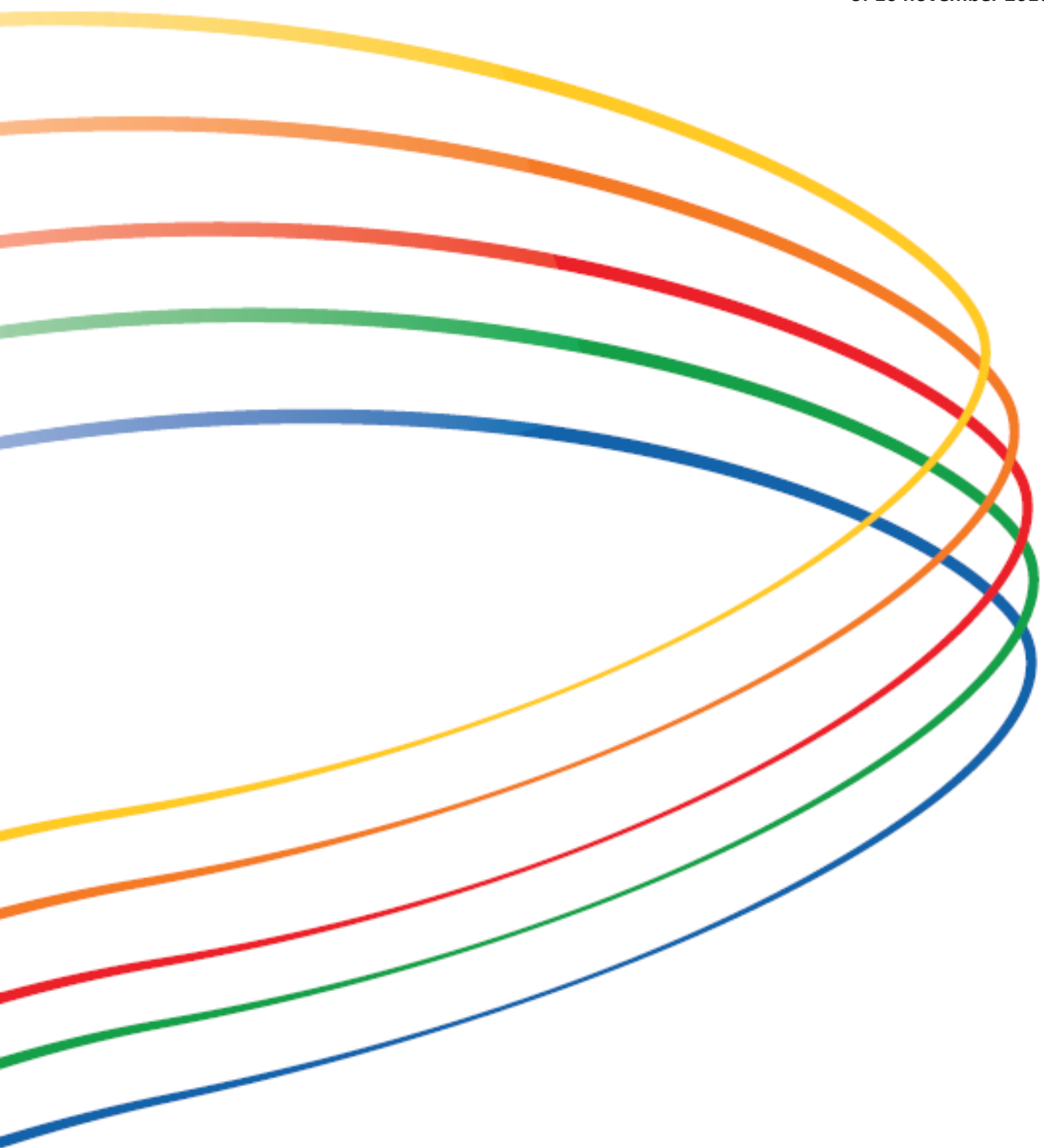


# Interim Report

at 30 september 2016

Board of Directors  
of 10 november 2016





## Contents

Introduction.....	2
Key Figures of the Iren Group.....	4
Company officers.....	6
Mission and values of the Iren Group .....	7
<b>DIRECTORS' REPORT .....</b>	<b>9</b>
The corporate structure of the Iren Group.....	10
Information on the Iren share in the first nine months of 2016 .....	14
Operating data.....	16
Market context .....	19
Significant events of the period.....	36
Basis of preparation.....	39
Consolidation scope.....	43
Financial position, result of operations and cash flows of the Iren Group .....	45
Events after the reporting period and business outlook .....	58
Regulatory framework.....	61
Financial income and expense.....	90
Transactions with related parties .....	92
Risks and uncertainties .....	93
Organisation and IT systems.....	97
Research and development .....	100
Personnel and training.....	108
Quality, Environment and Safety.....	109
Iren and Sustainability .....	110
<b>CONSOLIDATED FINANCIAL STATEMENTS AT 30 SEPTEMBER 2016 .....</b>	<b>115</b>
<b>Certification by the Financial Reporting Manager pursuant to Article 154-bis, paragraph 2 of Italian Legislative Decree no. 58/1998 ("Testo Unico della Finanza" [Consolidated Finance Act]); .....</b>	<b>123</b>

## INTRODUCTION

Italian Legislative Decree no. 25 of 15 February 2016 (OJ no. 52 of 3 March 2016) transposed Directive 2013/50/EU on the harmonisation of transparency requirements for issuers whose securities are admitted to trading (the so-called Transparency Directive), introducing a new package of amendments to the “Testo Unico della Finanza” (Consolidated Finance Act - CFA).

The adjustment to the community Directive provides, among other things, for substantial simplifications of the rules on the obligations to publish periodic financial reports borne, under the terms of Art. 154-ter CLF, by issuers of listed securities that have Italy as home Member State. The above amendments came into force on 18 March 2016.

The most significant change regards the end of the obligation to make available to the public quarterly financial reports; starting from 18 March 2016, listed companies are in fact no longer required to publish accounts every three months, even in a simplified form.

The reasons that led to the elimination of this obligation relate essentially to the need to reduce the costs associated with admission to trading on regulated markets, in particular borne by issuers of a smaller size, and the risk that the publication of interim reports may encourage an excessive attention to short-term results, to the detriment of investments with a longer-term vision.

At the moment of transposition, Italian Legislative Decree 25/2016 also attributed to CONSOB, in its function as Supervisory Authority on the financial markets, the power to impose, with a regulation, the obligation to publish additional periodic information with respect to annual and six-monthly financial reports in relation to issuers with Italy as their home Member State.

Before any introduction of such additional periodic disclosure obligations, CONSOB is obliged to conduct, and then make public, an impact analysis related to any additional financial information, to the expenses related to it, to its influence on investment decisions, to its potential excessive focus on short-term returns, to the ability of small and medium-sized issuers to access regulated markets.

The Decree also clarifies that the additional disclosure that CONSOB may require cannot be wider than a general description of the financial situation, the economic performance and the significant events and operations that have occurred in the period of reference for the issuer and its subsidiaries.

In this context and taking into account the principles of the Directive, on 14 April 2016 CONSOB published a consultation document, with deadline for response 30 May 2016, aimed at gathering information and opinions needed for an impact analysis in preparation for assessing the exercise of its regulatory powers.

On 5 August CONSOB published a document, based on the responses to the consultation and on further analyses carried out, in which it states that a solution reasonably capable of achieving the purposes of the directive is not to introduce additional periodic information obligations, but to define principles and application criteria for those who intend to publish information on a voluntary basis.

On the basis of this orientation, CONSOB proposed to insert into the “Regolamento Emittenti” [Regulations for Issuers] the Article 82-ter, according to which [literally translated] “1. Listed issuers that have Italy as their home member state which, on a voluntary basis, intend to communicate to the public additional periodic financial information with respect to the annual and half-year financial reports provided for in Article 154-ter, Paragraphs 1 and 2, of the CFA, must observe the following principles and application criteria:

- a) they make public the intention to communicate such information, specifying the related items of information, so that the decisions adopted are clear and stable over time;
- b) they specify the terms for approval and publication of the additional periodic financial information by the competent body;
- c) they guarantee the consistency and correctness of the additional periodic financial information distributed to the public and the comparability with the previous financial reports;
- d) they ensure rapid, non-discriminatory access reasonably capable of guaranteeing the effective distribution of the information in the whole European Union.

2. If the issuers as per paragraph 1 intend to modify the items of information pursuant to letter a), or interrupt the communication to the public of the additional periodic financial information, they make public the decisions taken and the reasons for them. For the purposes of the clarity and stability of the

corporate information, the decision to interrupt the publication of the additional periodic information is effective starting from the next financial year”.

Likewise, CONSOB envisaged that any additional periodic financial information prepared on a voluntary basis would be distributed with the same methods as those envisaged for annual and half-year reports (Art. 65-bis of the said Regulations for Issuers).

On the basis of these proposals put forward in the document of 5 August, CONSOB launched a further consultation stage aimed at acquiring evidence from parties interested in the subject. The deadline for sending responses to the consultation was set at 19 September 2016.

At the end of the latest consultation, completed this past September and taking account of the observations of the market, on 3 November 2016 CONSOB communicated that it had approved, with Resolution n. 19770 of 26 October 2016, the amendments to the “Regolamento Emittenti” [Regulations for Issuers] on the subject of interim management statements, the accounting documents which since 2007, when the first European Transparency Directive came into force, have taken the place of quarterly reports.

The amendments to the “Regolamento Emittenti” [Regulations for Issuers] consist substantially of having introduced the new Article 82-*ter*, as proposed.

On the basis of this rule, listed companies have the right to choose whether or not to publish additional periodic financial information. If, on a voluntary basis, they choose to publish it, companies must communicate their decision to the market, specifying the items of information that they intend to provide, so that the decisions adopted are clear and stable over time. Any decision to interrupt publication must be explained and made public, taking effect starting from the next financial year.

The new rules apply starting from 2 January 2017, so as to enable companies to observe the new regulations.

While waiting for the new rules to come into force, the Iren Group has decided, in continuity with the past, to publish the present financial disclosure for the first nine months of 2016, which reflects in content and form the previous Interim Reports. The choice should not however be considered binding for the future.

## KEY FIGURES OF THE IREN GROUP

	First 9 months 2016	First 9 months 2015	Changes %
<b>Income statement figures (millions of euro)</b>			
Revenue	2,228	2,219	0.4
Gross Operating Profit (EBITDA)	559	498	12.2
Operating profit (EBIT)	285	253	12.6
Profit/(loss) before tax	219	185	18.4
Profit (loss) for the period - Group and non-controlling interests	140	116	20.7
<b>Financial position figures (millions of euro)</b>			
	At 30/09/2016	At 31/12/2015	
Net invested capital	4,704	4,231	11.2
Shareholders' equity	2,176	2,062	5.5
Net Financial Position	(2,528)	(2,169)	16.6
<b>Financial/economic indicators</b>			
	First 9 months 2016	First 9 months 2015	
GOP/Revenue	25.1%	22.4%	
	At 30/09/2016	At 31/12/2015	
Debt/Equity	1.16	1.05	
<b>Technical and commercial figures</b>			
	First 9 months 2016	First 9 months 2015	
Electricity sold (GWh)	10,458	8,950	16.8
Thermal energy produced (GWh <sub>t</sub> )	1,725	1,766	(2.3)
District heating volume (mln m <sup>3</sup> )	82	80	2.1
Gas sold (mln m <sup>3</sup> )	1,598	1,606	(0.5)
Water distributed (mln m <sup>3</sup> )	126	114	10.5
Waste collected (tons)	893,927	857,004	4.3
Waste disposed of (tons)	857,926	574,662	49.3

The Group is structured according to a model which consists of 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 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 operates in the sector of electricity production and district heating
- Market Business Unit responsible for selling 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 is in charge of waste collection and disposal.

As of 1 May 2016, the Iren Group has consolidated Atena SpA and Atena Trading. Atena SpA operates in the integrated water cycle, distribution of electricity and gas and waste management, whereas Atena Trading sells electricity and gas.

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

Electricity production: a considerable number of electricity and heat production plants for district heating production; the overall production capacity is over 8,800 GWh/year.

Gas Distribution: through its network of more than 7,634 kilometres Iren serves approximately 715,000 customers.

Electricity Distribution: with 7,555 kilometres of high, medium and low voltage underground and overhead networks, the Group distributes electricity to approximately 684,000 customers in Turin and Parma.

Integrated water cycle: with around 16,500 kilometres of aqueduct networks, over 9,270 km of sewerage networks and 1,085 treatment plants, Iren provides services to more than 2,600,000 residents.

Environmental cycle: with 144 equipped ecological stations, 3 waste-to-energy plants, 1 landfill site, 18 treatment, selection and storage plants and 1 composting plant, the Group serves 123 municipalities for a total of around 2,000,000 residents and around 1,754,000 tonnes managed per year.

District heating: through 890 kilometres of dual-pipe underground networks the Iren Group supplies heating for an overall volume of around 82 million m<sup>3</sup>, equivalent to a population served of over 820,000 people.

Sales of gas, electricity and heat: each year the Group sells over 2.5 billion m<sup>3</sup> of gas, more than 12,000 GWh of electricity and more than 2,800 GWh<sub>t</sub> of heat for the district heating networks.

## COMPANY OFFICERS

### Board of Directors <sup>(1)</sup>

Chairperson	Paolo Peveraro <sup>(1)(2)</sup>
Deputy Chairperson	Ettore Rocchi <sup>3)</sup>
Chief Executive Officer	Massimiliano Bianco <sup>(4)</sup>
Directors	Moris Ferretti <sup>(5)</sup>
	Lorenza Franca Franzino <sup>(6)</sup>
	Alessandro Ghibellini <sup>(7)</sup>
	Fabiola Mascardi
	Marco Mezzalama <sup>(8)</sup>
	Paolo Pietrogrande <sup>(9)</sup>
	Marta Rocco <sup>(10)</sup>
	Licia Soncini <sup>(11)</sup>
	Isabella Tagliavini <sup>(12)</sup>
	Barbara Zanardi <sup>(13)</sup>

### Board of Statutory Auditors <sup>(14)</sup>

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. <sup>(15)</sup>

---

<sup>(1)</sup> Appointed by the Shareholders' Meeting on 9 May 2016 for the three years 2016–2017–2018.

<sup>(2)</sup> Appointed Chairperson by the Shareholders' Meeting on 9 May 2016.

<sup>(3)</sup> Appointed Deputy Chairperson at the meeting of the Board of Directors on 9 May 2016.

<sup>(4)</sup> Appointed Chief Executive Officer at the meeting of the Board of Directors on 9 May 2016.

<sup>(5)</sup> Member of the Remuneration and Appointments Committee, appointed on 12 May 2016.

<sup>(6)</sup> Member of the Transactions with Related Parties Committee, appointed on 12 May 2016.

<sup>(7)</sup> Member of the Control and Risk Committee, appointed on 12 May 2016.

<sup>(8)</sup> Member of the Control and Risk Committee, appointed on 12 May 2016.

<sup>(9)</sup> Member of the Control and Risk Committee, appointed on 12 May 2016. Mr Pietrogrande was also appointed Chairperson of the Control and Risk Committee during the Committee meeting held on 18 May 2016.

<sup>(10)</sup> Member of the Remuneration and Appointments Committee, appointed on 12 May 2016. Mr Rocco was also appointed Chairperson of the Remuneration and Appointments Committee during the Committee meeting held on 24 May 2016.

<sup>(11)</sup> Member of the Transactions with Related Parties Committee, appointed on 12 May 2016.

<sup>(12)</sup> Member of the Remuneration and Appointments Committee, appointed on 12 May 2016.

<sup>(13)</sup> 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.

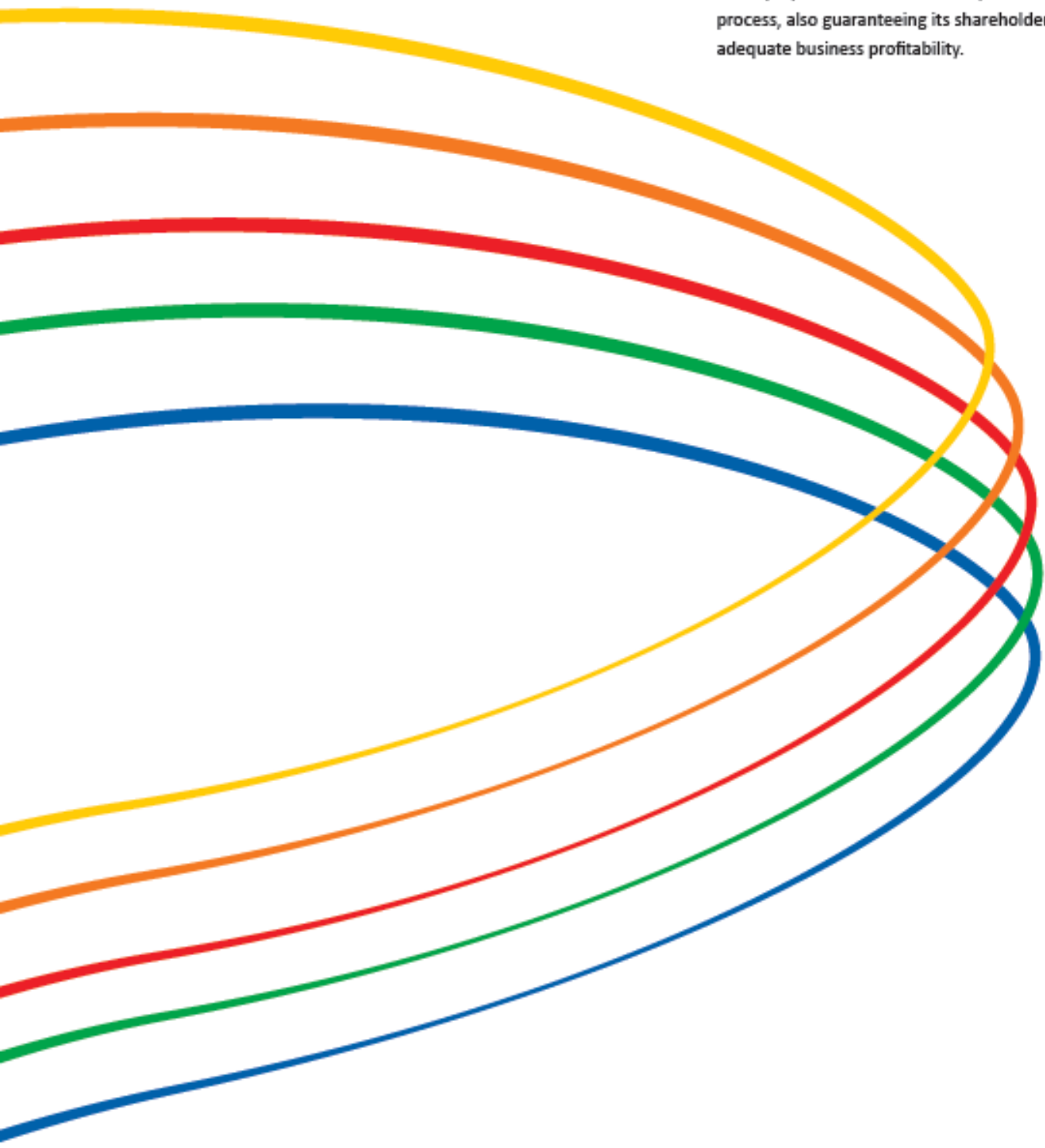
<sup>(14)</sup> Appointed by the Shareholders' Meeting on 28 April 2015 for the three years 2015–2016–2017.

<sup>(15)</sup> Appointed by the Shareholders' Meeting on 14 May 2012 for the nine years 2012–2020.



## MISSION AND VALUES OF THE IREN GROUP

The Iren Group's mission is to provide customers and citizens with efficient, high quality services at competitive prices in the fields of energy, integrated water and environmental services and services for the local authorities, working with proficiency and expertise in full compliance with environmental and safety regulations. The company contributes to the welfare of its employees and the community in the process, also guaranteeing its shareholders adequate business profitability.



