)** | **1,416** | **1,148,105** |

Total medium/long-term loans at 31 December 2017 decreased overall compared to 31 December 2016 due to the following variations:

- increase of 50 million euro, owing to disbursement to the Parent Company of the first tranche of the EIB loan as part of the ceiling on the District Heating and Waste Management project;
- inclusion in the consolidation scope of the company Iren Rinnovabili and of its subsidiaries (Enìa Solaris, Greensource, Studio Alfa, Varsi Fotovoltaico); in non-current financial liabilities a loan of Studio Alfa is recognised, while for the other companies the loans are classified among current financial liabilities, as they were repaid in advance at the beginning of 2018;
- reduction of a total of 362,397 thousand euro, owing both to early full repayment of the Parent Company's loans of 253 million euro from Unicredit, Banca Intesa, Mediobanca, BRE-UBI, EIB, and to the classification to short term of the portions of loans maturing within the next 12 months;
- a total increase of 1,416 thousand euro due to recognition of the loans at amortised cost.

**Other financial liabilities**

These amount to 97,898 thousand euro (31 December 2016: 131,587 thousand euro), and refer:

- for 84,319 thousand euro (117,627 thousand euro at 31 December 2016) to the fair value of derivative contracts entered into as hedges against the interest rate risk on floating rate loans (reference should be made to the paragraph "Group Financial Risk Management" for comments);
- for 10,952 thousand euro (11,315 thousand euro at 31 December 2016) to the long-term portion of the debt resulting from the operation to acquire the right to use 25% of the total capacity of the TLC network sold to BT Enia;
- for 2,627 thousand euro (31 December 2016: 2,645 thousand euro) to sundry financial payables.

## NOTE 20_EMPLOYEE BENEFITS

Changes in this item in 2017 were as follows:

thousands of euro

| | |
|---|---|
| **Amount at 31/12/2016** | **132,927** |
| Current service costs | 1,215 |
| Financial expense | 1,182 |
| Disbursements of the period | (5,675) |
| Actuarial (gains)/losses | (2,956) |
| Changes in consolidation scope | 3,582 |
| Other changes | (13,792) |
| **Amount at 31/12/2017** | **116,483** |

The line changes in consolidation scope refers to the balances acquired during the year relating to the company Salerno Energia Vendite, to the companies of the Iren Rinnovabili Group and to the business unit regarding the integrated water service concessions in 31 Municipalities in Northern Italy acquired from Acque Potabili S.p.A..

Liabilities for employee benefits consist of:

**Post-employment benefits**
Post-employment benefits underwent the following movements during 2017:

| | thousands of euro |
|---|---:|
| **Amount at 31/12/2016** | **96,177** |
| Current service costs | 244 |
| Financial expense | 849 |
| Disbursements of the period | (4,113) |
| Actuarial (gains)/losses | (2,778) |
| Changes in consolidation scope | 3,582 |
| **Amount at 31/12/2017** | **93,961** |

**Other benefits**
The composition and changes over the year of defined benefit plans, other than the post-employment benefits described above, are shown hereunder.

<u>Additional months' salaries (long-service bonus)</u>

| | thousands of euro |
|---|---:|
| **Amount at 31/12/2016** | **3,492** |
| Current service costs | 120 |
| Financial expense | 31 |
| Disbursements of the period | (95) |
| Actuarial (gains)/losses | (878) |
| **Amount at 31/12/2017** | **2,670** |

<u>Loyalty bonus</u>

| | thousands of euro |
|---|---:|
| **Amount at 31/12/2016** | **3,107** |
| Current service costs | 851 |
| Financial expense | 21 |
| Disbursements of the period | (104) |
| Actuarial (gains)/losses | 7 |
| **Amount at 31/12/2017** | **3,882** |

<u>Tariff discounts</u>

| | thousands of euro |
|---|---:|
| **Amount at 31/12/2016** | **25,873** |
| Financial expense | 246 |
| Disbursements of the period | (781) |
| Actuarial (gains)/losses | 1,204 |
| Other changes | (21,127) |
| **Amount at 31/12/2017** | **5,415** |

The tariff discounts include benefits related to the supply of natural gas for domestic use. Following the signing of specific agreements with the trade unions, the “Energy discount” awarded up to 30 September 2017 to employees in service was converted into other forms of employee benefits. The “Energy discount” awarded up to 30 September 2017 to retired employees was revoked unilaterally and replaced with lump sums included in provisions for former employee benefits.

Premungas Provisions

thousands of euro

| | |
|---|---|
| **Amount at 31/12/2016** | **4,278** |
| Financial expense | 35 |
| Disbursements of the period | (582) |
| Actuarial (gains)/losses | (511) |
| **Amount at 31/12/2017** | **3,220** |

Provisions for ex-employee benefits
The provisions amounted to 7,335 thousand euro and contain the lump-sum amounts that will be paid to retired employees to replace the energy discount no longer paid starting from 1 October 2017.

**Actuarial assumptions**
The above-mentioned liabilities are measured by independent actuaries.
The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.
For the purpose of defining the present value of the obligations, the future service is estimated based on assumptions related to changes in both the total number of employees and employee remuneration. Future service represents the amount that would be liquidated to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.
Actuarial projections of the probable discounts on electricity consumption due to current retirees or surviving spouses, as well as to current employees (and surviving spouses, if any) once terminated the working relationship, were taken into account in determining the amount of the electrical energy discount.

The following factors were considered in deciding which discount rate to adopt in the measurement approach provided by IAS 19:
- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the weighted average residual term of liabilities related to all benefits and all Group companies.
The other financial assumptions adopted in the calculations are the following:

| | |
|---|---|
| Annual discount rate | 1.00% - 1.50% |
| Annual inflation rate | 1.50% |
| Annual increase rate of post-employment benefits | 2.50% |

Pursuant to IAS 19, the following additional information is supplied:
- sensitivity analysis for each material actuarial assumption at year end, showing the effects that would have resulted from changes in the actuarial assumptions reasonably possible at that date, in absolute terms;
- contributions for the following year;
- indication of the average maturity of the obligation for defined benefit plans.

This information is shown in the following table.

| | Change in liabilities according to changes in discount rate | | Service cost 2018 | Duration of the plan |
|---|---|---|---|---|
| | **+0.25%** | **-0.25%** | | |
| Post-employment benefits | (2,228) | 2,308 | 446 | 9.7 |
| Additional monthly salaries | (72) | 74 | 97 | 11.0 |
| Loyalty bonus | (59) | 61 | 161 | 6.0 |
| Tariff discounts | (140) | 146 | - | 11.0 |
| Premungas | (51) | 52 | - | 6.0 |

The method used to estimate sensitivity was unchanged compared to the previous financial year.

## NOTE 21_PROVISIONS FOR RISKS AND CHARGES

These are detailed in the following table, and refer both to the current and non-current portions:

thousands of euro

| | Opening balance | Increases | Decreases | (Income) expense from discounting | Reclassifica-tions | Closing balance | Current portion |
|---|---|---|---|---|---|---|---|
| Provisions for restoration of third-party assets | 146,169 | 11,882 | (2,002) | 77 | - | 156,126 | 1,423 |
| "Post mortem" provisions | 35,750 | 1,289 | (3,559) | (463) | - | 33,017 | 3,739 |
| Provisions for dismantling and reclaiming sites | 38,842 | - | (5,972) | (608) | (1,178) | 31,084 | 1,032 |
| Provisions for CIG/CIGS redundancy funds | 11,886 | 59 | (8,682) | - | (3,263) | - | - |
| Provisions for early retirement expenses | 26,310 | 39,430 | (12,035) | - | - | 53,705 | 2,126 |
| Provisions for risks on investments | 10,065 | - | - | - | - | 10,065 | 10,065 |
| Other provisions for risks and charges | 187,996 | 79,167 | (31,618) | (412) | (495) | 234,638 | 70,117 |
| **Total** | **457,018** | **131,827** | **(63,868)** | **(1,406)** | **(4,936)** | **518,635** | **88,502** |

If the effect of discounting the value of money is significant, the provisions are discounted using a pre-tax discount rate which, on the basis of the time period envisaged for the future cash flows, does not exceed 3.27%.

**Provisions for restoration of third-party assets**

These provisions refer to liabilities which, if the water service concessions for the Parma, Piacenza and Reggio Emilia ATOs are reassigned to third parties, will be deducted from the fee to be paid to the Group by the incoming operator. These liabilities are estimated according to the depreciation of the pool of assets and equipment relating to the aforementioned integrated water cycle which, as a result of the spin-offs completed in 2005 by the three companies AGAC, Tesa and AMPS (later merged into Enìa), were transferred to the financial statements of three full publicly-held companies as envisaged in Art. 113, paragraph 13 of the Consolidated Law on Local Entities. This pool of assets is used to perform the water service against the payment of a rental fee and with a contractual commitment to set aside the aforementioned provisions.
The provisions for the restoration of transferable works represent an estimate of the expense necessary to return assets in concession in the hydroelectric sector in perfect working order.

**“Post mortem” provisions**

These are mainly provisions for future expense for environmental recovery of controlled landfill plants which also include costs for post-operating management until the sites involved have been completely converted to green areas. These provisions are supported by specific appraisals periodically updated in order to adjust the existing provisions to the estimate of the future costs to be incurred. The decreases refer in particular to the utilisation of the provision to cover costs incurred in the post-operating phase until the mineralisation of waste and the conversion of landfills into green areas are completed.

**Provisions for dismantling and reclaiming sites**

The “Provision for dismantling and reclaiming sites” represents the estimate of expense associated with the future dismantling of the Group’s waste-to-energy plants and the estimate of charges to be incurred in relation to the future reclamation of former AMNU land on which an incinerator was located.

**Provisions for CIG/CIGS redundancy funds**

The provisions for risks referred to the probable risk of greater charges relating to higher contributions to be paid to INPS for ordinary and extraordinary redundancy and mobility.

In September 2013 a number of pronouncements were made against Iren and subsidiaries, considered to be negative and rejecting the company’s claims, ordering the payment of CIG, CIGS, Mobility and Unemployment contributions. The Directors consequently decided to arrange regular payment of the redundancy payment CIG (and CIGS and mobility) contributions from 2014. During the year the total expenses including collection charges were quantified with accuracy. Therefore these sums were reclassified among payables and the surplus part of the provisions was released.

**Provisions for early retirement expenses**

The provisions refer to expenses associated with early retirement of some employees and arises from the results of agreements between the Iren Group and the Trade Unions that provide for retirement incentives for some employees, on a voluntary basis among the Group’s personnel who are potentially involved. The operation must be seen in the wider context of professional and demographic rebalancing of the Iren Group’s personnel, in view of a plan to recruit young people.

The incentive, completely chargeable to the Iren Group (in application of Art. 4 of Italian Law 92/2012), will enable the personnel in possession of the legal requisites to retire in advance with respect to the date of eligibility, making up in part for the delay in terminating the employment determined after the reform of the pensions system.

The provisions represent the estimated payment to the employees involved in the Plan, through the Pensions Agency, of a benefit of an amount equal to the pension that would be payable on the basis of the current rules (isopension) with payment to the Pensions Agency of the contribution until the minimum requirements for retirement are reached (in accordance with the aforementioned Law 92/2012), and a sum, for each of the employees involved, as a one-off payment as an incentive.

**Provisions for risks on equity investments**

This item mainly refers to risks relating of future charges deriving from management of the investee Sinergie Italiane.

**Other provisions for risks and charges**

The provision mainly refers to the probable risk of greater charges for the construction of plants which are completed or yet to be finished, the provisions for estimated IMU/ICI tax to be paid based on the value of plant systems as envisaged in Art. 1-*quinquies* of Decree Law no. 44 of 31 March 2005, the estimate on charges related to the return of emissions quotas, charges for environmental offsets, liabilities for tax disputes, including that of the subsidiary Iren Acqua (formerly Mediterranea delle Acque), and probable charges for various disputes.

The current portion referring to the provisions described above was presented under “provisions, current portion” (Note 28).

**NOTE 22_DEFERRED TAX LIABILITIES**

Deferred tax liabilities of 213,760 thousand euro (213,307 thousand euro at 31 December 2016) are due to the temporary difference between the carrying amount and tax value of assets and liabilities recognised in the financial statements.
Deferred taxation is calculated with reference to the expected tax rates applicable at the time the differences will reverse.
For further details reference should be made to the income statement, Note 43 “Income tax expense” and to the statement in the annex.

**NOTE 23_OTHER PAYABLES AND OTHER NON-CURRENT LIABILITIES**

This item can be broken down as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Payables after one year | 36,567 | 33,719 |
| Deferred income for grants related to plants – non current | 182,075 | 166,882 |
| Non-current accrued expenses and deferred income | 3,953 | 2,866 |
| **Total** | **222,595** | **203,467** |

The item “Payables after 12 months” refers to advances paid by users to guarantee water supply, to amounts related to previous years to be paid for the redundancy fund (CIG), for the extraordinary redundancy fund (CIGS) and for mobility and to tax payables for substitutive taxes to be paid at more than 12 months from the reporting date.
The deferred income for grants for plant facilities includes the amounts related to the Fo.N.I. (Fondo Nuovi Investimenti - New Investment Fund) component provided for in the tariff method of the Integrated Water Service which will be booked to the income statement beyond 12 months from the reporting date. The portion that will be booked to the income statement in the 12 months following the reporting date is included in the item Other payables and other current liabilities among deferred income for grants related to plants.

**CURRENT LIABILITIES**

**NOTE 24_CURRENT FINANCIAL LIABILITIES**

All financial liabilities recognised in this item are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.
Short-term financial liabilities can be analysed as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Bank loans | 150,573 | 388,892 |
| Financial payables to associates | 2,023 | 155 |
| Financial payables to related-party shareholders | 148 | 726 |
| Financial payables to other related parties | 2,995 | - |
| Financial payables to others | 33,341 | 10,058 |
| Current liabilities for derivatives | 52 | - |
| **Total** | **189,132** | **399,831** |

**Bank loans**

Short-term bank loans may be broken down as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Bonds | - | 178,554 |
| Loans - current portion | 137,480 | 198,924 |
| Other current payables to banks | 142 | 76 |
| Accrued financial expenses and deferred financial income | 12,951 | 11,338 |
| **Total** | **150,573** | **388,892** |

**Financial payables to associates**

This item relates to amounts due to the company Valle Dora Energia for the centralised treasury relationship with Iren S.p.A.

**Financial payables to related-party shareholders**

This item relates to dividends of the company TRM still to be paid to the shareholder Municipality of Turin.

**Financial payables to other related parties**

This item relates to dividends of the company AMIAT still to be paid to the shareholder FCT Holding, controlled by the Municipality of Turin.

**Financial payables to others**

These regard payables to factoring companies for the portions collected from customers and to be paid to the factor (18,747 thousand euro), payables for the purchase of the remaining 30% stake in Iren Rinnovabili (7,540 thousand euro), payables for financial leasing (2,811 thousand euro) and amounts that are individually less significant.

**Current liabilities for derivatives**

These refer to the negative fair value of derivatives entered into by Iren Mercato and Varsi Fotovoltaico. They were not present at 31 December 2016 because the fair value was positive.

## NOTE 25_TRADE PAYABLES

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Trade payables | 767,645 | 784,332 |
| Trade payables to joint ventures | 247 | 629 |
| Trade payables to associates | 10,227 | 15,194 |
| Trade payables to related-party shareholders | 19,635 | 18,390 |
| Trade payables to other related parties | 2,624 | 2,936 |
| Advances due within one year | 5,158 | 12,391 |
| Guarantee deposits due within one year | 21,931 | 14,256 |
| Charges to be reimbursed within one year | 10 | 1,392 |
| **Total** | **827,477** | **849,520** |

### NOTE 26_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

All payables recognised in this item are due within one year. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| VAT payable | 4,189 | 2,624 |
| Revenue tax/UTIF payable | 21,085 | 8,572 |
| IRPEF payable | 399 | 586 |
| Other tax liabilities | 19,228 | 22,098 |
| **Tax liabilities due within one year** | **44,901** | **33,880** |
| Payables to employees | 41,762 | 39,170 |
| Payables to Cassa Servizi Energetici e Ambientali (CSEA) | 38,544 | 64,822 |
| Accounts payable to social security institutions within one year | 22,343 | 23,030 |
| Other current liabilities | 110,955 | 94,581 |
| **Other payables due within one year** | **213,604** | **221,603** |
| Accrued expenses and deferred income | 11,215 | 15,417 |
| **Total** | **269,720** | **270,900** |

The increase in payables for income taxes is due to pre-payments and settlement payments which are influenced by invoicing volumes for the current year and the previous year.

Other current liabilities refer mainly to cost estimates for the obligations related to energy efficiency certificates, as well as to payables for purification fees and to payables for the TV licence fee collected in bills.

### NOTE 27_CURRENT TAX LIABILITIES

Current tax liabilities amounting to 15,295 thousand euro (32,695 thousand euro at 31 December 2016) consist of IRES and IRAP payables, and were determined on the basis of the estimate of taxes for the year.

### NOTE 28_PROVISIONS FOR RISKS AND CHARGES - CURRENT PORTION

This item amounted to 88,502 thousand euro (135,005 thousand euro at 31 December 2016) and refers to the short-term portion of the provisions, divided as follows:

- provisions for risks of 37,276 thousand euro;
- provisions for environmental offset charges of 16,924 thousand euro;
- provisions for charges related to the obligation to return emission quotas of 15,982 thousand euro;
- provisions for equity investment risks of 10,000 thousand euro, related to the associate Sinergie Italiane;
- provisions for charges related to voluntary retirement of personnel of 2,126 thousand euro;
- provisions for restoration of transferable works of 1,423 thousand euro;
- provisions for dismantling and reclaiming sites and post-closure provisions of 4,771 thousand euro, which are expected to be used within the next 12 months.

For further details on the breakdown of and changes in provisions for risks and charges see Note 21.

**NOTE 29_LIABILITIES RELATED TO ASSETS HELD FOR SALE**

There were liabilities related to assets held for sale at 31 December 2017.

**FINANCIAL POSITION**

The net financial debt, calculated as the difference between short/medium/long-term financial liabilities and short/medium/long-term financial assets, can be broken down as indicated in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Non-current financial assets | (165,767) | (49,950) |
| Non-current financial debt | 3,023,888 | 2,967,471 |
| **Non-current net financial debt** | **2,858,121** | **2,917,521** |
| Short-term financial assets | (675,468) | (860,245) |
| Short-term financial debt | 189,132 | 399,831 |
| **Short-term net financial debt** | **(486,336)** | **(460,414)** |
| **Net financial debt** | **2,371,785** | **2,457,107** |

**Detail of Net Financial Position regarding related parties**

Non-current financial assets relate for 145,008 thousand euro to receivables from the Municipality of Turin and for 3,239 thousand euro to receivables from associates.

Short-term financial assets relate for 16,068 thousand euro to receivables from the Municipality of Turin, for 439,000 thousand euro to receivables from the joint venture OLT Offshore and for 6,525 thousand euro to receivables from associates.

Short-term financial liabilities relate for 148 thousand euro to payables to the Municipality of Turin, for 2,995 thousand euro to payables to FCT Holding and for 2,023 thousand euro to payables to the associate Valle Dora Energia.

Below is the net financial position in the format proposed by the ESMA recommendation of 10 February 2005 transposed with CONSOB Communication of 28 July 2006, which does not include non-current financial assets.

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| A. Cash in hand | (169,086) | (253,684) |
| B. Other cash and cash equivalents (details) | - | - |
| C. Securities held for trading | - | - |
| **D. Cash and cash equivalents (A) + (B) + (C)** | **(169,086)** | **(253,684)** |
| **E. Current financial receivables** | **(506,382)** | **(606,561)** |
| F. Current bank debt | 13,093 | 189,968 |
| G. Current portion of non-current debt | 137,480 | 198,924 |
| H. Other current financial debt | 38,559 | 10,939 |
| **I. Current financial debt (F)+(G)+(H)** | **189,132** | **399,831** |
| **J. Net current financial debt (I) – (E) – (D)** | **(486,336)** | **(460,414)** |
| K. Non-current bank debt | 1,148,105 | 1,458,486 |
| L. Bonds issued | 1,777,885 | 1,377,398 |
| M. Other non-current debt | 97,898 | 131,587 |
| **N. Non-current financial debt (K) + (L) + (M)** | **3,023,888** | **2,967,471** |
| **O. Net financial debt (J) + (N)** | **2,537,552** | **2,507,057** |

The table below shows the changes in current and non-current financial liabilities.

thousands of euro

| | |
|---|---|
| **Current and non-current financial liabilities 31.12.2016** | **3,367,302** |
| Opening of medium/long-term loans | 550,000 |
| Repayment of medium/long-term loans | (721,190) |
| Liabilities acquired following change in consolidation scope | 41,261 |
| Fair value changes on derivatives | (33,257) |
| Other changes | 8,904 |
| **Current and non-current financial liabilities 31.12.2017** | **3,213,020** |

# IX. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousands of euro.

Starting from 1 January 2017 the Group's consolidated income statement includes the economic figures of the subsidiary Ricupero Ecologici Industriali and of the business unit regarding the integrated water service concessions in 31 Municipalities in Northern Italy acquired from Acque Potabili S.p.A. and, starting from 1 May 2017, those of Salerno Energia Vendite; the economic results of 2017 are therefore affected by the inclusion of these figures in the consolidation scope.
We can also note that the income statement items include, along the entire time period in question, the results of the subsidiaries ASM Vercelli (formerly Atena) and Atena Trading, while in financial year 2016 they were included starting from 1 May.

**REVENUE**

**NOTE 30_REVENUE FROM GOODS AND SERVICES**

This item amounts to 3,448,664 thousand euro (3,042,735 thousand euro in financial year 2016). For further details on the trend in revenues by business segments see the tables in paragraph XI "Business segment Reporting".

**NOTE 31_CHANGE IN WORK IN PROGRESS**

The item, negative, amounted to 22,792 thousand euro (+14,174 thousand euro in financial year 2016) and refers mainly to accounting for the completion of work on the Turin LED Project (18,785 thousand euro) and for the project to make the municipal heating plants of the City of Turin more energy efficient (6,112 thousand euro), and to progress on other activities performed for the Municipality of Turin.

**NOTE 32_OTHER INCOME**

Other income totalled 271,263 thousand euro (226,106 thousand euro in financial year 2016) and refers to contributions, revenue for energy certificates and sundry income. The tables below show the details of the single items.

**Contributions**

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Grants related to plant | 8,987 | 8,288 |
| Connection contributions | 8,980 | 7,732 |
| Other grants | 4,064 | 1,050 |
| **Total** | **22,031** | **17,070** |

The grants related to plant represent the pertaining portion of grants calculated in proportion to the depreciation rates of the assets to which they refer. The connection contributions include amounts received for connection to the Group's electricity, water, gas and heat distribution networks. Other contributions, besides individually insignificant amounts, are mostly referable to exceptional events that occurred in the integrated water service sector.

**Revenue from energy certificates**

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Revenue from Emission Trading | 1,217 | 1,312 |
| Revenue from ex-Green Certificates incentive | 89,435 | 83,856 |
| Revenue from Energy Efficiency Certificates (White Certificates) | 74,070 | 61,352 |
| **Total** | **164,722** | **146,520** |

The increase in revenue for White Certificates resulted essentially from the upward trends of the prices of these certificates recorded in the year, and reflected in the increase of the tariff contribution expected for financial year 2017.

**Other income**

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Revenue from service contracts | 3,580 | 3,548 |
| Revenue from rental income and leases | 1,308 | 1,387 |
| Capital gains on goods disposal | 722 | 922 |
| Insurance reimbursement | 2,282 | 8,076 |
| Sundry repayments | 6,238 | 6,665 |
| Other revenue and income | 70,380 | 41,918 |
| **Total** | **84,510** | **62,516** |

Among the items recognised, insurance reimbursement related mainly to damage to the Group's water pipeline networks. The item "other revenue and income" includes the closures of estimates of previous years, related in particular to energy certificates and, for financial year 2017, the revenue for the sale of components out of the production cycle of the Turbigo thermoelectric plant.

## COSTS

### NOTE 33_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

This item is broken down as follows:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Purchase of electricity | 418,788 | 292,969 |
| Purchase of gas | 671,776 | 556,943 |
| Purchase of heat | 265 | 106 |
| Purchase of other fuels | 67 | 171 |
| Purchase of water | 2,949 | 1,849 |
| Other raw materials and inventory materials | 66,029 | 60,886 |
| Emission Trading | 15,721 | 16,210 |
| Green certificates | - | 57 |
| White certificates | 62,918 | 50,328 |
| Change in inventories | 10,126 | 17,809 |
| **Total** | **1,248,639** | **997,328** |

Costs for raw materials, consumables, supplies and goods increased by approximately 250 million euro. The increase was mainly related to the electricity and gas purchase price trends recorded over the year, higher above all in relation to those recorded in the early months of the previous financial year.
The increase in costs for White Certificates was a result of the upward trend of the prices of these certificates.
The change in inventories was affected by the sale of components out of the production cycle of the Turbigo thermoelectric plant and by the increase in gas storage.

**NOTE 34_SERVICES AND USE OF THIRD-PARTY ASSETS**

Costs for services amounted to 1,124,239 thousand euro (1,002,828 thousand euro in 2016) and are detailed in the table below:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Electricity transport and electricity system expenses | 608,304 | 531,868 |
| Gas carriage | 49,480 | 45,778 |
| Third-party works, maintenance and industrial services | 165,382 | 123,229 |
| Collection and disposal, snow clearing, public parks | 145,168 | 138,674 |
| Expenses related to personnel (canteen, training, travel) | 9,091 | 9,886 |
| Technical, administrative and commercial consulting and advertising expenses | 43,845 | 57,541 |
| Legal and notary fees | 3,597 | 5,712 |
| Insurance | 16,085 | 15,906 |
| Banking costs | 6,729 | 7,264 |
| Telephone costs | 7,208 | 6,428 |
| IT expenses | 21,221 | 20,439 |
| Reading and invoicing services | 17,224 | 12,785 |
| Fees of the Board of Statutory Auditors | 748 | 917 |
| Other costs for services | 30,157 | 26,401 |
| **Total costs for services** | **1,124,239** | **1,002,828** |

The increase in “Costs for services” basically refers to electricity transport costs and the electricity system charges.
Costs for third-party works mainly relate to operating and maintenance costs of plants and networks.
“Other costs for services” consist of the remaining costs for internal consumption, back office, transport and other services.

Costs for the use of third-party assets amounted to 42,399 thousand euro (41,061 thousand euro in 2016). These include instalments paid to the market operator of the Genoa district, instalments paid to the companies which own the assets of the integrated water service in the municipalities of Parma, Piacenza and Reggio Emilia, land-crossing easements, operating lease rentals (including rents paid for the buildings in the Core MultiUtilities fund), hiring, IT fees and sundry rentals.

## NOTE 35_OTHER OPERATING EXPENSE

Other operating expenses amounted to 99,814 thousand euro (89,999 thousand euro in 2016) and are detailed in the table below:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| General expenses | 14,586 | 17,822 |
| Instalments and higher instalments for water shunting | 16,087 | 15,951 |
| Taxes and duties | 20,186 | 20,252 |
| Contingent liabilities | 19,551 | 21,028 |
| Capital losses on goods disposal | 238 | 538 |
| Other operating expenses | 29,166 | 14,408 |
| **Total** | **99,814** | **89,999** |

General expenses include among other things contributions to the running costs of various entities and penalties from service providers. The item “taxes and duties” relates mainly to expenses for IMU (Council Tax) on the Group’s plants and buildings and expenses for occupying and reclaiming public land.
Other operating expenses consist mainly of the environmental indemnities payable by the Group and of an amount recognised to reflect the risk associated with recovering earlier tariff adjustments in the integrated water service field.
Contingent liabilities are related to the rise, compared to what was estimated in previous years, in the prices of the white certificates purchased to fulfil the Group’s redelivery obligations.

## NOTE 36_CAPITALISED EXPENSES FOR INTERNAL WORK

Capitalised expenses for internal work amounted to 27,724 thousand euro (22,328 thousand euro in 2016), and represent increases in balance sheet assets realised with internal resources and production factors.

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Capitalised labour costs | (22,193) | (15,264) |
| Capitalised inventory materials | (5,531) | (7,064) |
| **Total** | **(27,724)** | **(22,328)** |

## NOTE 37_PERSONNEL EXPENSE

Personnel expenses amounted to 389,552 thousand euro (359,956 thousand euro in 2016) and are detailed in the table below:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Gross remuneration | 250,498 | 249,353 |
| Social security contributions | 81,608 | 80,253 |
| Post-employment benefits | 186 | 161 |
| Other long-term employee benefits | 1,084 | 339 |
| Other personnel expense | 54,995 | 28,379 |
| Directors’ fees | 1,181 | 1,471 |
| **Total** | **389,552** | **359,956** |

As described in Note 36, 22,193 thousand euro of costs related to employees were capitalised.

The change in the item “Other personnel expenses” is substantially attributable to the combined effect of:
- the release of electricity discount provisions related to employees and former employees, in virtue of trade union agreements and the unilateral revocation of the benefit in the fourth quarter of 2017;
- the provisions set aside for the estimate of future charges associated with the new regulations and replacement of these tariff discounts for employees and former employees;
- the early retirement provisions set aside for the charges associated with the new agreements for early retirements incentivised according to art. 4 of Italian Law no. 92/2012.

Other personnel expenses also include the social security and recreational contributions, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds.

The personnel composition is shown in the following table.

| | Financial year 2017 | Financial year 2016 | Average for the period |
|---|---|---|---|
| Senior managers | 89 | 95 | 91 |
| Junior managers | 265 | 251 | 262 |
| White collar | 2,918 | 2,877 | 2,895 |
| Blue collar | 3,013 | 3,003 | 3,014 |
| **Total** | **6,285** | **6,226** | **6,262** |

We can note that the number of employees at 31 December 2017 does not include employees of the Iren Rinnovabili Group companies, 135 people, because the companies were acquired at the end of financial year 2017 and do not contribute to determining the Group’s personnel expenses.