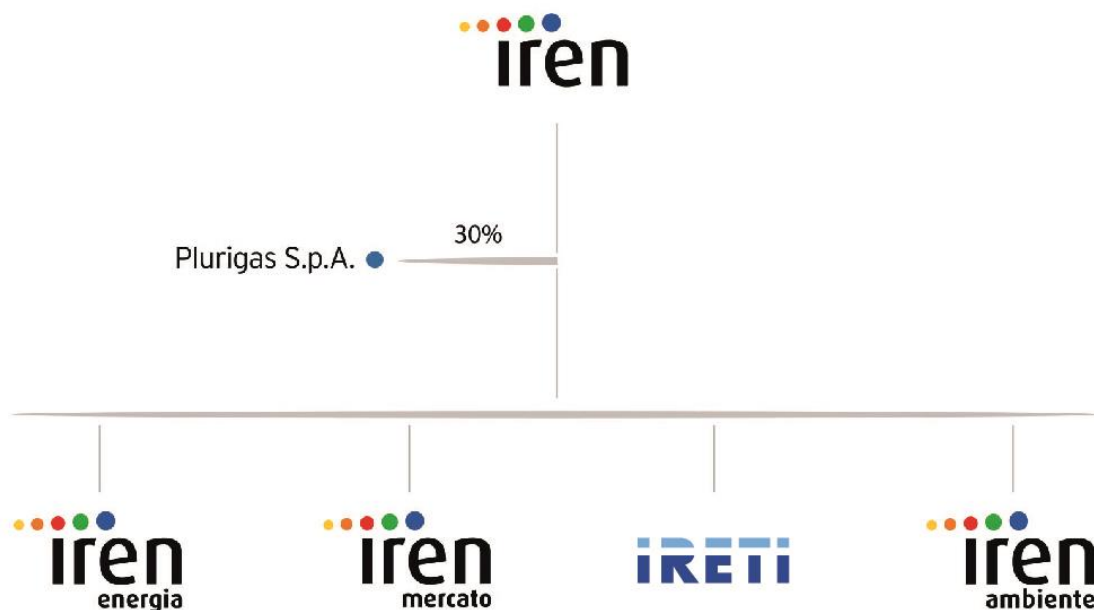




# Directors' Report

at 30 september 2016

## THE CORPORATE STRUCTURE OF THE IREN GROUP



The shareholders' Meeting held on 27 March 2013 decided to put Plurigas S.p.A. in voluntary liquidation. Note that this is the organisational structure for management purposes.

The presentation includes the Companies directly and entirely controlled by Iren S.p.A.

### ENERGY Business unit

#### Cogeneration production of electricity and heat

Iren Energia has a total of approximately 3,000 MW of installed capacity (in electrical set-up), in particular it has 25 electricity production plants: 19 hydroelectric plants, 6 thermoelectric cogeneration plants and 1 thermoelectric plant, for a total capacity of approximately 2,800 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 use other forms of production that have a greater environmental impact. Environmental protection is a corporate priority for Iren Energia, which has always considered 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 remaining comes from conventional heat generators. Heat production was 1,610 GWh during the first 9 months of 2016, with district heating volumes for approximately 82 million m<sup>3</sup>.

Iren Energia oversees the Group's electricity, thermal energy planning and the related dispatching activities.

#### District heating

The total volume heated at 30 September 2016 amounted to 82.1 million cubic metres, increased by 2.1% compared to 2015.

In the Turin Iren Energia holds Italy's largest district heating network, with 540.9 km of dual pipes (of which 23.7 km in the municipality of Nichelino). In Genoa the company has a network with an extension

of 10.3 km, in Reggio Emilia of approximately 218.4 km, in Parma of approximately 98.0 km and Piacenza of approximately 21.9 km (for a total of 889.5 km).

Starting from 1 October 2015 Iren Energia, following the transfer of the business unit from Iren Emilia, manages directly the operation and maintenance of the district heating plants of the cities in Emilia.

#### **Services to Local Authorities and Global Service**

Iren Servizi e Innovazione works in the field of street, monument and traffic lighting, 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.

In agreement with The Council of the City of Turin the company is going to complete a structured plan of renewals in order to improve energy efficiency and limiting consumption, which involves replacing traditional mercury lamps with LED lamps.

#### **MARKET BU**

Through Iren Mercato the Group sells electricity, gas and heat, supplies fuel to the Group, trades energy efficiency certificates (or white certificates), green and emission trading certificates, provides customer management services to Group companies, and supplies heat services and sells heat through the district heating network. On 1 May 2016 Atena Trading, a company operating in the sale of both electricity and gas also became part of the group.

Iren Mercato operates at the national level with a higher concentration of customers served in the North of Italy.

Iren Mercato handles the sale of the energy provided by the Group on the market represented by final customers and other wholesale operators.

The main Group energy sources available to Iren Mercato operations are the thermoelectric and hydroelectric plants of Iren Energia S.p.A.

Iren Mercato also acts as “higher protection” service operator for retail customers in the electricity market in the province of Turin and in the Parma area.

Lastly, Iren Mercato handles heat sales to district heating customers in Turin, Reggio Emilia, Parma, Piacenza and Genoa together with sales development in new district heating areas.

Iren Mercato has operated historically in the direct sale of natural gas in the territories of Genoa, Turin and Emilia.

The Group also sells heat management services and global services both to private entities and public authorities. Development has focused on the management of air conditioning systems for residential and commercial buildings use by using energy service agreements, also through its subsidiaries. This contractual model guarantees long-term customer loyalty, by maintaining the natural gas supplies that represent one of the core businesses of Iren Mercato.

#### **Sale of Natural Gas**

Total volumes of natural gas procured during the first nine months of 2016 were approximately 1,796 million m<sup>3</sup> of which 620 million m<sup>3</sup> were sold to end customers outside the Group and 978 million m<sup>3</sup> were used within the Iren Group both for electricity and thermal energy production and for the provision of heating services.

At 30 September 2016, gas customers served by the Market BU were approximately 802,000, spread throughout the traditional Genoa, Turin and Emilia areas, in addition to the customers of Atena Trading consolidated from 1 May 2016 (approximately 26,000 customers).

### **Sale of electricity**

The volumes sold in the first 9 months of 2016 amounted to 7,354 GWh.

Retail electricity customers were more than 786,000 distributed mainly in the areas traditionally served, corresponding to Turin and Parma, and in the areas covered by the company and by Atena Trading (approximately 28,000 customers).

### **Sale of heat through the district heating network**

Iren Mercato manages heat sales to customers receiving district heating in the municipalities of Genoa, Turin and Nichelino, and in the provinces of Reggio Emilia, Piacenza and Parma.

This activity consists in the supply of heat to customers already on the district heating network, in customer relations management and in the control and management of substations powering the heating systems of buildings served by the network. The heat sold to customers is supplied by Iren Energia S.p.A. under trading conditions that guarantee adequate remuneration.

The total district heating volumes as at 30 September 2016 amounted to 82.1 million cubic metres.

### **Heat service management**

The Group sells heat management services and global services to both private and public entities.

## **NETWORKS BU**

Following the extraordinary corporate rationalisation operations, carried out at the end of 2015 and with effect from 1 January 2016, the activities related to the Networks BU were performed mainly by the company IRETI, which incorporates the former companies Genova Reti Gas, Iren Acqua Gas, Iren Emilia, AEMD and Acquedotto di Savona. The company handles the integrated water cycle, electricity distribution, natural gas distribution and other minor activities. On 1 May 2016 Atena Trading also became part of the group. This 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 Mediterranea delle Acque and Idrotigullio, and since May also Atena S.p.A. 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 the acquisition of the business unit known as "Ramo Ligure" from Società 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 Genoa ATO and to the municipality of Bolano (La Spezia) its presence in the territory.

Overall in the Optimal Territorial Areas ("Ambiti Territoriali Ottimali" - ATOs) managed (Genoa Area, Reggio Emilia, Parma, Piacenza, Savona and La Spezia), the service is provided in 191 Municipalities serving over 2.6 million residents. The Municipalities served in the province of Vercelli are 14 plus the capital.

During the first 9 months of 2016 the Networks BU sold approximately 126 million cubic metres of water, through a distribution network of more than 16,500 km. With regard to sewage disposal, the company manages a network spanning approximately 9,300 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 Atena S.p.A. it distributes gas in the city of Vercelli and in 11 other municipalities of the province. The distribution network made up of approximately 7,634 km of high, medium and low pressure pipes serves an area of approximately 719,000 customers. During the first 9 months of 2016 IRETI distributed approximately 795 million cubic metres of gas.

### **Electricity distribution**

With approximately 7,555 km of network in medium and low voltage IRETI provides the electricity distribution service in the cities of Turin and Parma. Atena S.p.A. distributes electricity in the city of Vercelli.

## **WASTE MANAGEMENT BU**

The Environment business unit carries out the activities of waste collection and disposal mainly through three companies: Iren Waste Management BU operating in the Emilia area as well as AMIAT and TRM operating in the Piedmont area. In May Atena S.p.A. also became part of the group; This company is an IRETI investee but also operates in waste collection work in the city of Vercelli and in 26 other municipalities of the province.

The Waste Management 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 separate waste collection; it also manages an important customer portfolio that provides all the services for special waste disposal.

On 1 January 2016 the Group has acquired the control over TRM S.p.A.. The company has designed and built the waste-to-energy plant for municipal and similar waste, serving the province of Turin, and is in charge of its management up to 2034. The TRM plant has a waste-to-energy capacity of approximately 500 thousand tonnes/year of waste with energy recovery.

Acquisition of control over TRM enabled the Group to triple its waste-to-energy capacity, confirming Iren as one of the top three groups in Italy in terms of waste processed.

We can also note the investment in the company Ecoprogetto Tortona, which manages an OFMSW (Organic Fraction of Municipal Solid Waste) anaerobic processing plant, with a capacity of 32,000 tons/year.

# INFORMATION ON THE IREN SHARE IN THE FIRST NINE MONTHS OF 2016

## Iren share performance on the Stock Exchange

In the first nine months of 2016 the FTSE Italia All-share (the main Borsa Italiana index), recorded a drop of 20%, due mainly to the negative performance of the banking sector. This result can also be attributed to the effects of an ongoing scenario of global uncertainty and economic fragility marked by the weakness of the price of oil which, despite the constant recovery since the beginning of the year, still remains at very low levels.

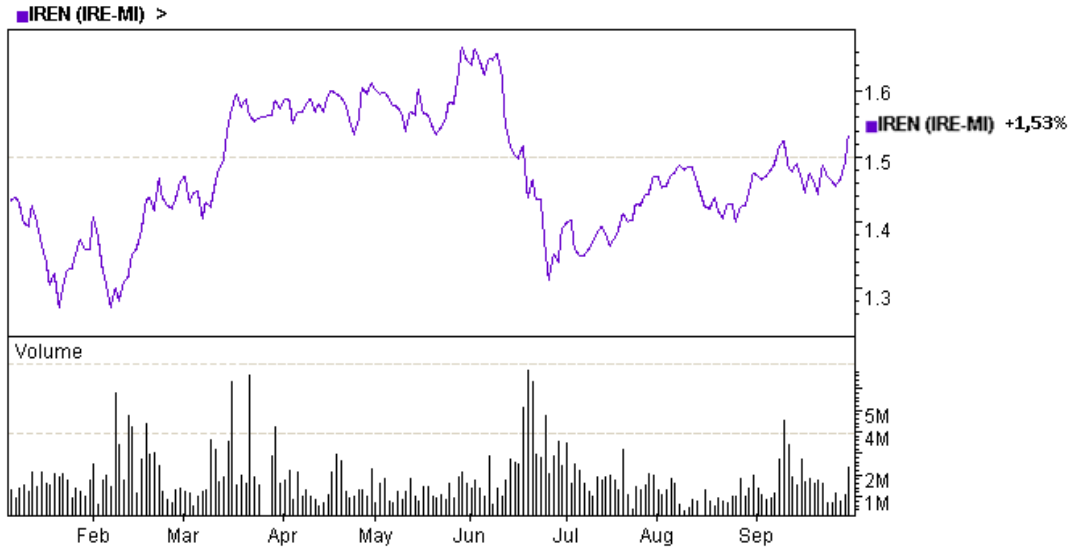
In the light of this scenario the performance of the IREN stock, which increased by approximately 5.7%, was even more positive: it was in fact the one which recorded the largest increase in value among the most direct competitors in the first nine months of the year. This result also comes after the significant growth of 60.9% achieved by the share during 2015.

## PERFORMANCE OF IREN SHARE vs. COMPETITORS



During the first nine months of the year the average price was 1.48 euro per share reaching a peak at 1.67 euro per share on 30 May and a low of 1.27 euro per share on 5 February.

## PRICE TREND AND TRADING VOLUME OF IREN



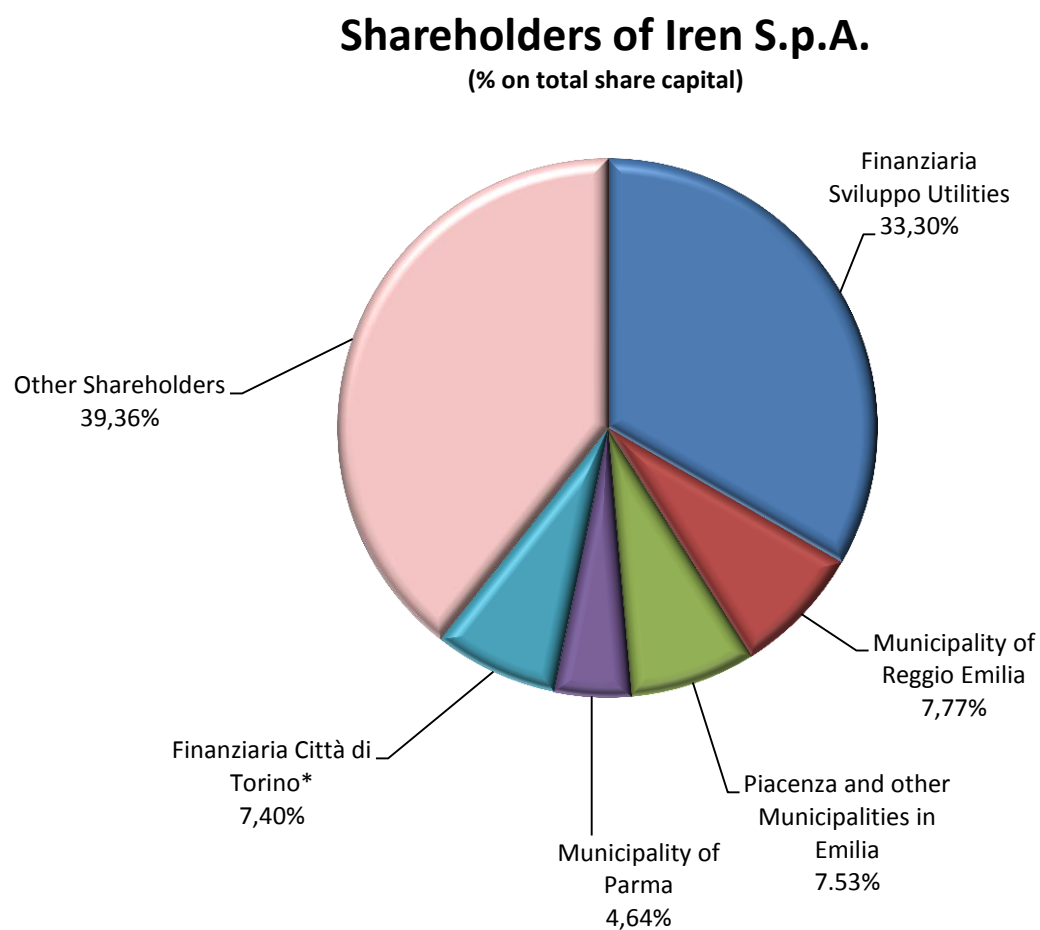


### Share coverage

The Iren Group is currently covered by seven brokers: Banca IMI, Banca Akros, Equita, Fidentiis, Intermonte, KeplerCheuvreux and Mediobanca.

### Shareholding structure

At 30 September 2016, based on available information, the shareholding structure of Iren was as follows:



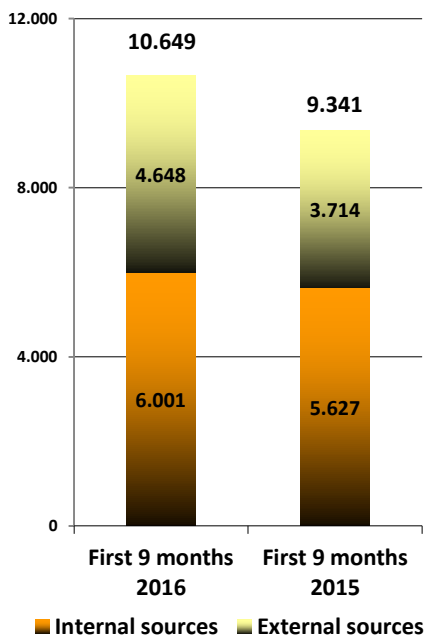
(\*) Savings shares without voting rights

# OPERATING DATA

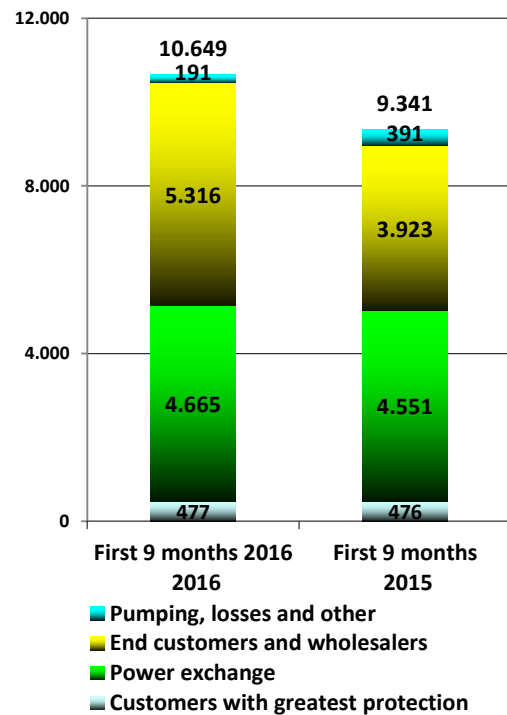
## Electricity balance sheet

GWh	First 9 months 2016	First 9 months 2015	Changes %
<b>SOURCES</b>			
The Group's gross production	6,001	5,627	6.6
<i>a) Hydroelectric</i>	999	1,157	(13.7)
<i>b) Cogeneration</i>	3,391	3,108	9.1
<i>c) Thermolectric</i>	1,222	1,195	2.2
<i>d) Production from WTE plants and landfills</i>	389	167	132.9
Purchases from <i>Acquirente Unico</i> (Single Buyer)	501	501	-
Energy purchased on the Power Exchange	2,452	1,479	65.8
Energy purchased from wholesalers and imports	1,695	1,734	(2.2)
<b>Total Sources</b>	<b>10,649</b>	<b>9,341</b>	<b>14.0</b>
<b>USES</b>			
Sales to protected customers	477	476	0.2
Sales on the Power Exchange	4,665	4,551	2.5
Sales to eligible final customers and wholesalers	5,316	3,923	35.5
Pumping, distribution losses and other	191	391	(51.2)
<b>Total Uses</b>	<b>10,649</b>	<b>9,341</b>	<b>14.0</b>

Composition of Sources



Composition of Uses

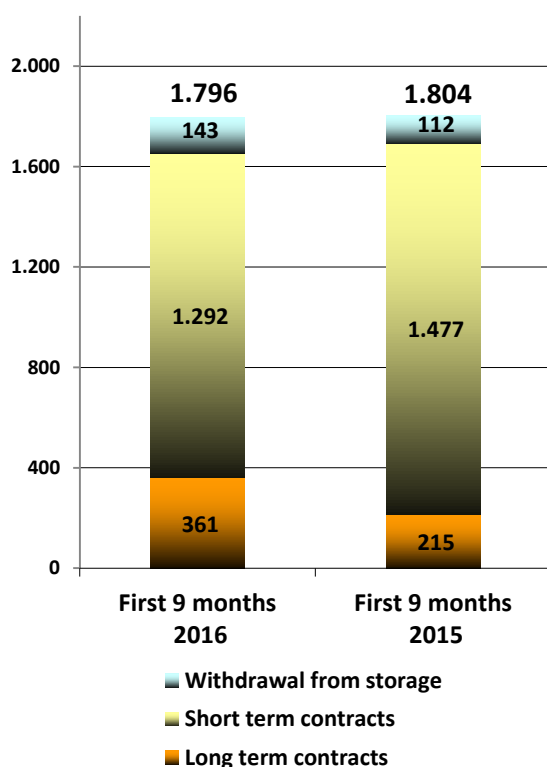


## Gas Production

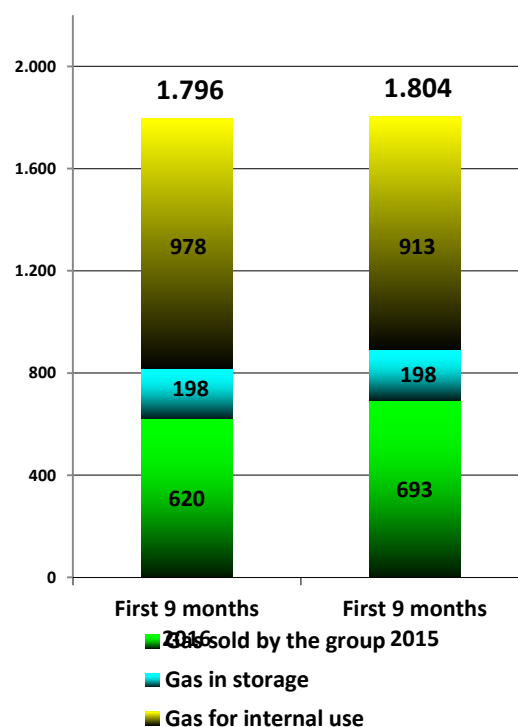
Gas Production Millions of m <sup>3</sup>	First 9 months 2016	First 9 months 2015	Changes %
<b>SOURCES</b>			
Long-term contracts	361	215	67.8
Short-term contracts (annual and spot)	1,292	1,477	(12.5)
Withdrawals from storage	143	112	27.7
<b>Total Sources</b>	<b>1,796</b>	<b>1,804</b>	<b>(0.4)</b>
<b>USES</b>			
Gas sold by the Group	620	693	(10.5)
Gas in storage	198	198	-
Gas for internal use (1)	978	913	7.1
<b>Total Uses</b>	<b>1,796</b>	<b>1,804</b>	<b>(0.4)</b>

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

### Composition of Sources



### Composition of Uses



## Network services

	First 9 months 2016	First 9 months 2015	Changes %
<b>ELECTRICITY DISTRIBUTION</b>			
Electricity distributed (GWh)	3,061	2,977	2.8
No. of electronic meters	740,917	708,225	4.6
<b>GAS DISTRIBUTION</b>			
<i>Gas distributed in the Emilia area (mln m<sup>3</sup>)</i>	562	579	(3.0)
<i>Gas distributed in the Genoa area (mln m<sup>3</sup>)</i>	228	237	(3.8)
<i>Gas distributed in the Vercelli area (mln m<sup>3</sup>)</i>	5	-	n.s
Total Gas distributed	795	816	(2.6)
<b>DISTRICT HEATING</b>			
District heating volume (mln m <sup>3</sup> )	82.1	80.4	2.1
District heating network (Km)	890	869	2.4
<b>INTEGRATED WATER SERVICE</b>			
Water volume (mln m <sup>3</sup> )	126	114	10.6

## MARKET CONTEXT

### The macro-economic scenario

The Italian economy showed positive signs at the beginning of the year, with an increase in GDP in the first quarter of 0.3% on a quarterly basis, while the second quarter of 2016 saw real GDP come out at the same levels as the first quarter of the year, and increase overall by 0.7% per year on an annual basis. The factors that contributed to this lower growth, compared with what had happened in the first quarter, can be identified as the substantial stability of household spending, a reduction in investments (-0.3%) and very low growth in net exports (+0.4%).

Italian households saw their net available income grow during the first six months of 2016, but this did not translate into an increase of consumer spending. The explanation seems to be falling confidence: consumers themselves, while relatively satisfied by the current conditions, remain quite worried about the future evolution of the Italian economy. The business confidence index shows that the majority of businesses interviewed stated that the levels of access to credit and liquidity have come back to levels similar to those existing before the crisis. It is rather the still prudent expectations on the short-term trend of new orders that constitute the main deterrent to investments.

In the first two quarters exports recorded positive trends, mitigated in the third quarter, since in Germany, the main trading partner for Italy, there was a significant drop in industrial production (the worst figure since 2014).

In prospect, two factors can have a positive effect on the results of Italian exports: above all, the rebound of the manufacturing business confidence index in Germany over a two-year horizon, which suggests an improvement in the economic prospects; to this must be added the strengthening of the growth forecasts for emerging markets (with the growth of China stabilising at around 6.7%, that of India up to now at 6% in 2016 and with Brazil and Russia that are coming out from periods of recession).

Overall it is estimated that the Italian growth in progress can come out at around 0.8%.

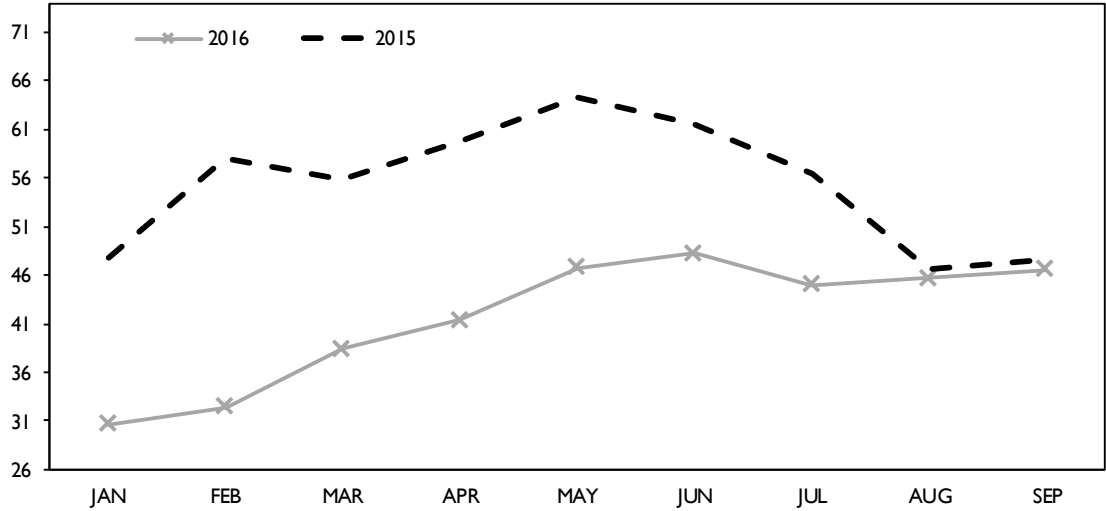
**The oil market**

In the first nine months of 2016, the average price of crude oil was 42.58 \$/bbl, sharply down compared to the same period of 2015 (-22.17%). The average \$/€ exchange rate was \$ 1.1151/€, which was essentially in line with the rate for the previous year (-0.03%). As a result of the previous trends, the average price of crude oil in euro was 38.15 €/bbl in 2016, down compared to the 2015 average (-22.32%).

In the first nine months of 2016 the spot prices of Brent Dated continued to rise up to June (48.34 \$/bbl), while in the next quarter they remained stable at around 46 \$/bbl.

**BRENT PRICE TRENDS**

(\$/bbl)



Source: REF-E processing of Platts data

## The electricity market

### Supply and demand

In the period January - September 2016 the net production of electricity in Italy was 205,667 GWh, substantially stable (-0.3%) compared with the same period of last year. The demand for electricity, 227,972 GWh (-4.0%) was met for 89% from domestic production and the remaining 11% from foreign imports. At the national level, traditional thermoelectric production was 133,021 GWh, in line with 2015, and represented 65% of the production supply; hydroelectric production was 35,024 GWh (-2.7% compared to 2015) accounting for 17%, while geothermal, wind and photovoltaic production was 37,622 GWh (a figure in line with 2015) covering 18% of the supply.

### Demand and supply of accumulated electricity

	(GWh and changes in trends)		
	up to 30/09/2016	up to 30/09/2015	Change %
<b>Demand</b>	<b>227,972</b>	<b>237,392</b>	<b>-4.0%</b>
<i>Northern Italy</i>	107,987	108,085	-0.1%
<i>Central Italy</i>	67,068	71,271	-5.9%
<i>Southern Italy</i>	32,409	35,952	-9.9%
<i>Islands</i>	20,508	22,084	-7.1%
<b>Net production</b>	<b>205,667</b>	<b>206,234</b>	<b>-0.3%</b>
<i>Hydroelectric</i>	35,024	35,996	-2.7%
<i>Thermoelectric</i>	133,021	133,177	-0.1%
<i>Geothermoelectric</i>	4,597	4,318	6.5%
<i>Wind and photovoltaic</i>	33,025	32,743	0.9%
<i>Pumping consumption</i>	-1,797	-1,751	2.6%
<b>Foreign balance</b>	<b>24,102</b>	<b>32,909</b>	<b>-26.8%</b>

Source: Terna & GME

Consumption in the first nine months of 2016 was down compared to the previous year with a drop of 4.0% compared to the corresponding period of 2015, due to an effect of milder temperatures. Percentage decreases were seen in all regions of the country, in particular in the Islands (-7.1%) and the South (-9.9%), whereas the North remained largely stable (-0.1%).

### "Mercato del Giorno Prima – MGP" (Day-Ahead Market - [DAM]) prices

In relation to zonal prices, the first nine months of 2016 saw a general fall in prices compared to 2015, with a drop in all zones, and consequently also in the "Prezzo Unico Nazionale – PUN" [Standard National Price – SNP].

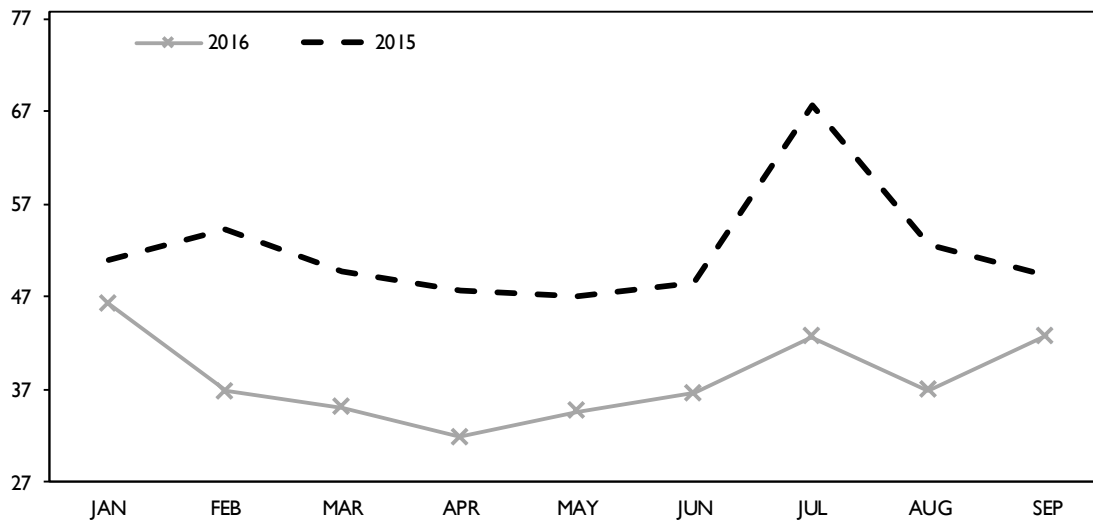
The third quarter was characterised by a very high price in Sicily (54.26 €/MWh, with an average difference between the SNP and the zonal price of -13.32 €/MWh) owing to the numerous hours of unavailability of the Sorgente-Rizziconi interconnection which, after the suspension of the administered supply system<sup>1</sup> owing to the theoretical introduction into operation of the cable on 28 May 2016, in practice isolated Sicily enabling the plants in the zone to influence the determination of the price.

The remaining zones recorded prices very similar to each other with slight variations in certain hours. In particular the North zone maintained a low price in line with the other zones, thanks to foreign imports through Market Coupling, which made it possible to optimise these flows.

<sup>1</sup> The administered regime, imposed from the beginning of 2015, provided for the supply at their recognised variable costs for all production units above 50 MW.

### DAM-SNP AVERAGE PURCHASE PRICE TRENDS

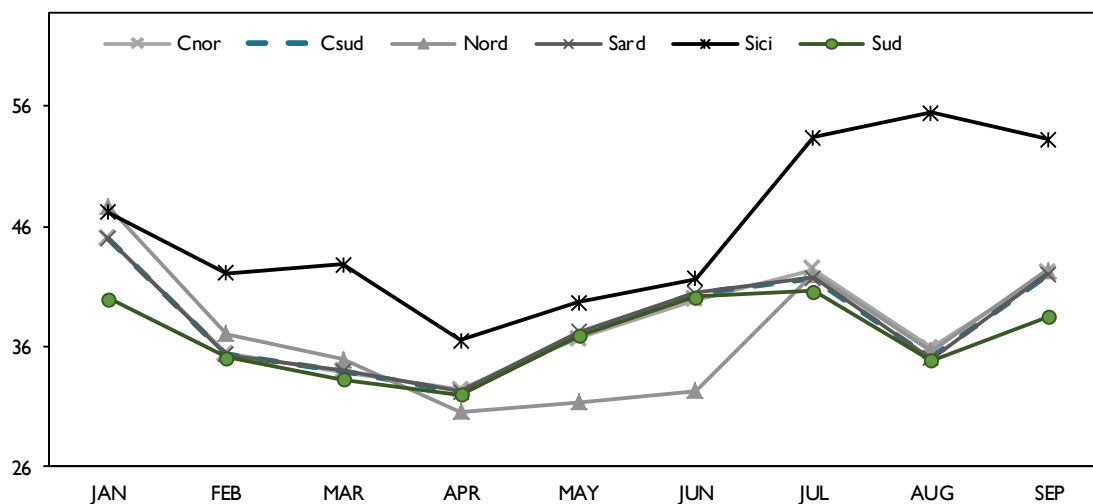
(€/MWh)



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

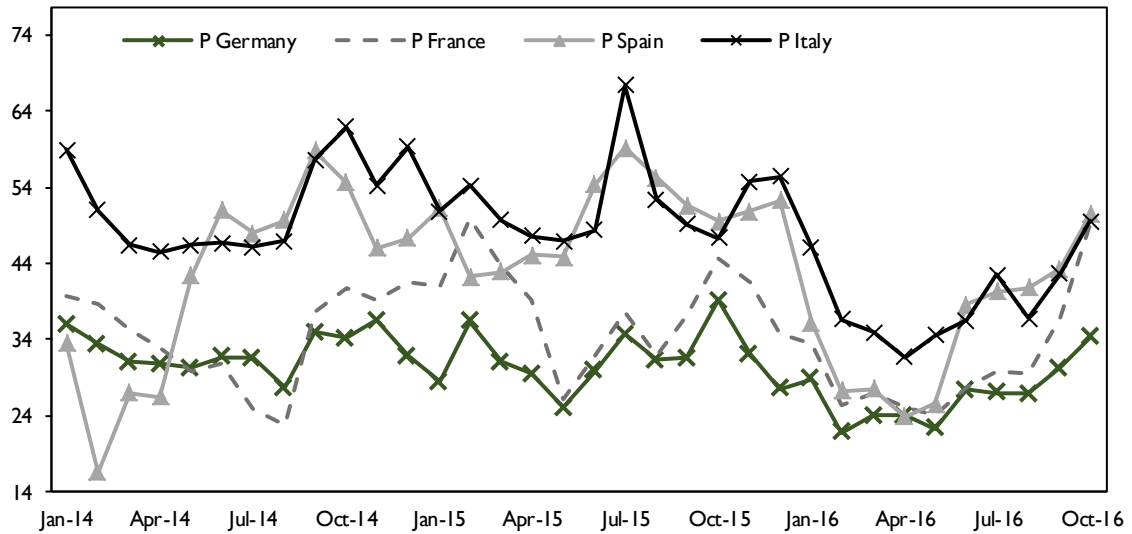
The European power exchanges<sup>2</sup> expressed, in the first nine months of 2016, an average price of 31.21 €/MWh, sharply down compared to the previous year (-9 €/MWh) with a spread with respect to the SNP of 8.28 €/MWh (also down in annual terms compared to the 11.52 €/MWh of 2015).

<sup>2</sup> Arithmetic average of the Spanish, French and German prices



## EUROPEAN POWER PRICE TRENDS

(€/MWh)



Source: REF-E processing of European Exchange data

### Futures of Baseload SNP over EEX

The table below shows the comparison between the average future prices of the products available for the third quarter of 2016 referred to the Single National Price. In particular downward changes were recorded in September (following the trend of the spot price linked to seasonality) while during September there were increases again following the resumption of activities. In Q4 2016 and Q1 2017 they remain quoted at around 44 €/MWh, essentially stable compared to the current prices while Q2 2017 records a sharp drop of approximately 7 €/MWh from the previous quarters. The 2017 annual average fell (-1.9 €/MWh) from the 42.9 €/MWh recorded on average in July down to 41 €/MWh in September.

Jul-16 Futures		Aug-16 Futures		Sep-16 Futures	
Monthly	€/MWh	Monthly	€/MWh	Monthly	€/MWh
Aug-16	44.8	Sep-16	37.7	Oct-16	42.2
Sep-16	42.0	Oct-16	38.9	Nov-16	41.8
Oct-16	42.9	Nov-16	40.9	Dec-16	45.4
Quarterly		Quarterly		Quarterly	
Q4 16	44.6	Q4 16	42.8	Q4 16	44.1
Q1 17	44.7	Q1 17	43.5	Q1 17	44.1
Q2 17	38.1	Q2 17	36.9	Q2 17	36.5
Yearly		Yearly		Yearly	
Y1 17	42.6	Y1 17	40.9	Y1 17	41.0

Source: Reuters on EEX data

## The Natural Gas Market

### Supply and demand

The first nine months of 2016 confirm growth in gas consumption compared to 2015, which came out at +1.6%, driven by an increase in thermoelectric (7.2%) and industrial (2.3%) production offset however by a decrease in residential demand (3.3%).

### Uses and sources of natural gas in the period January-September 2015 and comparison with previous years

GAS USED (bln m3)*	First 9 months 2016	First 9 months 2015	First 9 months 2014	Change %2016 v 2015	Change %2015 v 2014
Industrial use	9.8	9.5	9.8	2%	-3%
Thermoelectric use	16	14.9	12.9	7%	16%
Distribution plants	20.7	21.4	19.6	-3%	9%
Third party network and system consumption / line pack	1.6	1.4	1.2	10%	20%
<b>Total withdrawn</b>	<b>48</b>	<b>47.3</b>	<b>43.5</b>	<b>2%</b>	<b>9%</b>

\*Cumulative amounts at 30 september 2016

Source: REF-E processing of SRG data

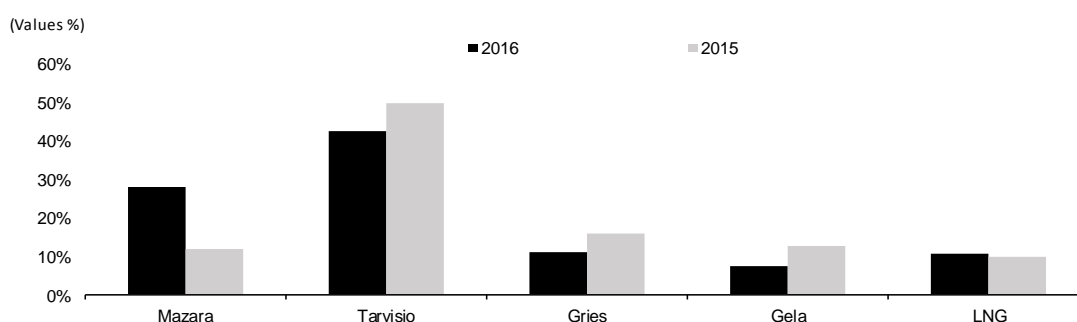
GAS INPUT (bln m3)*	First 9 months 2016	First 9 months 2015	First 9 months 2014	Change %2016 v 2015	Change %2015 v 2014
Imports	47.3	45	42	5%	7%
National Prod.	4.1	4.8	5.2	-15%	-7%
Storage	-3.4	-2.6	-3.6	31%	-27%
<b>Total input (incl. Storage)</b>	<b>48</b>	<b>47.3</b>	<b>43.5</b>	<b>2%</b>	<b>9%</b>
Max. capacity	95.4	95.1	96.4		
<b>Load Factor</b>	<b>50%</b>	<b>47%</b>	<b>44%</b>		

\*Cumulative amounts at 30 september 2016

Source: REF-E processing of SRG data

The drop in residential demand was mainly due to a mild winter in which a reduction of approximately 0.7 bln m<sup>3</sup> was seen. Industrial consumption grew by 0.3 bln m<sup>3</sup>, in correspondence with the slow economic recovery, as did volumes for thermoelectric use by about 1.1 bln m<sup>3</sup> due to a drop in water levels and the contingent contraction of thermoelectric production using coal.

As regards supply, no great changes in the trend were recorded: imports increased by 5.1% while domestic production continued to fall (-15.4%), affected by the drop in Brent. The balance of the storage systems (outputs+/inputs-) indicates -0.8 bln m<sup>3</sup> compared to 2.6 bln m<sup>3</sup> in 2015, the result of lower output during the first quarter.



\*Cumulated at 30 september 2016

Source: REF-E processing of SRG data

From the beginning of 2016, imports from Russia, Northern Europe and Libya decreased owing mainly to an increase in Algerian imports, which now represent almost 28% (+12% compared to 2015) of all imports into Italy.

This trend was confirmed by the growth in Algerian production capacity and the limited increase in domestic consumption.

The main import channel, with a 43% share of the total, remains however Tarvisio (whose main supplier is Russia). The remaining volumes imported come for 11% from Gries (Northern Europe), 11% from LNG (mainly from the Rovigo regasification plant/Cavarzere entry point -Qatar-) and the final 7.5% from Gela (Libya).