## NOTE 38_DEPRECIATION AND AMORTISATION

Depreciation/amortisation of the period amounted to 321,865 thousand euro (304,614 thousand euro in 2016).

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Property, plant and equipment and investment property | 219,557 | 213,693 |
| Intangible assets | 102,308 | 90,921 |
| **Total** | **321,865** | **304,614** |

For further details on depreciation/amortisation, reference should be made to the tables of changes in property, plant and equipment and intangible assets.

## NOTE 39_PROVISIONS AND IMPAIRMENT LOSSES

This item amounted to 78,002 thousand euro (82,910 thousand euro in 2016).

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Provisions set aside for impairment of receivables | 46,660 | 52,141 |
| Provisions set aside for risks and restoration of third-party assets | 45,432 | 41,321 |
| Provision releases | (19,383) | (22,185) |
| Write-downs | 5,293 | 11,633 |
| **Total** | **78,002** | **82,910** |

The trend of provisions set aside for risks and restoration of third-party assets is referable to the assessment of risks of liabilities in the electrical and water fields, as well as to emerging costs in the waste management segment, while releases of provisions in the period refer to the revision of estimates of expenses set aside in previous years.
Write-downs in the period regarded mainly, on the one hand, the downward adjustment of the market price of part of the stock of emission rights in the portfolio and, on the other, the adjustment of the value of goodwill related to a specific business unit in the heat service management field and of a plant collateral to the Group's businesses.
The analysis of the provisions and related variations are given in the comment to the statement of financial position item "Provisions for risks and charges".

## NOTE 40_FINANCIAL INCOME AND EXPENSE

### Financial income

Financial income amounted to 46,246 thousand euro (40,087 thousand euro in 2016). The details are shown in the following table:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Dividends | 726 | 1,614 |
| Bank interest income | 340 | 219 |
| Interest income from receivables/loans | 21,824 | 32,850 |
| Interest income from customers | 4,270 | 1,914 |
| Fair value gains on derivatives | 15,868 | 2,557 |
| Gains made on derivatives | - | 163 |
| Gains on financial assets disposal | 1,445 | 56 |
| Exchange rate gains | 24 | 27 |
| Other financial income | 1,749 | 687 |
| **Total** | **46,246** | **40,087** |

Interest income from receivables/loans refers mainly to interest receivable from the joint venture OLT Offshore (15,422 thousand euro) and interest accrued on current accounts between the Group and the Municipality of Turin (4,460 thousand euro). In financial year 2016 this item contained the income related to recognition of the right to a refund of interest, paid in previous years, in relation to the favourable judgement on the recovery of state aid ("fiscal moratorium") for a total of 12,702 thousand euro.

Income from fair value on derivative contracts refers to the non-effective portion of hedging instruments and to the fair value changes of hedging instruments that do not meet the formal requirements for the application of hedge accounting.
The capital gain on the sale of financial assets refers to the disposal of the stake in the company ASTEA Energia.
Other financial income mainly includes financial income for the discounting of provisions.

**Financial expense**
This item amounted to 128,753 thousand euro (177,000 thousand euro in 2016). The breakdown of financial expenses is provided in the following table:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Interest expense on loans | 34,078 | 42,547 |
| Interest expense on bonds | 55,507 | 89,591 |
| Interest expense on bank current accounts | 32 | 113 |
| Other interest expense | 1,026 | 1,489 |
| Capitalised financial expenses | - | - |
| Derivative fair value charges | 723 | 3,850 |
| Expenses paid on derivatives | 34,348 | 26,343 |
| Capital loss on disposal of financial assets | - | 118 |
| Interest cost – Employee benefits | 1,183 | 1,991 |
| Other financial expenses | 1,781 | 10,958 |
| **Total** | **128,678** | **177,000** |

Interest on bonds of the period include expenses for liability management operations regarding bonds issued in previous years for 12.7 million euro (in financial year 2016, for analogous operations, there were expenses of 44.8 million euro).
Interest on loans and bonds includes the expenses relating to the measurement at amortised cost.
Derivative fair value expenses consist of the reversal of a portion of the cash flow hedging reserve to the income statement, relating to certain hedging positions that do not meet the formal requirements for the application of hedge accounting. The item “expenses paid on derivatives” includes, for financial year 2017, expenses related to early repayment of certain instruments hedging the risk of interest rate changes.
Reference should be made to the note to the statement of financial position on the item “Employee benefits” for details of financial expenses on employee benefits.
Other financial expenses in financial year 2016 consisted mainly of financial expenses for the discounting of provisions.

**NOTE 41_SHARE OF PROFIT OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD**

The profit of associates accounted for using the equity method amounted to 22,532 thousand euro (3,639 thousand euro in 2016).
The change between the periods in question (+18,893 thousand euro) is essentially attributable to:
- the pro-rata amount of profits of OLT Offshore LNG Toscana (12,489 thousand euro, compared to a loss in the previous year of 2,179 thousand euro), achieved following the definition of the regasification tariffs, in particular as regards the additional remuneration of the invested capital in relation to previous years;
- the profit of the ASTEA Group, affected by the capital gain made on disposal of control over the commercial company.

We can also note that during the comparative period the item included the pro-rata result of ATENA, fully consolidated starting from May 2016.
For more details please see Note 5 “Investments accounted for using the equity method”.

**NOTE 42_VALUE ADJUSTMENTS ON EQUITY INVESTMENTS**

This item, positive, amounted to 8,670 thousand euro and represents mainly the algebraic sum of the following components:

- the effects of redetermining at fair value, at the control acquisition date, of the previous interests in Salerno Energia Vendite (8,635 thousand euro) and in the Rinnovabili Group (2,837 thousand euro);
- the write-back of Mestni Plinovodi in the light of cessation of the conditions for a write-down made in previous years (3,341 thousand euro);
- the complete write-off of Fingas (5,729 thousand euro), made following the change in prospects for the growth of new regasification capacity in Italy.

In financial year 2016 the item amounted to 15,798 thousand euro and included, on the one hand, the effect of restating the fair value of the non-controlling interest held at 31 December 2015 in TRM V. on the basis of the acquisition value of the controlling stake (10,499 thousand euro) and, on the other, the difference between the fair value of the net assets of the ATENA Group acquired and the purchase cost (6,195 million euro), partially offset by a number of write-downs of other equity investments of a smaller amount.

**NOTE 43_INCOME TAX EXPENSE**

Income taxes for 2017 are estimated at 104,359 thousand euro (118,102 thousand euro in 2016).
The breakdown of taxes is provided in the following table:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Current taxes (IRES) | 99,728 | 91,420 |
| Current taxes (IRAP) | 26,135 | 23,937 |
| Current taxes (IRES and IRAP) previous years | (1,698) | 10,665 |
| Deferred tax assets | (11,401) | 13,241 |
| Deferred tax liabilities | (8,405) | (21,161) |
| **Total** | **104,359** | **118,102** |

Current taxes are made up for 99,728 thousand euro of IRES (corporate income tax) and 26,135 thousand euro of IRAP (regional business tax). It should also be noted that income tax expense was affected by the reduction of the IRES rate from 27.5% to 24% starting from 2017 (2016 Stability Law).

We can note that, starting from 2010, Iren S.p.A. adopted the domestic tax consolidation scheme pursuant to Arts 117 et seq. of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, opportunely adjusted for the consolidation changes.
The tax consolidation scope for 2017 includes the following companies, in addition to the consolidating company Iren S.p.A.: IRETI, Iren Mercato (incorporating Iren Gestioni Energetiche), Iren Energia (incorporating Iren Servizi e Innovazione), Iren Acqua (formerly Mediterranea delle Acque), Immobiliare delle Fabbriche, Iren Ambiente, Iren Rinnovabili, Greensource, Enìa Solaris, Varsi Fotovoltaico (incorporating Millenaria Fotovoltaico), AMIAT, AMIAT V., TRM Holding and TRM V.
All financial and legal transactions between the parties are governed by the specific intra-group agreement between the companies involved and the parent, Iren S.p.A.

With reference to recovery of taxes for Mediterranea delle Acque (now IREN Acqua) and to the dispute with the Revenues Agency on the deduction of the depreciation and amortisation related to the contribution of the business unit of 23 December 1999 made by AMGA S.p.a, already illustrated in depth in previous financial statements and related to the assessment notices for years 2003 - 2011 issued under the terms of art. 37 bis paragraph 4 of Italian Presidential Decree 600/73, at the end of December 2017 notices were served for the recovery of IRES and IRAP taxes related to the 2012 tax year, issued under the terms of art. 10 bis of Italian Law 212/2000.
In relation to the years from 2003 to 2006, against the judgements in 2016 of the Liguria Regional Tax Commission, on 12 July 2017 the Company lodged an appeal to the Supreme Court of Cassation.
With reference to the years 2007 and 2008 the hearing for discussion was held on 17 January 2018 and the judgement, unfavourable for the Company limited to recovery of the taxes, was filed on 8 February 2018.
In the same way, as the proceedings were combined with those described in the previous paragraph, the appeal presented by the Revenues Agency against the judgement in first instance wholly favourable to the Company for tax year 2009 was negative for IREN Acqua limited to the tax.
With reference to the years 2010 and 2011 on 13 February 2017 the Company presented appeal against the unfavourable judgements in the first instance and the hearing for discussion has not yet been set.
Although it has already been the subject of a tax audit carried out by the Liguria Regional Department, no notice of assessment has yet been served in relation to the tax period 2013.
In the light of the factual situation presented above already at the end of financial year 2016 the need was recognised to re-examine the risk estimate, above all in consideration of the (partially) negative outcome of the dispute in second instance related to the assessment notices issued with reference to the tax years from 2003 to 2006, confirmed now for the years from 2007 to 2009, which are likely to condition the solution of the other pending tax disputes (for tax years 2010 and following) before the court of merit.
As mentioned above, the Company has obtained positive responses, in the context of the judgements challenged, only limited to the aspect of sanctions.
The Tax Commissions appealed to, in fact, decided that they had to proceed to revoke the sanctions imposed, in consideration of the conditions of objective uncertainty on the range and scope of the rules applied to the case examined (*cf.,* art. 8 of Italian Legislative Decree no. 546 of 1992). However, on the merit, although with debatable grounds, the said Commissions confirmed (with reference to the most important part of the assessment notices served) the recovery of taxation made by the Revenues Agency.
Only with regard to tax year 2009, the first-level Court decided to accept fully the appeal lodged.
Considering what has been said, therefore, the risk of losing the cases, with reference to the disputes currently pending can be estimated as:

- probable, for the part related to the taxes assessed;
- remote, for the part relating to the sanctions imposed.

It is necessary to note however that, on basis of the opinion issued by the legal consultants that assist the Company, with respect to the aforementioned judgements filed, there should be margins for appealing them to the Court of Cassation. This, as is well-known, makes a judgement of constitutionality on the judgements issued by the court of merit and it seems the body most appropriate for examining the said questions which relate, evidently, to aspects of law and of correct interpretation of the tax legislation.
This said, at the moment we do not believe that conditions exist such as to lead us to consider necessary a change with respect to the tax treatment that has always been adopted by IREN Acqua S.p.A. (formerly Mediterranea delle Acque S.p.A.). However, taking into account what is provided for in the accounting standard if the risk of the liabilities becoming manifest is deemed probable, it has been considered opportune to make a provision for risks for the amount corresponding to the total at 31 December 2017 of the higher taxes of 18,060 thousand euro connected with this dispute, as well as the interest and collection expenses of 4,237 thousand euro allocated to the corresponding accounting items.

The table below shows the breakdown of the tax rate for financial year 2017 and for financial year 2016.

thousands of euro

| | Financial year 2017 | | Financial year 2016 | |
|---|---|---|---|---|
| Profit (loss) before tax | 369,119 | | 309,171 | |
| IRES tax | 88,588 | 24.0% | 83,434 | 27.0% |
| Permanent differences | (5,647) | -1.5% | 3,453 | 1.1% |
| Deferred tax asset and liability rate recalculations | - | 0.0% | 1,610 | 0.5% |
| IRAP (regional business tax) | 26,135 | 7.1% | 23,850 | 7.7% |
| Previous years' taxes and other differences | (4,717) | -1.3% | 5,755 | 1.9% |
| **Total taxes in the income statement** | **104,359** | **28.3%** | **118,102** | **38.2%** |

The adjusted tax rate, net of the extraordinary events of 2017 indicated above, is approximately 31%.

The following table shows deferred tax assets and liabilities and their impact.

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| **Deferred tax assets** | | |
| Non-taxable provisions | 114,250 | 107,637 |
| Differences in value of fixed assets | 119,617 | 117,602 |
| Derivatives | 19,623 | 26,419 |
| Other | 24,281 | 17,342 |
| **Total** | **277,771** | **269,000** |
| **Deferred tax liabilities** | | |
| Differences in value of fixed assets | 198,945 | 203,545 |
| Provisions for impairment of receivables | 3,814 | 3,246 |
| Other provisions | 1,754 | 4,405 |
| Other | 9,247 | 2,111 |
| **Total** | **213,760** | **213,307** |
| **Total net deferred tax assets (liabilities)** | **64,011** | **55,693** |
| **Total change** | **8,318** | |
| of which: | | |
| Equity | (1,989) | |
| to the Income statement | 19,807 | |
| owing to changes in the consolidation scope | (9,500) | |

## NOTE 44_NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS

Not present in financial year 2017 and in financial year 2016.

**NOTE 45_ PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO MINORITIES**

Profit attributable to non-controlling interests, which amounts to 27,040 thousand euro (11,225 thousand euro in 2016), relates to the share of profit of non-controlling interests in companies fully consolidated but not wholly owned by the Group. The change is essentially the result of the increase in the profit of Iren Acqua (formerly Mediterranea delle Acque).

**NOTE 46_EARNINGS PER ORDINARY AND SAVINGS SHARE**

In order to calculate the basic and diluted earnings per share, the number of shares for 2017 is the weighted average, unchanged compared to the previous year, of shares outstanding over the reference period based on the provisions of paragraph 20, IAS 33. The number of shares includes ordinary shares and savings shares issued by the company. The company has not issued financial instruments that have the potential to dilute ordinary and savings shares, therefore diluted earnings per share is equal to basic earnings per share.

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Net profit (loss) for the period (thousands of euro) | 237,720 | 179,844 |
| Weighted average number of shares outstanding over the year (thousand) | 1,276,226 | 1,276,226 |
| **Basic earnings/(loss) per share (euro)** | **0.19** | **0.14** |

**NOTE 47_OTHER COMPREHENSIVE INCOME**

Other comprehensive income amounted to 9,574 thousand euro (27,262 thousand euro in 2016) and included other comprehensive income that will be subsequently reclassified to the Income Statement and other comprehensive income that will not be subsequently reclassified to the Income Statement.

Other comprehensive income that will not be subsequently reclassified to the Income Statement relates to:

- the effective portion of changes in the fair value of cash flow hedging instruments, a positive 8,043 thousand euro, which refers to derivatives hedging changes in interest rates and derivatives hedging changes in commodity prices (for the Group this is gas).
- the share of other profits/(losses) of companies accounted for using the equity method, a positive 753 thousand euro, which refers to changes in the fair value of cash flow hedging instruments of associates.
- the tax effect of other comprehensive income for -1,508 thousand euro.

Other comprehensive income that will not be subsequently reclassified to the Income Statement relates to:

- actuarial losses, related to defined benefit plans, for 2,963 thousand euro.
- the portion of other profits/(losses) of companies accounted for using the equity method related to employee defined benefit plans, for -196 thousand euro.
- the tax effect of other comprehensive income for -481 thousand euro.

# X. GUARANTEES AND CONTINGENT LIABILITIES

Guarantees relate to:

a) Sureties for own commitments of 369,791 thousand euro (373,113 thousand euro at 31 December 2016); the most significant items refer to sureties issued in favour of:
   - the Turin Provincial/Metropolitan City Government, for 60,584 thousand euro for waste collection and post-closure management of plants subject to Integrated Environmental Authorisation (hereinafter I.E.A.);
   - the Reggio Emilia Provincial Government for 58,570 thousand euro for waste collection and operating and post-closure management of plants subject to Integrated Environmental Authorisation (hereinafter A.I.A.);
   - ATO-R, for 41,000 thousand euro, as definitive guarantees in the AMIAT/TRM tender procedure;
   - the City of Turin for 27,476 thousand euro as definitive guarantees in the AMIAT/TRM tender procedure;
   - INPS for Euro 21,877 thousand for the planned redundancy procedure for group employees;
   - the Electricity Market Operator (GME) for 28,000 thousand euro to guarantee the market participation contract;
   - SNAM Rete Gas for 18,243 thousand euro, of which 942 thousand euro in the interest of OLT Offshore LNG Toscana in relation to the construction of a delivery point;
   - the Customs Authority, for 18,412 thousand euro to guarantee the regular payment of revenue taxes and additional local and provincial duties on electricity consumption and gas excise;
   - the Parma Provincial Government, for 11,703 thousand euro for waste collection and operating and post-closure management of plants subject to A.I.A.;
   - CONSIP for 18,864 thousand euro for electricity supply contracts;
   - the Ministry of the Environment, for 12,611 thousand euro;
   - Terna, for 6,603 thousand euro to guarantee injection and withdrawal dispatching contracts and to guarantee the electricity transport service contract;
   - the Piacenza Provincial Government, for 4,696 thousand euro for waste collection and post-closure management of plants subject to A.I.A.;
   - the Municipality of Parma for 2,427 thousand euro to guarantee the Cornocchio plant and for maintenance contracts;
   - ATERSIR for 3,760 thousand euro for S.I.I. and S.G.R.U. agreements;
   - REAM Sgr SpA, for 4,290 thousand euro, to guarantee lease payments of properties transferred to the real estate fund called Fondo Core MultiUtilities;
   - Italgas for 2,264 thousand euro to guarantee the distribution of natural gas contract;
   - FCT Holding, for 2,000 thousand euro, as definitive guarantee in the AMIAT/TRM tender procedure;

b) Guarantees provided on behalf of subsidiaries and associates for 316,062 thousand euro, primarily to guarantee credit facilities and sales/Parent Company Guarantee contracts on behalf of Iren Mercato SpA;

The most significant amounts, regarding the guarantees given on behalf of associates, refer to the associate Sinergie Italiane in liquidation (namely guarantees for credit facilities and letters of patronage for 26,666 thousand euro, unchanged compared to 31 December 2016). The liquidators concluded the main procurement contracts and since 1 October 2012 the Company's operating activity therefore includes only the purchase of gas from the Russian Gazprom supplier and the sale of gas to shareholders or their subsidiaries, including Iren Mercato. We can also note the sureties issued in favour of Banca Intesa for 2,668 thousand euro to guarantee the mortgage loan of the associate Mestni Plinovodi.

**COMMITMENTS**

In relation to the subsidiary Iren Acqua (formerly Mediterranea delle Acque), we can note the existence of a commitment within the framework Agreement with the Shareholder F2i rete idrica S.p.A.. Article 15 of this agreement envisages that Ireti is bound to pay damages in the event of liabilities, losses or damage suffered by F2i or Iren Acqua or its investees, resulting from incorrect or unfair statements included in the agreement.

We can also note Iren S.p.A.'s commitment at 31 December 2017 to Cariparma to retain control over Iren Ambiente and by Iren Ambiente to retain direct or indirect ownership of a share package amounting to at least 70% of the share capital of Varsi Fotovoltaico (controlled by Iren Rinnovabili), which has an existing loan agreement with Cariparma. On 31 January 2018 the loan was repaid in full with release of the guarantees.

# XI. SEGMENT REPORTING

Segment reporting, based on the Group's management and internal reporting structure, is given below in accordance with IFRS 8.
Given the nature of the activity performed by Group companies, a geographical segment analysis is not relevant.

### OPERATING BUSINESS SEGMENTS

The Iren Group operates in the following business segments:

- Energy (Hydroelectric Production, Combined Heat and Power, District Heating Networks, Thermoelectric Production)
- Market (Sale of electricity, gas, heat)
- Networks (Electricity Distribution Networks, Gas Distribution Networks, Integrated Water Service)
- Waste Management (Waste collection and disposal)
- Other services (Public Lighting, Global Services and other minor services).

These operating segments are disclosed pursuant to IFRS 8. Under this standard, the disclosure about operating segments should be based on the elements which management uses in making operational and strategic decisions.

For a proper interpretation of the economic results relating to individual businesses, revenue and expense referring to joint activities were fully allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers.

Given the fact that the Group mainly operates in the Italian north-west area, the following segment information does not include a breakdown by geographical area.

Net invested capital by business segment compared to the figures at 31 December 2016 and income statements (up to the operating profit/(loss)) by business segment are presented below, and include a comparison with the figures for financial year 2016. We must specify that the comparative data of financial year 2016 were restated, as provided for in IFRS 3, with completion of the Purchase Price Allocation, to take into account, at the acquisition date, of the definitive fair value of the acquired assets and liabilities of Atena S.p.A. (now ASM Vercelli), Atena Trading and Ricupero Ecologici Industriali. For more details please see the paragraph "Content and structure of the consolidated financial statements" in the Notes to the Financial Statements.

**Statement of financial position by business segment at 31 December 2017**

millions of euro

| | Energy | Market | Networks | Waste Manag. | Other services | Non-allocable | Total |
|---|---|---|---|---|---|---|---|
| Non-current assets | 1,876 | 131 | 2,272 | 933 | 32 | 168 | **5,412** |
| Net Working Capital | 50 | 10 | 59 | 50 | 13 | - | **182** |
| Other non-current assets and liabilities | (101) | (25) | (435) | (166) | 4 | - | **(723)** |
| **Net invested capital (NIC)** | **1,825** | **116** | **1,896** | **817** | **49** | **168** | **4,871** |
| **Equity** | | | | | | | **2,499** |
| **Net financial position** | | | | | | | **2,372** |
| **Own funds and net financial debt** | | | | | | | **4,871** |

### Restated statement of financial position by business segment at 31 December 2016

millions of euro

| | Energy | Market | Networks | Waste Manag. | Other services | Non-allocable | Total |
|---|---|---|---|---|---|---|---|
| Non-current assets | 1,876 | 67 | 2,152 | 972 | 21 | 156 | **5,244** |
| Net Working Capital | 25 | (8) | 114 | 8 | 31 | - | **171** |
| Other non-current assets and liabilities | (90) | (2) | (390) | (162) | (16) | - | **(661)** |
| **Net invested capital (NIC)** | **1,811** | **57** | **1,877** | **818** | **36** | **156** | **4,754** |
| **Equity** | | | | | | | **2,297** |
| **Net financial position** | | | | | | | **2,457** |
| **Own funds and net financial debt** | | | | | | | **4,754** |

### Income Statement by business segment 2017

millions of euro

| | Energy | Market | Networks | Waste Manag. | Other services | Netting and adjustments | Total |
|---|---|---|---|---|---|---|---|
| Total revenue and income | 1,104 | 2,418 | 936 | 551 | 127 | (1,438) | 3,697 |
| Total operating expense | (849) | (2,307) | (600) | (402) | (157) | 1,438 | (2,877) |
| **Gross Operating Profit (EBITDA)** | **255** | **111** | **336** | **149** | **(31)** | **-** | **820** |
| Am./depr., net provisions and impairment losses | (117) | (42) | (157) | (81) | (2) | - | (400) |
| **Operating profit (EBIT)** | **138** | **69** | **179** | **67** | **(33)** | **-** | **420** |

### Restated Income Statement by business segment 2016

millions of euro

| | Energy | Market | Networks | Waste Manag. | Other services | Netting and adjustments | Total |
|---|---|---|---|---|---|---|---|
| Total revenue and income | 908 | 2,187 | 854 | 502 | 62 | (1,230) | 3,283 |
| Total operating expense | (675) | (2,052) | (535) | (383) | (55) | 1,230 | (2,469) |
| **Gross Operating Profit (EBITDA)** | **234** | **135** | **319** | **120** | **7** | **-** | **814** |
| Am./depr., net provisions and impairment losses | (130) | (56) | (135) | (67) | - | - | (388) |
| **Operating profit (EBIT)** | **104** | **79** | **183** | **53** | **8** | **-** | **427** |

# XII. ANNEXES TO THE CONSOLIDATED FINANCIAL STATEMENTS

## FULLY CONSOLIDATED COMPANIES

| Company | Registered office | Currency | Share capital | % interest | Shareholder company |
|---|---|---|---|---|---|
| Iren Ambiente S.p.A. | Piacenza | Euro | 63,622,002 | 100.00 | Iren |
| Iren Energia S.p.A. | Turin | Euro | 918,767,148 | 100.00 | Iren |
| Iren Mercato S.p.A. | Genoa | Euro | 61,356,220 | 100.00 | Iren |
| Ireti S.p.A. | Tortona (Alessandria) | Euro | 196,832,103 | 100.00 | Iren |
| AMIAT S.p.A. | Turin | Euro | 46,326,462 | 80.00 | AMIAT V |
| AMIAT V. S.p.A. | Turin | Euro | 1,000,000 | 93.06 | Iren Ambiente |
| ASM Vercelli S.p.A. | Vercelli | Euro | 120,812,720 | 59.96 | IRETI |
| Atena Trading s.r.l | Vercelli | Euro | 556,000 | 100.00 | ASM Vercelli |
| Bonifica Autocisterne S.r.l. | Piacenza | Euro | 595,000 | 51.00 | Iren Ambiente |
| Coin Consultech S.r.l. | Reggio Emilia | Euro | 10,000 | 51.00 | Studio Alfa |
| Consorzio GPO | Reggio Emilia | Euro | 20,197,260 | 62.35 | IRETI |
| Enia Solaris S.r.l. | Reggio Emilia | Euro | 100,000 | 100.00 | Greensource |
| Greensource S.p.A. | Reggio Emilia | Euro | 1,000,000 | 100.00 | Iren Rinnovabili |
| Immobiliare delle Fabbriche S.r.l. | Genoa | Euro | 90,000 | 100.00 | Iren Acqua |
| Iren Acqua S.p.A. | Genoa | Euro | 19,203,420 | 60.00 | IRETI |
| Iren Acqua Tigullio S.p.A. | Chiavari (Genoa) | Euro | 979,000 | 66.55 | Iren Acqua |
| Iren Laboratori S.p.A. | Genoa | Euro | 2,000,000 | 90.89 | IRETI |
| Iren Rinnovabili | Reggio Emilia | Euro | 285,721 | 100.00 | Iren Ambiente |
| Monte Querce S.c.a.r.l. | Reggio Emilia | Euro | 100,000 | 60.00 | Iren Ambiente |
| R.E.I. S.r.l. | Pianezza (Turin) | Euro | 50,000 | 100.00 | Iren Ambiente |
| Salerno Energia Vendite | Salerno | Euro | 3,312,060 | 50.00 | Iren Mercato |
| Studio Alfa S.p.A. | Reggio Emilia | Euro | 100,000 | 86.00 | Iren Rinnovabili |
| TRM Holding S.p.A. | Turin | Euro | 120,000 | 100.00 | Iren Ambiente |
| TRM V. S.p.A. | Turin | Euro | 1,000,000 | 49.00 | Iren Ambiente |
| | | | | 51.00 | TRM Holding |
| TRM S.p.A. | Turin | Euro | 86,794,220 | 80.00 | TRM V |
| Varsi Fotovoltaico S.r.l. | Reggio Emilia | Euro | 100,000 | 100.00 | Greensource |

## COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

### Joint ventures

| Company | Registered office | Currency | Share capital | % interest | Shareholder company |
|---|---|---|---|---|---|
| Acque Potabili S.p.A. | Turin | Euro | 7,633,096 | 44.92 | IRETI |
| Olt Offshore Toscana LNG S.p.A. | Milan | Euro | 40,489,544 | 46.79 | Iren Mercato |

### Associates

| Company | Registered office | Currency | Share capital | % interest | Shareholder company |
|---|---|---|---|---|---|
| A2A Alfa S.r.l. | Milan | Euro | 100,000 | 30.00 | Iren Mercato |
| Acos Energia S.p.A. | Novi Ligure | Euro | 150,000 | 25.00 | Iren Mercato |
| Acos S.p.A. | Novi Ligure | Euro | 17,075,864 | 25.00 | IRETI |
| Acquaenna S.c.p.a. | Enna | Euro | 3,000,000 | 46.00 | IRETI |
| Aguas de San Pedro | S.Pedro Sula (Honduras) | Lempiras | 159,900 | 39.34 | IRETI |
| Aiga S.p.A. | Ventimiglia | Euro | 104,000 | 49.00 | IRETI |
| Amat S.p.A. | Imperia | Euro | 5,435,372 | 48.00 | IRETI |
| Amter S.p.A. | Cogoleto (Genoa) | Euro | 404,263 | 49.00 | Iren Acqua |
| ASA S.p.A. | Livorno | Euro | 28,613,406 | 40.00 | IRETI |
| ASTEA S.p.A. | Recanati | Euro | 76,115,676 | 21.32 | Consorzio GPO |
| Asti Energia e Calore S.p.A. | Asti | Euro | 120,000 | 34.00 | Iren Energia |
| BI Energia S.r.l. | Reggio Emilia | Euro | 100,000 | 47.50 | Iren Rinnovabili |
| CSP Innovazione nelle ICT S.c.r.l. | Turin | Euro | 600,000 | 25.00 | Iren Energia |
| Domus Acqua S.r.l. | Domusnovas | Euro | 96,000 | 29.00 | IRETI |
| Fata Morgana S.p.A. (2) | Reggio Calabria | Euro | 2,225,694 | 25.00 | IRETI |
| Fin Gas srl | Milan | Euro | 10,000 | 50.00 | Iren Mercato |
| G.A.I.A. S.p.A. | Asti | Euro | 5,539,700 | 45.00 | Iren Ambiente |
| Global Service Parma | Parma | Euro | 20,000 | 30.00 | IRETI |
| Iniziative Ambientali S.r.l. | Novellara (Reggio Emilia) | Euro | 100,000 | 40.00 | Iren Ambiente |
| Mestni Plinovodi (3) | Koper (Slovenia) | Euro | 15,952,479 | 49.88 | IRETI |
| Mondo Acqua | Mondovì (Cuneo) | Euro | 1,100,000 | 38.50 | IRETI |
| Nord Ovest Servizi | Turin | Euro | 7,800,000 | 10.00 | IRETI |
| | | | | 15.00 | AMIAT |
| Piana Ambiente S.p.A. (2) | Gioia Tauro | Euro | 1,719,322 | 25.00 | IRETI |
| Plurigas S.p.A. (2) | Milan | Euro | 800,000 | 30.00 | Iren |
| Recos S.p.A. | La Spezia | Euro | 3,516,000 | 25.50 | Iren Ambiente |
| Rio Riazzone S.p.A. (1) | Castellarano (Reggio Emilia) | Euro | 103,292 | 44.00 | Iren Ambiente |
| Sinergie Italiane S.r.l. (1) | Milan | Euro | 1,000,000 | 30.94 | Iren Mercato |
| So. Sel. S.p.A. | Modena | Euro | 240,240 | 24.00 | IRETI |
| STU Reggiane S.p.A. | Reggio Emilia | Euro | 20,444,000 | 30.00 | Iren Rinnovabili |
| Tirana Acque (1) | Genoa | Euro | 95,000 | 50.00 | IRETI |
| Valle Dora Energia S.r.l. | Turin | Euro | 537,582 | 49.00 | Iren Energia |