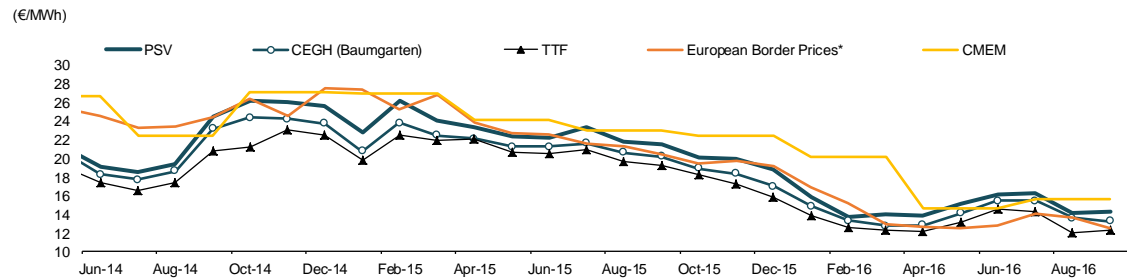
### Wholesale gas price

In the first nine months of 2016 the wholesale prices of natural gas continued to show a declining trend in all international areas, compared to the same period of 2015. Europe is characterised by demand that is struggling to recover, together with the low prices of Brent. The prices of the hubs, after a slight increase in the second quarter of 2016 (+2% compared to the first quarter of 2016) recorded a slight reduction in the third quarter (-3%).

The Dutch TTF, in the first nine months of 2016, recorded an average figure for spot prices of 12.97 €/MWh. The Italian PSV is still a market with a premium compared to the northern-European hubs, although this decreased in absolute terms compared to last year, with a spread from the TTF of +1.8 €/MWh (+2.28 in the first nine months of 2015).

In the first 9 months of 2016 prices at the border, still in part oil-linked, were down compared to the same period in 2015, going from an average of 23.5 €/MWh to 13.6 €/MWh. The alignment between long-term import prices and the main northern-European hubs pushed wholesale prices to oscillate between 11 and 15 €/MWh compared to a figure of 12.5 €/MWh (WGI data) of the average import prices.

### Wholesale prices in Europe



Latest data 30 september 2016

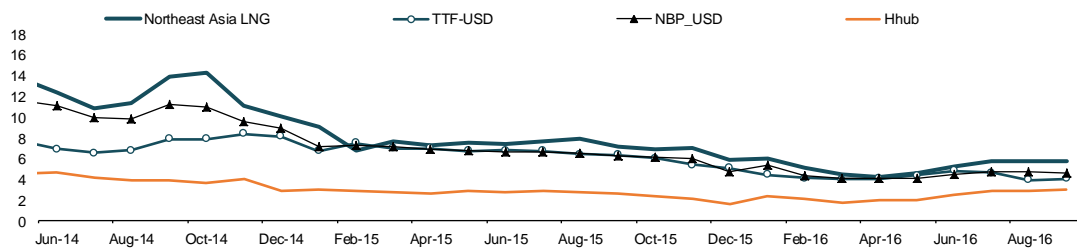
Source: REF-E processing of Platts-WGI data

With regard to the Italian market, in the most fluid segment of the gas market, that of balancing (PB-Gas), a volume of about 2.9 bln m<sup>3</sup> was traded in the first nine months of 2016, an increase, compared to the same period of 2015 (2.75 bln m<sup>3</sup>). The two segments that make it up (G+1 and G-1) presented an average price of 15.11 €/MWh and 14.07 €/MWh respectively, showing trends and tendencies in line with bilateral trades on the PSV.

The so-called “CMEM component”, meant to reflect the cost of procuring gas in the protected market price, defined by the AEEGSI on the basis of the TTF forward prices, in the second quarter was 14.63 €/MWh and in the third quarter 15.53 €/MWh.

## LNG prices

(\$/MBtu)



Latest data 30 september 2016

Source: REF-E processing of Platts data

In the markets of North-East Asia, the slowdown in world growth and the new liquefaction coming into production in Australia and in the USA (Sabine Pass) and the drop in oil prices, are reflected in lower LNG prices. In the first nine months of 2015 Asian spot prices had recorded an average of 7.6 \$/MBtu, while in the same period of 2016 the downward trend already present in the first six months was confirmed, recording an average of 5.16 \$/MBtu (in the third quarter the average was 5.73 \$/MBtu).

Also in the USA a downward trend was confirmed: the main American gas market, the Henry Hub, recorded figures, for the first nine months of 2016, down compared to 2015, coming out at 2.32 \$/MBtu and 2.76 \$/MBtu respectively.

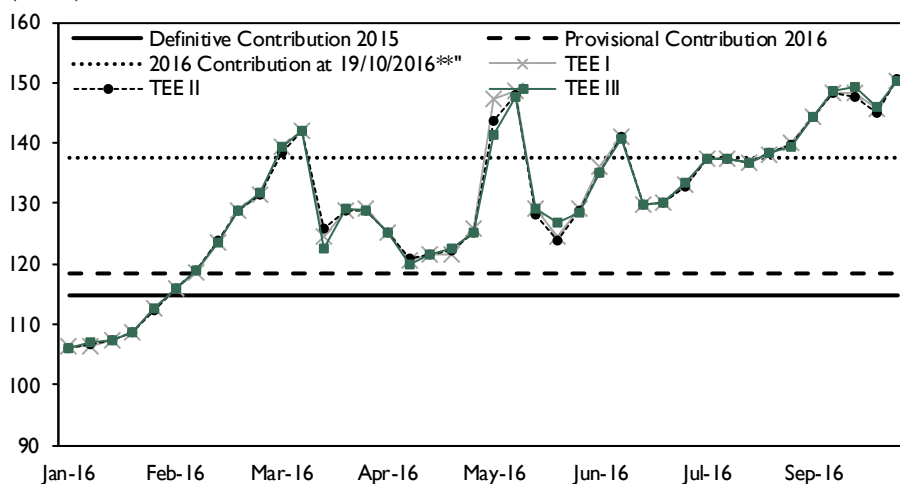
## White Certificates (EECs)

### Market trend

Between January and September 2016 the prices of Energy Efficiency Certificates (EECs) traded on the exchange recorded a significant increase, although they followed a see-sawing trend at least up to the middle of the year, while in the last few weeks of the period a stabilisation was recorded at figures always higher than 130 €/EEC, reaching the threshold of 150 €/EEC. This trend, if confirmed, will be reflected in a substantial increase of the tariff contribution for the current obligation year, for which the AEEGSI had calculated an estimated contribution of 118.37 €/EEC<sup>3</sup>, already up compared to the final figure of the 2015 obligation year, when it was 114.83 €/EEC: on the basis of the market data available at the date of the present document the 2016 contribution will in fact be around 137 €/EEC.

EEC: MARKET PRICE AND TARIFF CONTRIBUTION

(€/TEE)

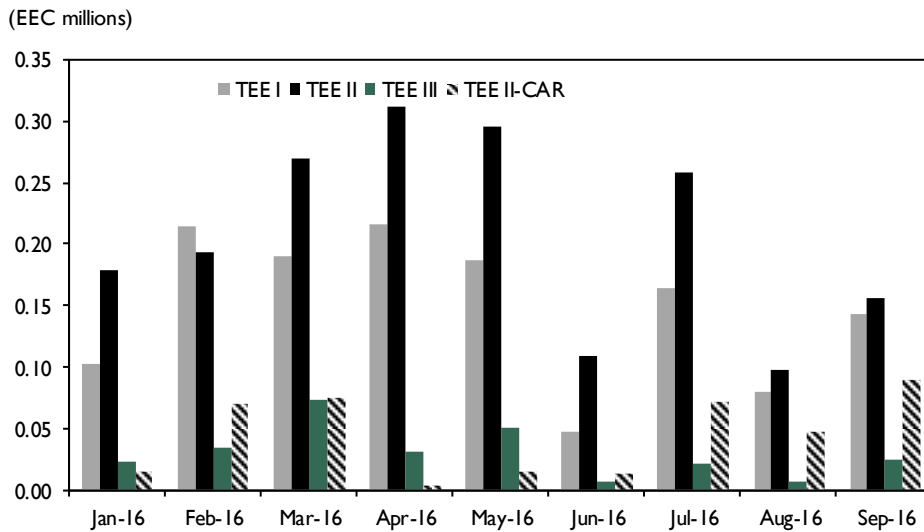


\* AEEGSI, DMEG/EFR/11/2016. \*\* REF-E processing on GME data, latest given 18/10/2016

Fonte: REF-E processing on GME, AEEGSI data

<sup>3</sup> AEEGSI Directive 16 June 2016 DMEG/EFR/11/2016

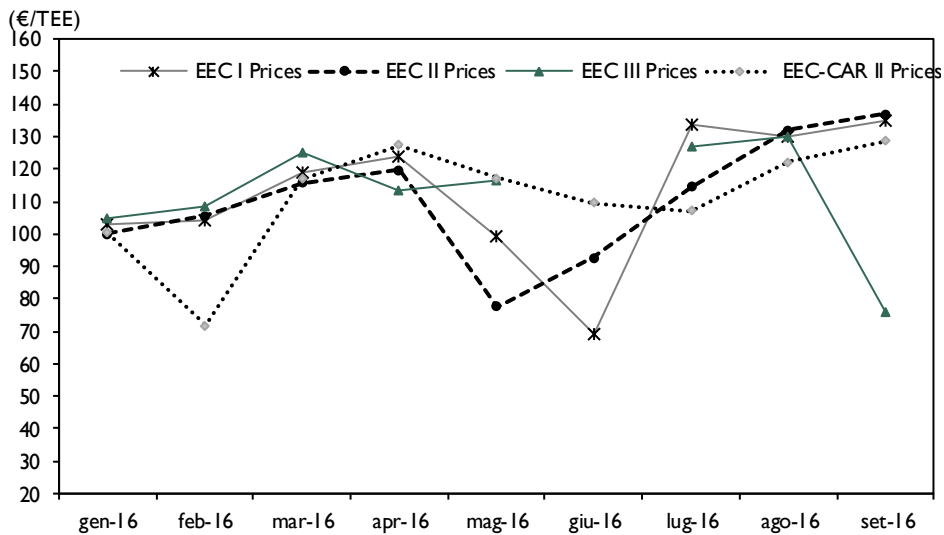
In terms of total volumes traded in the exchange since the start of the year the situation was instead more stable, except in June, when after compliance for the 2015 obligation year a significant reduction was recorded, and in August, when also after the smaller number of sessions the usual summer reduction was recorded, while in September the trades came back into line with the previous months<sup>4</sup>.



Monthly volumes from start of 2016

Source: REF-E processing of GME data

Also on the OTC market prices recorded increases, although more limited and uncertain, without reaching in any case the exchange peaks, but arriving at the most close to 140 €/TEE. Volumes continue to remain on average higher on the exchange than in bilateral trades.



Monthly prices from start of 2015 obligation year

Source: REF-E processing of GME data

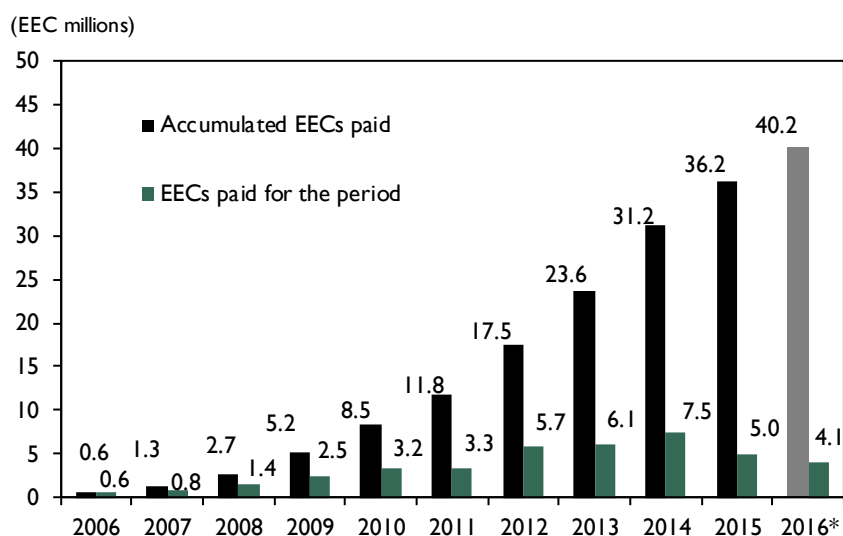
<sup>4</sup> The figure for exchange volumes shows the volumes related to certificates of type I, II, III and also II-CAR, because for this last type the trades gradually became significant in terms of volumes, while in terms of prices there is total alignment with I, II and III certificates, so in the related figure the II-CAR EECs are not included for questions of legibility of the figure itself.

### **EECs issued: the slowdown confirmed after the 2013–2014 acceleration**

Following the increase in issues of certificates after the introduction, starting in 2012, of the  $\tau$  coefficient, and the peaks of the years 2013–2014, linked to updates introduced by the Ministerial Decree of 28 December 2012<sup>5</sup>, the decrease already recorded in 2015 was confirmed; considering issues from January to September 2016 it can in fact be estimated that total issues will be in line with those of the corresponding period of the previous year.

The increase in prices recorded during this year should at least in part be linked to the decrease in the number of certificates in issue after the lower emissions, and if in the coming months/years the downward trend of certificate issues is confirmed, combined with obligations which in any case grow, the stabilisation of prices on averages higher than the previous years could become structural.

On the other hand the price increase could also be linked to the climate of uncertainty which is affecting the mechanism owing to the extension of the ministerial delays in the publication of the Decrees related to the new guidelines<sup>6</sup> and to the 2017–2020 obligations/objectives.



\*GSE Financial Statement January-September

Source: REF-E processing of GSE data

<sup>5</sup> The admissibility to the mechanism limited, starting from 2014, to only new projects or ones being implemented, and the prohibition on accumulation, in force from the middle of 2013, with other state incentives, in particular with tax deductions and with the green certificates issued for plants of cogeneration combined with district heating.

<sup>6</sup> The orientation in terms of updating the guidelines of the mechanism prepared by the MED seems besides to go precisely in the direction of greater selectivity in assessing the project and issuing certificates, another reason for believing that the price signal will be the key element for achieving the objectives of the mechanism.

## LEGISLATION FIRST NINE MONTHS 2016

### GAS

#### **AEEGSI Resolution 166/2016/R/gas: methods for calculating the CMEM and CCR components for the period between 1 October 2016 and 31 December 2017.**

With this resolution the Authority expresses itself on the methods for determining the components related to the cost of procuring natural gas on the wholesale markets (CMEM) and of the related activities (CCR).

The AEEGSI confirms the current methods for calculating/updating the CMEM tariff component, to cover the cost of purchasing the raw material, keeping the reference to the TTF prices.

The method for quantifying the CCR was also updated confirming the “Balancing Risks” and “Profile and Weather Events” components and adjusting to them the “Level Risk” components - in consideration of an expected rate of leaving the protection service higher than that recorded in the last two years - and “Pro-Die Risk”.

The methods for determining the costs related to the national and international logistics are confirmed.

Finally the application of the GRAD component (for graduality in the application of the economic conditions of the protection service after the reform in 2013) envisaged for the HV 2016–17 is extended by one quarter with the same amount of expected revenues.

#### **Resolution 173/2016/R/gas: Determining provisional reference tariffs for gas distribution and measurement services for 2016 and approval of bi-monthly equalisation amounts, relating to the distribution of natural gas service for 2016**

In terms of this Resolution, the AEEGSI provisionally set the reference tariffs for companies managing distribution networks and the related equalisation amounts for 2016, based on the technical/economic data relating to investments made in 2015. The tariffs remain provisional because these figures are still subject to verification.

#### **Resolution 223/2016/R/gas: Rules on insurance in favour of gas final customers, for the four-year period 1 January 2017 to 31 December 2020.**

The AEEGSI passed a resolution regarding insurance in favour of gas end customers for the 2017–2020 period. This insurance has in fact been implemented for several years now, and aims to provide financial cover for gas final customers involved in accidents arising from using gas. The cost for this insurance was always a marginal charge of a few euro cents a year for the final customers, applied at each individual Redelivery Point.

#### **Resolution 312/2016/R/gas: gas balancing.**

The AEEGSI approved the new Consolidated Balancing Regulation (CBR) on gas, which incorporates the guidelines provided in CD no. 103/2016 and European Regulation no. 312/2014. The rules of the CBR take effect on 1 October 2016.

The new system places on users responsibility for balancing their positions in the context of the gas day, using various sources which have intraday flexibility, not only storage.

At the same time an incentive system is being defined to make SNAM more responsible for the quality and punctuality of the data provided to operators.

#### **Resolution no. 336/2016/R/gas: Introduction of a pilot project related to capacity at delivery points on the gas transport network that supply electricity generation plants.**

With this resolution, the AEEGSI confirms that the ex-ante conferral regime will be maintained, which provides for all the types of capacity products now available at interconnection points with countries in the European Union so that each user may select the composition of the capacity product portfolio that best meets their production requirements. The pilot project aims to facilitate the move towards more flexible and effective conferral mechanisms, making it possible for producers to better coordinate the purchase of gas transport capacity with the sale of electricity and services.

**Resolution 550/2016/R/gas: compliance with the Council of State judgement relating to the tariff regulation of the natural gas transport and dispatching service for the period 2010–2013.**

With the resolution in question, the Authority redetermined the tariff criteria of the gas transport service for the 2010–13 regulatory period, in compliance with the Council of State Judgement no. 2888/201. The judgement declared unconstitutional the 2010–13 gas transport and dispatching tariffs and cancelled the rules contained in Resolutions ARG/gas 184/09, 192/09, 198/09 and 218/10. With this measure the AEEGSI:

- confirms the 90:10 distribution criterion between the capacity and commodity components (according to which the costs of capital are attributed to the capacity component and the operating costs to the commodity component), in accordance with the cost reflectivity principle laid down in the community legislation;
- confirms that the identification of the barycentre of the market is not the result of a discretionary assessment of the regulator, because it represents the physical place in which withdrawals from the transport grid are concentrated, that is the physical place towards which the gas put in at the entry points is transported.

**Consultation Document (CD) 12/2016/R/gas: Changes relating to gas settlement rules**

With this CD, the Energy Authority attempts to resolve the operating anomalies of gas settlement, issuing for consultation its proposals on algorithms, invoicing, disclosure obligations and penalties. In particular the question of the algorithm needed to determine the physical and economic items after the adjustment session is tackled, with two options proposed. The first provides for keeping the current algorithm, shifting however the use of the information on the “correspondence matrix” to the end of the process (known as “reascending the chains”). The second option extends instead the application of the algorithm used today for the balancing sessions.

**CD 71/2016/R/gas - Default service**

This defines the procedure for the annual management of applications by distributors for partial/total exoneration from the amounts fixed for failure to physically disconnect PDRs (return points) in default pursuant to paragraph 43.1 TIVG

**CD 456/2016/R/gas**

With this CD the AEEGSI expresses its final orientations on the subject of tariffs recognised for gas investments starting from 2018 according to the method of standard costs modulated by generic corrective coefficients. It also proposes to apply a maximum limit to the recognition of capitalised costs and introduces two sharing proposals, symmetrical and/or asymmetrical, between distributor and final customers in relation to the higher/lower costs incurred.

**CD 518/2016/R/gas**

The AEEGSI issues for consultation its final orientations for improving metering data quality. In particular, for accessible meters it introduces for all distributors a proposed penalty to be paid to Cassa per i Servizi Energetici e Ambientali (the Energy and Environmental Services Fund) as well as compensation to be paid to final customers in the event of failure to achieve the reading performance provided for in the regulation. For partially accessible and non-accessible meters it establishes, for distributors that manage more than 50,000 PDRs, a maximum percentage of this type of metering device, exceeding which triggers an obligation to replace them with smart meters.

**Ministerial Decree of 25 February 2016: urgent changes to the Rules on the Natural Gas Market**

With this Decree, the MED approved the urgent changes to the Rules on the Natural Gas Market, resolved by the Energy Markets Manager (“Gestore dei Mercati Energetici – GME”). The changes in question were made in compliance with Art. 13 of Regulation (EU) 2015/703, following what had been communicated by Snam in relation to the change in the unit of measurement from GJ to MWh.

**Ministerial Decree of 11 May 2016: regulation of weekly gas payments.**

The MED approved the change to the MGAS rules in relation to managing payments on a weekly basis incorporated into the Rules on the Natural Gas Market with effect from 1 September 2016.



### **Italian Law 21/2016 (Thousand Extensions Law)**

The law introduces an extension with respect to publication of call for gas tenders, the suppression of sanctions for Municipalities that do not publish calls in time and assignment to the MED of the task of appointing a commissioner to call the tender if not even the Region has intervened in the 8 months after the deadline for the call.

## **ELECTRICITY**

### **Resolution 87/2016/R/eel: functional and performance specifications for 2G Smart Meters.**

The resolution (which will come into force after 3 months have passed from notification to the European Community) governs electricity meters for LV customers (known as “2G smart meters”) with a view to their replacement after the complete depreciation of the previous ones currently installed (known as “1G”), defining their 7 necessary functions and the expected levels of system performance (and related full installation times).

The measure provides for a first version 2.0 (immediately available), which must have both a communication channel to the “electricity system” which can use the Power Line Carrier (PLC) in band A or in radio frequency, and a second channel to the user devices to be installed in homes, which must be able to use at least the PLC in band C.

The resolution is also aimed at assessing the effective availability of standardised technological solutions with incremental and evolutionary functions for the communication of the meters and for the power limiter that makes it possible to interrupt the supply of electricity in the event that the available power is exceeded without opening the magneto-thermal switch.

### **CD 457/2016/R/eel**

In CD 457/2016 the Authority illustrates the final orientations (after CD 267/2016/R/EEL) for defining the incentivising mechanisms of cost related to 2G smart metering systems and the changes at the same time in the recognition of metering service costs that become necessary to guarantee a consistent regulatory framework. The orientations outlined in the consultation document anticipate, on the perimeter of the metering activity, the introduction of a Totex (“Total expenditure”) approach to cost recognition.

### **Resolution 134/2016/R/eel: Directives on additional fee for the temporary remuneration of production capacity availability for 2010 and 2011.**

With Res. 48/04, the Authority set the regulations for the temporary remuneration of production capacity availability, breaking this down into two parts:

- Remuneration based on the effective production capacity made available by admitted parties over high to medium critical days → CAP1 Fee.
- Supplementary remuneration for revenue on the spot market, if this is lower than the conventional reference level (equal to revenue that the producer could have obtained with production being equal, under the administered regime) → S Fee.

Pursuant to this Resolution, Terna had to recalculate the amount for the S Fee and notify the relevant operators.

### **Resolution 327/2016: Extension of the deadline regarding the obligation to unbundle the communication policy and the brand for the sale of electricity to final customers.**

In view of the current uncertainty regarding the expected Draft Competition Law (DDL), the AEEGSI has decided to extend the obligation of debranding between sales on the free market and protection until 1 January 2017.

### **Resolution 369/2016: reform of the price protections in the retail market for electricity and natural gas: Similar Protection (SP) to the free electricity market for final domestic customers and small enterprises.**

The resolution in question reforms the market mechanisms for price protection for domestic and non-domestic customers, through the revision of the more protected supply conditions (in order to make it consistent with the role of universal service that it is destined to assume) and the establishment of the SP. The resolution regulates the main aspects of the SP, while a subsequent measure will define the regulation of the reformed greater protection. Both systems will be operational starting from 1 January 2017.

Subjects with a right to participate in Similar Protection (SP) are all domestic customers and small enterprises served under greater protection and final customers with the right to greater protection. The Single Buyer will be the administrator of the SP and will be responsible for carrying out the procedures to identify and monitor the free market suppliers admitted.

The term of the contract, initially envisaged of a year with no extension possible, was then redefined in the subsequent resolution no. 541/2016 presented below.

**Resolution 541/2016: Approval of the regulation for identifying suppliers and for monitoring.**

Resolution 541/2016/R/eel approves the Regulation of the SP prepared by the Single Buyer and updates a number of specific provisions relating to the SP rules established with Resolution 369/2016/R/eel.

This resolution clarifies that the “supervised trading environment” of the SP will run from 1 January 2017 and until the greater protection service is superseded, and in any case no later than 30 June 2018 and changes the dates related to the admission procedure for suppliers involved in the SP.

**Resolution 303/2016/R/eel: Update of the transitory rules on specific remuneration of the production capacity, for the year 2015**

The resolution establishes the criteria for quantifying the GCAP1 parameter, which the CAP1 unit fee in €/MW is determined against for the remuneration of plant production capacity for 2015.

**Resolution 333/2016/R/eel: Valuation of effective balancing 2012–2014.**

The Resolution was published and follows up on the directions outlined in CD/623/2015 on the regulations to implement for effective balancing for 2012–2014 subsequent to the judgements by the Council of State that had cancelled the previously applicable regulation.

There is also provision for an alternative regulation, with the application of the regulations applicable prior to the Authority’s first intervention in 2012.

**Resolution 342/2016/R/eel – Launch of a proceeding for timely adoption of prescriptive measures and the assessment of potential electricity wholesale market abuse under the terms of Regulation (EU) no. 1227/2011 (REMIT)**

Resolution 342/2016 opens the proceedings, to be completed within sixty days, for measures to be adopted aimed at counteracting certain conduct put in place by dispatch users of the wholesale electricity market, which could potentially represent market abuse pursuant to Regulation (EU) 1227/2011 - REMIT. This could be done by adopting prescriptive measures or asymmetrical regulatory provisions.

**Updated Integrated Text of the Electricity Market Rules (“Testo Integrato della Disciplina del Mercato Elettrico – TIDME”).**

Following AEEGSI authorisation, with Decree date 15 June 2016, the MED approved amendments to the Integrated Text of the Electricity Market Rules (TIDME), referring to the measures necessary to start market coupling on the intra-day market.

The amendments refer to the revision of the “market coupling” definition and the stipulation that outcomes of intra-day market sessions take into account imports and exports in relation to bordering markets where market coupling is operational.

**Resolution 459/2016/E/eel: Launch of new proceedings for timely adoption of prescriptive measures and the assessment of potential electricity wholesale market abuse under the terms of Regulation (EU) no. 1227/2011 - REMIT**

Resolution 459/2016 provides for new measures aimed at stopping and prosecuting possible anomalous conduct carried out by supply and demand operators in the electricity wholesale markets.

**Lombardy Regional Administrative Court Order 16/09/2016**

The Lombardy RAC issued an release order related to the tariff increases of the third quarter of 2016 established with Resolution no. 354/2016 (PE-PD-PPE update) frozen by the previous decree of 19/07/2016 by the same RAC. The same order established that the AEEGSI had to resolve within 40 days the methods for refunds to customers so that, in the event of confirmation of the cancellation of Resolution 354/2016, with a judgement expected in February, these refunds will be automatic.

**CD 255/2016: reform of the tariff structure of general system expenses for non-domestic customers in the electricity market.**

The CD becomes the first point of consultation in the context of the process started with Resolution 138/2016. The CD deals with the feasibility of the reform required by the above law, by presenting options for the gradual application of the new tariff structure for general expenses for non-domestic customers supplied via MV and LV.

Law no. 21/2016 stipulates that the tariff structure for general expenses must be adjusted to the criteria used for network tariffs, by also introducing a trinomial tariff structure for the former. The CD provides three different procedures for introducing a trinomial structure for general expenses. Each option has a weighting distribution for the charges among the different types of users and consumption classes.

**CD 446/2016/R/eel - Revision of the methods and timing related to termination of dispatching and transport contracts owing to default of the relevant user and activation of the last instance services for final customers in the electricity market.**

The document illustrates a number of orientations aimed at reducing the exposure of users that could lead to a revision of the amount of the guarantees required to cover the said exposure related to the dispatching and transport services.

To make all this practicable it is necessary to reduce the time given to final customers to find a new commercial counterparty before the activation of the last instance services and, if they have been activated, to enable a rapid exit from the same.

**MED Decree of 21 September 2016 and AEEGSI Resolution no. 501/2016/R/EEL**

These measures approved, respectively, the amendments to the Integrated Text of the Electricity Market Rules and to the Regulation of the Energy Accounts Platform (EAP) for futures, in order to lay down the new rules relating to management of payments on a weekly basis (W+1) on the MGP and MI energy markets and on the EAP and the adoption of SEPA Direct Debit Business To Business as settlement instrument of the electricity market and of the EAP itself.

**Stability Law (no. 208 of 28 December 2015) and Ministry of Economic Development (MED) Decree – TV licence fee in bills**

Official Gazette dated 04/06/2016 issued the MED implementation decree no. 94, and on 21 June the Tax Authorities' Circular was published on the rules for determining the fee payable according to the different cases.

Since 2 July 2016 the Single Buyer has been transferring monthly to sellers the list of customers to which to apply the fee instalments.

The Revenues Agency made available at the end of September a control software for transferring the lists related to payments by customers and to the Revenues Agency itself.

**Resolution AEEGSI 29/2016/R/efr: determination of the average selling price of electricity in 2015**

The AEEGSI determined the average selling price of electricity recorded in 2015 at 51.69 €/MWh; this price is used to calculate the price of withdrawal by the GSE of the GCs related to production in 2015 (100.08 €/GC) and, using the same formula, minus a coefficient K depending on the date of entry into operation of the individual plant, the figure, for 2016, of the post-GC incentive.

**GAS/EE**

**Resolution 100/2016: Provisions related to issuing the closing invoice for cessation of the supply of electricity or natural gas.**

The measure defined the rules on issuing the closing invoice for cessation of the supply of electricity or natural gas to retail customers in low voltage for electricity or whose consumption is less than 200,000 m<sup>3</sup>/year for gas. Reference is made to all cases in which the supply contract between the seller and the final customer is terminated for any reason.

Very stringent rules are established on the subject of last invoice issuing times and a priority order is established for the use of reading data privileging effective ones.

Compensation payable by the seller is provided for if the closing invoice is issued after the deadlines set and automatic compensation payable by the distributor if the terms for making data available to the seller

are not observed and compensation to be paid to the final customer if the distributor makes available the metering data after 30 days from cessation of the supply.

**Resolution 233/2016/R/eel: Calculation of provisional reference tariffs for the electricity distribution service for 2016.**

The Resolution provides for the provisional calculation of reference tariffs for the electricity distribution service under paragraph 8.1 of the integrated code on transport (TIT) for 2016, in respect of companies serving over 100,000 supply points.

With Directive DIUC 18/2016, in addition, the Authority – in line with the indications pursuant to Res. 233/2016 – provided to the distributors the precise stratifications of the assets used to determine the tariffs in order to study in depth and check with the said distributors the consistency with the accounting information available.

**Resolution 302/2016: revision of rules on the withdrawal of retail customers.**

Based on Resolution 302/2016/R/com, the AEEGSI amended the procedures and timing for exercising the right of withdrawal from supply contracts for small final customers, with the objective of also standardising rules in the context of changes in the retail market.

The new rules take effect from 1 January 2017, including contracts existing at that date.

**Resolution 413/2016/R/com - New integrated text of the regulation on the commercial quality of sales services and amendments to the regulation on the commercial quality of electricity and natural gas distribution services, to the commercial code of conduct and to Bill 2.0.**

The AEEGSI reformed significantly the Integrated Text on Sale Quality (ITSQ), some parts of the Integrated Texts on electricity and natural gas distribution (ITEQ and RGDQ) related to the activities of exchanging data between sellers and distributors for the purposes of responding to the complaints of final customers, the Code of commercial conduct in the part that regards the disclosure obligations of sellers. It also intervened to increase the efficiency of the processing of complaints at the first level (stage in which final customers' complaints are processed by the seller/distributor) and finally the Bill 2.0 measure.

**Resolution 463/2016/R/com: Provisions on periodic invoicing, compensation payable by sellers and distribution companies and further obligations of the above companies, on the subject of metering.**

The provision approves the "Integrated Text of AEEGSI rules on Invoicing of the retail sales service for electricity and natural gas customers (ITI)" and introduces compensation payable by sellers and distribution companies and further obligations of the above companies, on the subject of metering.

The rules of the ITI apply to all supplies under the system of greater protection, gas protection and Similar Protection; this resolution applies also to the free market, subject to certain permitted exceptions, in general in greater favour of customers.

The rules apply to all domestic and non-domestic customers connected in low voltage – for the electrical sector – and to all customers with consumption of less than 200,000 m<sup>3</sup>/year – for the natural gas sector.

The resolution reforms all the aspects of invoicing: issue and frequency of periodic invoices, order of use of the metering data, recalculations and other invoicing rules (including a prohibition on invoicing consumption after the issue date - a rule to which no exception can be made), self-reading and general standards for the quantification of estimated consumption and the compensation in favour of final customers (for both sellers and distributors).

**CD 225/2016: Protection of final customers, processing complaints and out-of-court settlement of disputes.**

The document confirms the outline proposed in the previous CD 614/2015, namely the objective to rationalise and reform the protection system, by acting on three escalation levels:

- first level: focused on processing the complaint, involving the customer and the company  
Implementation expected between January 2017 and July 2018
- second level: the attempt at reconciliation is confirmed as the primary resolution tool in individual disputes
- third level: referring directly to the Authority, and accessible only according to specific conditions  
Implementation should take place during 2017.

The Consumer Area Call Centre is tasked with disseminating information to final customers regarding the tools available to resolve disputes with suppliers, and more generally to increase information regarding their rights.

## REGASIFICATION

### **Resolution 191/2016/R/gas. Integration of application procedures for the hedge on revenue for the regasification LNG service, following the introduction of the integrated regasification and storage service.**

Ministerial Decree 25/2/2016 and Res. no. 77/2016, together with Res. no. 135/2016 introduced auctions for the allocation of regasification capacity, authorising final industrial customers to procure LNG directly from abroad. The MED decided to hold the auction for regasification capacity at the same time as the auction for storage capacity. To implement the above Ministerial Decree, with Resolution no. 135/2016 the AEEGSI regulated the methods for calculating the reserve price for the auction procedures for conferment of capacity for the integrated regasification and storage service for the year 2016/2017. Finally with Res. no. 191/2016 the AEEGSI adjusted the OLT guarantee factor to take into account revenue that can be realised with the new integrated regasification and storage service. The resolution updates the calculation formula for the guarantee factor, by subtracting 64% of revenue realised with the integrated service from the reference revenue to be multiplied, in addition to revenue arising from unit fees received for the normal use of plants and the flexibility service.

### **Tariffs: Resolution 392/2016/R/Gas (Determination of the tariff for the LNG regasification service, for the year 2017) and Resolution 607/2016/R/gas (Launch of proceedings for compliance with the Council of State judgements no. 3356/2016 and no. 3552/2016 on the subject of determination of the tariffs)**

AEEGSI with Resolution 392/2016 approves the tariffs presented by certain operators, including the company OLT, and undertakes to quickly adjust the company's tariffs for the year 2016/2017, in consideration of the decision of the Council of State (judgements no. 3356/2016 and no. 3552/2016). With the subsequent Resolution no. 607/2016 the Authority, after the above Council of State judgements, launches a proceeding to ascertain the effectiveness of the waiver of the exemption by OLT. In addition, in this resolution the AEEGSI expresses its position in relation to the fact that the terminal has to bear the transport costs on the entire capacity instead of on the basis of the effective provision of the service. While awaiting the conclusion of the proceeding it states that the 2016 and 2017 tariffs in force as of today will continue to apply.

## SIGNIFICANT EVENTS OF THE PERIOD

### **IRETI S.p.A.**

Following the extraordinary operations carried out at the end of 2015 with effects from 1 January 2016, IRETI S.p.A. began to operate.

The company handles the water services in the provinces of Genoa, Savona, La Spezia, Parma, Piacenza and Reggio Emilia where it operates in the fields of water supplies, sewerage and purification of waste water. With more than 18,000 km of aqueduct networks, over 9,300 km of sewerage networks and 1,085 treatment plants, the company serves more than 2,550,000 inhabitants of 219 municipalities, distinguishing itself as the third largest operator in Italy in the water services sector by number of cubic metres managed.

Through more than 7,600 km of network the company distributes natural gas in the municipality of Genoa and in 19 other surrounding municipalities, as well as in 72 municipalities of the provinces of Parma, Piacenza and Reggio Emilia, for a total of approximately 726,000 customers served.

With approximately 7,300 km of medium and low voltage networks IRETI distributes electricity in the cities of Turin and Parma; with a portfolio of more than 1.5 million customers, IRETI is the fifth largest operator in Italy in the electricity sector in terms of quantity of distributed electricity.

In the territory of Emilia in addition IRETI manages the public street lighting and traffic light services, not only maintaining and managing the present plants but also designing and building new ones.

### **TRM**

The Iren Group has achieved another important objective of the business plan which determined the acquisition of control over TRM S.p.A., a company, which manages in particular the final waste treatment activity serving the province of Turin. In fact, on 29 January 2016 an agreement was signed for acquisition by Iren S.p.A. - through the subsidiary Iren Ambiente S.p.A. - with a 100% stake in F2i Ambiente S.p.A. (now TRM Holding S.p.A.), which holds as its only equity investment 51% of TRM V. S.p.A.

Iren Ambiente S.p.A. already held 49% of the share capital of the company TRM V. S.p.A. and through this operation the latter becomes a subsidiary of the Iren Group.

TRM V S.p.A. holds 80% of the share capital of TRM S.p.A., a company which has received the contract to design, build and manage up to 2034 the waste-to-energy plant using urban and similar waste serving the province of Turin which was authorised by the city in July 2015 on saturation of the thermal load under the terms of Art. 35 of the "Sblocca Italia" Law Decree.

The plant has a waste-to-energy capacity of approximately 500,000 tonnes of undifferentiated urban waste, with production of energy.

The acquisition enables the Group to triple its waste-to-energy capacity, confirming Iren among the first three companies at the national level in terms of waste treated and represents, in addition, a solid base on which to build any further successful operations in the sector.

### **Sale of the TLC network in the territory of Emilia**

Through the subsidiary IRETI S.p.A., a company operating local public network services, on 21 March 2016 the Group signed an agreement with BT Italia S.p.A., which provides for the sale of a business unit consisting of the telecommunications (TLC) network present in Emilia Romagna, the related rights and authorisations, and the receivable and payable contracts involving the business unit. The contract comes in the context of the previous agreements between IRETI (formerly Iren Emilia) and BT Italia/BT Enìa which already attributed to BT Enìa, a BT Italia subsidiary and IRETI investee, the long-term indefeasible rights for use of the TLC Network.

At the same time BT Enìa and IRETI signed a specific contract that grants to the latter the right to use, for a period of 30 years renewable for another 10, 25% of the total capacity of the TLC network sold and grants to BT Enìa the right to use, for a period of 30 years renewable for another 10, 25% of the physical space existing inside all the service cable ducts of the district heating network owned by Iren Energia in the Emilia Romagna Region.

The operation, in keeping with the guidelines of the business plan, thus allows a rationalisation of the asset portfolio in the TLC sector and additional use of the infrastructures serving urban district heating, conserving at the same time access to the TLC network for the needs and requirements of the Iren Group and of the Public Bodies of reference.

### **Shareholders' Meeting of Iren S.p.A.**

On 9 May 2016 the Shareholders' Meeting of Iren S.p.A., in the ordinary session, approved the Company's Financial Statements in relation to financial year 2015 and resolved to distribute a dividend of 0.055 euro per share, confirming what had been proposed by the Board of Directors. The dividend of 0.055 euro for each ordinary and savings share was paid starting from 22 June 2016 (dividend coupon date 20 June 2016 and record date 21 June 2016).

With approval of the financial statements at 31 December 2015 the term of the Board of Directors in office at the time expired.

The Shareholders' Meeting therefore proceeded to appoint the new Board of Directors of the company which will remain in office for financial years 2016/2017/2018 (expiry: date of approval of the financial statements of financial year 2018).

The thirteen members of the new Board of Directors are: Marco Mezzalama, Lorenza Franca Franzino, Fabiola Mascardi, Marta Rocco, Alessandro Ghibellini, Moris Ferretti, Isabella Tagliavini, Barbara Zanardi, Paolo Peveraro, Ettore Rocchi, Massimiliano Bianco, appointed from the list presented by Finanziaria Sviluppo Utilities S.r.l. and 64 former Eni public shareholders and voted by the majority, to whom must be added Paolo Pietrogrande and Licia Soncini appointed from the list presented by Anima SGR S.p.A., voted by the minority.

The Meeting also appointed Paolo Peveraro to the position of Chairperson of the Board of Directors for financial years 2016/2017/2018.

In the extraordinary session the Shareholders' Meeting approved:

- (i) the amendments to Articles 6, 9, 10, 16, 18, 19, 21, 25, 27, 28 and 38 and the insertion of Articles 6-bis, 6-ter and 6-quater of the Articles of Association to introduce increased voting rights ("loyalty shares") and
- (ii) the insertion of Paragraph 4 in Article 5 of the Articles of Association to delegate to the Board of Directors, under the terms of Article 2443 of the Italian Civil Code, capital increases with exclusion of the option right up to a maximum amount of a nominal 39,470,897.00 euro.

### **Company officers**

After the Shareholders' Meeting had appointed Paolo Peveraro as Chairperson, the new Board of Directors at its meeting on 9 May 2016 appointed Ettore Rocchi as Deputy Chairperson and Massimiliano Bianco as CEO, in addition to granting powers and proxies as envisaged in the current Articles of Association.

### **Acquiring majority shareholding in Atena S.p.A.**

The Group's ongoing commitment to achieving the objectives set in the business plan resulted in a majority shareholding being acquired in Atena S.p.A.

Through its subsidiary IRETI, Iren increased its stake in the share capital of Atena S.p.A from 22.7% (following the merger by incorporation of Atena Patrimonio) to 60.0% of the corporate shareholding.