(1) Company in liquidation

(2) Company in liquidation classified among discontinuing operations

(3) Company classified among assets held for sale

## EQUITY INVESTMENTS IN OTHER COMPANIES

| Company | Registered office | Currency | Share capital | % interest | Shareholder company |
|---|---|---|---|---|---|
| Acque Potabili Siciliane in bankruptcy (1) | Palermo | Euro | 5,000,000 | 9.83 | Iren Acqua |
| Aeroporto di Reggio Emilia | Reggio Emilia | Euro | 2,177,871 | 0.11 | Studio Alfa |
| ASQ Network | Rome | Euro | 75,000 | 6.00 | Studio Alfa |
| ATO2ACQUE S.c.a.r.l. | Biella | Euro | 48,000 | 16.67 | ASM Vercelli |
| Aurora S.r.l. | S. Martino in Rio (RE) | Euro | 514,176 | 0.10 | Studio Alfa |
| Autostrade Centro Padane | Cremona | Euro | 30,000,000 | 1.46 | IRETI |
| BT ENIA Telecomunicazioni | Parma | Euro | 4,226,000 | 12.01 | IRETI |
| C.R.P.A. | Reggio Emilia | Euro | 2,201,350 | 2.27 | IRETI |
| CIDIU SPA | Collegno (TO) | Euro | 4,335,314 | 4.82 | AMIAT |
| CNA Servizi Scrl | Reggio Emilia | Euro | | | Studio Alfa |
| CONSORZIO ITALIANO COMPOSTATORI CIC | Bologna | Euro | 294,716 | 0.13 | AMIAT |
| Consorzio L.E.A.P. | Piacenza | Euro | 150,000 | 8.57 | Iren Ambiente |
| Consorzio Topix | Turin | Euro | 1,600,000 | 0.30 | Iren Energia |
| Credito Cooperativo Reggiano | S.Giovanni di Querciola (RE) | Euro | | | Studio Alfa |
| Emilbanca BCC | Bologna | Euro | | | Studio Alfa |
| Environment Park S.p.A. | Turin | Euro | 11,406,780 | 3.39 | Iren Energia |
| | | | | 7.41 | AMIAT |
| Italeko AD (2) | Sofia (Bulgaria) | Lev | 50,000 | 10.00 | AMIAT |
| Reggio Emilia Innovazione (2) | Reggio Emilia | Euro | 871,956 | 0.99 | Iren Ambiente |
| Società di Biotecnologie S.p.A. | Turin | Euro | 536,000 | 1.00 | Iren Energia |
| Stadio Albaro (2) | Genoa | Euro | 1,230,000 | 2.00 | Iren Mercato |
| T.I.C.A.S.S. | Genoa | Euro | 176,000 | 3.45 | IRETI |

(1) in bankruptcy from 29.10.2013
(2) Company in liquidation

## ACCOUNTING DATA OF THE MAIN COMPANIES CONSOLIDATED LINE-BY-LINE AND MEASURED AT EQUITY

### Fully consolidated companies

| Company | Currency | Total Assets | Shareholders' equity | Total revenue | Profit/loss |
|---|---|---|---|---|---|
| Iren Ambiente S.p.A. | Euro | 626,413,921 | 245,807,546 | 279,713,751 | 4,040,577 |
| Iren Energia S.p.A. | Euro | 2,261,362,534 | 1,260,750,025 | 1,205,333,742 | 93,738,447 |
| Iren Mercato S.p.A. | Euro | 781,767,031 | 190,525,449 | 2,334,566,430 | 49,533,543 |
| Ireti S.p.A. | Euro | 2,507,747,895 | 1,113,726,804 | 610,578,188 | 63,064,648 |
| AMIAT S.p.A. | Euro | 284,467,977 | 96,629,336 | 198,072,291 | 13,059,265 |
| AMIAT V. S.p.A. | Euro | 62,460,972 | 40,345,013 | - | 10,706,431 |
| ASM Vercelli S.p.A. | Euro | 165,489,085 | 134,293,792 | 36,597,513 | 3,332,220 |
| Atena Trading s.r.l | Euro | 37,472,129 | 7,947,766 | 56,836,125 | 2,050,948 |
| Bonifica Autocisterne S.r.l. | Euro | 1,360,187 | 839,622 | 1,396,907 | 179,873 |
| Coin Consultech S.r.l. | Euro | 356,801 | 147,959 | 763,121 | 7,596 |
| Consorzio GPO | Euro | 21,367,163 | 24,914,372 | - | 2,335,568 |
| Enia Solaris S.r.l. | Euro | 25,566,152 | 5,039,541 | 2,677,439 | 179,825 |
| Greensource S.p.A. | Euro | 30,544,776 | 17,883,214 | 1,690,685 | 138,103 |
| Immobiliare delle Fabbriche S.r.l. | Euro | 10,161,081 | 10,142,605 | 1,765 | (45,709) |
| Iren Acqua S.p.A. | Euro | 699,715,599 | 480,771,153 | 217,079,815 | 39,132,369 |
| Iren Acqua Tigullio S.p.A. | Euro | 45,928,897 | 16,204,866 | 20,887,695 | 1,345,685 |
| Iren Laboratori S.p.A. | Euro | 13,114,348 | 6,047,243 | 10,476,932 | 521,601 |
| Iren Rinnovabili | Euro | 40,689,972 | 22,275,527 | 3,141,084 | (2,427) |
| Monte Querce S.c.a.r.l. | Euro | 725,911 | 100,000 | - | - |
| R.E.I. S.r.l. | Euro | 17,603,280 | 304,817 | 5,440,231 | (353,233) |
| Salerno Energia Vendite | Euro | 30,971,845 | 7,991,049 | 44,794,988 | 2,485,288 |
| Studio Alfa S.p.A. | Euro | 10,493,061 | 3,061,247 | 15,380,742 | 893,659 |
| TRM Holding S.p.A. | Euro | 71,149,488 | 71,050,088 | - | 1,428,852 |
| TRM V. S.p.A. | Euro | 133,431,021 | 132,951,242 | - | 231,505 |
| TRM S.p.A. | Euro | 461,821,634 | 49,156,974 | 99,040,728 | 18,969,585 |
| Varsi Fotovoltaico S.r.l. | Euro | 25,331,483 | 7,643,559 | 3,631,738 | 205,352 |

## Companies measured using the equity method

### Joint ventures

| Company | Currency | Total Assets | Shareholders' equity | Total revenue | Profit/loss |
|---|---|---|---|---|---|
| Acque Potabili S.p.A. (1) | Euro | 106,415,000 | 38,898,000 | 474,000 | 7,289,000 |
| Olt Offshore Toscana LNG S.p.A. | Euro | 1,011,990,360 | 64,079,891 | 160,448,981 | 26,466,981 |

(1) data at 31.12.2016

### Associates

| Company | Currency | Total Assets | Shareholders' equity | Total revenue | Profit/loss |
|---|---|---|---|---|---|
| A2A Alfa S.r.l. (1) | Euro | 1,511,428 | 1,428,668 | - | (38,931) |
| Acos Energia S.p.A. (1) | Euro | 14,111,290 | 5,257,487 | 18,726,933 | 1,770,341 |
| Acos S.p.A. (1) | Euro | 128,216,399 | 46,995,207 | 68,638,209 | 5,239,492 |
| Acquaenna S.c.p.a. (1) | Euro | 88,538,411 | 6,233,370 | 24,485,897 | 628,422 |
| Aguas de San Pedro (1) | Lempiras | 1,525,085,807 | 690,186,832 | 836,652,700 | 73,597,713 |
| Aiga S.p.A. (in arrangement with creditors) (1) | Euro | 4,424,895 | (120,283) | 2,477,886 | (445,451) |
| Amat S.p.A. (1) | Euro | 35,362,488 | 6,270,223 | 8,504,976 | (72,290) |
| Amter S.p.A. (1) | Euro | 12,204,153 | 1,931,922 | 4,964,584 | 378,956 |
| ASA S.p.A. (1) | Euro | 268,969,507 | 72,501,338 | 106,945,978 | 6,926,268 |
| ASTEA S.p.A. (1) | Euro | 181,744,774 | 109,554,946 | 86,268,240 | 20,837,600 |
| Asti Energia e Calore S.p.A. (1) | Euro | 4,468,965 | 114,257 | 918,245 | 25,549 |
| BI Energia S.r.l. (1) | Euro | 6,403,258 | 2,039,160 | 3,823 | (90,337) |
| CSP Innovazione nelle ICT S.c.r.l. (1) | Euro | 2,443,150 | (24,829) | 2,706,829 | (63,983) |
| Domus Acqua S.r.l. (1) | Euro | 884,325 | 188,562 | 362,261 | (99,473) |
| Fin Gas S.r.l. (1) | Euro | 11,966,607 | 11,878,637 | - | (44,813) |
| G.A.I.A. S.p.A. (1) | Euro | 22,613,166 | 4,418,799 | 17,020,442 | 816,476 |
| Global Service Parma (1) | Euro | 8,429,334 | 20,000 | 6,977,690 | - |
| Iniziative Ambientali S.r.l. (1) | Euro | 5,706,876 | 1,131,249 | - | (88,584) |
| Mestni Plinovodi (1) | Euro | 28,797,219 | 20,760,166 | 7,535,187 | 1,639,876 |
| Mondo Acqua (1) | Euro | 9,131,217 | 1,687,174 | 4,643,184 | 197,351 |
| Nord Ovest Servizi (1) | Euro | 18,216,865 | 18,110,659 | 75,000 | 387,393 |
| Plurigas S.p.A. (in liquidation) (1) | Euro | 5,652,506 | 3,209,854 | 17,546 | (15,566) |
| Recos S.p.A. (1) | Euro | 30,888,025 | 3,382,956 | 3,688,126 | (133,044) |
| Rio Riazzone S.p.A. (in liquidation) (1) | Euro | 581,461 | 332,532 | - | (176,142) |
| Sinergie Italiane S.r.l. (in liquidation) (2) | Euro | 29,298,530 | (10,525,734) | 191,247,719 | 1,658,622 |
| So. Sel. S.p.A. | Euro | 14,282,036 | 4,214,505 | 17,797,038 | 663,348 |
| STU Reggiane S.p.A. (1) | Euro | 8,640,427 | 5,340,955 | 13,313 | (69,889) |
| Valle Dora Energia S.r.l. | Euro | 2,957,777 | 2,134,129 | 3,056,074 | 1,477,176 |

(1) data at 31.12.2016
(2) data at 30.09.2017

## RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB Communication no. 6064293 dated 26 July 2006)

thousands of euro

| IAS/IFRS STATEMENT OF FINANCIAL POSITION | | RECLASSIFIED STATEMENT OF FINANCIAL POSITION | |
|---|---|---|---|
| Property, plant and equipment | 3,449,344 | Property, plant and equipment | 3,449,344 |
| Investment property | 13,137 | Investment property | 13,137 |
| Intangible assets | 1,653,977 | Intangible assets | 1,653,977 |
| Goodwill | 127,320 | Goodwill | 127,320 |
| Investments accounted for using the equity method | 161,255 | Investments accounted for using the equity method | 161,255 |
| Other equity investments | 7,126 | Other equity investments | 7,126 |
| **Total (A)** | **5,412,159** | **Non-Current Assets (A)** | **5,412,159** |
| Other non-current assets | 44,614 | Other non-current assets | 44,614 |
| Other payables and other non-current liabilities | (222,595) | Other payables and other non-current liabilities | (222,595) |
| **Total (B)** | **(177,981)** | **Other non-current assets (liabilities) (B)** | **(177,981)** |
| Inventories | 61,984 | Inventories | 61,984 |
| Non-current trade receivables | 69,801 | Non-current trade receivables | 69,801 |
| Trade receivables | 895,788 | Trade receivables | 895,788 |
| Current tax assets | 7,365 | Current tax assets | 7,365 |
| Other receivables and other current assets | 276,347 | Other receivables and other current assets | 276,347 |
| Trade payables | (827,477) | Trade payables | (827,477) |
| Other payables and other current liabilities | (269,720) | Other payables and other current liabilities | (286,644) |
| Current tax liabilities | (15,295) | Current tax liabilities | (15,295) |
| **Total (C)** | **198,793** | **Net working capital (C)** | **181,869** |
| Deferred tax assets | 277,771 | Deferred tax assets | 277,771 |
| Deferred tax liabilities | (213,760) | Deferred tax liabilities | (213,760) |
| **Total (D)** | **64,011** | **Deferred tax assets (liabilities) (D)** | **64,011** |
| Employee benefits | (116,483) | Employee benefits | (116,483) |
| Provisions for risks and charges | (430,133) | Provisions for risks and charges | (430,133) |
| Provisions for risks and charges - current portion | (88,502) | Provisions for risks and charges - current portion | (71,578) |
| **Total (E)** | **(635,118)** | **Provisions and employee benefits (E)** | **(618,194)** |
| Assets held for sale | 8,724 | Assets held for sale | 8,724 |
| Liabilities related to assets held for sale | - | Liabilities related to assets held for sale | - |
| **Total (F)** | **8,724** | **Assets (Liabilities) held for sale (F)** | **8,724** |
| | | **Net invested capital (G=A+B+C+D+E+F)** | **4,870,588** |
| **Equity (H)** | **2,498,803** | **Equity (H)** | **2,498,803** |
| Non-current financial assets | (165,767) | Non-current financial assets | (165,767) |
| Non-current financial liabilities | 3,023,888 | Non-current financial liabilities | 3,023,888 |
| **Total (I)** | **2,858,121** | **Medium/long-term financial debt (I)** | **2,858,121** |
| Current financial assets | (506,382) | Current financial assets | (506,382) |
| Cash and cash equivalents | (169,086) | Cash and cash equivalents | (169,086) |
| Current financial liabilities | 189,132 | Current financial liabilities | 189,132 |
| **Total (L)** | **(486,336)** | **Short-term financial debt (L)** | **(486,336)** |
| | | **Net financial debt (M=I+L)** | **2,371,785** |
| | | **Own funds and net financial debt (H+M)** | **4,870,588** |

## DEFERRED TAX ASSETS AND LIABILITIES FOR 2017

| | initial | formation | differences<br>Change cons. sc. | payment | remainder |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Non-taxable provisions | 444,850 | 162,138 | - | 142,343 | 464,645 |
| Differences in value of fixed assets | 622,891 | 57,690 | 410 | 51,788 | 629,203 |
| Derivatives | 106,079 | 11,046 | - | 39,365 | 77,760 |
| Other | 68,084 | 48,609 | 4,232 | 32,719 | 88,206 |
| **Total taxable base/deferred tax assets** | **1,241,904** | **279,483** | **4,642** | **266,215** | **1,259,814** |
| **Deferred tax liabilities** | | | | | |
| Differences in value of fixed assets | 711,016 | 41,184 | - | 51,881 | 700,319 |
| Provisions for impairment of receivables | 18,610 | - | 2,015 | - | 20,625 |
| Other provisions | 18,104 | - | - | 11,934 | 6,170 |
| Other | 8,688 | 5,224 | 35,335 | 14,688 | 34,559 |
| **Total taxable base/deferred tax liabilities** | **756,418** | **46,408** | **37,350** | **78,503** | **761,673** |
| **Net deferred tax assets (liabilities)** | **485,486** | **233,075** | **(32,708)** | **187,712** | **498,141** |

## DEFERRED TAX ASSETS AND LIABILITIES FOR 2016

| | initial | formation | differences<br>Change cons. sc. | payment | remainder |
|---|---|---|---|---|---|
| **Deferred tax assets** | | | | | |
| Non-taxable provisions | 484,500 | 95,384 | 25,654 | 160,688 | 444,850 |
| Differences in value of fixed assets | 606,739 | 62,796 | 5,085 | 51,729 | 622,891 |
| Derivatives | 35,727 | 929 | 91,031 | 21,609 | 106,079 |
| Other | 55,097 | 26,214 | 7,335 | 20,563 | 68,084 |
| **Total taxable base/deferred tax assets** | **1,182,063** | **185,323** | **129,105** | **254,589** | **1,241,904** |
| **Deferred tax liabilities** | | | | | |
| Differences in value of fixed assets | 672,353 | 61,437 | 314,038 | 336,812 | 711,016 |
| Provisions for impairment of receivables | 55,030 | 4,535 | 6 | 40,962 | 18,610 |
| Other provisions | - | 20,836 | - | 2,732 | 18,104 |
| Other | 2,326 | 9,633 | - | 3,271 | 8,688 |
| **Total taxable base/deferred tax liabilities** | **729,709** | **96,441** | **314,044** | **383,777** | **756,418** |
| **Net deferred tax assets (liabilities)** | **452,354** | **88,882** | **(184,939)** | **(129,188)** | **485,486** |

thousands of euro

| | | | taxes | | |
|---|---|---|---|---|---|
| Change consolid. scope | taxes | taxes | IRES (corporate income tax) | IRAP (regional business tax) | total |
| | to inc. stat. | to equity | | | |
| - | 6,958 | (345) | 103,435 | 10,815 | 114,250 |
| 116 | 1,899 | - | 112,677 | 6,940 | 119,617 |
| - | (2,550) | (4,246) | 19,623 | - | 19,623 |
| 600 | 6,339 | - | 22,166 | 2,115 | 24,281 |
| **716** | **12,646** | **(4,591)** | **257,901** | **19,870** | **277,771** |
| | | | | | |
| - | (4,600) | - | 172,455 | 26,490 | 198,945 |
| 568 | - | - | 3,588 | 226 | 3,814 |
| - | (49) | (2,602) | 1,754 | - | 1,754 |
| 9,647 | (2,512) | - | 7,977 | 1,269 | 9,247 |
| **10,216** | **(7,161)** | **(2,602)** | **185,774** | **27,985** | **213,760** |
| | | | | | |
| **(9,500)** | **19,807** | **(1,989)** | **72,127** | **(8,115)** | **64,011** |

thousands of euro

| | | | taxes | | |
|---|---|---|---|---|---|
| Change consolid. scope | taxes | taxes | IRES (corporate income tax) | IRAP (regional business tax) | total |
| | to inc. stat. | to equity | | | |
| 7,207 | (25,026) | 377 | 99,769 | 7,868 | 107,637 |
| 4,358 | (1,181) | - | 109,560 | 8,042 | 117,602 |
| 21,888 | 21 | (6,450) | 26,419 | - | 26,419 |
| 2,050 | 12,944 | - | 15,784 | 1,557 | 17,342 |
| **35,503** | **(13,242)** | **(6,073)** | **251,532** | **17,467** | **269,000** |
| | | | | | |
| 89,203 | (14,627) | - | 175,385 | 28,160 | 203,545 |
| 2 | (8,759) | 39 | 3,020 | 226 | 3,246 |
| - | 1,020 | 3,385 | 4,345 | 60 | 4,405 |
| - | 1,204 | - | 1,930 | 180 | 2,111 |
| **89,205** | **(21,162)** | **3,424** | **184,680** | **28,626** | **213,307** |
| | | | | | |
| **(53,702)** | **7,920** | **(9,497)** | **66,852** | **(11,159)** | **55,693** |

## DETAIL OF TRANSACTIONS WITH RELATED PARTIES

thousands of euro

| | Trade Receivables | Financial Receivables | Other receivables | Trade Payables | Financial payables |
|---|---|---|---|---|---|
| **RELATED-PARTY SHAREHOLDERS** | | | | | |
| Municipality of Genoa | 1,618 | - | - | 9,917 | - |
| Municipality of Parma | 16,900 | - | 412 | 867 | - |
| Municipality of Piacenza | 1,811 | - | 2 | 1,790 | - |
| Municipality of Reggio Emilia | 2,688 | - | 540 | 1,471 | - |
| Municipality of Turin | 87,955 | 161,076 | - | 5,633 | 148 |
| Finanziaria Sviluppo Utilities | 14 | - | 41 | - | - |
| **JOINT VENTURES** | | | | | |
| OLT Offshore LNG | 134 | 439,000 | - | - | - |
| Acque Potabili | 648 | - | - | 247 | - |
| **ASSOCIATES** | | | | | |
| A2A Alfa | 3 | - | - | - | - |
| ACOS | 11 | 164 | - | - | - |
| ACOS Energia | 7 | - | - | 8 | - |
| Acquaenna | 3,927 | 1,665 | - | 384 | - |
| Aguas de San Pedro | - | 311 | - | - | - |
| AIGA | 276 | - | 28 | 62 | - |
| AMAT | 28 | - | - | - | - |
| AMTER | 3,270 | - | - | 30 | - |
| ASA | 3,780 | - | - | 218 | - |
| ASTEA | 16 | 1,183 | - | - | - |
| Asti Energia e Calore | 942 | 929 | - | - | - |
| BI Energia | 14 | 308 | - | - | - |
| CSP - Innovazione nelle ICT | 6 | - | - | 166 | - |
| Domus Acqua | 102 | - | - | - | - |
| GAIA | 97 | - | - | - | - |
| Global Service Parma | 3,548 | - | - | 561 | - |
| Iniziative Ambientali | 5 | - | - | - | - |
| Mestni Plinovodi | 17 | - | - | - | - |
| Mondo Acqua | 367 | - | - | - | - |
| Nord Ovest Servizi | 9 | 37 | - | - | - |
| Piana Ambiente in liquidation | 70 | - | - | - | - |
| Plurigas in liquidation | 6 | - | - | (259) | - |
| ReCos | 6,919 | 4,399 | - | - | - |
| Rio Riazzone | 72 | - | - | 2 | - |
| Sinergie Italiane in liquidation | 21 | - | 6,901 | 6,546 | - |
| So. Sel. | 65 | - | - | 2,456 | - |
| STU Reggiane | 63 | 767 | - | 5 | - |
| Valle Dora Energia Srl | 227 | - | - | 297 | 2,023 |
| **OTHER RELATED PARTIES** | | | | | |
| Subsidiaries of municipality of Turin | 3,642 | - | 12 | 1,449 | 2,995 |
| Subsidiaries of municipality of Genoa | 5,824 | - | 27 | 88 | - |
| Subsidiaries of Municipality of Parma | 2,544 | - | 110 | 161 | - |
| Subsidiaries of Municipality of Piacenza | 11 | - | - | 571 | - |
| Subsidiaries of Municipality of Reggio Emilia | 155 | - | - | 120 | - |
| Others | - | - | - | - | - |
| **TOTAL** | **147,812** | **609,839** | **8,073** | **32,790** | **5,166** |

thousands of euro

| | Other payables | Revenue and income | Costs and other charges | Financial income | Financial expense |
|---|---|---|---|---|---|
| **RELATED-PARTY SHAREHOLDERS** | | | | | |
| Municipality of Genoa | - | 10,988 | 7,768 | - | - |
| Municipality of Parma | - | 35,867 | 1,251 | - | - |
| Municipality of Piacenza | - | 18,368 | 2,021 | - | - |
| Municipality of Reggio Emilia | - | 31,813 | 588 | - | - |
| Municipality of Turin | - | 224,784 | 3,666 | 4,467 | - |
| Finanziaria Sviluppo Utilities | - | 32 | - | - | - |
| **JOINT VENTURES** | | | | | |
| OLT Offshore LNG | - | 16 | - | 15,422 | - |
| Acque Potabili | - | 784 | 319 | - | - |
| **ASSOCIATES** | | | | | |
| A2A Alfa | - | 3 | - | - | - |
| ACOS | - | 32 | - | - | - |
| ACOS Energia | - | 8 | 19 | - | - |
| Acquaenna | - | 159 | - | 1,344 | - |
| Aguas de San Pedro | - | - | - | - | - |
| AIGA | - | 58 | - | 16 | - |
| AMAT | - | 30 | - | - | - |
| AMTER | - | 4,199 | 247 | - | - |
| ASA | - | 805 | 112 | 14 | - |
| ASTEA | - | 16 | - | - | - |
| Asti Energia e Calore | - | 485 | - | 30 | - |
| BI Energia | - | - | - | - | - |
| CSP - Innovazione nelle ICT | - | (4) | 166 | - | - |
| Domus Acqua | - | 5 | - | - | - |
| GAIA | - | 364 | - | - | - |
| Global Service Parma | - | 2,353 | 1,846 | (58) | - |
| Iniziative Ambientali | - | 4 | - | - | - |
| Mestni Plinovodi | - | 123 | - | 599 | - |
| Mondo Acqua | - | 336 | - | - | - |
| Nord Ovest Servizi | - | 9 | - | 89 | - |
| Piana Ambiente in liquidation | - | - | - | - | - |
| Plurigas in liquidation | - | - | - | - | - |
| ReCos | - | 7,693 | - | 137 | - |
| Rio Riazzone | - | - | 2 | - | - |
| Sinergie Italiane in liquidation | - | 85 | 62,684 | - | - |
| So. Sel. | 5 | 86 | 7,021 | - | - |
| STU Reggiane | - | - | - | - | - |
| Valle Dora Energia Srl | - | 656 | 3,056 | 2 | - |
| **OTHER RELATED PARTIES** | | | | | |
| Subsidiaries of municipality of Turin | 98 | 3,005 | 2,811 | 1 | 16 |
| Subsidiaries of municipality of Genoa | 458 | 4,870 | 146 | - | - |
| Subsidiaries of Municipality of Parma | 26 | 2,528 | 2,255 | 1 | 64 |
| Subsidiaries of Municipality of Piacenza | 1 | 167 | 1,142 | - | - |
| Subsidiaries of Municipality of Reggio Emilia | - | 1,186 | 6,931 | - | - |
| Others | - | 5 | - | - | - |
| **TOTAL** | **588** | **351,918** | **104,051** | **22,064** | **80** |

## INDEPENDENT AUDITORS' FEES

Under the terms of Art. 149-*duodecies* of the Regulations implementing Italian Legislative Decree 58/1998, fees for the year due to PricewaterhouseCoopers S.p.A. can be summarised as follows:

thousands of euro

| Service | Service provider | To | Fees |
|---|---|---|---|
| Audit | Parent Company auditor | Parent Company | 105 |
| Attestation services | Parent Company auditor | Parent Company | 34 |
| Tax consulting services | Parent Company auditor | Parent Company | - |
| Other services | i) Parent Company auditor | Parent Company | 143 |
| | ii) Parent Company auditor network | Parent Company | 55 |
| Audit | i) Parent Company auditor | i) Subsidiaries | 750 |
| | ii) Parent Company auditor network | ii) Subsidiaries | - |
| Attestation services | i) Parent Company auditor | i) Subsidiaries | 283 |
| | ii) Parent Company auditor network | ii) Subsidiaries | - |
| Tax consulting services | i) Parent Company auditor | i) Subsidiaries | - |
| | ii) Parent Company auditor network | ii) Subsidiaries | - |
| Other services | i) Parent Company auditor | i) Subsidiaries | - |
| | ii) Parent Company auditor network | ii) Subsidiaries | - |
| **Total Independent Auditors' fees** | | | **1,370** |

# STATEMENT REGARDING THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-*TER* OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Massimiliano Bianco, Chief Executive Officer, and Massimo Levrino, Administration, Finance and Control Manager and Corporate Financial Reporting Manager of Iren S.p.A., hereby certify, also in view of the provisions of Art. 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree No. 58 of 24 February 1998:

   - the adequacy in respect of the company's characteristics and

   - the effective application during 2017 of the administrative and accounting procedures in preparing the consolidated financial statements.

2. It is also certified that:

   2.1 the consolidated financial statements:

      a) are prepared in compliance with the applicable international accounting standards endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council, of 19 July 2002;

      b) correspond to the results of the books and account records;

      c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

   2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the issuer's situation and of all companies included in the consolidation, together with a description of the major risks and uncertainties to which they are exposed.