Subsequent to the framework agreement entered into between Iren and the municipality of Vercelli on 21 December 2015 to form the basis for the Atena development project, this result was achieved with IRETI subscribing to a share capital increase of 50 million euro on 26 May 2016, which the Shareholders' Meeting of Atena S.p.A. had resolved on 21 December 2015 (at the same time as the extraordinary Shareholders' Meeting of Atena S.p.A. and Atena Patrimonio that resolved to merge the two entities), and the acquisition by the municipality of Vercelli on the same date of an additional 7.9% of the post-merger company's share capital, for 10.47 million euro.

The transaction referred to above is based on one of the main strategic principles forming the basis of the Group's business plan: territorial consolidation within the Group's reference areas.

The development is at the cornerstone of the management strategy for Atena S.p.A., with significant investments envisaged in electricity, water, environmental networks and energy efficiency.

### **Supply of electricity to the Public Administration**

Through the subsidiary IREN Mercato, the Group was confirmed as the winner of 2 lots of the annual tender called by Consip for supplying electricity to the Public Administration.

In continuity with the current agreement in being IREN Mercato will continue to be the reference supplier of the Public Administration of Liguria, Lombardy, Emilia Romagna and Trentino.

The agreement that IREN Mercato will sign with Consip will have a term of 12 months within which it may receive orders from the Public Administration for a total volume of electricity of 1.4 TWh on approximately 50,000 supply points with a turnover estimated of approximately 250 million euro.

As in the existing agreements IREN Mercato will offer the possibility, to Public Administrations which request it, to certify the supply of energy from renewable sources (Green Energy certification), making use of the Group's renewable production, in particular from hydroelectric sources.

With this result IREN consolidates its growth process through efficiency, innovation, sustainability and collaboration with the Local Communities and territories, in line with the objectives and the vision of the Group's business plan.

**Purchase of stake in Re. Cos. S.p.A.**

The Temporary Consortium set up by Iren Ambiente and Ladurner S.r.l., was awarded the tender, called by ACAM S.p.A., for the sale of 51% of Re. Cos. S.p.A.. The purchase of 51% of the company's share capital, divided equally between IREN Ambiente and Ladurner S.r.l. on the basis of 25.5% each, was completed with a notarial deed on 29 September 2016. A 49% stake will remain in the hands of ACAM S.p.A..

Re. Cos. S.p.A. will be the holder of the concession for the revamping and management of urban waste processing serving mainly the province of La Spezia and part of the Tigullio valley, and will manage the Saliceti waste selection and processing plant and the Boscalino plant, processing the "green" portion deriving from grass cutting and pruning.

For the IREN Group the operation constitutes a further important step in the process of territorial consolidation outlined in the business plan and it allows to strengthen its presence in a fragmented area such as Liguria. It represents, in addition, an important initiative on the basis of which further operations in the area can possibly be developed.



# BASIS OF PREPARATION

## CONTENT AND STRUCTURE

Italian Legislative Decree no. 25 of 15 February 2016 (OJ no. 52 of 3 March 2016) transposed Directive 2013/50/EU on the harmonisation of transparency requirements for issuers whose securities are admitted to trading (the so-called Transparency Directive), introducing a new package of amendments to the “Testo Unico della Finanza” [Consolidated Law on Finance - CLF], the most significant of which regards the end of the obligation to make available to the public quarterly financial reports; starting from 18 March 2016, listed companies are in fact no longer required to publish accounts every three months, even in a simplified form.

As explained in the “Introduction” to the present document, given that the new rules for Issuers will come into force on 2 January 2017, the Iren Group has decided, in continuity with the past, to publish the present financial disclosure for the first nine months of 2016, which reflects in the content and the form the previous Interim Reports. The accounting standards used in the preparation of the Interim Report at 30 September 2016 are the “International Financial Reporting Standards – IFRSs” issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union. “IFRSs” also means the International Accounting Standards (“IASs”) that are still in force, as well as all interpretative documents issued by the International Financial Reporting Interpretations Committee (“IFRIC”) and by the former Standing Interpretations Committee (“SIC”).

## ACCOUNTING STANDARDS ADOPTED

The accounting standards and measurement criteria, and the consolidation principles, adopted in preparing this consolidated interim report on operations are the same as those adopted in preparing the consolidated annual financial statements for the financial year ended 31 December 2015, to which you are referred for a more ample discussion, with the exception of what follows.

Starting from 1 January 2016 the following accounting standards and amendments to accounting standards are obligatorily applicable, as they have completed the EU endorsement process:

- Amendments to IAS 19 - Employee benefits: Defined benefit plans: employee contributions (Regulation 29/2015). Document issued by IASB on 21 November 2013, applicable as of financial years starting on 1 February 2015 or later. The objective of the amendments is to simplify recognition of contributions that are independent of the number of years of service for employees, for example contributions from employees that are calculated on the basis of a fixed percentage of their salary.
- Amendments to IFRS 11 - Joint arrangements: Acquisition of an interest in a joint operation (Regulation 2173/2015). Amendments issued by IASB on 6 May 2014, applicable as of financial years starting on 1 July 2016, with early application allowed. The document establishes that the standards contained in IFRS 3 - Business Combinations relating to recognition of the effects of a business combination must be applied to recognise the acquisition of an interest in a joint operation, in which the activity constitutes a business.
- Amendments to IAS 16 and IAS 38 - Clarifications on acceptable methods of depreciation and amortisation (Regulation 2231/2015). Amendments issued by IASB on 12 May 2014, applicable as of financial years starting on 1 January 2016. The document specifies that the use of a revenue-based method for calculating depreciation or amortisation of property, plant and equipment and intangible assets is not appropriate, because revenues generated by an asset which entails the use of property, plant and equipment and intangible assets generally reflect factors other than deterioration of the economic benefits embodied in the assets themselves. The amendment is applicable starting from 1 January 2016.

On 25 September 2014, the International Accounting Standards Board (IASB) published the document “Improvements to the International Financial Reporting Standards (2012–2014 Cycle)”, subsequently adopted by the European Union with Regulation 2343/2015. These improvements, applicable as of financial years starting on 1 January 2016 or later, include amendments to the main international accounting standards:

- Improvement to IFRS 5 - Non-current assets held for sale and discontinued operations: change in disposal plan. The amendment establishes the guidelines to follow in the case an entity reclassifies an

asset (or group being discontinued) from the held for sale category to the held for distribution category (or vice versa), or when the requirements for classifying an asset as held for distribution no longer exist.

- Improvement to IFRS 7 - Financial instruments: Disclosures. The document governs the introduction of additional guidelines to clarify whether a servicing contract constitutes residual involvement in a transferred asset for the purposes of the required disclosure. In addition, relative to offsetting of financial assets and liabilities, the document clarifies that this disclosure is not explicitly required for interim financial report.  
Nonetheless, the disclosure could be necessary to respect the requirements foreseen under IAS 34, if it is significant information.
- Improvement to IAS 19 - Employee Benefits: discount rate issues. The document introduces amendments to IAS 19 in order to clarify that high-quality corporate bonds used to determine the discount rate for subsequent benefits must be issued in the same currency used to pay the benefits. The amendments specify that the depth of the market for high-quality corporate bonds should be assessed at the currency level.
- Improvement to IAS 34 - Interim Financial Reporting: placement of additional disclosures. The document introduces amendments to clarify the requirements when the required disclosure is presented in the interim report, but outside of the financial statement sections. The amendment specifies that this disclosure is included through cross-references made between the two documents, provided that they are available to readers of the financial statements with the same method and in the same time.

Amendments to IAS 1 – Presentation of Financial Statements (Regulation 2406/2015). Document issued by the IASB on 18 December 2014. The amendments, which apply as of financial years which start on 1 January 2016, have the goal of making financial statements clearer and more intelligible. The amendments introduced involve:

- materiality and aggregation - it is clarified that information must not be obscured by aggregation or disaggregation and that the concept of materiality applies to the accounting statements, the notes to the statements and the specific disclosure requirements foreseen in the individual IFRSs. It is clarified that disclosures specifically requested in the IFRS need to be provided only if the information is material;
- statement of financial position and statement of comprehensive income - it is clarified that the list of items specified in IAS 1 for these statements can be disaggregated and aggregated as necessary. In addition, guidelines are provided on the use of subtotals within the statements;
- presentation of other components in the statement of comprehensive income (OCI: Other Comprehensive Income) - it is clarified that the portion of OCI for associates and joint ventures consolidated with the equity method must be presented in aggregate in a single item, distinguished based on whether they are components that could be reclassified to the income statement in the future or not;
- notes to the statements - it is clarified that entities can be flexible in defining the structure of the notes to the statements, and guidelines are provided on how to develop the structure of the notes.

## **ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET ENDORSED BY THE EUROPEAN UNION**

Endorsement is currently in progress by the relevant bodies of the European Union for the following standards, updates and amendments to the IFRSs (already approved by the IASB), as well as the following interpretations (already approved by the IFRIC):

*IFRS 9 - Financial Instruments*. In July 2014 the IASB published the standard IFRS 9 “Financial Instruments”. 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. In particular, 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. 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, in the event that these are due to a change in the credit risk of the liability itself. According to the new standard, these changes should be recognised under Other comprehensive gains/(losses) and will no longer be entered in the income statement;

- impairment of financial assets. The standard establishes that the entity must recognise the expected losses on its financial assets, where “loss” means the present value of all future lost revenue, and provide adequate information 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 9 will be applicable prospectively starting from 1 January 2018.

*IFRS 15 – Revenue from Contracts with Customers*. Standard published by the IASB on 28 May 2014, replacing 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, for insurance contracts and 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. The standard in question applies if all the following conditions are met:

- i. the parties have approved the contract and have undertaken to perform their respective obligations;
- ii. each party's rights in relation to the goods or services to be transferred and the payment terms have been identified;
- iii. the contract signed has commercial substance (the risks, timing or amount of the future cash flows of the entity can change as a result of the contract);
- iv. it is probable that the amounts associated with performance of the contract will be collected and paid.

The new standard will be applicable starting from 1 January 2018.

This principle underwent further change on 12 April 2016: the amendment that also becomes applicable from 1 January 2018, aims to clarify the guidelines for identifying an obligation to sell an asset or provide one or more services, in addition to providing directives on the recognition of licences relating to intellectual property.

*Amendments to IFRS 10, IFRS 11 and IAS 28 – Investment Entities: Applying the Consolidation Exception*. The document, published by IASB on 18 December 2014, introduces the following amendments:

- exemption from preparing consolidated financial statements for an intermediate parent entity is granted also for a parent entity that is a subsidiary of an investment entity;
- a subsidiary that provides services related to the parent's investment activities should not be consolidated if the subsidiary itself is an investment entity;
- when applying the equity method to an associate or a joint venture that is an investment entity, a non-investment entity investor in an investment entity may retain the fair value measurement applied by the associate or joint venture to its interests in subsidiaries;
- an investment entity measuring all of its subsidiaries at fair value must provide the disclosures relating to investment entities required by IFRS 12.

*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 and introduces criteria 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 the use of the asset and the right to control the use of

the asset underlying the contract. It will be applied as of 1 January 2019. Early application is allowed for entities that apply IFRS 15.

*Amendments to IAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses.* Document issued by the IASB on 19 January 2016. The amendments, which apply for financial years starting on 1 January 2017, clarify how to recognise a deferred tax asset related to a financial liability measured at fair value. Early application is allowed.

*Amendments to IAS 7 - Disclosure Initiative.* Document issued by the IASB on 29 January 2016. The amendments, which apply to financial years starting on 1 January 2017, requires entities to provide information about changes in their financial liabilities, in order to allow users to better assess the reasons underlying changes in the entity's debt.

*Amendments to IFRS 2 - "Share-based payments".* Document issued by the IASB on 20 June 2016. 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 transactions with share-based payment. In particular, the amendments refer to:

- the impact of accrual and non-accrual conditions on the valuation of transactions with cash-settled share-based payments;
- the recognition of share-based payment transactions that require withholding tax to be applied;
- the reclassification of cash-settled transaction to equity-settled due to changes in the transaction's terms and conditions.

As regards the new standards applicable starting from subsequent financial years, assessments for their correct application and analyses of the presumable impacts on future financial statements are in progress.

#### **USE OF ESTIMATES**

The preparation of the interim report has required the use of estimates and assumptions that affect the reported amounts of revenues, costs, assets and liabilities. The later results that derive from occurrence of events could differ from these estimates.

It should also be noted that certain complex valuation processes, such as the determination of any impairment losses on non-current assets, are generally carried out in full only on preparing the annual financial statements, when all the information that may be needed is available, except in cases when there is evidence of impairment that requires an immediate measurement of any losses. In the same way, the actuarial valuations necessary to determine employee benefit funds are normally carried out when preparing the annual financial statements.

It should also be remembered that the interim report is not subject to independent auditing.

## CONSOLIDATION SCOPE

On 1 January 2016 a series of business combinations among the subsidiaries of the Parent Company Iren S.p.A. came into effect. These occurred as part of the Group's "overall" Corporate Rationalisation and Organisational Project (the so-called "100% Operations" Project), aimed at simplifying the equity investment structure and reducing the number of business Companies held wholly, directly or indirectly, by the Parent Company and at integrating/optimising the business processes/activities with uniform operating characteristics.

These operations did not entail a change in consolidation scope, but in any case had effects on the Group's structure.

Specifically, the operations involved were the following:

- Merger by incorporation into Iren Emilia (which at the same time took on the name IRETI) of the Group companies AGA, Eniatel, Iren Acqua Gas, Acquedotto di Savona, Genova Reti Gas and AEM Torino Distribuzione;
- Merger by incorporation into Iren Ambiente of the companies Iren Ambiente Holding and Tecnoborgo;
- Merger by incorporation of TLR V. into Iren Energia;
- Merger by incorporation of O.C. Clim into Iren Gestioni Energetiche.

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

### Parent Company:

Iren S.p.A.

### Companies consolidated on a line-by-line basis

The four Companies directly controlled by the Parent Company are consolidated on a line-by-line basis:

#### 1) Iren Ambiente and its subsidiaries:

- Amiat V and the subsidiary:
  - AMIAT
- Bonifica Autocisterne
- Montequerce
- TRM Holding and subsidiaries:
  - TRM V, and its subsidiary
    - TRM

#### 2) Iren Energia, and the subsidiary:

- Iren Servizi e Innovazione

#### 3) Iren Mercato and its subsidiaries:

- Iren Gestioni Energetiche
- GEA Commerciale

#### 4) IRETI and its subsidiaries:

- Atena S.p.A. and its subsidiary:
  - Atena Trading
- Consorzio GPO
- Laboratori Iren Acqua Gas (on 1 October 2016 the company name changed to Iren Laboratori)
- Mediterranea delle Acque and its subsidiaries:
  - Idrotigullio
  - Immobiliare delle Fabbriche

## CHANGES IN CONSOLIDATION SCOPE

The changes in consolidation scope during the first nine months of 2016 were due to:

- the purchase in January by Iren Ambiente S.p.A. of a 100% stake in the company F2i Ambiente S.p.A. (now TRM Holding S.p.A.), which holds as its only equity investment 51% of TRM V S.p.A. TRM V S.p.A., in which the Iren Group already held 49% of the share capital, is therefore also 51% owned by TRM Holding S.p.A. TRM V S.p.A. holds 80% of the share capital of TRM S.p.A., the company which owns the waste-to-energy plant using urban and similar waste serving the province of Turin. As a result of the operation described above, TRM Holding S.p.A., TRM V S.p.A., carried at equity up to 31 December 2015, and TRM S.p.A. come into the full consolidation scope. While awaiting the assessment to be carried out under the terms of IFRS 3 - Business Combinations, the positive difference between the purchase price and the carrying amount of the net assets acquired in continuity of values, was provisionally allocated to goodwill.
- the acquisition of control in May of Atena S.p.A. with IRETI subscribing to a share capital increase of 50 million euro, which the Shareholders' Meeting of Atena S.p.A. had resolved on 21 December 2015 (at the same time that the extraordinary Shareholders' Meetings of Atena S.p.A. and Atena Patrimonio resolved the merger between the two entities) and the purchase by IRETI from the municipality of Vercelli of 1,918,265 Atena S.p.A. shares corresponding to 7.9% of the post-merger company's share capital. Atena S.p.A. holds 100% of the share capital of Atena Trading. As a result of the operation described above, Atena S.p.A., carried at equity up to 30 April 2016, and Atena Trading S.r.l. come into the full consolidation scope. While awaiting the assessment to be carried out under the terms of IFRS 3 - Business Combinations, the negative difference calculated on a provisional basis, between the purchase price and the carrying amount of the net assets acquired in continuity of values, was recognised in the income statement.

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

## Income statement

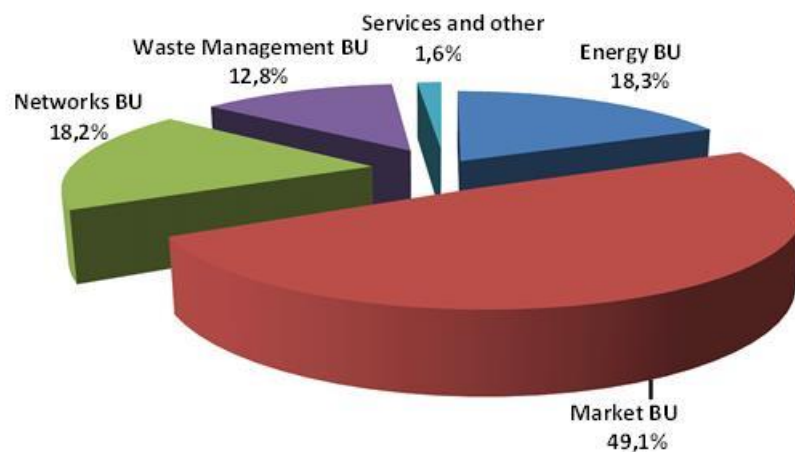
### IREN GROUP CONSOLIDATED INCOME STATEMENT

	thousands of euro		
	First nine months 2016	First nine months 2015	Change %
<b>Revenue</b>			
Revenue from goods and services	2,059,446	2,030,877	1.4
Change in work in progress	12,368	880	(*)
Other income	156,554	187,107	(16.3)
<b>Total revenue</b>	<b>2,228,368</b>	<b>2,218,864</b>	<b>0.4</b>
<b>Operating expense</b>			
Raw materials, consumables, supplies and goods	(619,874)	(718,765)	(13.8)
Services and use of third-party assets	(743,040)	(693,921)	7.1
Other operating expenses	(55,679)	(61,048)	(8.8)
Capitalised expenses for internal work	15,829	19,037	(16.9)
Personnel expenses	(266,702)	(266,573)	0.0
<b>Total operating expense</b>	<b>(1,669,466)</b>	<b>(1,721,270)</b>	<b>(3.0)</b>
<b>GROSS OPERATING PROFIT (EBITDA)</b>	<b>558,902</b>	<b>497,594</b>	<b>12.3</b>
<b>Amortisation, depreciation, provisions and impairment losses</b>			
Amortisation/depreciation	(215,900)	(198,103)	9.0
Provisions and impairment losses	(57,560)	(46,699)	23.3
<b>Total amortisation, depreciation, provisions and impairment losses</b>	<b>(273,460)</b>	<b>(244,802)</b>	<b>11.7</b>
<b>OPERATING PROFIT (EBIT)</b>	<b>285,442</b>	<b>252,792</b>	<b>12.9</b>
<b>Financial income and expense</b>			
Financial income	17,747	19,987	(11.2)
Financial expenses	(96,214)	(87,693)	9.7
<b>Total financial income and expense</b>	<b>(78,467)</b>	<b>(67,706)</b>	<b>15.9</b>
Share of profit (loss) of associates accounted for using the equity method	(674)	388	(*)
Value adjustments on equity investments	12,599	-	-
<b>Profit (loss) before tax</b>	<b>218,900</b>	<b>185,474</b>	<b>18.0</b>
Income tax expense	(78,652)	(69,766)	12.7
<b>Net profit (loss) from continuing operations</b>	<b>140,248</b>	<b>115,708</b>	<b>21.2</b>
Net profit (loss) from discontinued operations	-	-	-
<b>Net profit (loss) for the period</b>	<b>140,248</b>	<b>115,708</b>	<b>21.2</b>
attributable to:			
- Profit (loss) - Group	124,870	98,847	26.3
- Profit (loss) - non-controlling interests	15,378	16,861	(8.8)

(\*) Change of more than 100%

### Revenue

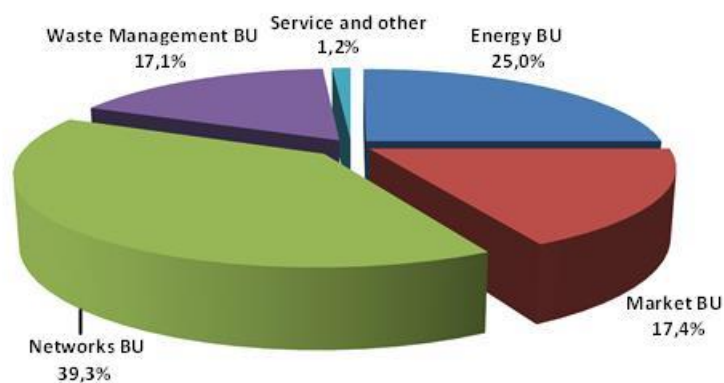
At 30 September 2016 the Iren Group achieved revenue of 2,228 million euro up +0.4% compared to 2,219 million euro in the corresponding period of 2015 owing mainly to a reduction in commodity prices and to the lower gas and heat volumes sold as a result of a milder winter season. This was more than offset by extending the consolidation scope to include TRM, the company which manages the waste-to-energy plant in Turin and, as of 1 May, also by the Atena group operating as a multi-service and sale company in the area of Vercelli and surrounding municipalities.