7 March 2018

The Chief Executive Officer

Massimiliano Bianco

Administration, Finance and Control Manager
Financial Reporting Manager appointed under Law 262/05

Massimo Levrino

# *Independent auditor's report*

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the Shareholders of
Iren SpA

## *Report on the Audit of the Consolidated Financial Statements*

### *Opinion*

We have audited the consolidated financial statements of Iren SpA and its subsidiaries (the "Iren Group" or the "Group"), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of other comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Iren Group as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Iren SpA (the "Company") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

| Key Audit Matters | Audit procedures in response to key audit matters |
|---|---|
| **Assessment of recoverability of goodwill** | |
| *Notes to the consolidated financial statements at 31 December 2017: Note 4 "Goodwill"*<br><br>Goodwill recognised in the consolidated financial statements of the Iren Group at 31 December 2017 amounts to Euro 127.3 million.<br><br>At least once a year the management of the Company performs an impairment test to assess the recoverability of goodwill, based upon the higher between fair value less cost to sell and value in use of each Cash Generating Unit (CGU) to which goodwill has been allocated. The value in use was determined by discounting future cash flows expected from each CGU in the 2018-2022 period, as well as their respective terminal values. These flows were extracted from economic and financial projections based on the Business Plan approved by the Board of Directors on 13 November 2017.<br><br>Goodwill is considered as a key audit matter due to its size and to the inherent estimate elements influencing the valuations made by the Directors on its recoverability.<br><br>The main estimate elements are linked to the correct definition and identification of the CGUs, of future cash flows for each CGU and their discounting rates. | We carried out a preliminary understanting and evaluating of the impairment test procedures prepared by the management and approved by the Board of Directors of Iren SpA, on 13 February 2018, to assess compliance with the requisites established by the international accounting standard IAS 36.<br><br>We analysed the soundness of the considerations made by management regarding the CGUs identified and on the allocation of goodwill thereto, verifying the consistency with the structure of the Group and with the operating sectors in which it is active.<br><br>Our procedures then focused on a critical examination of the main assumptions behind the drawing up of the 2018-2022 Business Plan and of the discounting rates used; furthermore, specific sensitivity analyses were performed, aimed at evaluating the impact that changes in the main parameters adopted would have on the results of the tests.<br><br>Furthermore, we also verified the overall mathematical correctness of the plan and of the model of impairment test prepared by management, reviewing the method followed to obtain the discounting rate and the constant growth rate of cash flows beyond the plan's time frame.<br><br>These activities were performed involving also experts belonging to the PwC network.<br><br>Eventually, we verified the completeness and accuracy of the information provided in the Notes, which included the change in goodwill, occurred during 2017. |

## Receivables from the Municipality of Turin

*Notes to the consolidated financial statements at 31 December 2017: Note 15 - "Current financial assets - Financial receivables from related-party shareholders"*

Receivables owed by the Municipality of Turin to the Iren Group amount to Euro 249.0 million at 31 December 2017. Their breakdown is as follows:

1. Euro 16.1 million in current financial receivables;
2. Euro 84.5 million in current trade receivables;
3. Euro 3.4 million in non-current trade receivables;
4. Euro 145.0 million in non-current financial receivables.

The Iren Group periodically assesses the recoverability of these receivables by formulating a forecast on collection times, based also on the findings coming from meetings held at regular intervals with representatives of the Municipal Administration. The Group also checks the correctness of recording and classification of the above mentioned receivables. In particular, financial receivables refer to the part of invoices issued by Amiat SpA and Iren Energia SpA, which is therefore classified on the basis of a current account contract with the Municipality of Turin, which envisages that the receivables will become interest yielding after a given amount of time from receipt of the invoice by the Council.

This was deemed as a key audit matter considering both the size of these receivables at 31 December 2017 and the inherent estimate elements influencing the valuations made by the Directors on their recoverability.

We carried out a preliminary review, to understand and evaluate the procedure followed by management to determine the accounting estimates behind the valuation of receivables from the Municipality of Turin.

In addition, we also:

- Performed an analysis of the contracts in force between the parties, with the aim of assessing their consistency with the accounting treatment of receivables at 31 December 2017, included the relevant classification of trade and financial items;
- Requested the Municipality of Turin to confirm in writing the amounts of year-end balances, to validate their existence and obtain useful information for the assessment of their recoverability;
- Verified the accuracy of calculations of interest income recognised in the income statement.

Eventually, we verified the completeness and accuracy of the information provided in the Notes, which included the change in receivables from the Municipality of Turin during 2017.

## Determination of revenues and of receivables for invoices to be issued

*Notes to the consolidated financial statements at 31 December 2017: Note 12 to the consolidated financial statements "Trade receivables"; Note 30 to the consolidated financial statements "Revenue from goods and services"*

The consolidated financial statements of the Iren Group at 31 December 2017 show revenue from goods and services amounting to Euro 3,448.7 million, which include accruals for invoices to be issued which were recognised among the assets for an amount of Euro 445.9 million.

Revenues from goods and services are recognised when all risks and benefits connected to ownership are actually transferred or at the moment of the supply. They are valued according to the fair value of the amounts received or due, allowing for any trade or cumulative quantity discounts.

The above amounts include an estimate of revenues accruing for services provided between the date of the latest meter readings and the closure of the accounting period.

The recognition of these revenue items and of the related invoices to be issued was deemed as a key audit matter, in particular for what concerns the sale of electricity and gas, the distribution of electricity and the integrated water service, as the ways of determining the allocations are based on complex algorithms and entail a significant estimation element.

Our audit procedures were directed towards adequately understanding and evaluating both manual and automatic key controls behind the billing procedure, focusing - in particular, but not only - on customers list, meter readings, consumption estimates, determination of tariffs and the valuation of invoices.

In addition to the above, we performed the following further specific analyses for each revenue stream:

1. *Revenue from the sale of electricity, gas and district heating.*
- The matching of the gas amounts used to determine the receivables for invoices to be issued with the data communicated by the party in charge of transport and distribution;
- The validation of the amounts of electricity (invoiced amounts up to November and an estimate based on the consumption curve for December) by comparing them with the data communicated by the electrical grid operator;
- The matching of heat amounts sold by the Group with the data contained in the printouts on heat production of each plant of the Energia business unit;
- The correct valuation of electricity, gas and district heating amounts yet to be invoiced, based upon tariffs in line with market trends and the tariffs set by the Regulatory Authority for Energy, Networks and the Environment.

2. *Revenue from gas distribution*
- The matching of the gas amounts used by the company to determine the receivables for invoices to be issued with the data

communicated by the party in charge of transport and distribution;
- The correct valuation of gas amounts yet to be invoiced, based upon the tariffs which were applicable in the period under analysis.

3. *Revenue from electricity distribution*
- The matching of the electricity amounts used by the company to determine the receivables for invoices to be issued with the data communicated by the party in charge of electricity distribution;
- The correct valuation of electricity amounts yet to be invoiced, based upon the tariffs which were applicable in the period under analysis;

4. *Revenue from the provision of the integrated water service*
- The matching of turnover with the constraint of revenue due to the operator ("VRG") envisaged in the tariff plan concerning the second regulatory period 2016-19 approved by the competent authorities;
- The correct determination of receivables for invoices to be issued, by comparing the invoices issued and the VRG;
- The correct determination of invoices issued through the validation of the operating effectiveness of the invoicing system, on the basis of sample inspections carried out to check the correct apportionment of tariffs.

## Change in fixed assets

*Notes to the consolidated financial statements at 31 December 2017: Note 1 to the consolidated financial statements "Tangible assets" and Note 3 to the consolidated financial statements "Intangible assets with a finite useful life"*

Our audit procedures were directed towards adequately understanding and evaluating the internal control system referred to corporate processes concerning the management of fixed assets.

| | |
|---|---|
| The consolidated financial statements at 31 December 2017 include tangible fixed assets amounting to Euro 3,449.3 million and intangible fixed assets with a finite useful life amounting to Euro 1,654.0 million; investments for a total of Euro 369.6 million were recorded during the accounting period.<br><br>With reference to the latter, it is pointed out that, for regulated business activities (in particular the integrated water service, the distribution of electricity and gas), the tariffs and - consequently - the revenues for the Group, are directly influenced by the amount of the capital invested.<br><br>Consequently, the change in fixed assets was deemed as a key audit matter, as overestimating or underestimating fixed assets may lead to incremental and decremental effects on the tariffs applied to final users in the provision of the integrated water service and in the electricity and gas transport service. | In addition, our audit activities involved sample inspections of the changes in tangible and intangible fixed assets concerning the water service and electricity and gas distribution.<br><br>In particular, we performed the matching of the fixed asset register with the change in fixed assets during the year and, based upon the size of the amounts involved, we carried out sample inspections on selected ledger entries, with particular attention to the increases recorded.<br><br>With reference to the latter, we have assessed compliance with the requisites for the capitalisation of internal and external costs, in accordance with the provisions set forth in the international accounting standards IAS 16 and IAS 38, as well as the correctness of the amounts recorded.<br><br>Eventually, we verified the completeness and accuracy of the information provided in the Notes. |
| **Determination of the Provision for impairment of trade receivables**<br><br>*Notes to the consolidated financial statements at 31 December 2017: Note 12 to the consolidated financial statements "Trade receivables - Provision for impairment of receivables"*<br><br>In the consolidated financial statements at 31 December 2017 the Group recognised a provision for impairment of receivables amounting to Euro 172.7 million.<br><br>Management periodically estimates the value of uncollectable trade receivables using calculation models that consider many variables like, for example, the type of customer, the age of receivables, historical data on collection performances and other possible information on the customers being evaluated. | Our audit procedures were directed towards adequately understanding and evaluating the internal control system referred to corporate processes concerning the management of trade receivables as well as the correctness and completeness of the reports generated by the IT systems used to determine the provision for impairment of receivables (in particular with reference to clusters of customers and to segmentation of their balances by due date).<br><br>Subsequently, by interviewing the credit managers of the Group and of its companies and through an analysis of the replies received from lawyers as well as of any other information collected after the reporting date, |

| | |
|---|---|
| The determination of the provision for impairment of receivables was deemed as a key audit matter, considering the specific complexity presented by an estimate on the recoverability of trade receivables, due to the large number of customers and to the fragmentation of the amounts to be collected; in addition, this estimate is based upon valuation assumptions influenced by socio-economic variables which are difficult to foresee or attribute to the various classes of customers. | we validated the information and the assumptions behind the calculation model.<br>Finally, to evaluate the reasonableness of the provision for impairment of receivables we validated the consistency of the method adopted with the provisions set forth in the international accounting standard IAS 39 and the accuracy of the mathematical calculation to determine the collection risk. |

## *Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements*

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Iren SpA or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements*

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

### *Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014*

On 14 May 2012, the Shareholders of Iren SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation (EU) No 537/2014.

## *Report on Compliance with other Laws and Regulations*

### *Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98*

Management of Iren SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Iren Group as of 31 December 2017, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Iren Group as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Iren Group as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Iren Group and its environment obtained in the course of the audit, we have nothing to report.

***Declaration pursuant to Article 4 of the Consob Regulation implementing Legislative Decree 30 December 2016, No. 254***

The directors of Iren SpA are responsible for the preparation of the consolidated non-financial statement pursuant to Legislative Decree 30 December 2016, No. 254. We verified the approval of the consolidated non-financial statement by the directors.

Pursuant to Article 3, paragraph 10 of Legislative Decree 30 December 2016, No. 254, this consolidated non-financial statement is the subject of a separate attestation of conformity by another auditor.

Turin, 29 March 2018

PricewaterhouseCoopers SpA

*Signed by*

Piero De Lorenzi
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*

**Iren S.p.A.**
Via Nubi di Magellano, 30 - 42123 Reggio Emilia - Italy
Capitale Sociale i.v. Euro 1.276.225.677,00
Registro Imprese di Reggio Emilia n. 07129470014
Codice Fiscale e Partita IVA n. 07129470014

# **Separate** Financial Statements and Notes to Financial Statements

at 31 December **2017**

# STATEMENT OF FINANCIAL POSITION

Amounts in euro

| | Notes | 31.12.2017 | of which related parties | 31.12.2016 | of which related parties |
|---|---|---|---|---|---|
| **BUSINESS** | | | | | |
| Property, plant and equipment | (1) | 12,488,911 | | 11,482,942 | |
| Intangible assets with a finite useful life | (2) | 41,664,058 | | 35,004,993 | |
| Investments in subsidiaries, associates and joint ventures | (3) | 2,544,321,672 | | 2,544,321,672 | |
| Other equity investments | (4) | 100,000 | | 100,000 | |
| Non-current financial assets | (5) | 1,551,272,411 | 1,549,419,914 | 1,546,440,532 | 1,544,900,315 |
| Other non-current assets | (6) | 10,548,143 | 41,470 | 23,426,782 | |
| Deferred tax assets | (7) | 9,172,563 | | 11,939,181 | |
| **Total non-current assets** | | **4,169,567,758** | | **4,172,716,103** | |
| Inventories | (8) | 13,791 | | - | |
| Trade receivables | (9) | 75,408,848 | 75,058,787 | 51,172,289 | 50,976,900 |
| Current tax assets | (10) | - | | - | |
| Other receivables and other current assets | (11) | 70,027,645 | 15,235,830 | 64,464,838 | 50,528,017 |
| Current financial assets | (12) | 453,797,275 | 453,718,713 | 463,065,248 | 462,686,762 |
| Cash and cash equivalents | (13) | 69,462,069 | | 141,317,809 | |
| **Total current assets** | | **668,709,628** | | **720,020,184** | |
| Assets held for sale | (14) | 240,000 | | 240,000 | |
| **TOTAL ASSETS** | | **4,838,517,386** | | **4,892,976,287** | |

Amounts in euro

| | Notes | 31.12.2017 | of which related parties | 31.12.2016 | of which related parties |
|---|---|---|---|---|---|
| **SHAREHOLDERS' EQUITY** | | | | | |
| Share capital | | 1,276,225,677 | | 1,276,225,677 | |
| Reserves and retained earnings (losses) | | 259,903,771 | | 240,453,045 | |
| Net profit (loss) for the period | | 166,957,057 | | 88,256,759 | |
| **TOTAL EQUITY** | **(15)** | **1,703,086,505** | | **1,604,935,481** | |
| **LIABILITIES** | | | | | |
| Non-current financial liabilities | (16) | 2,644,419,533 | | 2,544,136,455 | |
| Employee benefits | (17) | 19,597,297 | | 22,665,797 | |
| Provisions for risks and charges | (18) | 30,702,338 | | 24,716,122 | |
| Deferred tax liabilities | (19) | 337,462 | | 425,907 | |
| Other payables and other non-current liabilities | (20) | 11,096,661 | 8,498,580 | 8,498,580 | 8,498,580 |
| **Total non-current liabilities** | | **2,706,153,291** | | **2,600,442,861** | |
| Current financial liabilities | (21) | 302,849,152 | 204,739,930 | 584,341,008 | 220,057,103 |
| Trade payables | (22) | 55,899,901 | 11,447,941 | 56,975,822 | 11,011,634 |
| Other payables and other current liabilities | (23) | 62,633,775 | 32,323,714 | 30,936,563 | 9,140,020 |
| Current tax liabilities | (24) | 7,608,213 | | 13,272,857 | |
| Provisions for risks and charges - current portion | (25) | 286,549 | | 2,071,695 | |
| **Total current liabilities** | | **429,277,590** | | **687,597,945** | |
| Liabilities related to assets held for sale | | | | | |
| **TOTAL LIABILITIES** | | **3,135,430,881** | | **3,288,040,806** | |
| **TOTAL EQUITY AND LIABILITIES** | | **4,838,517,386** | | **4,892,976,287** | |

# INCOME STATEMENT

Amounts in euro

| | Notes | Financial Year 2017 | of which related parties | Financial Year 2016 | of which related parties |
|---|---|---|---|---|---|
| **Revenue** | | | | | |
| Revenue from goods and services | (26) | 154,607,677 | 153,925,708 | 139,121,996 | 138,901,064 |
| Other income | (27) | 6,130,848 | 3,697,232 | 7,420,067 | 2,725,389 |
| **Total revenue** | | **160,738,525** | | **146,542,063** | |
| **Operating expenses** | | | | | |
| Raw materials, consumables, supplies and goods | (28) | (10,635,903) | (32,009) | (9,002,487) | (1,393,055) |
| Services and use of third-party assets | (29) | (92,734,530) | (12,649,801) | (87,150,090) | (10,866,064) |
| Other operating expense | (30) | (5,384,280) | (466,953) | (6,522,368) | (113,198) |
| Capitalised expenses for internal work | (31) | 9,745,871 | | 9,563,449 | |
| Personnel expense | (32) | (72,518,927) | (68,931) | (71,042,180) | |
| *- of which non-recurring* | | | | | |
| **Total operating expenses** | | **(171,527,769)** | | **(164,153,676)** | |
| **GROSS OPERATING PROFIT (EBITDA)** | | **(10,789,244)** | | **(17,611,613)** | |
| **Depreciation, amortisation, provisions and impairment losses** | | | | | |
| Depreciation and amortisation | (33) | (11,246,592) | | (8,473,422) | |
| Provisions and impairment losses | (34) | 3,070,869 | | (955,723) | |
| **Total amortisation, depreciation, provisions and impairment losses** | | **(8,175,723)** | | **(9,429,145)** | |
| **OPERATING PROFIT (EBIT)** | | **(18,964,967)** | | **(27,040,758)** | |
| **Financial income and expense** | **(35)** | | | | |
| Financial income | | 285,312,494 | 280,083,704 | 242,175,842 | 226,760,467 |
| Financial expense | | (108,039,066) | (47,590) | (145,787,958) | |
| **Total financial income and expense** | | **177,273,428** | | **96,387,884** | |
| Value adjustments on equity investments | (36) | | | | |
| *- of which non-recurring* | | | | | |
| **Profit (loss) before tax** | | **158,308,461** | | **69,347,126** | |
| Income tax expense | (37) | 8,648,596 | | 18,909,633 | |
| **Net profit (loss) from continuing operations** | | **166,957,057** | | **88,256,759** | |
| Net profit (loss) from discontinued operations | | | | | |
| **Net profit (loss) for the period** | | **166,957,057** | | **88,256,759** | |

# STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts in euro

| | Notes | Financial Year 2017 | Financial Year 2016 |
|---|---|---|---|
| **Profit/(loss) for the period - Owners of the parent and non-controlling interests (A)** | | **166,957,057** | **88,256,759** |
| **Other comprehensive income to be subsequently reclassified to the Income Statement** | **(38)** | | |
| - effective portion of changes in fair value of cash flow hedges | | 13,679,096 | 7,430,637 |
| - changes in fair value of available-for-sale financial assets | | | |
| Tax effect of other comprehensive income | | (3,282,983) | (2,025,072) |
| **Total other comprehensive income, net of tax effect (B1)** | | **10,396,113** | **5,405,565** |
| **Other comprehensive income which will not be subsequently reclassified to the Income Statement** | | | |
| - actuarial gains/(losses) on employee defined benefit plans (IAS 19) | | 704,609 | (1,592,614) |
| Tax effect of other comprehensive income | | (142,652) | 339,208 |
| **Total other comprehensive income, net of tax effect (B2)** | | **561,957** | **(1,253,406)** |
| **Total comprehensive income/(expense) (A)+(B1)+(B2)** | | **177,915,127** | **92,408,918** |

# STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

| | Share capital | Share premium reserve | Legal reserve |
|---|---|---|---|
| **31/12/2014** | **1,276,226** | **105,102** | **36,855** |
| Legal reserve | | | 2,505 |
| Dividends to shareholders | | | |
| Retained earnings | | | |
| Other changes | | | |
| Total profit (loss) for the period | | | |
| of which: | | | |
| - Net profit/(loss) for the period | | | |
| - Other comprehensive income | | | |
| **31/12/2015** | **1,276,226** | **105,102** | **39,360** |
| Legal reserve | | | 6,225 |
| Dividends to shareholders | | | |
| Retained earnings | | | |
| Other changes | | | |
| Total profit (loss) for the period | | | |
| of which: | | | |
| - Net profit/(loss) for the period | | | |
| - Other comprehensive income | | | |
| **31/12/2016** | **1,276,226** | **105,102** | **45,585** |
| Legal reserve | | | 4,413 |
| Dividends to shareholders | | | |
| Retained earnings | | | |
| Other changes | | | |
| Total profit (loss) for the period | | | |
| of which: | | | |
| - Net profit/(loss) for the period | | | |
| - Other comprehensive income | | | |
| **31/12/2017** | **1,276,226** | **105,102** | **49,998** |

thousands of euro

| Cash flow hedging reserve | AFS reserve | Other reserves and retained earnings (losses) | Total reserves and retained earnings (losses) | Profit (loss) for the period | Shareholders' equity |
|---|---|---|---|---|---|
| **(27,271)** | **-** | **75,897** | **190,583** | **50,097** | **1,516,906** |
| | | | 2,505 | (2,505) | - |
| | | (19,271) | (19,271) | (47,476) | (66,747) |
| | | 116 | 116 | (116) | - |
| | | 479 | 479 | | 479 |
| 7,207 | | 373 | 7,580 | 124,501 | 132,081 |
| | | | | | - |
| | | | | 124,501 | 124,501 |
| 7,207 | - | 373 | 7,580 | | 7,580 |
| **(20,064)** | **-** | **57,594** | **181,992** | **124,501** | **1,582,719** |
| | | | 6,225 | (6,225) | - |
| | | | - | (70,193) | (70,193) |
| | | 48,083 | - | (48,083) | |
| | | | - | | - |
| 5,406 | | (1,254) | 4,152 | 88,257 | 92,409 |
| | | | | | - |
| | | | | 88,257 | 88,257 |
| 5,406 | - | (1,254) | 4,152 | | 4,152 |
| **(14,658)** | **-** | **104,423** | **240,452** | **88,257** | **1,604,935** |
| | | | 4,413 | (4,413) | - |
| | | | - | (79,764) | (79,764) |
| | | 4,080 | - | (4,080) | |
| | | | - | | - |
| 10,396 | | 562 | 10,958 | 166,957 | 177,915 |
| | | | | | - |
| | | | | 166,957 | 166,957 |
| 10,396 | - | 562 | 10,958 | | 10,958 |
| **(4,262)** | **-** | **109,065** | **259,903** | **166,957** | **1,703,086** |

# STATEMENT OF CASH FLOWS

thousands of euro

| | Financial Year 2017 | Financial Year 2016 | Change % |
|---|---|---|---|
| **A. Opening balance of cash and cash equivalents and centralised treasury management** | **1,436,206** | **1,318,420** | **8.9** |
| **Cash flows from operating activities** | | | |
| Profit (loss) for the period | 166,957 | 88,257 | 89.2 |
| Adjustments: | | | |
| Income tax expense for the period | (8,649) | (18,910) | (54.3) |
| Net financial expense (income) | (177,273) | (96,387) | 83.9 |
| Amortisation of intangible assets and depreciation of property, plant and equipment and investment property | 11,247 | 8,473 | 32.7 |
| Net impairment losses (reversals of impairment losses) on assets | 5,561 | - | - |
| Net provisions for risks and other charges | 6,985 | 8,489 | (17.7) |
| Capital (gains) losses | 1,480 | (10) | - |
| Utilisations of employee benefits | (927) | (1,167) | (20.6) |
| Utilisations of provisions for risks and other charges | (2,501) | (1,370) | 82.6 |
| Change in other non-current assets and liabilities | 15,477 | (197) | (*) |
| Other financial changes | 696 | - | - |
| Taxes received/paid | 24,073 | 10,974 | (*) |
| **B. Cash flows from operating activities before changes in NWC** | **43,126** | **(1,848)** | **(*)** |
| Change in trade receivables | (24,452) | 49,075 | (*) |
| Change in tax assets and other current assets | (29,247) | (3,531) | (*) |
| Change in trade payables | (1,076) | (4,683) | (77.0) |
| Change in tax liabilities and other current liabilities | 34,022 | (11,710) | (*) |
| **C. Cash flows from changes in NWC** | **(20,753)** | **29,151** | **(*)** |
| **D. Cash flows from/(used in) operating activities (B+C)** | **22,373** | **27,303** | **(18.1)** |
| **Cash flows from /(used in) investing activities** | | | |
| Investments in intangible assets, property, plant and equipment and investment property | (25,953) | (20,379) | 27.4 |
| Investments in financial assets | - | - | - |
| Proceeds from the sale of investments and changes in assets held for sale | - | 1,511 | (100.0) |
| Dividends received | 210,470 | 153,673 | 37.0 |
| Acquisition of business units | - | 2,354 | (100.0) |
| **E. Total cash flows from /(used in) investing activities** | **184,517** | **137,159** | **34.5** |
| **F. Free cash flow (D+E)** | **206,890** | **164,462** | **25.8** |
| **Cash flows from/(used in) financing activities** | | | |
| Dividends paid | (79,764) | (70,193) | 13.6 |
| Other changes in equity | - | - | - |
| New long-term loans | 550,000 | 570,000 | (3.5) |
| Repayment of non-current loans | (696,425) | (494,397) | 40.9 |
| Change in financial assets | 1,374 | 455 | (*) |
| Change in financial liabilities | 30,927 | (6,865) | (*) |
| Interest paid | (140,897) | (119,178) | 18.2 |
| Interest received | 77,702 | 73,502 | 5.7 |
| **G. Total cash flows from /(used in) financing activities** | **(257,083)** | **(46,676)** | **(*)** |
| **H. Cash flows for the period (F+G)** | **(50,193)** | **117,786** | **(*)** |
| **I. Closing balance of cash and cash equivalents and centralised treasury management (A+H)** | **1,386,013** | **1,436,206** | **(3.5)** |
| **L. Current balance of centralised treasury management - subsidiaries (*)** | **(1,316,551)** | **(1,294,888)** | **1.7** |
| **M. Closing cash and cash equivalents (I+L)** | **69,462** | **141,318** | **(50.8)** |

# NOTES TO THE FINANCIAL STATEMENTS

## INTRODUCTION

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

Iren S.p.A. is structured after the model of an industrial holding, with headquarters in Reggio Emilia, Via Nubi di Magellano 30, and operating offices in Genoa, Parma, Piacenza and Turin, as well as companies responsible for the single business lines.

Through its subsidiaries, Iren S.p.A. operates in the following business segments:

- Production of Electricity and Heat (hydroelectric production, cogeneration of electricity and heat, production from renewable sources);
- Mercato (Sale of electricity, gas, heat);
- Energy Infrastructures (Electricity distribution networks, gas distribution networks, district-heating networks, LNG regasification plants);
- Integrated Water Service (sale and distribution of water, water treatment and sewerage)
- Ambiente (Waste collection and disposal);
- Other services (Public Lighting, Global Services and other minor services).

# I. CONTENT AND STRUCTURE OF THE FINANCIAL STATEMENTS

These financial statements are the separate financial statements of the Parent Company Iren S.p.A. and have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, as well as with the provisions set forth in implementation of Art. 9 of Italian Legislative Decree No. 38/2005. The "IFRSs" also include all the revised international accounting standards ("IASs"/"IFRSs") and all interpretations issued by the International Financial Reporting Interpretations Committee ("IFRC"), previously known as the Standing Interpretations Committee ("SIC").

In drawing up these financial statements, the same accounting standards were applied as those adopted for the Financial Statements at 31 December 2016, with the exceptions highlighted in the section "Accounting standards, amendments and interpretations effective from 1 January 2017".

The separate financial statements at 31 December 2017 consist of a statement of financial position, an income statement, a statement of other comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

In the statement of financial position, assets and liabilities are classified as "current/non-current". Assets and liabilities classified as discontinued or held for sale are shown separately. Current assets, which include cash and cash equivalents, are those that will be realised, transferred or consumed during the company's ordinary operating cycle or during the twelve months following year end. Current liabilities are those for which settlement is envisaged during the company's ordinary operating cycle or during the twelve months following year end.
The Income Statement is classified on the basis of the nature of costs. In addition to the Operating Profit (EBIT), the Income Statement also shows the Gross Operating Profit (EBITDA) obtained by deducting total operating expense from total revenue.
The indirect method is used in the cash flow statement. The cash configuration analysed in the cash flow statement includes cash on hand and cash in bank current accounts and the current balance of the subsidiaries' cash pooling management.

In order to improve the financial information provided, more analysis on cash flows was included, specifically on those produced from operating and financial activities. In order to provide consistency, the period of comparison was prepared on a like-to-like basis with respect to financial year 2017.

The financial statements have been drawn up on the basis of the historical cost principle, except for certain financial instruments measured at fair value. The financial statements were also prepared on the basis of going concern assumptions. The company, in fact, considered that there are no significant uncertainties (as defined in IAS 1.25) regarding the going concern assumption.

These separate financial statements are stated in euro, the company's functional currency. Data included in the notes, unless otherwise specified, are expressed in thousands of euro.

Lastly, in accordance with CONSOB Resolution No. 15519 of 27 July 2006 regarding the format of financial statements, specific additional columns have been added to the Income Statement and the Statement of Financial Position to highlight significant transactions with related parties.

## II. ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The criteria adopted in drawing up the annual financial statements at 31 December 2017 of Iren S.p.A. are indicated below; the aforesaid accounting standards have not changed with respect to those adopted at 31 December 2016, except for those indicated in the section "Accounting standards, amendments and interpretations effective from 1 January 2017".

**Property, plant and equipment**

*- Property, plant and equipment owned*

Property, plant and equipment are recognised at contribution, purchase or internal construction cost. This cost includes all directly attributable costs necessary to make the asset available for use (including, when relevant and where a real obligation exists, the present value of the estimated costs of dismantling and removing the asset and reclaiming the site on which it is located), net of trade discounts and rebates.
Financial expense related to the purchase of items of property, plant and equipment is capitalised for the part of the cost of the asset until it becomes operative.
When significant components of property, plant and equipment have different useful lives, they are accounted for separately.
In particular, under this policy, land and buildings located on the land are to be recognised separately; only the buildings are depreciated, while the carrying amount of land is impaired, as described in the following section "Impairment losses".
Ordinary maintenance expenditure is expensed in full in the income statement. Expenditure that increases the carrying amount of the asset is charged to the asset to which it relates and depreciated over its estimated useful life, in compliance with IAS 16. Such expenditure includes expenditure that reasonably leads to an increase in future economic benefits, such as the lengthening of useful life, increase in production capacity, improvement in product quality and adoption of production processes that entail a significant reduction in production costs.
Assets under construction include expenditure related to the construction of plants incurred until the reporting date. These investments are depreciated once the asset becomes operative.
Property, plant and equipment are depreciated systematically on a straight-line basis annually using economic-technical rates determined in line with their residual useful lives.