### Gross Operating Profit (EBITDA)

The gross operating profit amounted to 559 million euro, up by +12.3% compared to 496 million euro in the corresponding period of 2015. The increase refers mainly to the operating synergies on costs and to the change in the consolidation scope, with the inclusion of TRM as from January 2016 and the Atena Group from May; in addition, unlike in the first half of 2015 the figures for the time period from January to September include those of the “Ramo Ligure” business unit acquired from Acque Potabili S.p.A. that took effect on 1 July 2015.

All business areas contributed to the upward trend, with the only exception of hydroelectric production due to the fall in electricity prices and the segments of electricity networks and integrated water cycle that were both affected by the revenue constraint imposed by the AEEGSI (revision of remuneration on invested capital), and to the lower contingent assets which characterised financial year 2015 and in particular: revenue from equalisation of previous years on electricity distribution and adjustments of previous tariffs for the integrated water cycle.



### Operating profit/(loss) (EBIT)

Operating profit totalled 285 million euro, an improvement of +12.9% compared to the figure of 253 million euro in the corresponding period of 2015. The result reflects the trend in Gross Operating Profit (EBITDA), which was partially absorbed by amortisation/depreciation higher by 8 million euro owing mainly to the consolidation of TRM, and provisions and impairment losses higher by 11 million euro.



**Financial income and expense**

Financial income and expense showed a balance of -78 million euro (-68 million euro in the corresponding comparative period). In particular financial expenses amounted to 96 million euro (88 million euro in the first nine months of 2015). The change is mainly attributable to the different consolidation scope with the inclusion of TRM's financial expenses. Financial income amounted to 18 million euro. During the corresponding period, these amounted to 20 million euro, which included the capital gain of 2 million euro deriving from the sale of a non-controlling interest.

**Share of Profit (loss) of associates accounted for using the equity method**

The result of associates accounted for using the equity method amounted to -0.7 million euro (+0.4 million euro in the first nine months of 2015). The change during the period (-1.1 million euro) was mainly due to the trend in the pro-rata result of ASA, partially mitigated by the overall positive change in the results of other associates.

In the first nine months of 2015, this item included the results for TRM V. and Atena, now fully consolidated.

**Value adjustments on equity investments**

This item amounted to +12.6 million euro (not present in the comparative period), and refers to the restatement at fair value, at the date the controlling stake was acquired of the minority interest held at 31 December 2015, in TRM V. (10.5 million euro) and the difference between the net assets acquired by the Atena Group and the purchase cost (2.1 million euro).

**Profit/(loss) before tax**

As a result of the above trends the consolidated profit before tax came out at 218.9 million euro, up on the 185.5 million euro recorded in the first nine months of 2015.

**Income tax expense**

Income tax for the period amounted to 78.7 million euro, up by 12.7% compared to same period of 2015. The effective tax rate was 35.9% (37.6% in the corresponding period of 2015) and represents an estimate, as of today, of the proportion of the cost of taxes for 2016.

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

The net profit amounted to 140.3 million euro, up by 21.2% compared with the same period of 2015 (115.7 million euro).

## 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 (Telecommunications, Public Lighting, Global Services and other minor services).

These operating segments are disclosed pursuant to IFRS 8. Under this standard, the disclosure about operating segments should be based on the elements which 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.

Below are the main income statement items with the related comments broken down by operating segment compared to the figures of the first 9 months of 2015.

In first 9 months of 2016 non-regulated activities contributed to the formation of gross operating profit for 29% (22% in 2015), regulated activities accounted for 45% (53% in 2015), while semi-regulated activities grew, going up from 25% in 2015 to 27% in 2016.

## Energy BU

At 30 September 2016, the revenue of the period totalled 547 million euro, down by -1.8% compared to the 557 million euro of the corresponding period of 2015.

		First 9 months 2016	First 9 months 2015	Δ %
Revenue	€/mln	547	557	-1.8%
Gross Operating Profit (EBITDA)	€/mln	140	120	16.2%
<i>EBITDA Margin</i>		25.5%	21.6%	
Operating profit (EBIT)	€/mln	52	25	(*)
Investments	€/mln	25	22	17.7%
Electricity produced	GWh	5,612	5,460	2.8%
<i>from hydroelectric sources</i>	GWh	999	1,157	-13.7%
<i>from cogeneration sources</i>	GWh	3,391	3,108	9.1%
<i>from thermoelectric sources</i>	GWh	1,222	1,195	2.2%
Heat produced	GWh <sub>t</sub>	1,610	1,665	-3.3%
<i>from cogeneration sources</i>	GWh <sub>t</sub>	1,373	1,416	-3.1%
<i>from non-cogeneration sources</i>	GWh <sub>t</sub>	238	249	-4.7%
District heating volumes	Mm <sup>3</sup>	82	80	2.1%

5,612 GWh of electricity was produced, up by 2.8% compared to the 5,460 GWh of financial year 2015, as a result of higher thermoelectric production at the Turbigio plant and at the cogeneration plants.

In particular thermoelectric production was 4,613 GWh, of which 3,391 GWh from cogeneration sources, up by 9.1% compared to the 3,108 GWh of 2015 and 1,222 GWh from thermoelectric sources, connected with the contribution of the Turbigio plant up by 2.2% compared to the 1,195 GWh of 2015.

Hydroelectric production was 999 GWh, down by -13.7% compared to 1,157 GWh in 2015.

Heat production in the period amounted to 1,610 GWh<sub>t</sub> down by -3.3% compared to 1,665 GWh<sub>t</sub> in 2015, as a result of a particularly mild thermal season in the first half of the year compared to that of 2015 which more than offset the increase in volumes connected. Overall the district heating volumes amounted to approximately 82 million m<sup>3</sup> up by +2.1% compared to the 80 million m<sup>3</sup> of 2015.

Gross operating profit (EBITDA) amounted to 140 million euro, up +16.2% on the 120 million euro of the corresponding period of 2015.

The improvement that characterised the first nine months of 2016 was due to the recovery in the margins of both electricity and heat production in cogeneration, and to the rationalisation of the operating expense structure. This made it possible to completely absorb the effect of the drop in production and margins in the hydroelectric sector, lower production during the particularly mild thermal season, and also the fact that the corresponding period of 2015 showed significant non-repeatable contingent assets related mainly to former Edipower adjustments.

The operating profit (EBIT) of the Energy segment totalled 52 million euro, an improvement compared to the 25 million euro of the corresponding period of 2015. The improvement in the operating profit also reflects the trend in the gross operating profit (EBITDA) that benefited from lower amortisation/depreciation and from the release of provisions, owing to suspension of the related risks, which offset the higher provisions set aside in the period.

Technical investments made in this sector amounted to 25 million euro.

## Market BU

At 30 September 2016, the revenue of the sector totalled 1,467 million euro, down by -10.8% compared to the 1,646 million euro of the corresponding period of financial year 2015.

Gross operating profit (EBITDA) amounted to 97 million euro and was up 46.8% compared to the 66 million euro recorded in 2015.

		First 9 months 2016	First 9 months 2015	Δ %
Revenue	€/mln	1,467	1,646	-10.8%
Gross Operating Profit (EBITDA)	€/mln	97	66	46.8%
<i>EBITDA Margin</i>		6.6%	4.0%	
	<i>from electricity</i> €/mln	44	13	(*)
	<i>from gas</i> €/mln	54	53	1.3%
	<i>from heat</i> €/mln	-0	0	(*)
Operating Profit (EBIT)	€/mln	53	37	45.4%
Investments		12	10	21.2%
Electricity Sold	GWh	7,354	8,898	-17.4%
Electricity sold net of Power Exchange purchases/sales	GWh	6,966	8,276	-15.8%
Gas purchased	Mm <sup>3</sup>	1,796	1,804	-0.4%
	<i>Gas sold by the Group</i> Mm <sup>3</sup>	621	693	-10.4%
	<i>Gas for internal use</i> Mm <sup>3</sup>	978	913	7.1%
	<i>Gas in storage</i> Mm <sup>3</sup>	198	198	-0.2%

(\*) Change of more than 100%

### *Sale of electricity*

The volumes of electricity sold amounted to 7,354 GWh (net of pumping, network leaks and dedicated withdrawals) down by -17.4% compared to the 8,898 GWh of the corresponding period of financial year 2015.

The drop is attributable solely to sales on the exchange carried out directly by the Energy business unit as from 1 April 2016, following the organisational restructuring of the energy management business.

Net of this organisational event, volumes sold on the free market, including the segments of free business, free retail customers and wholesalers, amounted to a total of 5,316 GWh, up 37.3% compared to the 3,871 GWh of 2015. All free market segments showed improvement, in particular the wholesalers segment recorded an increase of +26.1% with 2,114 GWh compared to the 1,677 GWh of 2015; free business customers posted sales for 2,202 GWh for a +70.3% improvement compared to the 1,293 GWh of 2015, whereas free retail customers recorded sales for 1,000 GWh with a +10.9% improvement compared to the 901 GWh of 2015.

The volumes sold on the protected market were 476.5 GWh, substantially in line with the 475.8 GWh of 2015.

The gross operating profit (EBITDA) of the sale of electricity amounted to 44 million euro, an increase compared to 13 million euro in financial year 2015. The trend for the gross operating profit was the first to record an upward movement for both the free market and the protected market. With regard to the free market, the improvement is attributable mainly to the tariff revision on the sales component, the improvement in the procurement conditions as well as the higher volumes sold. In respect of the higher protection market, the improved margins derive from the revision related to the recovery of expenses on the arrears of customers and from the revision of previous sales revenue.

### Sale of Natural Gas

The volumes sold amounted to 1,796 million m<sup>3</sup>, down by -0.4% compared to the 1,804 million m<sup>3</sup> of financial year 2015. The period was characterised by gas sold for 621 million m<sup>3</sup> down by 10.4% compared to the 693 million m<sup>3</sup> of 2015, while internal consumption increased by 7.1% to 978 million m<sup>3</sup> compared to the 913 million m<sup>3</sup> of financial year 2015.

The gross operating profit (EBITDA) of the period amounted to 54 million euro up by 1.3% compared to 53 million euro in the corresponding period of 2015. This increase can be attributed to an improvement in the margins on sales and in the procurement conditions that made it possible to completely absorb the lower volumes sold due to the particularly mild thermal season.

### Sale of heat through district heating networks:

Heat sales presented a break-even margin, in line with the margins of the corresponding period of 2015.

### Networks BU

At 30 September 2016 the segment of Network activities, which comprises the businesses of Gas Distribution, Electricity and the Integrated Water Service, recorded revenue of 543 million euro, down -14.1% compared to the 633 million euro of the corresponding period of 2015.

Gross operating profit (EBITDA) amounted to 219 million euro, down 5.9% from the 233 million euro of 2015.

The net operating profit (EBIT) amounted to 125 million euro, down by -15.4% compared to 148 million euro in the first half of 2015.

The main changes in the segments concerned are illustrated below.

		First 9 months 2016	First 9 months 2015	Δ %	
Revenue	€/mln	543	633	-14.1%	
Gross Operating Profit (EBITDA)	€/mln	219	233	-5.9%	
<i>EBITDA Margin</i>		40.4%	36.9%		
	<i>from electricity networks</i>	€/mln	51	54	-5.6%
	<i>from gas networks</i>	€/mln	56	55	2.1%
	<i>from Integrated Water Service</i>	€/mln	113	125	-9.5%
Operating Profit (EBIT)	€/mln	125	148	-15.4%	
	Investments	€/mln	97	101	-4.2%
	<i>in electricity networks</i>	€/mln	19	18	10.1%
	<i>in gas networks</i>	€/mln	25	24	5.9%
	<i>in Integrated Water Service</i>	€/mln	52	60	-12.5%
Electricity distributed	GWh	3,061	2,977	2.8%	
Gas distributed	Mm <sup>3</sup>	795	816	-2.6%	
Water sold	Mm <sup>3</sup>	126	114	10.6%	

### *Networks BU - Electricity*

The gross operating profit amounted to 51 million euro, down by -5.6% compared to 54 million euro in 2015.

The drop in the profit was mainly due to the contraction of the distribution revenue constraint deriving from the reduction of the remuneration of invested capital for tariff purposes defined by the AEEGSI for the new regulatory period, and the accounting effect on 2015 of the contingent asset related to equalisation of previous years. These events more than offset the positive effect of the contribution of Atena S.p.A. and the contraction of operating expense.

During the period investments for 19 million euro were made, mainly related to new connections, the construction of new LV/MV substations and LV/MV lines.

### *Networks BU - Gas Distribution*

Gross operating profit of gas distribution networks amounted to 56 million euro, up by +2.1% compared to 55 million euro in financial year 2015. The increase in the profit was mainly due to a reduction in operating expense which more than offset the reduction in the distribution revenue constraint due to the reduction, established by the AEEGSI, of the remuneration of invested capital.

Investments made in the period amounted to 25 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 BU - Water Cycle*

The gross operating profit of the period amounted to 113 million euro down by -9.5% compared to 125 million euro in the corresponding period of 2015. The reduction in profit was mainly due to the end of the positive effect of previous tariff adjustments recorded in 2015 and to the tariff revision related to the new regulatory period which, reducing the remuneration of invested capital, entailed a reduction in the revenue constraint. The negative effects of the above were in part absorbed by the operating synergies and by the change in the consolidation scope deriving from the acquisition of the Società Acque Potabili (SAP) business unit ("Ramo ligure") and of Atena S.p.A.

Investments in the period totalled 52 million euro and concerned the construction, development and maintenance of distribution networks and systems, the sewerage network and in particular water treatment plants.

## Waste Management SBU

At 30 September 2016 the revenue of the segment amounted to 382 million euro up by 10% compared to the 348 million euro of the corresponding period of 2015 principally as a result of the entry into the consolidation scope, from 1 January 2016, of TRM S.p.A. the company which manages the waste-to-energy plant in Turin and the consolidation of Atena S.p.A., the multi-service company based in Vercelli, from May 2016. This increase was partially offset by the lower energy revenue from waste disposal plants and lower revenue from collection by Amiat S.p.A..

		First 9 months 2016	First 9 Months 2015	Δ %
Revenue	€/mln	382	348	10.0%
Gross Operating Profit (EBITDA)	€/mln	96	57	67.8%
<i>EBITDA Margin</i>		<i>25.0%</i>	<i>16.4%</i>	
Operating profit (EBIT)	€/mln	50	24	(*)
Investments	€/mln	13	12	4.6%
Electricity sold	GWh	366	144	(*)
Thermal energy produced	GWh <sub>t</sub>	114	101	13.4%
Waste collected	tonnes	893,927	857,004	4.3%
Waste disposed of	tonnes	857,926	574,662	49.3%
	<i>Urban waste tonnes</i>	<i>552,299</i>	<i>208,553</i>	<i>(*)</i>
	<i>Special waste tonnes</i>	<i>305,627</i>	<i>366,109</i>	<i>-16.5%</i>

(\*) Change of more than 100%

Gross operating profit of the segment amounted to 96 million euro, up 67.8% on the 57 million euro of the corresponding period of 2015. The increase was mainly due to the consolidation of the TRM waste-to-energy plant in Turin, and the sharp reduction in disposal costs following less use being made of the external hubs.

The operating profit was 50 million euro, up compared to the 24 million euro recorded in 2015. The trend in gross Operating Profit (EBITDA) was partially absorbed by higher amortisation/depreciation of TRM only partially offset by lower provisions set aside by Iren Ambiente.

The investments made in the period amounted to 13 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 separated method.

## Services and other

		First 9 months 2016	First 9 months 2015	Δ %
Revenue	€/mln	46	67	-31.0%
Gross Operating Profit (EBITDA)	€/mln	7	21	-66.7%
<i>EBITDA Margin</i>		15.2%	31.4%	
Operating Profit (EBIT)	€/mln	5	19	-73.2%
Investments	€/mln	9	16	-40.9%

At 30 September 2016, the revenue totalled 46 million euro, down by -31% compared to the 67 million euro of the corresponding period of 2015.

Gross Operating Profit (EBITDA) amounted to 7 million euro, down compared to the 21 million euro in 2015.

Revenue and Gross Operating Profit (EBITDA) were affected mainly by the recognition in 2015 of the closure of estimates related to payables to suppliers of previous years.

Investments in the period amounted to 9 million euro and related largely to information systems and telecommunications.



## Statement of Financial Position

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

	thousands of euro		
	30.09.2016	31.12.2015	Change %
Non-current assets	5,101,609	4,648,465	9.7
Other non-current assets (liabilities)	(148,005)	(161,911)	(8.6)
Net Working Capital	173,755	153,888	12.9
Deferred tax assets (liabilities)	98,091	110,972	(11.6)
Provisions for risks and employee benefits	(522,852)	(525,799)	(0.6)
Assets (Liabilities) held for sale	977	5,420	(82.0)
<b>Net invested capital</b>	<b>4,703,575</b>	<b>4,231,035</b>	<b>11.2</b>
Shareholders' equity	2,176,069	2,061,666	5.5
<i>Non-current financial assets</i>	(47,934)	(53,012)	(9.6)
<i>Non-current financial indebtedness</i>	3,044,039	2,698,648	12.8
Non-current net financial indebtedness	2,996,105	2,645,636	13.2
<i>Current financial assets</i>	(731,557)	(690,878)	5.9
<i>Current financial indebtedness</i>	262,958	214,611	22.5
Current net financial indebtedness	(468,599)	(476,267)	(1.6)
Net financial debt	2,527,506	2,169,369	16.5
<b>Own funds and net financial indebtedness</b>	<b>4,703,575</b>	<b>4,231,035</b>	<b>11.2</b>

The main changes in the statement of financial position for the first nine months of 2016 are commented on below.

Non-current assets at 30 September 2016 amounted to 5,101 million euro, an increase of 453 million euro (+9.7%) compared to 31 December 2015 (4,648 million euro). Besides investments (157 million euro) and amortisation/depreciation (216 million euro) in the period, the change was due essentially to the consolidation of the non-current assets of TRM and the Atena Group net of the elimination of the related equity investments carried at equity until control was acquired, and to the differences deriving from consolidation of TRM V and TRM Holding (formerly F2i Ambiente), temporarily allocated to goodwill.

For further details on investments, see the section "Segment Reporting".

Net Working Capital at 30 September 2016 was 174 million euro (154 million euro at 31 December 2015); the change was substantially due to the seasonality of commercial components, to an increase in inventories on work in progress and the effect of the recognition of income tax for the period net of the payments made. Net Working Capital includes future expenses for environmental offsets of TRM S.p.A..

Shareholders' equity at 30 September 2016 was 2,176 million euro, up by 5.5% compared to 31 December 2015 (2,062 million euro); the increase was essentially due to the effect of the profit for the period (140 million euro), the increase in reserves (mainly referring to third parties) due to the full consolidation of the Atena Group and TRM (prior to acquiring control carried at equity) for 63 million euro, which was partially offset by dividend payments (87 million euro).

Net financial debt at 30 September 2016 was 2,528 million euro, an increase of 358 million euro compared to 31 December 2015. The change relates substantially to the acquisition of TRM, mitigated by the positive net cash flows of the period.

The statement of cash flows, presented below, provides an analytical breakdown of the reasons for the changes in financial items in the first nine months of 2016.