The rates applied are set out in the following table:

| **Item** | **Min. and max. rate** |
|---|---|
| Industrial patents and intellectual property use rights | 20% |
| Other intangible assets | 20% |
| Generic systems | 10% |
| Equipment | 10% |
| Goods vehicles and operator machines | 20% |
| Cars, motorcycles and similar vehicles | 25% |
| Electrom. and electronic office machines and non-plant HW | 20% |
| Furniture and fittings | 12% |

We must specify that owing to their heterogeneity the table does not include:

- the rates related to business combinations of the current and previous years, because they relate to assets depreciated on the basis of the residual useful life present in the companies of origin;
- the rates consequent to updating of the economic/technical useful lives of the single assets after the outcome of the tests performed on the same by the technicians responsible for the plants;
- the rates related to particular types of investments with depreciation over their useful lives related to subsequent extraordinary maintenance work.

The corporate Information Technology system conserves all details needed to identify the aforesaid rates.

Grants related to assets are recognised as deferred revenue and taken to the income statement over the depreciation period of the related item of property, plant and equipment.

- *Leased assets*

Assets held under finance leases are recognised as property, plant and equipment using the financial method with a balancing entry under payables of the same amount, as provided for by IAS 17 which, while reflecting the economic substance of operations, assimilates these operations to purchase and financing agreements. Based on the above-mentioned method, property, plant and equipment are recognised at the capital value upon subscription of the finance lease. The amounts due to the lessor are also recognised under financial payables. This liability is decreased over time in line with repayment of the lease principal. Interest on payables is recognised in the income statement based on the repayment plan, in addition to depreciation of the asset based on the expected useful life.
Conversely, under the financial method, leased out assets are not included in property, plant and equipment. The related financial asset is recognised in the Statement of financial position. It decreases over time in line with collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the repayment plan.

**Investment property**

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

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

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

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

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

Industrial patents and similar rights are amortised on a straight-line basis over five years.

Amortisation begins when the asset is available for use, in other words, when it is able to operate as intended by the company's management. Amortisation expires on the later of either the date on which the asset is classified as held for sale (or included in a disposal group classified as held for sale), pursuant to IFRS 5, or the date on which the asset is derecognised.
Assets under development and payments on account relate to internal and external costs referring to intangible assets for which the company has not yet acquired the right to and has not started to use in production. These investments are amortised from the date they begin to be used in production.
Under IAS 36, assets under development are tested for impairment annually, or whenever there is any indication of impairment, so as to check that the carrying amount matches the recoverable amount.

**Goodwill**
Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the fair value of the identifiable assets, liabilities and contingent liabilities related to the complex acquired. If, after this restatement, the value of current and contingent assets and liabilities exceeds the acquisition cost, the difference is recognised immediately in the income statement.
Any goodwill deriving from the acquisition of an associate is included in the carrying amount of the investment.
On first adoption of the IFRSs, the Group chose not to apply IFRS 3 – Business Combinations retroactively to acquisitions of companies that occurred before 1 January 2004; as a consequence, the goodwill generated on acquisitions prior to the date of transition to the IFRSs was kept at the previous figure determined according to the Italian accounting standards, after verification and recognition of any impairment losses.
Goodwill is allocated to one or more cash-generating units and is not amortised, but is annually tested for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on "Impairment losses").

**Non-current assets held for sale**

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

**Impairment losses**

The IASs/IFRSs require a company to assess whether there are any specific indications of impairment. The company performs an impairment test, which consists of estimating the recoverable amount of the asset and comparing it to its net carrying amount.

The recoverable amount is the higher of fair value less costs to sell (if an active market exists) and the value in use of the asset. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating unit, inclusive of taxes, by applying a discount rate, before taxes, represented by the current market assessments of the time value of money and risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. If the impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased to the estimated new recoverable amount. The latter amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised. The reversal of an impairment loss is recognised immediately in the income statement.

Assets that are not subject to amortisation (goodwill and other intangible assets with an indefinite useful life) and intangible assets that are not yet available for use are tested for impairment annually, even if no indication of impairment exists.

**Financial instruments**

*- Equity investments in subsidiaries and associates*

Investments in subsidiaries and associates are measured at cost. In the event of impairment, the carrying amount of the investment is written down. The impairment loss is recognised in the income statement.

*- Other equity investments*

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

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

- *Financial assets held for trading*

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

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

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

- *Financial assets available for sale*

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

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

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

- *Hedging instruments*

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

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

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

Hedging instruments are measured at fair value, calculated in accordance with IFRS 13. The fair value is determined by using adequate measurement models for each type of financial instrument by using, where available, the market forward curve, both regulated and not regulated (intrinsic value). For option contracts fair value is supplemented with the time value, which is based on their residual life and the volatility of the underlying.

Taking into account the provisions specified by IFRS 7 on the fair value hierarchy, as extended by the new IFRS 13, for each category of financial instrument measured at fair value the fair value hierarchy is as follows:

- Level 1: Prices listed (not adjusted) on active markets for identical assets or liabilities;
- Level 2: Input data other than Level 1 listed prices which are observable for assets or liabilities, either directly (as in the case of prices), or indirectly (i.e. derived from prices);
- Level 3: Input data related to assets or liabilities which are not based on observable market data (unobservable data).

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

If the requirements for the application of hedge accounting are met:

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

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

*- Other financial assets and liabilities*

Loans and receivables are initially recognised at fair value, adjusted by any directly attributable transaction costs. They are subsequently measured at amortised cost.

Securities held to maturity are initially recognised at cost, increased by transaction costs incurred for acquisition of the financial asset. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, net of impairment losses.

At each reporting date, or whenever impairment indicators arise, all financial assets, except for FVTPL assets, are tested for impairment in order to determine whether there is objective evidence (such as breaches of contractual agreements, possible bankruptcy or financial difficulties of the debtor, etc.) that the value of the asset might not be entirely recoverable.

*- Trade Receivables and Payables*

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

*- Cash and cash equivalents*

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

Cash and cash equivalents, including ancillary charges, are measured at fair value.

Cash on hand and revenue stamps are measured at their nominal amount.

**Shareholders' equity**

Share capital, including the various categories of shares, is stated at its nominal amount less share capital proceeds to be received.

The purchase cost of treasury shares is recognised as a reduction in equity.

Costs directly attributable to share capital transactions of the parent company are offset against equity.

Dividends are recognised as payables when they are approved by the Shareholders.

**Employee benefits**

As from 1 January 2012, the amendment to the international accounting standard IAS 19 "Employee Benefits", endorsed on 6 June 2012, was applied in advance. This amendment is applicable starting from 1 January 2013, although its application was on a voluntary basis for financial statements at 31 December 2012. The changes made in the amendment can be classified in three categories: measurement and recognition, additional disclosures and further amendments.

The first category of amendments involves defined benefit plans. In particular, the corridor approach is no longer used in recognizing actuarial gains and losses (the Iren Group was no longer using this method) and instructions are now given to immediately recognise the components connected to “revaluations” (e.g. actuarial gains and losses) in Other comprehensive income.
As regards presentation in the financial statements, the changes in liabilities connected with the obligation related to a defined benefit plan are broken down into three components:
1) operating (service cost), personnel expenses;
2) financial (finance cost), net interest income/expense;
3) measuring (remeasurement cost), actuarial gains/losses.
As regards disclosures, information is given on the characteristics of the plans and related amounts entered in the financial statements, as well as on the risk resulting from the plans and including a sensitivity analysis of oscillations in demographic risk.
Post-employment benefits are defined according to plans which, based on their characteristics, are separated into “defined contribution” and “defined benefit” plans.
In defined contribution plans, the company obligation, limited to the payment of State contributions or to a separate fund, is calculated on the basis of contributions due. For Iren these are included under post-employment benefits accrued since 1 January 2007, payable to the INPS (the Italian Social Security Institution) fund and the share paid to the additional pension funds.
The liability relating to defined benefit plans, net of any plan assets, is calculated according to actuarial assumptions. For Iren, included in this category are post-employment benefits accrued until 31 December 2006 (or the date chosen by the employee if opting for allocation to complementary funds), the tariff discounts for employees and former employees, additional monthly salaries (Art. 47 National Collective Employment Contract - CCNL), the loyalty bonus paid to employees and contributions paid to the Premungas fund, a supplementary pension fund that allows employees to obtain the same amount of remuneration received upon retirement.
The present value of the liability is calculated for each employee using the projected unit credit method. The total liability is calculated by estimating the amount payable on termination of the employment relations, taking into account economic, financial and demographic factors. This amount is recognised on a proportional basis over the period of service matured.
For post-employment benefits accrued at 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the proportional basis is not applied because at the reporting date the benefits can be considered accrued in full.
The demographic, economic and financial variables are validated annually by an independent actuary.
Gains and losses deriving from actuarial calculations regarding post-employment benefits are immediately recognised in Other comprehensive income, except for the loyalty bonus which is entirely recognised in the Income statement.

**Provisions for risks and charges**

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

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

Risks for which the related liability is only potential are disclosed in the notes to the financial statements, and no provision is made.
No additional information is provided for events that are remote, i.e. where it is very unlikely they will arise, and no provision is made.

The provisions are recognised at the amount representing the best estimate of the total that the company would pay to settle the obligation, or transfer it to third parties at year end. If the discounting effect on the value of money is significant, the provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money.
On discounting, the time-related increase in the provision is recognised as financial expense.
Provisions for landfill post-closure are discounted based on the government curve of interest rates at the balance sheet date. Cash flows, indicated in the report drawn up by an independent expert, are discounted on a YoY basis.

**Revenue**
Revenue is measured at fair value with respect to the amount received or due, taking account of any commercial discounts and reductions connected with quantity.
Revenue from the sale of goods is recognised when:
- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither the ownership rights nor effective control over the goods sold by the seller;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When an uncertainty arises about the collectability of an amount already recognised, the non-collectable amount must be recognised as an expense, rather than as an adjustment of the income originally recognised.
Revenue from services is recognised when:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the reporting date can be measured reliably;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

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

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

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

**Financial income and expense**
Income arising from the use by others of company assets yielding interest and dividends is recognised when:
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the amount of revenue can be measured reliably.

Income is recognised on the following basis:
- interest is recognised on an accrual basis that takes into account the effective yield on the asset;
- receivables from dividends on investments are recognised when the shareholder's right to receive payment is established. This usually coincides with the resolution passed by the related meeting.

When uncertainty arises about the collectability of an amount already recognised, the non-collectable amount is recognised as an expense rather than as an adjustment to the income originally recognised.
Financial expense is recognised in the year in which it is incurred; expense that is directly attributable to the acquisition, construction or production of a plant is capitalised as part of the cost of that asset when:
- it is likely that it will result in future economic benefits for the company;
- it can be reliably measured.

**Income tax expense**
Income taxes comprise all the taxes calculated on the company's taxable income.
Current and deferred taxes are recognised as income or expense and included in the profit or loss for the year, except to the extent that the tax arises from a transaction or event that is recognised, in the same or a different year, directly in equity.
Current tax is the expected tax payable on the taxable income for the year, applying the tax legislation enacted or substantially enacted at the reporting date. Deferred tax liabilities are calculated based on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the amounts used for taxation purposes.
Deferred tax assets are recognised only when their recovery is probable.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply for the year in which the differences will be paid.

The option for the Group tax consolidation scheme was exercised pursuant to Art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A. The latter then calculates IRES on the algebraic sum of taxable profits/losses of each company taking part in the tax consolidation scheme.
In return for the taxable income earned and transferred to the parent, the consolidated company commits to paying "tax settlements" to the parent equal to the amount of taxes owed on the income transferred, net of the transferred IRES receivables.

**Discontinued operations**
Discontinued operations are components of the Group, which have been divested or represent an important business unit or geographical area of operations. Assets are classified as discontinued at the moment of transfer or when they are classified as assets held for sale: when an asset is classified as discontinued, the income statement is restated as though the operation were discontinued starting from the beginning of the comparative period.

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

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2017

As of 1 January 2017, the following amendments to the accounting standards, issued by the IASB and endorsed by the European Union, are obligatorily applicable:
IAS 7 - Statement of Cash Flows. The amendment was issued on 29 January 2016 and requires the entity to provide information on the changes in financial liabilities, both deriving from cash flows, and of a non-monetary nature, in order to enable users of financial statements to assess better the reasons for these changes. Application of the amendment entails for the Iren Group the need to provide supplementary information and, in particular, a reconciliation of the opening and closing balances of financial liabilities, distinguishing between cash changes, changes deriving from obtaining and/or losing control over investees, fair value changes and other changes. Comparative information for previous years is not required.
IAS 12 – Income taxes. The amendment, issued on 19 January 2016, provides some clarifications and illustrative examples on the methods of recognising deferred tax assets related to unrealised losses on debt instruments measured at fair value, and on the criteria for determining future taxable income against which the deductible temporary differences can be used. No impacts are foreseen for the Iren Group deriving from application of the amendment in question.

On 8 February 2018 Regulation (EU) 2018/182 was published; this contains a number of amendments related to the accounting standards IAS 28, IFRS 12 and IFRS 1. These amendments are applicable from 1 January 2017 as regards IFRS 12 and from 1 January 2018 for the others. The Iren Group does not foresee impacts deriving from application of these amendments.

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BUT NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE

As of 1 January 2018, the following accounting standards and amendments to account standards will be applicable, as they have completed the EU endorsement process:

IFRS 9 – Financial Instruments. In July 2014 the IASB published the standard IFRS 9 “Financial Instruments”, then endorsed in Regulation (EU) 2067/2016 of 22 November 2016. The standard is the result of a process that began in 2008 following the economic and financial crisis, with the aim of completely rewriting the accounting rules for recognition and measurement of financial instruments provided for in IAS 39. In brief the rules of IFRS 9 regard:
-the criteria for classification and measurement of financial assets and liabilities. As regards financial assets, the new standard uses a single approach based on management models of financial instruments and characteristics of contractual cash flows of financial assets, with the aim of determining the measurement criteria, replacing the various rules set forth in IAS 39. In particular, the standard provides for the following three categories for the classification of financial assets: a) financial assets carried at amortised cost; b) financial assets carried at fair value through other comprehensive income (FVOCI); c) financial assets carried at fair value through profit and loss (FVTPL).
As regards financial liabilities, the main amendment is instead related to accounting for fair value changes of a financial liability designated as carried at fair value through profit or loss, if these are due to a change in the creditworthiness of the liability itself. According to the new standard, these changes must be recognised under other comprehensive income;
-impairment of financial assets. The standard replaces the current “incurred loss” model introducing a new impairment model based on expected losses, where “loss” means the present value of all future lost revenue, opportunely integrated to take into account future expectations (“forward-looking information”). The estimate must be made initially on the expected losses in the next 12 months; in consideration of any gradual deterioration of the receivable the estimate must be adequate to cover the expected losses along the whole life of the receivable. The standard also requires that adequate information be provided on the estimation criteria used;

hedging operations (hedge accounting). IFRS 9 introduces a number of significant changes that mainly regard the effectiveness test, as the 80-125% threshold is abolished and replaced by an objective test that verifies the economic relationship between the hedged instrument and the hedging instrument, accounting only for the cost of the hedge, and extending the hedged elements and the disclosure required.

IFRS 15 – Revenue from Contracts with Customers. The standard, published by the IASB on 28 May 2014 and endorsed by the European Union on 22 September 2016 in Regulation 1905/2016, replaces IAS 18 - Revenue, IAS 11 - Construction Contracts, and interpretations SIC 31, IFRIC 13 and IFRIC 15. The new standard applies to all contracts with customers, with the exception of contracts that fall under the scope of IAS 17 - Leases, of insurance contracts and of financial instruments. The purpose of the new standard is to establish the criteria to be adopted in order to provide users of financial statements with information about the nature, amount and uncertainties associated with revenue and cash flows deriving from existing contracts with customers. In particular IFRS 15 defines a model for recognising revenue based on 5 steps:

- identify the contract with the customer; By contract is meant a commercial agreement approved by two or more parties that creates enforceable rights and obligations. The standard contains specific rules for assessing whether two or more contracts must be combined together and for identifying the accounting implications of a contractual amendment;
- identify the “Performance Obligations” contained in the contract;
- determine the “Transaction Price”. In order to determine the transaction price it is necessary to consider, among other things, the following elements: a) any amounts collected on behalf of third parties (e.g. sales taxes), which must be excluded from the price; b) variable components of the price (such as performance bonuses, penalties, discounts, refunds, incentives, etc.); c) financial component, if the payment terms grant the customer a significant extension;
- allocate the price to the Performance Obligations on the basis of the “Relative Stand Alone Selling Price”;
- recognise revenue when the Performance Obligation is satisfied. The asset or service is transferred when the customer obtains control over the asset or service and that is when it has the ability to decide and/or direct its use and obtain substantially all its benefits. The principle expressed by IAS 18, for which the revenue must be recognised looking at the benefits obtainable from the asset and assessing the probability of collecting the related receivable, is replaced. Control may be transferred at a certain moment (point in time) or in a period of time (over time).

The standard in question was further amended on 12 April 2016: the amendment, endorsed on 31 October 2017 and also applicable starting from 1 January 2018, clarifies the guidelines for identifying an obligation to sell a good or to provide one or more services, determining whether an entity acts on its own behalf (principal) or as a representative (agent), and providing indications on accounting for licences related to intellectual property.

Amendments to IFRS 2 - “Share-based Payments”. Document issued by the IASB on 20 June 2016 and endorsed by the European Union on 26 February 2018 in Regulation 289/2018. The amendments, which apply for financial years starting on 1 January 2018 with the option of being applied in advance, clarify the recognition of specific types of share-based payment transactions. In particular, the amendments refer to:

- the impact of vesting and non-vesting conditions on the measurement of cash-settled share-based payment transactions. In particular it is clarified that at the measurement date (i.e. at the assignment date, at the closure of each accounting period and at the settlement date) the fair value must be calculated taking into consideration the vesting and non-vesting conditions associated with market factors, such as reaching a certain market price within a predefined time period, ignoring the vesting conditions associated with business performance and presuming, unless known otherwise, that the employee remains in service;
- the recognition of share-based payment transactions that require withholding tax to be applied;

- the reclassification of transactions from cash-settled to equity-settled due to modifications of the terms and conditions of the transaction.

This is a case currently not present in the Iren Group, and therefore no impacts are foreseen from applying these new provisions.

As of 1 January 2019, the following accounting standards will be applicable, as they have completed the EU endorsement process:

IFRS 16 – Leases. Standard published by the IASB on 13 January 2016, intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard provides a new definition of lease, irrespective of the contractual form adopted (leasing, rental or hire) and in practice marks the end of the distinction between operating leasing and financial leasing.
IFRS 16 introduces a criterion based on the right of use for an asset to distinguish leasing contracts from services contracts, identifying as discriminating factors: identification of the asset, the right to replace the same, the right to obtain substantially all economic benefits deriving from use of the asset and the right to control use of the asset underlying the contract. On the lessee's part, the new standard provides for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value; in the income statement depreciation and interest expense must be recognised separately. On the lessor's part the impact on the financial statements consists only of greater disclosure.
Its application in the Iren Group is planned starting from 1 January 2019 although early adoption is permitted for entities that will adopt IFRS 15.
In the coming months, detailed analysis will therefore be carried out to assess the effects the introduction it will have on the Group.

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION

Endorsement by the relevant bodies of the European Union is currently in progress for the following updates and amendments to the IFRSs (already approved by the IASB):

Amendment to IAS 40 Investment Property which comes into force on 1 January 2018. The amendment entails a clarification on the application of paragraph 57 of IAS 40 providing guidelines on changes that can lead to classifying an asset which was not an investment property as such or vice versa. The amendment clarifies that a change in the management's intentions for the use of a property by itself does not constitute evidence of a change in use.

As regards other new standards applicable starting from financial year 2018 or subsequent years, assessments for their correct application and analyses of the presumable impacts on future financial statements are in progress.

# III. IREN S.p.A. FINANCIAL 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.
A summary of the risk management methods is shown hereunder for the risk management and control with respect to the financial instruments (liquidity risk, exchange rate risk, interest rate risk, credit risk).

### LIQUIDITY RISK

Liquidity risk is the risk that financial resources available to the company are insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.
The table below illustrates the expected outflows (within 12 months, in 1-5 years and over 5 years). The flows indicated are undiscounted future cash flows, calculated according to residual contractual expiry dates, on both principal and interest. Undiscounted cash flows relating to interest rate hedges are also included.

thousands of euro

| Data at 31/12/2017 | Carrying amount | Contractual cash flows | within one year | 1-5 years | Over 5 years |
|---|---|---|---|---|---|
| Mortgage loan and bond payables (*) | 2,718,087 | (3,059,084) | (143,033) | (1,445,844) | (1,470,207) |
| Hedging of interest rate risk (**) | 6,960 | (6,960) | (4,802) | (6,717) | 4,559 |

(*) The carrying amount of "Mortgage loan and bond payables" includes both current and non-current portions.
(**) The carrying amount of "Hedging of interest rate risk" includes the fair value of hedging contracts (both positive and negative).

Cash flows required to settle other financial liabilities, other than those to lenders, do not differ significantly from the recognised carrying amount.
For details of the liquidity risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

### INTEREST RATE RISK

For a more complete understanding of the interest rate risks, sensitivity analysis was performed on net financial charges to changes in interest rates. This analysis was performed on the basis of reasonable assumptions as follows:

- an increase and reduction of 100 basis points in the Euribor interest rates over the year was applied to the net financial debt;
- in any existing hedge, interest rate shock was applied to both the debt position and related hedge with an extremely limited net effect on the income statement;
- with regard to existing hedges at year end, a 100 basis points translation increase and decrease were applied to the forward curve of interest rates used to measure the fair value of the hedges.

The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2017.

thousands of euro

| | Financial expense | | Cash Flow Hedge Reserve | |
|---|---|---|---|---|
| | **100 bps increase** | **100 bps decrease** | **100 bps increase** | **100 bps decrease** |
| **Cash flow sensitivity (net)** | | | | |
| Net financial debt | | | | |
| (including hedging contracts) | (942) | 2,283 | - | - |
| **Change in fair value** | | | | |
| Hedging contracts | | | | |
| (assessment components only) | 1,294 | (1,387) | 15,763 | (17,441) |
| **Total impact from sensitivity analysis** | **352** | **896** | **15,763** | **(17,441)** |

## FAIR VALUE

Fair value is determined as the sum of estimated future cash flows in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the curve of forward interest rates at the reporting date.
In order to provide a disclosure as complete as possible, the corresponding figure from the previous year is also indicated.
For each recognised asset and liability class, the following table provides both the carrying amount and related fair value.

thousands of euro

| **Asset/liability description** | **31/12/2017** | | **31/12/2016** | |
|---|---|---|---|---|
| | **Carrying amount** | **Fair Value** | **Carrying amount** | **Fair Value** |
| Non-current loans to related parties | 1,549,420 | 1,655,585 | 1,544,901 | 1,750,133 |
| Hedges – long-term assets | 1,812 | 1,812 | 1,439 | 1,439 |
| Bonds due at more than 12 months (*) | (1,777,885) | (1,879,082) | (1,377,398) | (1,454,755) |
| Bonds due within 12 months (*) | - | - | (178,554) | (186,021) |
| Non-current bank loans | (857,762) | (931,099) | (1,139,734) | (1,233,477) |
| Hedges – long-term liabilities | (8,773) | (8,773) | (27,004) | (27,004) |
| Loans - current portion | (82,440) | (107,320) | (174,216) | (204,812) |
| **Total** | **(1,175,628)** | **(1,268,876)** | **(1,350,566)** | **(1,354,497)** |

(*) the negative fair value of the Put Bond at 31/12/2016 within 12 months was 186,021 euro thousand (189,926 thousand euro at 31/12/2015)

### Fair value hierarchy

The following table shows financial instruments recognised at fair value, based on the measurement technique used. The various levels were defined as shown below:

- Level 1: Prices listed (not adjusted) on active markets for identical assets or liabilities;
- Level 2: Input data other than Level 1 listed prices which are observable for assets or liabilities, either directly (as in the case of prices), or indirectly (i.e. derived from prices);
- Level 3: Input data related to assets or liabilities which are not based on observable market data (unobservable data).

thousands of euro

| 31/12/2017 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets available for sale | | | | - |
| Financial assets designated at fair value through profit or loss | | | | - |
| Financial investments held for trading | | | | - |
| Derivative financial assets | | - | | - |
| **Total assets** | **-** | **-** | **-** | **-** |
| Derivative financial liabilities | | (8,773) | | (8,773) |
| **Grand total** | **-** | **(8,773)** | **-** | **(8,773)** |

thousands of euro

| 31/12/2016 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Financial assets available for sale | | | | - |
| Financial assets designated at fair value through profit or loss | | | | - |
| Financial investments held for trading | | | | - |
| Derivative financial assets | | - | | - |
| **Total assets** | **-** | **-** | **-** | **-** |
| Derivative financial liabilities | | (27,004) | | (27,004) |
| **Grand total** | **-** | **(27,004)** | **-** | **(27,004)** |

All Iren S.p.A. hedging financial instruments have a fair value which can be classified as level 2. This level is measured through valuation techniques, that take, as a reference, parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different from the prices of the financial instruments, or in any case that do not require a significant adjustment based on data which cannot be observed on the market.
We can also note that no transfers occurred amongst the various Levels of the fair value hierarchy.

**CREDIT RISK**

Iren S.p.A. is not particularly exposed to credit risk as it mainly provides professional services to the First-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.

For details of the credit risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

**Capital management**

The capital management policies of the Board of Directors involves maintaining a high level of capital to uphold relations of trust with investors, creditors and the market, and also allowing future business development.
The Board of Directors monitors the return on capital and the level of dividends for distribution to ordinary shareholders, and aims to maintain a balance between achieving extra yield by recourse to indebtedness and the benefits and security offered by a solid equity position.

# IV. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

On 13 March 2015 the Board of Directors of Iren, with the opinion in favour of the Transactions with Related Parties Committee ("TRPC", entirely made up of Independent Directors), adopted a new version of the "Internal Regulation on Transactions with Related Parties", already approved on 30 November 2010 and amended on 6 February and 3 December 2013 ("TRP Internal Regulation"), the contents of which were defined in coordination with the provisions of the administrative and accounting procedures pursuant to art. 154-*bis* of Italian Legislative Decree no. 58 of 24 February 1998 (the "Testo Unico della Finanza" - [Consolidated Finance Act - CFA]) and implementing:

- the provisions relating to transactions with related parties pursuant to Article 2391-*bis* of the Italian Civil Code;
- the provisions pursuant to Art. 114 of the CFA;
- the Regulation containing provisions on Transactions with Related Parties (TRPs), adopted by CONSOB with its Resolution no. 17221 of 12 March 2010 and subsequently amended with Resolution no. 17389 of 23 June 2010 (the "CONSOB TRP Regulation").

The internal TRP Regulation pursues the objective of: (i) regulating the performance of transactions with related parties by IREN, directly or through subsidiaries, identifying internal procedures and rules capable of ensuring the substantial and procedural transparency and correctness of such transactions; (ii) establishing the methods of fulfilling the related disclosure obligations, including those provided for in the legal and regulatory measures in force and applicable.

On 15 March 2016, after an enquiry carried out by the Transactions with Related Parties Committee, the Board of Directors of Iren adopted an "Operating Procedure for the management of Transactions with Related Parties" ("TRP Operating Procedure"), which supplements and details the provisions of the Internal TRP Regulation.

The Internal TRP Regulation and the TRP Operating Procedure are published on the IREN Group's website (www.gruppoiren.it), in the Section "*Investors – Corporate Governance –Related Parties*".

Iren and its subsidiaries carry out related-party transactions in accordance with the principles of transparency and fairness. These transactions mainly concern services provided to customers in general (gas, water, electricity, heat, etc.) or following concessions and awards of services, in particular for the waste management segment, and are governed by the contracts applied in such situations.

Where the services provided are not the above, the transactions are governed by specific agreements, the terms of which are established, where possible, in accordance with normal market conditions. If these references are not available or significant, the contractual conditions are defined also in consultation with independent experts and/or professionals.

**Transactions with related-party shareholders**

Iren S.p.A. provides Finanziaria Sviluppo Utilities S.r.l., a special purpose company through which the Municipalities of Genoa and Turin hold their equity investment in Iren S.p.A., with a series of corporate services in the Legal, Administrative, Financial, Fiscal and Risk Management areas, in accordance with a specific agreement that provides for fair remuneration of the services.

**Transactions with shareholders - related parties**

On the basis of the Internal TRP Regulation, companies controlled, directly or indirectly, by one of the following Provincial Capitals have been identified as related parties: Municipalities of Parma, Piacenza and Reggio Emilia, as signatory Municipalities of the current Voting and Block Shareholders' Agreement between FSU (in which the Municipality of Turin and the Municipality of Genoa have equal stakes) and the so-called "Emilian Parties", and the Municipalities of Turin and Genoa.

In particular we can note that in order to supply the integrated water service in the provinces of Parma, Piacenza and Reggio Emilia, the company IRETI, with the payment of an annual lease, uses the assets of the companies Parma Infrastrutture, Piacenza Infrastrutture and AGAC Infrastrutture, controlled by the Municipalities involved.

The remaining relations with related parties controlled by the above Municipalities are mainly of a commercial nature and regard services provided to all other customers.

**Transactions with subsidiaries**

Intercompany Services - In order to make best use of the organisational synergies arising from the merger of IRIDE and Enìa, the Iren structure was designed in accordance with a holding model, with sufficient staff structures to support the coordination activity of the Group and to deal with the most challenging matters of general interest. Therefore, Iren can provide professional services to the first-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.

All these activities are governed by special supply contracts at arm's length terms.

Financial management - Organisational solutions were adopted with the aim of centralising financial management for the entire Group under the direct responsibility of Iren S.p.A., in order to optimise the structure and conditions of access to third party financing.

To this end, loans are taken out by Iren with financial institutions, whereby the funds are subsequently transferred to the Group's companies to support the investments made by these companies based on intercompany facility agreements.

The Board of Directors approved the regulation of financial transactions between the Parent Company and the First-level Companies, regarding both the cash pooling of resources available within the Group for day to day requirements (working capital), and the management of resources needed to support medium/long-term investments. The conditions of intercompany contracts, signed based on the above regulation, were defined according to the conditions at which the Parent Company procures on the financial market.

Tax consolidation scheme - Starting from 2010, Iren S.p.A. adopted the tax consolidation scheme pursuant to arts. 117 *et seq* of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.

All financial and legal transactions between the parties are governed by the specific intra-group agreement between the companies involved and the parent, Iren S.p.A.

The tax consolidation scope for 2017 includes the following companies, in addition to the consolidating company Iren S.p.A.: IRETI, Iren Mercato (incorporating Iren Gestioni Energetiche), Iren Energia (incorporating Iren Servizi e Innovazione), Iren Gestioni Energetiche (now incorporated into Iren Mercato), Iren Acqua (formerly Mediterranea delle Acque), Immobiliare delle Fabbriche, Iren Ambiente, Iren Rinnovabili, Green Source, Enìa Solaris, Varsi Fotovoltaico (incorporating Millenaria Fotovoltaico), AMIAT, AMIAT V., TRM Holding and TRM V.

In particular, this contract, recently updated to take account of the new scope, covers the way in which the IRES taxable amounts are transferred and the related remuneration, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.

After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay to the parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the transferred IRES receivables.

The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the parent is able to determine the total group Income for IRES purposes.

The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to Art. 127, paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.

Group VAT option - In terms of procedures, for 2017, the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding settlements and VAT periodic payments.

The companies that take part in the Group settlement procedure are the Parent Company Iren S.p.A. and the following companies: Iren Energia (incorporating Iren Servizi e Innovazione), IRETI, Iren Mercato (incorporating Iren Gestioni Energetiche), Iren Ambiente, AMIAT, Iren Rinnovabili, Enìa Solaris, Iren Acqua Tigullio, Iren Acqua (formerly Mediterranea delle Acque), Greensource, Varsi Fotovoltaico (incorporating Millenaria Fotovoltaico), Immobiliare delle Fabbriche, Iren Laboratori and Bonifica Autocisterne.

**Transactions with Directors**
Lastly, with regard to directors, we can note that other than regarding their offices held within the Group companies there have been no transactions with the directors. Information on remuneration can be found in the Remuneration Report published under the terms of Art. 123-*ter* of the Consolidated Law on Finance.

# V. EVENTS AFTER THE REPORTING PERIOD

**Conversion of 62,305,465 savings shares of Iren S.p.A. into ordinary shares**
On the basis of the delegated power received from the Board of Directors on 20 December 2017, on 8 January 2018 the Deputy Chairperson of Iren S.p.A., Prof. Ettore Rocchi, carried out, with a positive result, the checks on the existence of the requirements pursuant to art. 6 of the Iren S.p.A. bylaws for investors that acquired all the remaining 62,305,465 savings shares owned by FCT Holding S.p.A. to be converted at par into Iren ordinary shares.
On the basis of the said article of the Bylaws, the disposal of the savings shares held by FCT Holding S.p.A. entails in fact their conversion into ordinary shares, after verification that the transfer, for any reason, is made to parties not connected to the Municipality of Turin.
The acquisition occurred following further requests for conversion (see the explanation in "Significant events of the period") received starting from 20 December 2017, related to the "exchangeable" bonds issued by FCT Holding S.p.A. on 30 December 2015 for an amount of 150,000,000 euro that had as underlying a total of 80,498,014 Iren savings shares and 290,353 Iren ordinary shares owned by the same.
Following the aforementioned conversion the Company's share capital is made up of only ordinary shares.

**Iren-ACAM business combination – acceptance by other ACAM public shareholders**
Following what was explained in "Significant events of the period", from the point of view of the effective progress of the business combination between Iren and the ACAM Group we can note that, between 29 December 2017 and 19 January 2018, further public shareholders representing 8.69% of the ACAM capital accepted the Investment Agreement.
Therefore, following these further acceptances, the public shareholders that are signatories to the Agreement, on the basis of which they are obliged to transfer their shares in ACAM subordinately to fulfilment of the conditions precedent, represent almost all of the shareholders of the La Spezia-based company.
At 19 January 2018, the public shareholders of ACAM that have accepted the Agreement have undertaken to subscribe a total of 25,096,150 of the 27,699,660 new Iren shares potentially issuable in the context of the capital increase reserved for them (90.6% of the total), representing 1.93% of the Iren share capital after the said increase.

# VI. OTHER INFORMATION

### CONSOB COMMUNICATION NO. DEM/6064293 of 28 July 2006

#### Significant non-recurring events and transactions

During 2017 the company did not carry out significant non-recurrent events and/or transactions, as defined in the Communication, that is to say events or transactions the occurrence of which is non-recurring or transactions or events which are not repeated frequently in the normal performance of the business.

#### Positions or transactions deriving from atypical and/or unusual operations

In 2017 the company was not involved in atypical and/or unusual transactions, as defined in the Communication, i.e. transactions that may, due to their significance/relevance, nature of the counterparties, subject of the transaction, methods for determining the transfer price and timing of the event (near year end), give rise to concerns about the correctness/completeness of the financial statements disclosures, conflict of interest, safeguard of the company’s assets or protection of minority shareholders.

#### Disclosure on treasury shares

We can note under the terms of art. 2428 of the Italian Civil Code that Iren S.p.A. does not possess, nor did it purchase or sell during the year, treasury shares and shares or units of subsidiaries, including through trust companies or intermediaries.

### PUBLICATION OF THE FINANCIAL STATEMENTS

The Financial Statements were approved for publication by Iren’s Board of Directors at its meeting of 7 March 2018. The Board of Directors authorised the Chairperson and the Chief Executive Officer to make such changes to the financial statements as necessary or opportune to improve them up to the date of approval by the Shareholders’ Meeting.
The shareholders’ meeting to be called to approve the separate financial statements of the Parent Company has the right to request amendments to the aforementioned separate financial statements.

# VII. NOTES TO THE STATEMENT OF FINANCIAL POSITION

Unless otherwise stated, the following tables are in thousands of euro.

## ASSETS

## NON-CURRENT ASSETS

### NOTE 1_PROPERTY, PLANT AND EQUIPMENT

The breakdown and change of property, plant and equipment may be analysed as follows:

thousands of euro

| | 31/12/2016 | Increases owing to business combinations | Increases | Depreciation and amortisation | Disposals and other changes | 31/12/2017 |
|---|---|---|---|---|---|---|
| Land | 278 | | - | - | - | 278 |
| Buildings | 1,239 | - | 25 | (141) | - | 1,123 |
| Plant and machinery | 499 | - | 27 | (58) | 2 | 470 |
| Industrial and commercial equipment | 108 | - | 35 | (19) | - | 124 |
| Other assets | 9,249 | - | 2,771 | (2,862) | (3) | 9,155 |
| Assets under construction and payments on account | 109 | - | 1,232 | | (2) | 1,339 |
| **Total** | **11,482** | **-** | **4,090** | **(3,080)** | **(3)** | **12,489** |

The increases of other assets refer mainly to the purchase of hardware.

Assets under construction comprise mainly investments not yet completed for work on buildings and on general systems associated with operation of the same, although owned by the property fund to which some of the said buildings were sold.

We can also note advance payments made to suppliers for the purchase of vehicles for an amount of 261 thousand euro (not present at 31 December 2016).

Furthermore, there are no guarantees for significant amounts on the assets.

**NOTE 2_ INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE**

The breakdown and change of intangible assets may be analysed as follows:

thousands of euro

| | 31/12/2016 | Increases owing to business combinations | Increases | Depreciation and amortisation | Disposals and other changes | 31/12/2017 |
|---|---|---|---|---|---|---|
| Industrial patents and intellectual property use rights | 27,601 | | 14,807 | (7,935) | (2,017) | 32,456 |
| Other fixed assets | 934 | | 1,197 | (232) | | 1,899 |
| Assets under development | 6,470 | | 5,860 | | (5,021) | 7,309 |
| **Total** | **35,005** | **-** | **21,864** | **(8,167)** | **(7,038)** | **41,664** |

Industrial patents and intellectual property use rights

This item consists of software licences and costs incurred for in-house customisation of licensed software applications. With the centralisation of all staff activities within IREN SpA, the Parent Company provides these activities for all Group Companies. These assets are amortised over a five-year period.
We can note that the other changes of the item Industrial patents and intellectual property use rights include the transfer in usufruct of certain software to the company Ireti S.p.A. for a total value of 5,547 thousand euro.

Other fixed assets

The item is made up mainly of investments for studies and defining the architecture of Group projects.

Intangible assets under development

This item mainly consists of software licences and related costs incurred for implementations (these refer mainly to the projects regarding information systems and applications in support of operating activities) and of costs for project studies in the IT field.

We can note that, during 2017, the invoicing software Siteco was sold for 1,479 thousand euro.

**NOTE 3_INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES**

**Equity investments in subsidiaries**

The list of investments in subsidiaries at 31 December 2017 is annexed.
No change was recorded with respect to the situation at 31 December 2016.

The total of this item is broken down as follows:

thousands of euro

| | 31/12/2016 | Increases | Decreases | 31/12/2017 |
|---|---|---|---|---|
| Iren Ambiente S.p.A. | 244,398 | - | - | 244,398 |
| IRETI S.p.A. | 1,018,747 | - | - | 1,018,747 |
| Iren Energia S.p.A. | 1,139,112 | - | - | 1,139,112 |
| Iren Mercato S.p.A. | 142,065 | - | - | 142,065 |
| **Total** | **2,544,322** | - | - | **2,544,322** |

**NOTE 4_OTHER EQUITY INVESTMENTS**

This item relates to investments in companies over which Iren S.p.A. has neither control nor significant influence. Since their fair value could not be reliably determined, these investments were maintained at cost, adjusted for any impairment losses.
Following conferment by the subsidiary Iren Energia, the value of the investment in the Core MultiUtilities Fund amounted, at 31 December 2017 (unchanged compared to 31 December 2016), to 100 thousand euro.

**NOTE 5_NON-CURRENT FINANCIAL ASSETS**

**Non-current financial receivables**

The total of the item amounted to 1,551,272 thousand euro (1,546,440 thousand euro at 31 December 2016).

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Receivables from subsidiaries, associates and joint ventures | 30,186 | 29,957 |
| For centralised treasury management and cash pooling | 1,519,234 | 1,514,944 |
| Other non-current financial assets | 1,812 | 1,439 |
| From others | 40 | 100 |
| **Total** | **1,551,272** | **1,546,440** |

Financial receivables from subsidiaries and joint ventures relate to amounts due from:
- Idrotigullio, for 5,945 thousand euro (6,058 thousand euro at 31 December 2016),
- Asti Energia, for 880 thousand euro (899 thousand euro at 31 December 2016),
- Iren Rinnovabili for Euro 5,079 thousand (Euro 5,000 thousand at 31 December 2016),
- Enia Solaris, for Euro 18,282 thousand (Euro 18,000 thousand at 31 December 2016),

Other non-current financial assets amounted to 1,812 thousand euro (1,439 thousand euro at 31 December 2016) and regard the fair value of derivative instruments (for the comment please see the paragraph "IREN S.p.A. financial risk management").

Financial receivables from others refer to participation in a film production under a Tax credit regime for 40 thousand euro (100 thousand euro at 31 December 2016).

**NOTE 6_OTHER NON-CURRENT ASSETS**

These amounted to 10,548 thousand euro (23,427 thousand euro at 31 December 2016) and are made up of tax credits for IRES rebate following the IRAP deduction referred to the years 2010/2011 for 10,321 thousand euro (7,562 thousand euro at 31 December 2016), receivables from related-party shareholders for IRES rebate following the IRAP deduction referred to the years 2007/2009 for 41 thousand euro (2,954 thousand euro at 31 December 2016) receivables from the personnel for the non-current portion of loans granted to employees for 181 thousand euro (204 thousand euro at 31 December 2016) and receivables for guarantee deposits for 5 thousand euro (unchanged compared to 31 December 2016). The increase in tax credits and the related decrease in receivables from related-party shareholders for the amount of 2,759 thousand euro were due to the transfer of these receivables from the company FSU Srl on 31 July 2017.
At 31 December 2016 there was a receivable from the Revenues Agency generated by a judgement of the Court of Cassation regarding the refund of part of the interest paid by the former AMGA (now Iren S.p.A.) in relation to the recovery of state aid ("fiscal moratorium") for 12,702 thousand euro.

**NOTE 7_DEFERRED TAX ASSETS**

This item amounts to 9,173 thousand euro (31 December 2016: 11,939 thousand euro) and refers to deferred tax assets arising from income components deductible in future years.

Reference should be made to the income statement, Note 36 "Income tax expense", for further details.

## CURRENT ASSETS

### NOTE 8_INVENTORIES

The item amounted to Euro 14 thousand (zero at 31 December 2016) and refers to the stock of personal protection equipment used by the company's personnel.

### NOTE 9_TRADE RECEIVABLES

These are detailed in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---:|---:|
| Receivables from customers | 339 | 932 |
| Receivables from subsidiaries and joint ventures | 74,337 | 48,934 |
| Receivables from associates | 437 | 1,281 |
| Receivables from shareholders - related parties | 288 | 25 |
| Receivables from other Group companies | 8 | - |
| **Total** | **75,409** | **51,172** |

**Receivables from customers**
These primarily relate to receivables for refunds of expenses, recharging of meals and leasing fees. They amounted to 339 thousand euro (932 thousand euro at 31 December 2016).

**Receivables from subsidiaries and joint ventures**
Receivables from subsidiaries and joint ventures refer to normal commercial transactions carried out at arm's length.
The total amount of trade receivables from subsidiaries and joint ventures is broken down under the section on transactions with related parties.

**Receivables from associates**
This item primarily refers to fees that may be charged back for offices held by Iren's employees in the associated companies, as well as to the repaid amount of insurance costs borne by the Parent Company.
The total amount of receivables from associates is broken down under the section on transactions with related parties.

**Receivables from related-party shareholders**
Receivables from related-party shareholders recorded a balance of 288 thousand euro (25 thousand euro at 31 December 2016) and refer to receivables for sponsorships from the Municipality of Turin for 268 thousand euro (not present at 31 December 2016), work performed for FSU for 14 thousand euro (19 thousand euro at 31 December 2016) and for the Municipality of Reggio Emilia for 6 thousand euro (unchanged compared to 31 December 2016).

**Receivables from other Group companies**
Receivables from other Group companies recorded a balance of 8 thousand euro (not present at 31 December 2016) and refer to IT assistance services performed for the Territorial Services Agency of Genoa.

### NOTE 11_OTHER RECEIVABLES AND OTHER CURRENT ASSETS

These are detailed in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Receivables from personnel | 22 | 19 |
| Receivables from subsidiaries for Group VAT | 123 | 11,821 |
| Receivables from subsidiaries for tax consolidation scheme | 15,066 | 38,751 |
| VAT credit | 50,734 | 6,783 |
| Other receivables | 2,341 | 3,842 |
| Tax assets | 770 | 1,969 |
| Prepaid expenses | 972 | 1,280 |
| **Total** | **70,028** | **64,465** |

Receivables from personnel consist mainly of receivables for loans granted to employees.

The option for the Group tax consolidation scheme was exercised pursuant to Art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A.

The increase in the VAT credit was due to the fact that the 2015 Stability Law provided for the extension of the mechanism of VAT settlement by reverse charge also to a number of cases (in the building and energy industries) covered by the activities performed by certain IREN group companies that take part in the Group VAT settlement procedure. This mechanism, not generating VAT payable made it impossible, unlike in the past, to offset totally the VAT credit accrued in the tax period.

### NOTE 12_CURRENT FINANCIAL ASSETS

All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.
Current financial receivables relate to:

**Financial receivables from subsidiaries, associated companies and joint ventures**

The total of this item is broken down in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| For invoices issued for interest | 1,201 | 543 |
| For invoices to be issued for interest | 13,319 | 22,077 |
| For loans granted | 439,163 | 439,243 |
| For conferments | - | 890 |
| Sundry | 102 | 302 |
| **Total** | **453,785** | **463,055** |

Loans granted include 439,163 thousand euro (439,243 thousand euro at 31 December 2016) as the current portion of the loan granted to the subsidiary Idrotigullio and the joint venture OLT.

**Other financial receivables**

These amount to 12 thousand euro (11 thousand euro at 31 December 2016) and primarily relate to financial prepayments.

**NOTE 13_CASH AND CASH EQUIVALENTS**

Cash and cash equivalents may be analysed as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Bank and postal deposits | 69,354 | 140,845 |
| Cash and valuables in hand | 108 | 473 |
| **Total** | **69,462** | **141,318** |

Cash equivalents represent short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

**NOTE 14_ASSETS HELD FOR SALE**

These were 240 thousand euro (unchanged compared to 31 December 2016), and refer to the equity investment in Plurigas in liquidation. The investment was classified among assets held for sale because during 2014 the company ceased to do business.

## LIABILITIES

### NOTE 15_EQUITY

Equity may be analysed as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Share capital | 1,276,226 | 1,276,226 |
| Reserves and retained earnings (losses) | 259,904 | 240,453 |
| Net profit (loss) for the period | 166,957 | 88,257 |
| **Total** | **1,703,087** | **1,604,936** |

**Share capital**

The share capital amounts to 1,276,225,677 euro (unchanged compared to 31 December 2016), fully paid up, and consists of 1,213,920,212 ordinary shares with a face value of 1 euro each and 62,305,465 savings shares without voting rights with a face value of 1 euro each.
The 62,305,465 Iren savings shares, held by Finanziaria Città di Torino, are not listed, have no voting rights and, except for a different priority order in the allocation of net residual assets in the event of winding-up of the company, they are subject to the same rules as ordinary shares.
In the event of sale, the savings shares are automatically converted, at par, into ordinary shares.
During financial year 2017 Finanziaria Città di Torino sold in March and December a total of 32,194,535 Iren Savings shares. We can report that in January 2018 Finanziaria Città di Torino sold 62,305,465 Iren Savings shares and therefore following the aforementioned conversion the Company's share capital is made up of only ordinary shares.

**Reserves**

The breakdown of this item is provided in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Share premium reserve | 105,102 | 105,102 |
| Legal reserve | 49,998 | 45,585 |
| Cash flow hedging reserve | (4,262) | (14,658) |
| Other reserves and retained earnings (losses) | 109,066 | 104,424 |
| **Total** | **259,904** | **240,453** |

**Hedging reserve**

With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a contra-entry directly in equity under the hedging reserve. These contracts were entered in to hedge exposure to the risk of interest rate fluctuations on floating rate loans.

**Other reserves and retained earnings (losses)**

These mainly comprise the surplus generated by the merger of AMGA into AEM Torino and the later merger of Enìa into Iride, and retained earnings and losses. During 2012, they fell due to the retained loss of 2011. During financial year 2015 the extraordinary reserve fell as a result of the distribution of an extraordinary unit dividend of 0.0151 euro per share. For further details, reference should be made to the statement of changes in equity.

**Dividends**
At the ordinary shareholders' meeting of Iren S.p.A. held on 20 April 2017, the distribution of a 0.0625 euro per share dividend was approved. The dividend amounting to 79,764 thousand euro was paid from 21 June 2017.

## NON-CURRENT LIABILITIES

### NOTE 16_NON-CURRENT FINANCIAL LIABILITIES

These amount to 2,644,420 thousand euro (2,544,136 thousand euro at 31 December 2016) and consist of:

**Bonds**
These amounted to 1,777,885 thousand euro (1,377,398 thousand euro at 31 December 2016) and referred to Private Placement and Public Bond issues, accounted for at amortised cost, against a total nominal amount currently in issue of 1,798,440 thousand euro (1,390,619 thousand euro at 31 December 2016).
Private Placements: a) Notes maturity 2020, coupon 4.37%, amount of issue 260 million euro, currently in issue for 167,87 million euro following the buy-back (Tender Offer) carried out in 2015, 2016 and 2017; b) Notes maturity 2019, coupon 3%, amount of issue 100 million euro, currently in issue for 89.1 million euro following the tender offer as above.
Public Bonds: a) Notes maturity 2021, coupon 3%, amount of issue 300 million euro, currently in issue for 181,836 million euro following buy-backs as above; b) Notes maturity 2022, coupon 2.75%, amount of issue 500 million euro, currently in issue for 359,634 million euro following the tender offers of 2016 and 2017; c) Notes maturity 2024, coupon 0.875%, amount 500 million euro, in issue for the same amount; d) Green Bond maturity 2027, coupon 1.5%, amount 500 million euro, placed in October 2017,third Bond issue as part of the EMTN programme of a total of 2 billion euro.
The bond loans were subscribed by Italian and foreign institutional investors and are listed on the Irish Stock Exchange; the Public Bonds were given a Fitch rating.
The change in the book value of the year was due to the repayment of Notes following the Tender Offer, to the issue of the Green Bond and to allocation of the financial charges for the period calculated on the basis of the amortised cost method according to the IAS/IFRS standards.

**Non-current bank loans**
Medium/long-term loans relate exclusively to the non-current portion of bank loans and amount to 857,762 thousand euro (1,139,734 thousand euro at 31 December 2016).
Medium/long-term loans can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and maturity date, as shown in the following table:

thousands of euro

| | fixed rate | floating rate | TOTAL |
|---|---|---|---|
| min/max interest rate | 2.79%-5.122% | 0.00%-2.529% | |
| maturity | 2019-2027 | 2019-2032 | |
| 2019 | 58,845 | 77,925 | 136,770 |
| 2020 | 61,085 | 55,932 | 117,017 |
| 2021 | 63,412 | 30,932 | 94,344 |
| 2022 | 65,830 | 35,478 | 101,308 |
| subsequent | 239,842 | 168,480 | 408,322 |
| **Total payables at 31/12/2017** | **489,014** | **368,748** | **857,762** |
| **Total payables at 31/12/2016** | **551,009** | **588,725** | **1,139,734** |

All loans are denominated in euro.

The changes in medium/long-term loans during the year are summarised below:

thousands of euro

| | 31/12/2016 Total payables | Increases | Repayments | Amortised cost adjustments | 31/12/2017 Total payables |
|---|---|---|---|---|---|
| - fixed rate | **551,009** | - | (62,129) | 134 | **489,014** |
| - floating-rate | **588,725** | 50,000 | (270,751) | 774 | **368,748** |
| **TOTAL** | **1,139,734** | **50,000** | **(332,880)** | **908** | **857,762** |

Total medium/long-term loans at 31 December 2017 decreased compared to 31 December 2016 due to the following variations:

- increases of 50 million euro, owing to disbursement of the first tranche of the EIB loan as part of the ceiling on the District Heating and Waste Management project;
- reduction of a total of 332,880 thousand euro, owing both to early repayment of loans (253 million euro from Unicredit, Banca Intesa, Mediobanca, BRE-UBI, EIB) and to the classification to short term of the portions of loans maturing within the next 12 months;
- changes in amortised cost for the purpose of IAS accounting of loans.

**Other financial liabilities**

These amount to 8,773 thousand euro (27,004 thousand euro at 31 December 2016) and refer to the fair value of derivative contracts entered into by Iren as hedges against the interest rate risk on floating rate mortgages (reference should be made to the paragraph “Iren S.p.A. financial risk management” for comments).

**NOTE 17_EMPLOYEE BENEFITS**

Changes in this item in 2017 were as follows:

| | thousands of euro |
|---|---:|
| **Amount at 31/12/2016** | **22,666** |
| Current service costs | 250 |
| Financial expense | 224 |
| Disbursements for the year of releases and withdrawals | (3,417) |
| Actuarial (gains)/losses | (756) |
| Other changes | 630 |
| **Amount at 31/12/2017** | **19,597** |

Liabilities for employee benefits consist of:

**Post-employment benefits**

Changes in this item in 2017 were as follows:

| | thousands of euro |
|---|---:|
| **Amount at 31/12/2016** | **15,789** |
| Current service costs | |
| Financial expense | 133 |
| Disbursements for the year of releases and withdrawals | (584) |
| Actuarial (gains)/losses | (760) |
| Other changes | 26 |
| **Amount at 31/12/2017** | **14,604** |

**Other benefits**

The composition and changes over the year of defined benefit plans, other than the post-employment benefits described above, are shown hereunder.

<u>Additional months' salaries (long-service bonus)</u>

The long-service bonus has been provided for to cover the additional amount due to employees in force at the end of the year in respect of the amount accrued at that date for those reaching the minimum pensionable service.

Movements of the year are shown in the following table:

| | thousands of euro |
|---|---:|
| **Amount at 31/12/2016** | **904** |
| Current service costs | 33 |
| Financial expense | 8 |
| Disbursements for the year of releases and withdrawals | (8) |
| Actuarial (gains)/losses | (267) |
| Other changes | - |
| **Amount at 31/12/2017** | **670** |

Loyalty bonus

Employees reaching 25, 30 or 35 years of service are entitled to a loyalty bonus equal to one monthly salary amount as established by the national sector labour contract in force on reaching the required years of services.

Movements of the year are shown in the following table:

thousands of euro

| **Amount at 31/12/2016** | **651** |
|---|---|
| Current service costs | 217 |
| Financial expense | 5 |
| Disbursements for the year of releases and withdrawals | (32) |
| Actuarial (gains)/losses | (57) |
| Other changes | - |
| **Amount at 31/12/2017** | **784** |

Provisions for tariff discounts

The tariff discounts provision was established in respect of the liability that the Company would have to meet to ensure that employees on terminating their employment and former employees receive the electricity discount as stipulated under art. 42 of the National Collective Employment Contract (CCNL) of 9 July 1996.

On 29 September 2017 Iren S.p.A., also in the name and on behalf of the companies controlled by it, and the national and territorial trade unions defined, with a specific agreement, different regulations to replace the tariff discounts. As a consequence of this agreement the provisions previously set aside for tariff discounts were all released.

Specific provisions were also set aside for the two amounts identified in application of the Agreement respectively for employees and retired former employees. These latter provisions were reconstructed by means of an actuarial calculation.

Movements of the year are shown in the following table:

thousands of euro

| **Amount at 31/12/2016** | **4,577** |
|---|---|
| Current service costs | - |
| Financial expense | 72 |
| Disbursements for the year of releases and withdrawals | (2,639) |
| Actuarial (gains)/losses | 373 |
| Other changes | 604 |
| **Amount at 31/12/2017** | **2,987** |

Premungas Provisions

The Premungas fund is a supplementary pension plan which allows the employee to obtain the same amount of remuneration received upon retirement. The benefit is paid to employees hired with a Federgasacqua contract up to 28 February 1978.

Movements of the year are shown in the following table:

| | thousands of euro |
|---|---:|
| **Amount at 31/12/2016** | **745** |
| Current service costs | - |
| Financial expense | 6 |
| Disbursements for the year of releases and withdrawals | (154) |
| Actuarial (gains)/losses | (45) |
| Other changes | - |
| **Amount at 31/12/2017** | **552** |

**Actuarial assumptions**
The above-mentioned liabilities are measured by independent actuaries.
The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.

For the purpose of defining the present value of the obligations, the future service is estimated based on assumptions related to changes in both the total number of employees and employee remuneration. Future service represents the amount that would be liquidated to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.

The following factors were considered in deciding which discount rate to adopt in the measurements provided for in IAS 19:
- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the weighted average residual term of liabilities related to all benefits and all Group companies.
The other financial assumptions adopted in the calculations are the following:

| | |
|---|---|
| Annual discount rate | 1% - 1.50% |
| Annual inflation rate | 1.50% |
| Annual increase rate of post-employment benefits | 2.50% |

Pursuant to IAS 19, the following additional information is supplied:

- sensitivity analysis for each material actuarial assumption at year end, showing the effects that would have resulted from changes in the actuarial assumptions reasonably possible at that date, in absolute terms;
- contributions for the following year;
- indication of the average maturity of the obligation for defined benefit plans.

This information is shown in the following table.

| | | | Service cost 2018 | Duration of the plan |
|---|---|---|---|---|
| | +0.25% | -0.25% | | |
| Post-employment benefits | (309) | 319 | - | 8.61 |
| Additional monthly salaries | (17) | 19 | 25 | 11.31 |
| Loyalty bonus | (11) | 12 | 32 | 5.86 |
| Tariff discounts | (668) | (536) | - | 11.01 |
| Premungas | (9) | 9 | - | 6.50 |

**NOTE 18_PROVISIONS FOR RISKS AND CHARGES**

Details and variations are shown in the table below:

thousands of euro

| | **31/12/2016** | **Increases** | **Utilisa-tions** | **Releases** | **Reclassifica-tions and contribu-tions** | **31/12/2017** | **Current portion** |
|---|---|---|---|---|---|---|---|
| Provisions for CIG/CIGS redundancy funds | 3,075 | - | (299) | (2,776) | - | - | - |
| Provisions for early retirement expenses | 7,655 | 7,005 | (1,786) | - | - | 12,874 | 287 |
| Other provisions | 16,059 | 3,290 | (416) | (818) | - | 18,115 | - |
| **Total** | 26,789 | 10,295 | (2,501) | (3,594) | - | 30,989 | 287 |

In the framework of the multi-annual project for the demographic and professional rebalancing of the Group's personnel an increase in provisions was recognised for the expenses associated with retirement of some of the employed staff.

Among other provisions, an increase of 2,022 thousand euro was due to the agreement signed by Iren S.p.A. and the national and territorial trade unions, which defines different regulations to replace the tariff discounts. As a consequence of this agreement the provisions previously set aside for tariff discounts were all released to the income statement.

Further increases regard mainly legal disputes with suppliers, employment disputes and adjustment of provisions for Long-Term Incentive Plans.

**NOTE 19_DEFERRED TAX LIABILITIES**

Deferred tax liabilities of 337 thousand euro (426 thousand euro at 31 December 2016) are due to the temporary difference between the carrying amount and tax value of assets and liabilities recognised in the financial statements.
Deferred taxation is calculated with reference to the expected tax rates applicable at the time the differences will reverse.
Reference should be made to the income statement, note 36 "Income tax expense", for further details.

**NOTE 20_OTHER PAYABLES – OTHER NON-CURRENT LIABILITIES**

This item amounted to 11,097 thousand euro (8,499 thousand euro at 31 December 2016) and refers for 8,499 thousand euro (unchanged compared to 31 December 2016) to payables to the companies involved in the tax consolidation procedure as reimbursements of IRES for the IRAP claim for the years 2007 – 2011, for 2,558 thousand euro to the deferral on the portion of revenue accruing to subsequent years related to the transfer in usufruct to Ireti S.p.A. of certain software assets (not present at 31 December 2016) and for 40 thousand euro to payables for CIG and CIGS redundancy contributions to INPS (not present at 31 December 2016).

## CURRENT LIABILITIES

### NOTE 21_CURRENT FINANCIAL LIABILITIES

All financial liabilities recognised in this item are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.
Short-term financial liabilities can be analysed as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Bonds | - | 178,554 |
| Bank loans | 95,287 | 185,528 |
| Financial payables to subsidiaries | 202,681 | 220,179 |
| Financial payables to joint ventures | - | - |
| Financial payables to related-party shareholders | - | - |
| Financial payables to associates | 2,023 | - |
| Other financial liabilities | 2,858 | 80 |
| **Total** | **302,849** | **584,341** |

**Bonds**

During September 2017, as noted in the financial statements at 31.12.2016 (178,554 thousand euro), two non-convertible bond loans (so-called Puttable Bonds) were paid off early.

**Bank loans**

Short-term bank loans may be broken down as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Loans - current portion | 82,440 | 174,215 |
| Other current payables to banks | 219 | 178 |
| Accrued financial expenses and deferred financial income | 12,628 | 11,135 |
| **Total** | **95,287** | **185,528** |

**Financial payables to subsidiaries**

Short-term payables to subsidiaries can be broken down as follows:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| For invoices to be received | 46 | - |
| For cash-pooling | 202,635 | 220,056 |
| For conferments | - | 123 |
| **Total** | **202,681** | **220,179** |

**Financial payables to associates**
These amount to 2,023 thousand euro (155 thousand euro at 31 December 2016) and refer to payables related to centralised treasury management.

**Financial payables to others**
These amounted to 2,858 thousand euro (31 December 2016: 80 thousand euro) and refer mainly to closure in advance of a derivative instrument, ordered at the end of the year, but settled with the bank at the beginning of 2018.

## NOTE 22_TRADE PAYABLES

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Trade payables | 44,452 | 45,743 |
| Trade payables to subsidiaries | 10,789 | 9,499 |
| Payables to joint ventures | 0 | 85 |
| Trade payables to associates | 170 | 73 |
| Payables to related-party shareholders | 336 | 911 |
| Trade payables to other Group companies | 153 | 664 |
| **Total** | **55,900** | **56,975** |

## NOTE 23_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

All payables recognised in this item are due within one year. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Social security charges payable | 4,263 | 3,714 |
| Amounts payable to subsidiaries for tax consolidation scheme | 2,993 | 5,318 |
| Payables to subsidiaries for group VAT | 37,830 | 3,684 |
| IRPEF payables and tax payables | 4,715 | 6,051 |
| Payables to employees | 8,524 | 8,164 |
| Deferred income | 878 | 122 |
| Other payables | 3,431 | 3,883 |
| **Total** | **62,634** | **30,936** |

Payables to social security agencies consist mainly of withholdings and contributions to be paid to INPS and INPDAP. The company opted for the Group tax consolidation scheme pursuant to Art. 118 of the new Consolidated Income Tax Act. This requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A.
Deferred income of 878 thousand euro (122 thousand euro at 31 December 2016) refers to the portion not accruing to the year of grants received for the purpose of financing research, development and innovation projects at the base of the strategic choices and of the definition of the products and services offered by the Group and to the deferment on the multi-annual revenue related to transfer in usufruct of IT software to the company Ireti for the portion accruing to the year.

## NOTE 24_CURRENT TAX LIABILITIES

The item amounted to 7,608 thousand euro (13,273 thousand euro at 31 December 2016) and refers to IRES tax liabilities.

## NOTE 25_PROVISIONS FOR RISKS – CURRENT PORTION

The item amounted to 287 thousand euro (2,072 thousand euro at 31 December 2016). For more details see Note 17 Provisions for risks and charges.

## FINANCIAL POSITION

The net financial debt, calculated as the difference between short/medium/long-term financial liabilities and short/medium/long-term financial assets, can be broken down as indicated in the following table:

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| Non-current financial assets | (1,551,272) | (1,546,441) |
| Non-current financial debt | 2,644,420 | 2,544,136 |
| **Non-current net financial debt** | **1,093,147** | **997,695** |
| Short-term financial assets | (523,259) | (604,383) |
| Short-term financial debt | 302,849 | 584,341 |
| **Short-term net financial debt** | **(220,410)** | **(20,042)** |
| **Net financial debt** | **872,737** | **977,653** |

**Detail of Net Financial Position regarding related parties**

Non-current financial assets were 1,551,272 euro thousand and concern loans and centralised treasury and cash-pooling transactions with subsidiaries for 1,548,539 thousand euro, the positive fair value on derivatives for 1,812 thousand euro, non-current receivables from third parties for 41 thousand euro and loans to associates for 880 thousand euro.

Short-term financial assets relate for 13,289 thousand euro to invoices to be issued to subsidiaries.

Short-term financial liabilities for 202,682 thousand euro refer to financial payables to subsidiaries for centralised treasury and cash-pooling transactions and for conferments.

For additional information, see the annexed tables on transactions with related parties.

Below is the net financial position in the format proposed by the CESR recommendation of 10 July 2005, which does not include non-current financial assets.

thousands of euro

| | 31/12/2017 | 31/12/2016 |
|---|---|---|
| A. Cash in hand | (69,462) | (141,318) |
| B. Other cash and cash equivalents (details) | - | - |
| C. Securities held for trading | - | - |
| **D. Cash and cash equivalents (A) + (B) + (C)** | **(69,462)** | **(141,318)** |
| **E. Current financial receivables** | **(453,797)** | **(463,065)** |
| F. Current bank debt | 12,846 | 11,313 |
| G. Current portion of non-current debt | 82,440 | 352,769 |
| H. Other current financial debt | 207,562 | 220,259 |
| **I. Current financial debt (F) + (G) + (H)** | **302,849** | **584,341** |
| **J. Current net financial debt (I) + (E) + (D)** | **(220,410)** | **(20,042)** |
| K. Non-current bank debt | 857,762 | 1,139,734 |
| L. Bonds issued | 1,777,885 | 1,377,398 |
| M. Other non-current debt | 8,773 | 27,004 |
| **N. Non-current financial debt (K) + (L) + (M)** | **2,644,420** | **2,544,136** |
| **O. Net financial debt (J) + (N)** | **2,424,009** | **2,524,094** |

# VIII. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousands of euro.

## REVENUE

### NOTE 26_REVENUE FROM GOODS AND SERVICES

Revenue from services provided can be broken down as in the table below:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Services provided to subsidiaries and associates | 153,886 | 138,923 |
| Services to related-party shareholders and other companies | 722 | 199 |
| **Total** | **154,608** | **139,122** |

Revenue for services provided to related-party shareholders regards services in favour of FSU for 32 thousand euro (40 thousand euro at 31 December 2016), in favour of Aster for 8 thousand euro (not present at 31 December 2016) and revenue from third companies for 152 thousand euro (159 thousand euro at 31 December 2016). The item also includes contingent assets referred to revenue accruing to previous years of 530 thousand euro (not present in financial year 2016).

Revenue from services to subsidiaries and associates relate to administrative and technical services provided in accordance with a specific contract.

For additional information, see the annexed tables on transactions with related parties.

### NOTE 27_OTHER INCOME

Other revenue includes:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Revenue from previous years | 86 | 2,504 |
| operating grants | 390 | 380 |
| capital gains on sales | - | 11 |
| Sundry repayments | 5,655 | 4,525 |
| **Total** | **6,131** | **7,420** |

Prior year revenue mainly regards the settlement of prior items with reference to estimates made in previous years and adjustments to prior years' invoices.
Sundry repayments include fees which were paid to Iren Directors and employees reversible by group companies and the chargeback of costs for personnel seconded to subsidiaries.

# COSTS

## NOTE 28_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

This amounted to 10,636 thousand euro (9,002 thousand euro in 2016) and mainly refers to purchases of various materials and fuel. The increase in the value was mainly due to the purchase of fuel consequent to the transfer of the vehicle fleet from Iren Servizi e Innovazione which occurred during financial year 2016.

## NOTE 29_SERVICES AND USE OF THIRD-PARTY ASSETS

Costs for services are broken down in the following table:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Professional services | 12,929 | 12,519 |
| Fees and refunds of expenses to statutory auditors | 110 | 121 |
| Services from subsidiaries and Group companies | 7,679 | 6,283 |
| Insurance | 12,920 | 11,980 |
| Travel by personnel, training, canteen | 7,435 | 7,027 |
| Bank and postal expenses | 847 | 836 |
| Advertising and public relations | 5,628 | 5,209 |
| Electricity supplies | 1,164 | 1,246 |
| IT services | 27,255 | 18,977 |
| Other costs for services | 4,871 | 10,186 |
| **Total** | **80,838** | **74,384** |

Costs for the use of third-party assets amounted to 11,896 thousand euro (2016: 12,766 thousand euro) and resulted from the sales of business units which occurred during previous years by the companies Iren Emilia, Iren Energia and Iren Servizi which transferred to Iren S.p.A. management of the buildings sold to the property fund Ream.

## NOTE 30_OTHER OPERATING EXPENSE

Other operating expense is broken down in the following table:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Membership fees | 1,647 | 1,020 |
| Taxes and duties | 1,413 | 1,388 |
| Donations | 818 | 352 |
| Prior year expense | 136 | 2,759 |
| Other operating expenses | 1,370 | 1,004 |
| **Total** | **5,384** | **6,523** |

Donations regarded mainly contributions made to municipalities in Emilia.
Membership fees include contributions paid to CONSOB for 309 thousand euro, to Utilitalia for 687 thousand euro, to Borsa Italiana for 80 thousand euro and to Confservizi for 43 thousand euro.

Prior year expense mainly refers to differences on estimates.

**NOTE 31_CAPITALISED EXPENSES FOR INTERNAL WORK**

Capitalised expenses for internal work amounted to 9,746 thousand euro (9,563 thousand euro in 2016) and refer for 2,821 thousand euro (2,829 thousand euro in 2016) to personnel labour expenses and for 6,925 thousand euro (6,734 thousand euro in 2016) to expenses to acquire materials not in stock.

**NOTA 32_PERSONNEL EXPENSE**

Personnel expense is broken down as follows:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Wages and salaries | 45,303 | 44,622 |
| Social security charges payable | 14,411 | 14,373 |
| Defined benefit plans - Other defined benefit plans | 250 | 52 |
| Other personnel expenses | 11,954 | 11,337 |
| Directors' fees | 601 | 658 |
| **Total** | **72,519** | **71,042** |

Other personnel expenses include provisions for charges foreseen to replace the tariff discounts provided for up to the previous year.

The following table shows the average number of employees and their number at the beginning and end of the year:

| | 31/12/2017 | 31/12/2016 | Average of the year |
|---|---|---|---|
| Senior managers | 47 | 51 | 49 |
| Junior managers | 104 | 91 | 99 |
| White collar | 712 | 703 | 703 |
| Blue collar | 82 | 82 | 83 |
| **Total** | **945** | **927** | **934** |

**NOTE 33_AMORTISATION/DEPRECIATION**

Depreciation of property, plant and equipment amounted to 3,080 thousand euro (2,327 thousand euro in 2016) and refers to the depreciation of buildings, industrial equipment, plant and machinery and other assets. Amortisation of intangible assets amounted to 8,167 thousand euro (6,146 thousand euro in 2016).

**NOTE 34_PROVISIONS AND IMPAIRMENT LOSSES**

Provisions amounted to 534 thousand euro (956 thousand euro in 2016) and refer to provisions for risks per 240 thousand euro (918 thousand euro in 2016) and to provisions for impairment of receivables for 294 thousand euro (38 thousand euro in 2016). The item presents a positive balance as a result of the portion released of provisions for risks of 3,594 thousand euro and of provisions for impairment of receivables of 11 thousand euro.

## NOTE 35_FINANCIAL INCOME AND EXPENSES

**Financial income**
The breakdown of financial income is provided in the following table:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Income from investments | 210,469 | 153,673 |
| Bank interest income | 277 | 142 |
| Interest income from Group companies | 54,200 | 72,682 |
| Fair value gains on derivatives | 4,806 | 2,557 |
| Actuarial gain on measuring employee benefits | 58 | - |
| Interest income on loans | 15,423 | 414 |
| Sundry interest income | 72 | 12,705 |
| Other financial income | 8 | 3 |
| **Total** | **285,313** | **242,176** |

The increase in the item interest income on loans was due to the intercompany loan to OLT (in the previous year this loan was allocated to the company Iren Mercato).

**Financial expense**
The breakdown of financial expenses is provided in the following table:

thousands of euro

| | Financial year 2017 | Financial year 2016 |
|---|---|---|
| Bank interest expense on loans | 31,651 | 39,569 |
| Interest expense on bonds | 55,507 | 89,591 |
| Bank interest expense on credit facilities | 15 | 43 |
| Interest expense on interest rate hedging derivatives | 19,374 | 11,000 |
| Interest expense to subsidiaries | 47 | - |
| Employee benefits | 224 | 283 |
| Financial expense on derivatives | 723 | 3,850 |
| Actuarial loss on measuring employee benefits | - | 29 |
| Other financial expenses | 498 | 1,423 |
| **Total** | **108,039** | **145,788** |

The decrease in expenses on bond loans and the increase in interest expense on interest rate hedging derivatives can be attributed mainly to the change in one-off components for liability management operations.

Reference should be made to the note on “Employee benefits” in the Statement of financial position for details of financial expense on employee benefits.
Derivative fair value expenses consist of changes in fair value of certain hedging positions that do not meet the formal requirements for the application of hedge accounting.

**NOTE 37_INCOME TAX EXPENSE**

Income taxes amount to 8,649 thousand euro (18,910 thousand euro in 2016) and may be analysed as follows:

- current taxes of 8,377 thousand euro (2016: 22,529 thousand euro);
- positive net deferred tax assets and liabilities amounting to Euro 748 thousand (a negative Euro 3,619 thousand in 2016);
- taxes related to previous years of 476 thousand euro (not present in financial year 2016).

The 2008 Budget Law modified the interest expense regulations under Art. 96 of the Consolidated Income Tax Act, providing for their deductibility up to a maximum of 30% of the Gross Operating Profit (GOP) with the possibility of carrying forward any surpluses of non-deductible interest expense to the following years and, if Group taxation is adopted, with the right to offset said surpluses with any GOP surpluses accrued from other group companies.

With reference to Iren S.p.A., the new regulations set forth under Art. 96 of the Consolidated Income Tax Act involved, for 2017, forming surpluses of net non-deductible interest expense totalling 37,944 thousand euro which, however, the company was able to fully offset with the GOP surpluses accrued within the Group thanks to Iren's decision to use group taxation and pursuant to existing consolidated taxation agreements. The ensuing benefit in terms of lower IRES tax in the year was 9,107 thousand euro.

Pursuant to the consolidated taxation agreements, no remuneration is owed by the companies with surpluses of non-deductible interest expense to the Group companies that transferred their GOP surpluses.

The following table shows the reconciliation between theoretical and effective IRES tax rates. The reconciliation between ordinary and effective IRAP rate was not significant.

The table shows current taxes only, thus excluding deferred taxes. Therefore, changes to the theoretical tax refer to both temporary and final changes.

## IRES

| | | Financial year 2017 | Financial year 2016 |
|---|---|---|---|
| A | Profit (loss) before tax | 158,391 | 69,347 |
| B | Theoretical tax charge (rate 24%) | 38,013 | 19,070 |
| C | Temporary differences taxable in future years | - | - |
| SM | Temporary differences deductible in future years | 14,069 | 13,290 |
| | *Fees to independent auditors and directors* | *95* | *33* |
| | *Depreciation/amortisation, capital losses/gains* | *368* | *1,760* |
| | *Alloc. set aside and interest expense* | *10,383* | *5,846* |
| | *Other* | *3,223* | *5,651* |
| E | Transfer of previous year temporary differences | (9,366) | (22,612) |
| | *Dividends not received over the year* | - | *(10)* |
| | *Utilisation of provisions and interest expense* | (5,117) | (18,169) |
| | *Fees to independent auditors and directors* | (33) | (81) |
| | *Other* | (4,216) | (4,352) |
| F | Differences not recoverable in future years | (197,998) | (141,948) |
| | *Non-taxable share of dividends (95%) received at 31/12* | (199,946) | (145,980) |
| | *Others* | 1,948 | 4,032 |
| G | Taxable income (A+C+D+E+F) | (34,904) | (81,923) |
| H | Current taxes for the year | (8,377) | (22,529) |
| WC | Rate | -5% | -32% |

**NOTE 37_OTHER COMPREHENSIVE INCOME**

This item relates to:

- positive change in interest rate hedges for 13,679 thousand euro (a positive 7,431 thousand euro at 31 December 2016);
- actuarial losses related to post-employment benefit plans for employees, in the amount of 705 thousand euro (a negative 1,593 thousand euro at 31 December 2016);
- the negative aggregate tax effect of 3,426 thousand euro (31 December 2016: 1,686 thousand euro).

# IX. GUARANTEES AND CONTINGENT LIABILITIES

Personal guarantees given amounted to 357,955 thousand euro (31 December 2016: 346,436 thousand euro) to be divided as follows:

- 41,893 thousand euro of bank and insurance guarantees given to various Entities. Among these, it is worth noting guarantees given in favour of:

  · Municipality of Turin, for 27,476 thousand euro, as definitive guarantee in the AMIAT/TRM tender procedure;
  · REAM Sgr SpA, for 4,290 thousand euro, to guarantee lease payments of properties transferred to the real estate fund Fondo Core MultiUtilities;
  · INPS for 3,723 thousand euro as guarantees envisaged for planned retirement procedures;
  · FCT Holding, for 2,000 thousand euro, as definitive guarantee in the Amiat/TRM tender procedure;
  · the Tax Authority for 1,135 thousand euro guaranteeing annual VAT rebates;
  · ATO-R, for 1,000 thousand euro, as definitive guarantee in the Amiat/TRM tender procedure

- 273,434 thousand euro of guarantees given on behalf of subsidiaries, primarily to guarantee credit facilities for the operations of the same (mainly commercial contracts / Parent Company Guarantee on behalf of Iren Mercato SpA).

- 42,628 thousand euro of guarantees given on behalf of associates, related primarily to the associate Sinergie Italiane.

The most significant amounts, regarding the guarantees given on behalf of associates, refer to the associate Sinergie Italiane (in particular guarantees for credit facilities and letters of patronage for a total of 26,666 thousand euro, unchanged compared to 31 December 2016).
The liquidators concluded the main procurement contracts and since 1 October 2012 the Company's operating activity therefore includes only the long-term purchase of gas from the Russian Gazprom supplier and the sale of gas to the shareholders or their subsidiaries, included Iren Mercato.

We can also note the sureties issued in favour of Banca Intesa for 2,668 thousand euro to guarantee the mortgage loan of the associate Mestni Plinovodi.

# X. ANNEXES TO THE SEPARATE FINANCIAL STATEMENTS

LIST OF INVESTMENTS

INDEPENDENT AUDITORS' FEES

STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

DEFERRED TAX ASSETS AND LIABILITIES

TRANSACTIONS WITH RELATED PARTIES FOR 2016

RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS

## LIST OF INVESTMENTS

| Company | Registered office | Currency | Share capital | % stake |
|---|---|---|---|---|
| **SUBSIDIARIES** | | | | |
| Iren Ambiente S.p.A. | Piacenza | Euro | 63,622,002 | 100.00 |
| Ireti S.p.A. | Reggio Emilia | Euro | 196,832,103 | 100.00 |
| Iren Energia S.p.A. | Turin | Euro | 918,767,148 | 100.00 |
| Iren Mercato S.p.A. | Genoa | Euro | 61,356,220 | 100.00 |
| **ASSOCIATES** | | | | |
| Plurigas (**) | Milan | Euro | 800,000 | 30.00 |

(**) company in liquidation classified among assets held for sale

## INDEPENDENT AUDITORS' FEES

Under the terms of Art. 149-*duodecies* of the Regulations implementing Italian Legislative Decree 58/1998, the fees
for the year due to PricewaterhouseCoopers S.p.A. can be summarised as follows:

thousands of euro

| Service | Service provider | To | Fees |
|---|---|---|---|
| Audit | Parent Company auditor | Parent Company | 105 |
| Attestation services | Parent Company auditor | Parent Company | 34 |
| Tax consulting services | Parent Company auditor | Parent Company | - |
| Other services | i) Parent Company auditor | Parent Company | 143 |
| | ii) Parent Company auditor network | Parent Company | 55 |
| Audit | i) Parent Company auditor | i) Subsidiaries | |
| | ii) Parent Company auditor network | ii) Subsidiaries | |
| Attestation services | i) Parent Company auditor | i) Subsidiaries | |
| | ii) Parent Company auditor network | ii) Subsidiaries | |
| Tax consulting services | i) Parent Company auditor | i) Subsidiaries | |
| | ii) Parent Company auditor network | ii) Subsidiaries | |
| Other services | i) Parent Company auditor | i) Subsidiaries | |
| | ii) Parent Company auditor network | ii) Subsidiaries | |
| **Total Independent Auditors' fees** | | | **337** |

## STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY, WITH ADDITIONAL INFORMATION

Amounts in euro

| Nature/Description | 31/12/2017 | 31/12/2016 | 31/12/2015 |
|---|---|---|---|
| SHARE CAPITAL | 1,276,225,677 | 1,276,225,677 | 1,276,225,677 |
| EQUITY-RELATED RESERVE | | | |
| Share premium reserve (1) | 105,102,206 | 105,102,206 | 105,102,206 |
| Negative goodwill | 56,792,947 | 56,792,947 | 56,792,947 |
| INCOME-RELATED RESERVE | | | |
| Legal reserve | 49,997,599 | 45,584,761 | 39,359,722 |
| Other reserves: | | | |
| Extraordinary reserve | 53,766,557 | 49,686,741 | 1,603,409 |
| Contribution reserve | - | - | - |
| Fair value reserve | - | - | - |
| Other reserves taxable on distribution | 1,402,976 | 1,402,976 | 1,402,976 |
| Hedging reserve | (4,262,125) | (14,658,238) | (20,063,802) |
| Actuarial reserve, IAS 19 | (2,896,390) | (3,458,348) | (2,204,942) |
| Retained earnings (losses) | - | - | - |
| **TOTAL** | **1,536,129,447** | **1,516,678,722** | **1,458,218,193** |
| Unavailable portion | 1,431,325,482 | 1,426,912,644 | 1,420,687,605 |
| Remaining available portion | 104,803,965 | 89,766,078 | 37,530,588 |

(1) Distributable to shareholders after the legal reserve has reached one fifth of the share capital

KEY:
A: for capital increase
B: to cover losses
C: for distribution to shareholders

Amounts in euro

| Possible use | Available portion | Summary of uses over the last three years | |
|---|---|---|---|
| | | Coverage of losses | Other reasons |
| B | 1,276,225,677 | | |
| A, B | 105,102,206 | | |
| A, B, C | 56,792,947 | | |
| B | 39,359,722 | | |
| A, B, C | 1,603,409 | | |
| A, B, C | - | | |
| A, B | - | | |
| A, B, C | 1,402,976 | | |
| | (20,063,802) | | |
| | (2,204,942) | | |
| A, B, C | - | | |
| | **1,458,218,193** | | |
| | 1,420,687,605 | | |
| | 37,530,588 | | |

## DEFERRED TAX ASSETS AND LIABILITIES

| | 2017 | | | |
|---|---|---|---|---|
| | differences | | | |
| | initial | formation | payment | remainder |
| **Deferred tax assets** | | | | |
| Directors' fees | - | - | - | - |
| Independent Auditors' fees | 33 | 95 | 33 | 95 |
| Provisions for risks without deferred tax assets | - | - | - | - |
| Provisions for IRES IRAP risks | 5,251 | 9,649 | 4,568 | 10,331 |
| Provisions for IRES risks | 6,026 | - | - | 6,026 |
| Provisions for personnel | 1,465 | 279 | 358 | 1,386 |
| Provisions for personnel | 1,794 | - | 107 | 1,688 |
| Surplus amortisation & depreciation | 2,790 | - | 941 | 1,849 |
| MBO energy discounts and interest | 11,479 | 3,679 | 4,982 | 10,175 |
| Derivatives | 19,287 | - | 13,679 | 5,608 |
| Provisions for post-employment benefits | 3,455 | - | 763 | 2,692 |
| Multi-annual costs | 114 | - | 57 | 57 |
| **Total taxable base/deferred tax assets** | **51,696** | **13,701** | **25,489** | **39,907** |
| **Deferred tax liabilities** | | | | |
| Surplus IRES amortisation & depreciation | 506 | - | 368 | 138 |
| Surplus IRAP amortisation & depreciation | - | - | - | - |
| Provisions for impairment of receivables | 44 | - | - | 44 |
| Dividends not received | - | | - | - |
| Capital gains on disposal of IRES assets | - | - | - | - |
| Adjustment to post-employment benefits | 464 | - | - | 464 |
| Previous land/buildings depreciation | 760 | - | - | 760 |
| Provisions for risks | - | - | - | - |
| **Total taxable base/deferred tax liabilities** | **1,775** | - | **368** | **1,406** |
| **TAX LOSSES** | - | - | - | - |
| **Net deferred tax assets (liabilities)** | **49,921** | **13,701** | **25,121** | **38,501** |

thousands of euro

| 2017 | | | | |
|---|---|---|---|---|
| | | taxes | | |
| taxes to IS | taxes to equity | IRES (corporate income tax) | IRAP (regional business tax) | total |
| - | - | - | - | - |
| 15 | - | 23 | - | 23 |
| - | - | | - | - |
| 1,219 | - | 2,479 | - | 2,479 |
| - | - | 1,446 | - | 1,446 |
| 30 | (49) | 333 | - | 333 |
| - | - | - | - | - |
| (226) | - | 444 | - | 444 |
| (365) | 89 | 2,442 | - | 2,442 |
| - | (3,283) | 1,346 | - | 1,346 |
| - | (183) | 646 | - | 646 |
| (14) | - | 14 | - | 14 |
| 659 | (3,426) | 9,173 | - | 9,173 |
| (88) | - | 33 | - | 33 |
| - | - | | - | |
| - | - | 11 | - | 11 |
| - | - | - | - | - |
| - | - | - | - | - |
| - | - | 111 | - | 111 |
| - | - | 182 | - | 182 |
| - | - | - | - | - |
| | - | | - | |
| (88) | - | 337 | - | 337 |
| - | - | - | - | - |
| - | - | - | - | - |
| **747** | **(3,426)** | **8,836** | - | **8,836** |

## DEFERRED TAX ASSETS AND LIABILITIES

| | 2016 | | | |
|---|---|---|---|---|
| | differences | | | |
| | initial | formation | payment | remainder |
| **Deferred tax assets** | | | | |
| Directors' fees | 67 | - | 67 | - |
| Independent Auditors' fees | 14 | 33 | 14 | 33 |
| Provisions for risks without deferred tax assets | 12,026 | - | 3,108 | 8,919 |
| Provisions for IRES IRAP risks | 3,313 | 3,658 | 1,721 | 5,251 |
| Provisions for IRES risks | 5,488 | 538 | - | 6,026 |
| Provisions for personnel | 2,314 | - | 2,314 | - |
| Provisions for personnel | 2,694 | 683 | 117 | 3,260 |
| Surplus amortisation & depreciation | 1,030 | 1,760 | - | 2,790 |
| MBO energy discounts and interest | 25,226 | 6,731 | 20,478 | 11,479 |
| Derivatives | 26,718 | - | 7,431 | 19,287 |
| Provisions for post-employment benefits | 3,064 | 598 | 207 | 3,455 |
| Multi-annual costs | 171 | - | 57 | 114 |
| **Total taxable base/deferred tax assets** | **82,125** | **14,001** | **35,513** | **60,614** |
| **Deferred tax liabilities** | | | | |
| Surplus IRES amortisation & depreciation | 506 | - | - | 506 |
| Surplus IRAP amortisation & depreciation | 467 | - | - | 467 |
| Provisions for impairment of receivables | 44 | - | - | 44 |
| Dividends not received | - | 1 | - | - |
| Capital gains on disposal of IRES assets | 2,987 | - | 2,987 | - |
| Adjustment to post-employment benefits | 464 | - | - | 464 |
| Previous land/buildings depreciation | 760 | - | - | 760 |
| Provisions for risks | 37 | - | 37 | - |
| **Total taxable base/deferred tax liabilities** | **5,265** | 1 | **3,024** | **2,242** |
| **TAX LOSSES** | - | - | - | - |
| **Net deferred tax assets (liabilities)** | **76,860** | **14,000** | **32,489** | **58,372** |

thousands of euro

| 2016 | | | | |
|---|---|---|---|---|
| taxes | | | | |
| taxes to IS | taxes to equity | IRES (corporate income tax) | IRAP (regional business tax) | total |
| | | | | |
| (18) | - | - | - | - |
| 4 | - | 8 | - | 8 |
| - | - | | - | - |
| (104) | - | 1,260 | - | 1,260 |
| (208) | - | 1,446 | - | 1,446 |
| - | - | - | - | - |
| (111) | 123 | 462 | - | 462 |
| 412.0 | - | 670 | - | 670.0 |
| (4.439) | 216 | 2,608 | - | 2,608 |
| | (2.025) | 4,629 | - | 4,629 |
| 7.0 | - | 829 | - | 829 |
| (20) | - | 27 | - | 27 |
| (4.477) | (1.686) | 11,939 | - | 11,939 |
| | | | | |
| - | - | 121 | - | 121 |
| - | - | | - | |
| - | - | 11 | - | 11 |
| - | - | - | - | - |
| (822) | - | - | - | - |
| - | - | 111 | - | 111 |
| (27) | - | 182 | - | 182 |
| (10) | - | - | - | - |
| | - | | - | |
| (858) | - | 426 | - | 426 |
| | | | | |
| - | - | - | - | - |
| - | - | - | - | - |
| | | | | |
| **(3,619)** | **(1,686)** | **11,513** | **-** | **11,513** |

## RELATED-PARTY TRANSACTIONS

thousands of euro

| | Trade Receivables | Financial Receivables, Cash and cash equivalents | Other receivables | Trade Payables | Financial Payables |
|---|---|---|---|---|---|
| Municipality of Genoa | - | - | - | 19 | - |
| Municipality of Parma | - | - | - | 50 | - |
| Municipality of Piacenza | - | - | - | - | - |
| Municipality of Reggio | 6 | - | - | 47 | - |
| Municipality of Turin | 268 | - | - | 220 | - |
| Finanziaria Sviluppo Utilities | 14 | - | 41 | - | - |
| AMIAT | 6,549 | 64,993 | 1,832 | 2,324 | - |
| Amiat Veicolo | 7 | 21,946 | - | - | - |
| ASM Vercelli | 442 | - | - | 1,979 | 30,889 |
| Atena | 115 | 8,885 | - | - | - |
| Bonifica Autocisterne | 23 | - | - | - | 325 |
| Consorzio GPO | 0 | - | - | - | 3,608 |
| Enia Solaris | 3 | 19,257 | 110 | - | - |
| Greensource | 1 | - | 45 | 36 | - |
| Immobiliare delle Fabbriche | - | - | - | - | 9,570 |
| Iren Acqua | 1,298 | - | 7,191 | 139 | 57,288 |
| Iren Acqua Tigullio | 1,230 | 6,139 | 41 | - | 8,650 |
| Iren Ambiente | 8,819 | 217,511 | - | 529 | - |
| Iren Energia | 11,464 | 555,568 | - | 851 | 12 |
| Iren Laboratori | 283 | 26 | 83 | 64 | 2,314 |
| Iren Mercato | 12,351 | - | 1,728 | 1,340 | 90,060 |
| Iren Rinnovabili | 793 | 5,256 | - | 7 | - |
| I Reti | 30,739 | 644,384 | 4,157 | 3,090 | - |
| REI - Ricupero Ecologici Industriali | 66 | 14,675 | - | - | - |
| Salerno Energia Vendite | - | 4,569 | - | - | - |
| Studio Alfa | - | - | - | 70 | - |
| TRM Holding | 29 | - | - | - | - |
| TRM Veicolo | 456 | - | - | - | - |
| TRM | 558 | - | - | 360 | - |
| Varsi Fotovoltaico | - | - | 23 | - | - |
| Acque Potabili | 85 | - | - | - | - |
| OLT Offshore LNG Toscana | 14 | 439,000 | - | - | - |
| A2A Alfa | 3 | - | - | - | - |
| Acos | 8 | - | - | - | - |
| Acquaenna | 42 | - | - | - | - |
| Amter | 162 | - | - | - | - |
| ASA | 49 | - | - | - | - |
| Astea | 16 | - | - | - | - |
| Asti Energia e Calore | - | 929 | - | - | - |
| CSP Innovazione nelle ICT | - | - | - | 166 | - |
| Domus Acqua | 56 | - | - | - | - |
| Iniziative Ambientali | 5 | - | - | - | - |
| Mondo Acqua | 2 | - | - | - | - |
| Piana Ambiente | 62 | - | - | - | - |
| ReCos | 3 | - | - | - | - |
| So. Sel. | 7 | - | - | 4 | - |
| Valle Dora Energia Srl | 24 | - | - | - | 2,023 |
| AMT - Azienda Mobilità e Trasporti | - | - | - | 3 | - |
| ASTER - Azienda servizi territoriali (Territorial Services Agency) Genoa | 8 | - | - | 7 | - |
| Azienda Multiservizi d'igiene urbana (Urban Hygiene Multi-Services Agency) Genoa | - | - | - | - | - |
| Farmacie Comunali Riunite | - | - | - | 30 | - |
| Genova Parcheggi | - | - | 26 | 28 | - |
| GTT - Gruppo Torinese Trasporti | - | - | - | 50 | - |
| Parma Gestione income | - | - | - | - | - |
| Porto Antico di Genova | - | - | - | - | - |
| Reggio Children | - | - | - | - | - |
| San Bartolomeo | - | - | - | - | - |
| SMAT - Società Metropolitana Acque Torino | - | - | - | 35 | - |
| **Total** | **76,059** | **2,003,139** | **15,277** | **11,448** | **204,740** |

## RELATED-PARTY TRANSACTIONS

thousands of euro

| | Other payables | Revenue and income | Costs and other charges | Financial income | Financial expense |
|---|---|---|---|---|---|
| Municipality of Genoa | - | - | 240 | - | - |
| Municipality of Parma | - | - | 113 | - | - |
| Municipality of Piacenza | - | - | 89 | - | - |
| Municipality of Reggio | - | 6 | 208 | - | - |
| Municipality of Turin | - | 261 | 327 | - | - |
| Finanziaria Sviluppo Utilities | - | 32 | - | - | - |
| AMIAT | 6,770 | 16,104 | 2,425 | 2,342 | - |
| Amiat Veicolo | - | 419 | - | 670 | - |
| ASM Vercelli | - | 1,534 | 1,979 | - | 35 |
| Atena | - | 625 | - | - | - |
| Bonifica Autocisterne | 17 | 52 | - | - | - |
| Consorzio GPO | - | - | - | - | - |
| Enia Solaris | 81 | 1 | - | 597 | - |
| Greensource | 140 | 1 | 13 | - | - |
| Immobiliare delle Fabbriche | 58 | - | - | - | - |
| Iren Acqua | 1,563 | 1,545 | 277 | - | - |
| Iren Acqua Tigullio | 200 | 319 | - | 62 | - |
| Iren Ambiente | 5,287 | 18,874 | 846 | 16,054 | - |
| Iren Energia | 13,382 | 32,946 | 1,740 | 76,662 | 12 |
| Iren Laboratori | - | 284 | 67 | 53 | - |
| Iren Mercato | 12,182 | 21,139 | 2,593 | 53,829 | - |
| Iren Rinnovabili | 560 | 258 | - | 166 | - |
| I Reti | 8,670 | 61,863 | 1,479 | 113,635 | - |
| REI - Ricupero Ecologici Industriali | - | 171 | - | 559 | - |
| Salerno Energia Vendite | - | - | - | - | - |
| Studio Alfa | - | 3 | 85 | - | - |
| TRM Holding | 3 | 51 | - | - | - |
| TRM Veicolo | 33 | 248 | - | - | - |
| TRM | - | 605 | 366 | - | - |
| Varsi Fotovoltaico | 375 | - | - | - | - |
| Acque Potabili | - | 8 | - | - | - |
| OLT Offshore LNG Toscana | - | 16 | - | 15,422 | - |
| A2A Alfa | - | 3 | - | - | - |
| Acos | - | 8 | - | - | - |
| Acquaenna | - | 20 | - | - | - |
| Amter | - | 105 | - | - | - |
| ASA | - | 7 | - | - | - |
| Astea | - | 16 | - | - | - |
| Asti Energia e Calore | - | - | - | 30 | - |
| CSP Innovazione nelle ICT | - | - | 166 | - | - |
| Domus Acqua | - | 5 | - | - | - |
| Iniziative Ambientali | - | 4 | - | - | - |
| Mondo Acqua | - | 2 | - | - | - |
| Piana Ambiente | - | - | - | - | - |
| ReCos | - | 3 | - | - | - |
| So. Sel. | - | 7 | 15 | - | - |
| Valle Dora Energia Srl | - | 72 | - | 2 | - |
| AMT - Azienda Mobilità e Trasporti | - | - | 25 | - | - |
| ASTER - Azienda servizi territoriali (Territorial Services Agency) Genoa | - | 8 | 6 | - | - |
| Azienda Multiservizi d'igiene urbana (Urban Hygiene Multi-Services Agency) Genoa | - | - | 1 | - | - |
| Farmacie Comunali Riunite | - | - | 30 | - | - |
| Genova Parcheggi | - | - | 27 | - | - |
| GTT - Gruppo Torinese Trasporti | - | - | 25 | - | - |
| Parma Gestione income | - | - | 3 | - | - |
| Porto Antico di Genova | - | - | 3 | - | - |
| Reggio Children | - | - | 1 | - | - |
| San Bartolomeo | - | - | 5 | - | - |
| SMAT - Società Metropolitana Acque Torino | - | - | 62 | - | - |
| **Total** | **49,321** | **157,623** | **13,218** | **280,084** | **47** |

## RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB Communication no. 6064293 dated 26 July 2006)

thousands of euro

| IAS/IFRS STATEMENT OF FINANCIAL POSITION | | RECLASSIFIED STATEMENT OF FINANCIAL POSITION | |
|---|---|---|---|
| Property, plant and equipment | 12,489 | | |
| Intangible assets | 41,664 | | |
| Investments in subsidiaries, associates and joint ventures | 2,544,322 | | |
| Other equity investments | 100 | | |
| **Total (A)** | **2,598,575** | **Non-Current Assets (A)** | **2,598,575** |
| Other non-current assets | 10,548 | | |
| Other non-current liabilities | (11,097) | | |
| **Total (B)** | **(549)** | **Other non-current assets (liabilities) (B)** | **(549)** |
| Inventories | 14 | | |
| Trade receivables | 75,409 | | |
| Current tax assets | - | | |
| Other receivables and other current assets | 70,028 | | |
| Trade payables | (55,900) | | |
| Other payables and other current liabilities | (62,634) | | |
| Current tax liabilities | (7,608) | | |
| **Total (C)** | **19,309** | **Net working capital (C)** | **19,309** |
| Deferred tax assets | 9,173 | | |
| Deferred tax liabilities | (337) | | |
| **Total (D)** | **8,836** | **Deferred tax assets (liabilities) (D)** | **8,836** |
| Employee benefits | (19,597) | | |
| Provisions for risks and charges | (30,702) | | |
| Provisions for risks and charges - current portion | (287) | | |
| **Total (E)** | **(50,586)** | **Provisions for risks and employee benefits (E)** | **(50,586)** |
| | | **Net invested capital (G=A+B+C+D+E)** | **2,575,585** |
| **Equity (F)** | **1,703,087** | **Equity (F)** | **1,703,087** |
| Non-current financial assets | (1,551,272) | | |
| Non-current financial liabilities | 2,644,420 | | |
| **Total (G)** | **1,093,148** | **Medium/long-term financial indebtedness (G)** | **1,093,148** |
| Current financial assets | (453,797) | | |
| Cash and cash equivalents | (69,462) | | |
| Current financial liabilities | 302,849 | | |
| **Total (H)** | **(220,410)** | **Short-term financial debt (H)** | **(220,410)** |
| | | **Net financial debt (F)+(G)+(H)** | **872,738** |
| | | **Own funds and net financial indebtedness (F+I)** | **2,575,825** |

# STATEMENT REGARDING THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-*TER* OF CONSOB REGULATION No. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. The undersigned Massimiliano Bianco, Chief Executive Officer, and Massimo Levrino, Corporate Financial Reporting Manager and Administration, Finance and Control Manager of Iren S.p.A., hereby certify, also in view of the provisions of Art. 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree No. 58 of 24 February 1998:

   - the adequacy in respect of the company's characteristics and
   - the actual application during 2017 of administrative and accounting procedures in preparing the separate financial statements.

2. It is also certified that:

   2.1 the separate financial statements:

   a) are prepared in compliance with the applicable international accounting standards endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council, of 19 July 2002;

   b) correspond to the results of the books and account records;

   c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

   2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the issuer's situation and of all companies included in the consolidation, together with a description of the major risks and uncertainties to which they are exposed.

7 March 2018

The Chief Executive Officer

Massimiliano Bianco

Administration, Finance and Control Manager
and Financial Reporting Manager appointed under
Law 262/05

Massimo Levrino

# *Independent auditor's report*

*in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014*

To the Shareholders of
Iren SpA

## *Report on the Audit of the Financial Statements*

### *Opinion*

We have audited the financial statements of Iren SpA (the "Company"), which comprise the statement of financial position as of 31 December 2017, the income statement, the statement of other comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2017, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

### *Basis for Opinion*

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of Iren SpA pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### *Key Audit Matters*

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

*PricewaterhouseCoopers SpA*

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25123 Via Borgo Pietro Wuhrer 23 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

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| ***Key Audit Matters*** | ***Audit procedures in response to key audit matters*** |
|---|---|
| **Assessment of recoverability of equity investments**<br><br>*Notes to the financial statements at 31 December 2017: Note 3 "Investments in subsidiaries, associated companies and joint ventures"*<br><br>The financial statements of Iren SpA at 31 December 2017 show equity investments amounting to Euro 2,544.3 million, the breakdown of which is as follows:<br><br>1. *Iren Energia SpA*: Euro 1,139.1 million;<br>2. *IRETI SpA*: Euro 1,018.7 million;<br>3. *Iren Ambiente SpA*: Euro 244.4 million;<br>4. *Iren Mercato SpA*: Euro 142.1 million.<br><br>The Company assesses the recoverability of the value of the equity investments shown in the financial statements annually or whenever there are indications leading to presume the existence of an impairment.<br><br>Considering the current structure of the Iren Group, this assessment coincides with the assessment of recoverability of goodwill, performed when drawing up the consolidated financial statements, as the above subsidiaries correspond to the Cash Generating Units (CGU) identified, in accordance with the definition set forth in the international accounting standard IAS 36 - *Impairment of assets*.<br><br>The above assessment of recoverability of goodwill is based upon the higher between fair value less costs to sell and value in use of each CGU to which goodwill has been allocated. The value in use was determined by discounting future cash flows expected from each CGU in the 2018-2022 period, as well as their respective terminal values. These flows were extracted from economic and financial projections based on the | We carried out a preliminary understanding and evaluating of the impairment test procedures prepared by management and approved by the Board of Directors of Iren SpA on 13 February 2018, to assess compliance with the requisites established by the international accounting standard IAS 36.<br><br>Our procedures then focused on a critical examination of the main assumptions behind the drawing up of the 2018-2022 Business Plan and of the discounting rates used; furthermore, specific sensitivity analyses were performed, aimed at evaluating the impact that changes in the main parameters adopted would have on the results of the tests.<br><br>These activities were performed involving also experts belonging to the PwC network.<br><br>Furthermore, we also verified the overall mathematical correctness of the plan and of the model of impairment test prepared by management, reviewing, for each company / business unit, the method followed to obtain the discounting rate and the constant growth rate of cash flows beyond the plan's time frame.<br><br>Eventually, we verified the completeness and accuracy of the information provided in the Notes. |

| |
|---|
| Business Plan approved by the Board of Directors on 13 November 2017<br><br>Investments are considered as a key audit matter due to their size and to the inherent estimate elements influencing the valuations made by the directors on their recoverability. |

## *Responsibilities of Management and Those Charged with Governance for the Financial Statements*

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

## *Auditor's Responsibilities for the Audit of the Financial Statements*

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit.

Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

### *Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014*

On 14 May 2012, the Shareholders of Iren SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation (EU) No. 537/2014.

## *Report on Compliance with other Laws and Regulations*

### *Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98*

Management of Iren SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Company as of 31 December 2017, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Iren SpA as of 31 December 2017 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Iren SpA as of 31 December 2017 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

***Declaration pursuant to Article 4 of the Consob Regulation implementing Legislative Decree 30 December 2016, No. 254***

The directors of Iren SpA are responsible for the preparation of the consolidated non-financial statement pursuant to Legislative Decree 30 December 2016, No. 254. We verified the approval of the consolidated non-financial statement by the directors.

Pursuant to Article 3, paragraph 10 of Legislative Decree 30 December 2016, No. 254, this consolidated non-financial statement is the subject of a separate attestation of conformity by another auditor.

Turin, 29 March 2018

PricewaterhouseCoopers SpA

*Signed by*

Piero De Lorenzi
(Partner)

*This report has been translated into English from the Italian original solely for the convenience of international readers*

# REPORT OF THE BOARD OF STATUTORY AUDITORS OF IREN S.P.A. TO THE SHAREHOLDERS' MEETING

(pursuant to Art. 153 of Italian Legislative Decree 58/1998 and Art. 2429 of the Italian Civil Code)

Dear Shareholders,
the Board of Statutory Auditors, pursuant to article 153 of Legislative Decree 58/1998 (hereafter, CFA, the Consolidated Finance Act), and to article 2429, paragraph 2 of the Italian Civil Code, is called upon to inform the Shareholders' Meeting about the supervisory activities it has performed, and on any omissions or censurable events discovered. The Board of Statutory Auditors may also make observations and proposals with regard to the financial statements, their approval and issues falling under its responsibilities.
During the course of the year, the regulatory tasks assigned to the Board of Statutory Auditors under the current legal and regulatory provisions were carried out. The Board of Statutory Auditors supervised observance of the law and the Articles of Association, as well as ensuring respect for the principles of proper administration. It also supervised the adequacy of the organisational, administrative and accounting structures of the company, as pertained to its responsibilities. To this end, the Board of Statutory Auditors did not find any irregularities that require indication in this Report.

**1.** <u>Independence of members of the Board of Statutory Auditors</u>
The Board has verified the absence of any causes for removal from office for its members, pursuant to article 148, CFA, as well as the maintenance of independence requirements for the same: *(i)* under the terms of the said art. 148 CFA, paragraph 3, and *(ii)* under the terms of Application Criterion 8.C.1 of the Corporate Governance Code of Listed Companies.

**2.** <u>Particularly significant operations and events</u>
The Board of Statutory Auditors attests, as far as it is responsible, the compliance of the operations of greatest economic and financial significance carried out by the company with the law and the articles of association and that they are not manifestly imprudent or risky, in potential conflict of interests or such that they would compromise the integrity of corporate assets.
The aforementioned operations, as well as significant events in 2017 and after, in reference to IREN S.p.A. and the companies which are direct or indirect subsidiaries of the same ("IREN Group" or the "Group"), are outlined in the sections "Significant events of the year" and "Events after the reporting period and business outlook" in the Directors’ Report.

**3.** <u>Related-party or intra-group transactions</u>
Under the terms of article 2391-*bis* of the Italian Civil Code and CONSOB resolution no. 17221 of 12 March 2010, subsequently amended with CONSOB resolution no. 17389 of 23 June 2010, (the “CONSOB TRP Regulation”), the Board of Directors of IREN adopted on 30 November 2010 the “Internal Regulation for Transactions with Related Parties”, most recently amended on 13 March 2015. On 15 March 2016, the Board of Directors approved the specific operating procedure provided for in article 3-*bis* of the aforementioned Internal Regulation.
In the sections “Information on related-party transactions” in the Notes to the Separate Financial Statements of IREN S.p.A., and in the Notes to the Consolidated Financial Statements at 31 December 2017, the economic and financial transactions with related parties are illustrated. The details of these transactions are provided in Annex XII to the Consolidated Financial Statements.

The chairperson of the Board and/or one of the standing auditors attend regularly the meetings of the Committee for Transactions with Related Parties, monitoring the procedures concretely adopted for significant resolutions in the interest of the company and the Group.
In consideration of the model adopted by the Group with IREN SpA as the Holding provided with adequate centralised staff structures, and of the direction and coordination work carried out, the company provides services to the subsidiaries on the basis of specific contracts. Other non-recurring intra-group transactions are dictated by the need to rationalise the operations according to the management structure organised in Business Units.

**4.** Atypical and/or unusual operations

The Notes to the Separate Financial Statements of IREN S.p.A., and to the Consolidated Financial Statements, the information produced by the Board of Directors and that received from directors and company management did not indicate the existence of any atypical and/or unusual operations, including intra-group or with related parties. In addition, as of the date this Report was prepared, the Board of Statutory Auditors has not received any communications from the auditing bodies of subsidiaries, associates, or investees, or from the Independent Auditors, containing observations on this point that would require reporting.

**5.** Meetings of the Board of Statutory Auditors, the Board of Directors and the Board's Sub-Committees

During the year ended 31 December 2017, the Board of Statutory Auditors met 16 times, with the attendance as a rule of all of its members. Details on attendance can be found in the table presented in the specific section in the Report on Corporate Governance and Ownership Structures, prepared pursuant to article 123 bis of the CFA.
In addition, the Board of Statutory Auditors attended the meetings of the Board of Directors (20 meetings) and as a rule ensured the presence of at least one of its members at meetings of the Control, Risks and Sustainability Committee (12 meetings), the Committee for Transactions with Related Parties (21 meetings) and the Remuneration and Appointments Committee (15 meetings).

**6.** Remarks pursuant to Legislative Decree 39/2010 (Law on independent auditing of the accounts) and on the independence of the Independent Auditors

As regards independent auditing of the accounts, the Board of Statutory Auditors recalls that this task is assigned to the audit firm PricewaterhouseCoopers S.p.A. (the Independent Auditors, or PwC), which on 29 March 2018 issued the Reports, under the terms of art. 14 of Italian Legislative Decree no. 39 of 27 January 2010 and of art. 10 of EU Regulation no. 537/2014, in relation to the Separate Financial Statements of IREN SpA and the Consolidated Financial Statements of the Group at 31 December 2017, to which we refer you, noting at the same time that there are no objections.
The Board of Statutory Auditors supervised the efficacy of the independent account auditing process, periodically meeting with PwC staff to discuss the activities performed. The Independent Auditing firm has signed the Annual Confirmation of Independence under the terms of art. 6 paragraph 2) lett. a) of European Regulation 537/2014 and under the terms of paragraph 17 of ISA Italy 260.
Further appointments conferred on the Independent Auditors are governed by specific Guidelines approved by the Board of Directors compliant with the relevant legislation. The related amounts are presented in the Notes to the Separate Financial Statements and in the Notes to the Consolidated Financial Statements in the paragraph "Fees to independent auditors".

**7.** Remarks on the financial reporting process and internal audit system

During 2017, the Board of Statutory Auditors supervised the adequacy of the administrative and accounting system, as well as the reliability of the latter in properly representing operating events, by obtaining information from the managers of administrative departments and participating in the work of the Control, Risk and Sustainability Committee, the Committee for Transactions with Related Parties and

the Remuneration and Appointments Committee. In addition, the Board of Statutory Auditors supervised, also meeting with the Financial Reporting Manager, the organisation and company procedures established to prepare the Annual Financial Statements, Consolidated Financial Statements and Interim Report, as well as other communications of a financial and non-financial nature, in order to assess their adequacy. As a whole, the Board of Statutory Auditors considers that the administrative and accounting system is adequate and reliable in relation to the size and complexity of the Company and the Group.
We can note the significant project in progress for transition of the subsidiaries to the IAS/IFRS international accounting standards.
In the context of its responsibilities, the Board of Statutory Auditors has supervised the adequacy of the internal audit system, through: (i) obtaining information from the managers of various company departments; (ii) periodic meetings with the Manager of the Internal Audit department; (iii) constant exchange of information with the Independent Auditors.
In addition, the Board of Statutory Auditors was informed, through half-yearly reports sent to the Board of Directors, about the activities performed by the Oversight Committee established pursuant to Legislative Decree 231/2001, as amended.
Finally, the Board of Statutory Auditors noted what was attested – under the terms of art. 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 as subsequently amended - by the Chief Executive Officer and the Financial Reporting Manager pursuant to Italian Law 262/05 on the adequacy of the administrative and accounting procedures for preparing the Annual and Consolidated Financial Statements.
The Board of Statutory Auditors considers, on the basis of the results of these control activities, that the internal audit system can be considered adequate to the size and complexity of operations.

**8.** Remarks on the adequacy of the organisational structure

To the extent of its responsibilities, the Board of Statutory Auditors has supervised the adequacy of the Company's organisational structure, acquiring data and information from department managers, and considers this structure to be adequate as a whole to the Company's characteristics and the activities it performs.

**9.** Further activities of the Board of Statutory Auditors

We can report also that the Board of Statutory Auditors:
(i) did not receive complaints pursuant to article 2408 of the Italian Civil Code, or reports;
(ii) issued no opinions under the terms of the law during the year;
(iii) acknowledged the existence of orders issued to the subsidiaries by the Company, pursuant to article 114, paragraph 2, of the CFA, which appeared adequate. For the first-level subsidiaries the Board of Statutory Auditors
(iv) obtained information in relation to the organisational structure and internal auditing system through the central units of the parent company and communication with the respective auditing bodies;
(v) noted that the Remuneration Report was prepared pursuant to articles 123-ter of the CFA and 84-quater of the Issuer Regulations, and has no particular observations to make on the same;
(vi) as regards the Company's acceptance of the Corporate Governance Code, refers you to the Report on Corporate Governance and Ownership Structures;
(vii) confirms that during periodic meetings with representatives of the Independent Auditors, no aspects emerged that require mention in this report.

Under the terms of Italian Legislative Decree 254 of 30 December 2016, art. 3 paragraph 7, we confirm that, with reference to the “Declaration of non-financial nature”, the Board of Statutory Auditors supervised, to the extent of its responsibilities, observance of the provisions laid down in the aforementioned Decree. The Board of Directors has designated PwC, the entity appointed to audit the accounts, for the performance also of the tasks pursuant to art. 3 paragraph 10 of the Decree, and it issued an attestation on the compliance of the information provided in the Consolidated Declaration of Non-Financial Nature with respect to what is required by articles 3 and 4 of the Decree and with the reporting standard adopted.

During its supervisory activities, as described above, no censurable events, omissions or irregularities were discovered that require noting in this Report.
In addition, the Board of Statutory Auditors does not consider that elements exist which would require it to make proposals to the Shareholders' Meeting pursuant to article 153, paragraph 2 of the CFA.
The draft Annual Financial Statements, Consolidated Financial Statements at 31 December 2017 and the Directors' Report were approved at the Board of Directors meeting held on 7 March of this year. The Annual Financial Statements show net profits of Euro 166,957 thousand, while the Consolidated Financial Statements show net profits of Euro 264,760 thousand.
As it is not responsible for the independent auditing of the accounts, the Board of Statutory Auditors supervised the general structure of the Annual and Consolidated Financial Statements and their compliance with the regulations that govern the preparation and structure. The Board of Statutory Auditors also verified that they correspond to the events and information that it has been made aware of during execution of its responsibilities. The Board of Statutory Auditors has no particular observations to make on this subject.
In the section "Risks and uncertainties" in the Directors' Report, the Directors describe the main risks to which the Company is exposed: financial risks (liquidity, interest rate, exchange rate), as well as credit, energy, operational, reputational and strategic risks. Contingent liabilities are discussed in the section "Guarantees and contingent liabilities", found in the Notes to the Annual and Consolidated Financial Statements.
In view of all of the above, the Board of Statutory Auditors, acknowledging the attestations issued jointly by the Chief Executive Officer and the Financial Reporting Manager, considering the content of the reports prepared by PwC, does not find, in relation to its responsibilities, any reasons to object to approval of the draft Financial Statements at 31 December 2017 prepared by the Board of Directors. The Board of Statutory Auditors agrees with the proposal formulated by the Board of Directors as regards the allocation of the profit for the year.
We remind you that, with the approval of the Financial Statements for the year ended 31 December 2017, the mandate of the Board of Statutory Auditors expires. The Shareholders' Meeting is therefore called upon to appoint the new Auditing Body.

Reggio Emilia, 29 March 2018

prof. Michele RUTIGLIANO (Presidente)
prof.ssa Anna Maria FELLEGARA (Sindaco Effettivo)
dott. Emilio GATTO (Sindaco Effettivo)

# SUMMARY OF THE RESOLUTIONS PASSED BY THE SHAREHOLDERS' MEETING

The Ordinary Shareholders' Meeting:

- having viewed the Separate Financial Statements at 31 December 2017 and the Directors' Report;

- having viewed the Report of the Board of Statutory Auditors;

- having viewed the Report by the Independent Auditors PricewaterhouseCoopers S.p.A.;

- having acknowledged the proposed allocation of the profit for the year, of Euro 166,957,057.47, amended as follows:
  - Euro 8,347,852.87, 5% of the profit for the year, to the legal reserve;
  - as regards Euro 91,065,196.39 as a dividend to the Shareholders, corresponding to Euro 0.07 for each of the 1,300,931,377 ordinary shares with the right, including the 24,705,700 ordinary shares, regular dividend, subscribed by the shareholders of ACAM S.p.A. as a result of the share capital increase reserved for them, resolved by the Company's Board of Directors on 29 December 2017 in partial execution of the delegated power conferred on it under the terms of art. 2443 of the Italian Civil Code by the Shareholders' Meeting on 9 May 2016; the dividend will be placed in payment starting from 20 June 2018, with coupon detachment date of 18 June 2018 and record date of 19 June 2018;
  - in a specific retained earnings reserve, the remaining amount of Euro 67,544,008.21;

**resolves**

1) to approve the Separate Financial Statements of Iren S.p.A. at 31 December 2017 and the Director's Report prepared by the Board of Directors;

2) to approve the proposed allocation of the profit for the year, Euro 166,957,057.47, as follows:
   - Euro 8,347,852.87, 5% of the profit for the year, to the legal reserve;
   - as regards Euro 91,065,196.39 as a dividend to the Shareholders, corresponding to Euro 0.07 for each of the 1,300,931,377 ordinary shares with the right, including the 24,705,700 ordinary shares subscribed by the shareholders of ACAM S.p.A. as a result of the share capital increase reserved for them, resolved by the Company's Board of Directors on 29 December 2017 in partial execution of the delegated power conferred on it under the terms of art. 2443 of the Italian Civil Code by the Shareholders' Meeting on 9 May 2016; the dividend will be placed in payment starting from 20 June 2018, with coupon detachment date of 18 June 2018 and record date 19 June 2018;
   - in a specific retained earnings reserve, the remaining amount of Euro 67,544,008.21.

**Iren S.p.A.**
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