## CASH FLOW STATEMENT OF THE IREN GROUP

	thousands of euro		
	First nine months 2016	First nine months 2015	Change %
<b>A. Opening cash and cash equivalents</b>	<b>139,576</b>	<b>51,601</b>	<b>(*)</b>
<b>Cash flows from operating activities</b>			
Profit (loss) for the period	140,248	115,708	21.2
Adjustments:			
Income tax expense for the period	78,652	69,766	12.7
Share of profit (loss) of associates and joint ventures	(11,925)	(388)	(*)
Net financial expense (income)	78,467	67,706	15.9
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	215,900	198,103	9.0
Net impairment losses (reversals of impairment losses) on assets	4,868	-	-
Net provision for risk and other charges	63,533	62,003	2.5
Capital (gains) losses	(1,413)	(3,337)	(57.7)
Utilisations of employee benefits	(7,393)	(9,683)	(23.6)
Utilisations of provision for risks and other charges	(17,756)	(17,490)	1.5
Change in other non-current assets and liabilities	(1,390)	(2,239)	(37.9)
Other financial changes	(2,906)	(2,174)	33.7
Taxes paid	(30,561)	(26,533)	15.2
<b>B. Cash flows from operating activities before changes in NWC</b>	<b>508,324</b>	<b>451,442</b>	<b>12.6</b>
Change in inventories	(12,500)	(49,553)	(74.8)
Change in trade receivables	132,826	140,329	(5.3)
Change in tax assets and other current assets	(55,155)	42,523	(*)
Change in trade payables	(197,842)	(150,360)	31.6
Change in tax liabilities and other current liabilities	12,800	6,421	99.3
<b>C. Cash flows from changes in NWC</b>	<b>(119,871)</b>	<b>(10,640)</b>	<b>(*)</b>
<b>D. Cash flows from /(used in) operating activities (B+C)</b>	<b>388,453</b>	<b>440,802</b>	<b>(11.9)</b>
<b>Cash flows from /(used in) investing activities</b>			
Investments in intangible assets, property, plant and equipment and investment property	(156,552)	(160,557)	(2.5)
Investments in financial assets	(3,666)	(1,355)	(*)
Proceeds from the sale of investments and changes in assets held for sale	7,477	5,502	35.9
Changes in consolidation scope	(437,046)	(25,679)	(*)
Dividends received	7,099	7,368	(3.7)
<b>E. Total cash flows from /(used in) investing activities</b>	<b>(582,688)</b>	<b>(174,721)</b>	<b>(*)</b>
<b>F. Free cash flow (D+E)</b>	<b>(194,235)</b>	<b>266,081</b>	<b>(*)</b>
<b>Cash flows from /(used in) financing activities</b>			
Dividends paid	(86,698)	(81,417)	6.5
New non-current loans	20,000	250,000	(92.0)
Repayment of non-current loans	(88,719)	(113,681)	(22.0)
Change in financial liabilities	422,523	(223,858)	(*)
Change in financial assets	13,198	(79,339)	(*)
Interest paid	(53,783)	(54,991)	(2.2)
Interest received	12,011	13,485	(10.9)
<b>G. Total cash flows from /(used in) financing activities</b>	<b>238,532</b>	<b>(289,801)</b>	<b>(*)</b>
<b>H. Cash flows for the period (F+G)</b>	<b>44,297</b>	<b>(23,720)</b>	<b>(*)</b>
<b>I. Closing cash and cash equivalents (A+H)</b>	<b>183,873</b>	<b>27,881</b>	<b>(*)</b>

(\*) Change of more than 100%

In order to improve the financial information provided, more analysis on cash flows was included, specifically on those produced from operational and financial activities. In order to provide consistency, the period of comparison was prepared on a like-to-like basis as that for the period.

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

	€ thousands		
	First nine months 2016	First nine months 2015	Change %
Free cash flow	(194,235)	266,081	(*)
Dividends paid	(86,698)	(81,417)	6.5
Interest paid	(53,783)	(54,991)	(2.2)
Interest received	12,011	13,485	(10.9)
Change in fair value of hedging derivatives	(4,441)	5,052	(*)
Other changes	(30,991)	(18,955)	63.5
<b>Change in net financial position</b>	<b>(358,137)</b>	<b>129,255</b>	<b>(*)</b>

(\*) Change of more than 100%

The increase in net financial debt was mainly due to the free cash flow (-194 million euro), dividends paid (-87 million euro) and net financial expenses paid (-42 million euro).

The free cash flow of the period was negative following essentially the extraordinary effect of the operation to acquire control over TRM, and to a lesser extent the Atena Group, which absorbed the positive net cash flows of the period.

In particular, the free cash flow derives from the combined effect of the following determinants:

- operating cash flow of 388 million euro;
- cash flow from investing activities, a negative 583 million euro, was generated mainly by the acquisition of control over and full consolidation of F2i Ambiente (now TRM Holding), TRM V, TRM, ATENA and ATENA Trading for 437 million euro. The other components of the flow of investing activities are related to the combined effect of investments in the period of 160 million euro, the disposal of non-current assets for 8 million euro and dividends received by associates (mainly Plurigas) for a total of 7 million euro.

## EVENTS AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

### Business Plan to 2021

On 18 October the Board of Directors approved the Business Plan to 2021. The business plan to 2021 is based on the excellent results obtained over the last 18 months and reconfirms the strategic guidelines outlined in the 2015–2020 plan, updated on the basis of the scenario changes that have occurred; efficiency, consolidation, focus on the Customer and sustainability remain the essential pillars to which are added a renewed attention to satisfying Shareholders.

The main strategic guidelines of the business plan to 2021 are:

- ***A further drive to make the processes more efficient, to make the Group's action increasingly fast, incisive and effective.***

The profound renewal plan launched in the second half of 2015 has already brought important results and will be the basis for the revision and optimisation of the processes also for the near future. The Group also completed the revision of its business model and the consequent corporate rationalisation, important enabling factors for achieving the synergy targets.

- ***The Customer as a fundamental asset and linchpin on which to build a new corporate culture made up of reliability, inclusivity and innovation.***

The strategy which has the objective of transforming the energy product from a commodity to high-value-added service will be the basis of the Group's new commercial paradigm which aims at creating for the Customer a satisfying customer experience, made up of energy saving, efficiency and innovation. All this will make it possible to support the important acquisition and loyalty objectives included in the business plan.

- ***IREN protagonist of the consolidation process in its areas of reference.***

During the last two years important operations (AMIAT, TRM, Atena) have been completed, which have made it possible to be present with greater strength in several areas included in the Group's core territories. In the next few years a further effort in this sense is planned, which will confirm IREN as the main aggregator and driver of development in the North-West of Italy.

- ***All the plan objectives will be developed in a framework of environmental, social and financial sustainability.***

The environmental sensitivity which has always characterised the Group's choices is confirmed also in this business plan which stresses activities with low environmental impact such as district heating networks and plant consolidation linked to the concept of "Waste to material" as well as the implementation of smart-metering and smart-grids.

The business plan to 2021 lays out new and challenging objectives supplementing the medium- and long-term strategic pathway embarked on in 2015 and characterised above all by a particular focus on seeking maximum efficiency.

Also for the coming years efficiency and sustainability will be the fundamental strategic levers to manoeuvre successfully the growth drivers identified in the new business plan, linked above all to develop the regulated and semi-regulated businesses and to a strong focus on energy customers.

On the basis of these strategic lines the IREN Group is aiming at growth in EBITDA, constantly rising Group profit which will enable a clear dividend policy which puts the stress on growth of dividend per share, an improvement in the net financial indebtedness/EBITDA ratio and development of its role as aggregator hub and development driver in its core territories.

The operating targets outlined in the Business Plan to 2021 will enable strong cash generation such as to cover easily the challenging investment plan, of more than 2.2 billion euro, and will make it possible to achieve a balanced ratio between net debt and EBITDA of 3x. This will guarantee for subsequent years notable financial flexibility which can be used to seize interesting investment and M&A opportunities or, in the absence of the latter, to further remunerate the shareholders.

### **Bond issue as part of the EMTN programme and Tender Offer**

On 24 October 2016 Iren SpA completed with full success, for the second consecutive year, the placing of a bond issue for a benchmark amount of 500 million euro as part of the Euro Medium Term Notes (EMTN) Programme of 1.5 billion euro, as most recently renewed and increased by the Board of Directors on 18 October 2016. The bonds, Fitch rating BBB, were issued at MS+80 bps with coupon of 0.875% and maturity 4 November 2024 (duration 8 years) and will be listed on the regulated market of the Irish stock exchange, where the prospectus was filed.

In connection with the above mentioned issue, at the same time a financial optimisation and liability management programme was begun, launching on the market a Tender Offer on all existing securities of the company in maturity between 2019 and 2022. The operation was positively competed on 31 October 2016 achieving the repurchasing target of an amount 150 million euro.

Overall, the activity carried out is aimed at refinancing the company's debt in order to improve financial structure, structurally reducing the cost of capital and extending the debt average duration.

### **Corporate rationalisation - Salerno Energia Vendite S.p.A..**

The IREN Group is proceeding in the corporate rationalisation process which will lead to acquiring a further share in Salerno Energia Vendite S.p.A.

At a meeting on 25 October 2016 the Salerno City Council resolved to approve the framework agreement signed by Salerno Energia Vendite and Iren Mercato. With this Resolution the City Council gave the green light to the Parties to proceed with the project for the merger by incorporation of GEA Commerciale, wholly controlled by Iren Mercato, into Salerno Energia Vendite, in which GEA Commerciale itself has a 39.4% share, Salerno Energia Holding a 59.0% share and Gescom a 1.6% share. After the completion of the operation outlined in the framework agreement, which will take place through the merger described above, the shareholding structure of Salerno Energia Vendite will be the following: IREN Mercato 50%, Salerno Energia Holding 48,8%, Gescom 1,2%.

Both the incorporated and the incorporating company operate in natural gas sales, in geographical areas of interest: GEA Commerciale is present mainly in the provinces of Grosseto in Tuscany and Frosinone in Lazio, while Salerno Energia Vendite presides over almost all the provinces of Campania, as well as a number of Municipalities of the Basilicata and Calabria Regions. The cumulative customer portfolio of the two entities will therefore strengthen the presence in the Tyrrhenian area.

The operation, as well as contributing to achieving the growth targets of the customer base, will have positive effects in terms of efficiency, competitiveness and quality of the service offered, which besides gas will make it possible to propose contracts in the electricity free market; the experience of the two companies will be shared and this, together with the know-how of IREN Mercato in managing energy customers will enable both the extraction of important synergies and the possibility of offering high added value services.

Unitary management of the business will facilitate, in addition, the expansion of the territorial catchment area of reference through marketing campaigns aimed at acquiring new customers as well as increasing the loyalty of current ones.

The partnership between Iren and Salerno Energia Holding therefore constitutes an important element for the Group's commercial development project and completes the growth of the Customer base by external lines indicated in the recently presented business plan.

## **BUSINESS OUTLOOK**

The third quarter of the year was also affected by the ongoing weakness scenario and confirmed the macro-trends that had characterised the first six months of 2016 that were reflected in a sizeable drop in the prices of energy commodities. In this scenario, however, with the gas price having dropped more than electricity one, a situation was created that allowed the Group to take advantage of significant growth options, reporting a strong increase in results that were driven by excellent performance in the energy supply chain.

The achieved results, together with the synergies achieved and the external growth options taken in the last 18–24 months, were the basis for the construction of the Business Plan to 2021, presented by the Group in October this year. The commitment to achieving the targets set in it, improved with respect to the previous business plan, will be the compass that will orient Iren's activity in the near future.

## REGULATORY FRAMEWORK

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

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

The rules on local public services resulting from the regulatory framework are contained in the Law converting Italian Law Decree no. 179 of 18/10/2012 containing further urgent measures for growth of the country, Art. 34, as resulting from the conversion law (Italian Law no. 221 of 17/12/2012), and 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, under the terms of which:

1. By way of exception to the provisions of *Article 34, paragraph 21, of Italian Law Decree no. 179 of 18 October 2012*, converted, with amendments, by *Italian Law no. 221 of 17 December 2012*, in order to guarantee continuity of the service, where the entity responsible for the assignment or, if provided for, the governing entity of the territory or optimal and uniform territorial area has already launched the assignment procedures publishing the report pursuant to paragraph 20 of the same article, the service is performed by the operator or operators already working until the new operator takes over and in any case not later than 31 December 2014.
2. Failure to establish or designate the government bodies of the optimal territorial area under the terms of paragraph 1 *Article 3-bis of Italian Law Decree no. 138 of 13 August 2011*, converted, with amendments, by *Italian Law no. 148 of 14 September 2011*, or failure to resolve the assignment within the term of 30 June 2014, entail the exercise of the substitutive powers on the part of the Prefect competent for the territory, whose expenses are chargeable to the non-fulfilling entity, which must perform the formalities necessary for completion of the assignment procedure by 31 December 2014.
3. Failure to observe the terms pursuant to paragraphs 1 and 2 entails the cessation of assignments non-compliant with the requisites provided for in the European legislation as of 31 December 2014.
4. The present article does not apply to the services pursuant to *Article 34, paragraph 25, of Italian Law Decree no. 179 of 18 October 2012*, converted, with amendments by *Italian Law no. 221 of 17 December 2012*. (natural gas distribution service, pursuant to *Italian Legislative Decree no. 164 of 23 May 2000*, electricity distribution service, pursuant to *Italian Legislative Decree no. 79 of 16 March 1999*, and to *Italian Law no. 239 of 23 August 2004*, and management of municipal pharmacies, pursuant to *Italian Law no. 475 of 2 April 1968*).

Italian Law no. 115 of 29 July 2015 "Rules for fulfilling the obligations deriving from Italy's membership of the European Union - European Law 2014, Art. 8", in force since 18 August 2015, paragraph 22 of *Article 34 of Italian Law Decree no. 179 of 18 October 2012*, converted, with amendments, by *Italian Law no. 221 of 17 December 2012*, is replaced by the following:

"22. Direct assignments authorised as of 31 December 2004 to public companies already listed in regulated markets at that date and those controlled by them under the terms of Article 2359 of the Italian Civil Code at the same date, cease at the expiry provided for in the service contract or in the other deeds that govern the relationship; assignments that do not provide for an expiry date cease, with no extension possible and with no need for a specific resolution of the assigning body, on 31 December 2020. Direct assignments to companies placed, after 31 December 2004, under the control of listed companies following corporate operations carried out in the absence of procedures compliant with the principles and rules of the European Union applicable to the specific assignment cease, with no extension possible and with no need for a specific resolution of the assigning body, on 31 December 2018 or at the expiry provided for in the service contract or in the other deeds that govern the relationship, if earlier".

In paragraph 23 of Art. 34 it is specified that "After paragraph 1 of *Article 3-bis of Decree Law no. 138 of 13 August 2011*, converted with amendments, by *Law no. 148 of 14 September 2011*, and subsequent amendments, the following is inserted: "1-bis. The functions organising the local public network services of economic relevance, including those belonging to the urban waste sector, deciding on the form of management, determining the relevant utility tariffs, managing assignment and the

associated control, are performed exclusively by the government bodies within optimal, standardised geographic areas, established or designated in accordance with para. 1 of this article”.

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 organising the local public network services of economic relevance, including those belonging to the urban waste sector, deciding on the form of management, determining the relevant utility tariffs, managing assignment and the associated control, are performed exclusively by the government institutions within optimal geographical territories or areas.

Italian Law no. 190 of 23 December 2014, (Stability Law for 2015) introduced, in paragraph 609 of Art. 1, amendments to Article 3-*bis* of Italian Law Decree no. 138 of 13 August 2011, converted into Italian Law no. 148 of 14 September 2011, in order to promote aggregation processes and to strengthen the industrial management of local public network services of economic relevance. The functions organising the local public network services of economic relevance are performed exclusively by the Government bodies within optimal or uniform geographical territories or areas, in which the bodies take part obligatorily. If the local authorities have not joined the aforesaid Government bodies by 1 March 2015 or within sixty days from the establishment of the government authorities, the Chairperson of the Region exercises substitutive powers, after a warning. The Government institutions must make the report which gives an account of the reasons and existence of the requirements set forth by European law for the pre-established form of the assignment and explains the reasons with reference to the objectives of universality and sociality, efficiency, value for money and quality of the service.

The economic operator that took over from the initial concessionaire, wholly or partially, following business combinations carried out with transparent procedures, including mergers or acquisitions, continues in the management of the service until the expiry dates provided for. In these cases the competent subject ascertains that the qualitative criteria and conditions of economic and financial balance are being maintained including with the update of the expiry term of all or some of the existing concessions, after a check by any Regulatory Authority.

The capital investments made by the local authorities with the income from the disposal of equity investments in companies are excluded from the constraints of the Stability Pact.

The rules on the subject of local public network services of economic relevance are understood as referred, subject to explicit exceptions, also to the urban waste sector and to sectors subject to regulation by an independent authority.

Paragraph 611 of Article 1 of the Stability Law for 2015 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, according to the following criteria:

- a) elimination of non-indispensable companies and equity investments;
- b) suppression of companies made up of only directors or by a larger number of directors than that of employees;
- c) elimination of companies that perform the same or similar activities as those of other subsidiaries;
- d) aggregation of companies providing local public network services of economic relevance;
- e) reorganisation of administrative and control bodies and reduction of the related remunerations.

To this end the next paragraph, 612, of the same Law states, with a view to a reorganisation and reduction of subsidiaries, 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



denied 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 relative costs, pursuant to paragraphs 611 and 612 above. The denial 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 government-related matter.

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 subsidiaries, countering corruption, and transparency.

Implementing Art. 7 of the Madia Law, Italian Legislative Decree no. 97 of 25 May 2016, was published in the Official Journal. It came into force on 23 June 2016 and contained a revision and simplification of the rules on the subject of preventing corruption, disclosure and transparency, correcting Italian Law no. 190 of 6 November 2012 (anti-corruption) and Italian Legislative Decree no. 33 of 14 March 2013 (administrative transparency). 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.

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.

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 entities.

While the "Consolidated Law on Local Public Services of General Economic Interest", the scheme of which has been approved, is still awaiting publication, 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. We can note:

- Art. 1 p. 5. Which states that "The provisions of the present decree apply, only if expressly envisaged, to listed companies, as defined by Article 2, paragraph 1, letter p)";
- therefore the new definition of "listed companies" contained in the aforementioned Art. 2 paragraph 1 letter (p), which confirms that companies invested in by public investee companies that issue shares listed in regulated markets or by companies that have issued, as of 31 December 2015, financial instruments, other than shares, listed in regulated markets are also considered such, with the exception of those "controlled or invested in by public administrations";
- Art. 17, which provides for the exclusion from the application of Italian Legislative Decree 50/2016 – formerly contained in Art. 32 of Italian Legislative Decree 163/2006 - of mixed public-private equity companies that are not public-law organisations, set up to do works or for the production of goods or services not destined to be placed on the market in a competitive system, for creating public works or for managing services for which they have been specifically set up, if the following conditions are fulfilled:
  - a) the choice of the private partner has occurred in accordance with public tender procedures;
  - b) the private partner has the qualification requisites provided for in Italian Legislative Decree no. 50 of 2016 in relation to the service for which the company was set up;

c) the company operates directly to do the work or service, for an amount greater than 70% of the related total.

### **Code on public works contracts**

The EU OJ (EU Official Journal) no. 94 of 28 March 2014 published the following Directives:

- Directive 2014/24/EU of the European Parliament and of the Council, of 26 February 2014, on public works contracts, which abrogates Directive 2004/18/EC;
- Directive 2014/25/EU of the European Parliament and of the Council, of 26 February 2014, on the contract procedures of supplying entities in the water, energy, transport and postal services sectors, which abrogates Directive 2004/17/EC;
- Directive 2014/23/EU on the award of concession contracts (previously not regulated).

The enabling law to implement the directives was finally approved on 14 January 2015. To execute the enabling law, the Government approved Italian Legislative Decree no. 50 of 18 April 2016, "Implementation of Directives 2014/23/EU, 2014/24/EU and 2014/25/EU on the awarding of concession contracts, on the contract procedures of supplying entities in the water, energy, transport and postal services sectors, and the revision of the applicable regulations on public contracts relating to works, services and supplies".

On 15 July 2016 a notice of rectification of the New Contracts Code (Italian Legislative Decree no. 50/2016) was published in Official Journal no. 164. This notifies that numerous material errors present in the text have been corrected but does not make substantial changes to the content of the same.

### **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 of 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.)

The Single National Anti-Mafia Database provided for in Articles 87 and 90 of Italian Legislative Decree 159/2011 and subsequent amendments and additions, following publication in Italian Official Journal no. 4 of 7/1/2015 of the Regulation which governs the access methods: Prime Ministerial Decree no. 193 of 30/10/2014 "*Regulation containing rules concerning the methods of operation, access, consultation and connection with the EDP Centre, pursuant to Article 8 of Italian Law no. 121 of 1 April 1981, of the Single National Database of Anti-Mafia Documentation, established under the terms of Article 96 of Italian Legislative Decree no. 159 of 6 September 2011*", should have been operational from January 2015, but currently it is still not possible to acquire the anti-Mafia information online.

An A.N.A.C. communication of 23 June 2015 provides for annotation in the electronic criminal records and in the Database of Anti-Mafia Disqualifying Information.

Official Gazette no. 132 of 8 June 2016 published Legislative Decree no. 97 of 25 May 2016 for the Revision and simplification of regulations on the prevention of corruption, disclosure and transparency, correcting Law no. 190 of 2012 and Legislative Decree no. 33 of 2013, pursuant to article 7 of Law no. 124 of 2015, on the reorganisation of public administrations.

## **Cash transfers**

The limit above which transfers in cash, or of bank or post office savings books payable to the bearer are not permitted, fixed up to 31 December 2015 at 999.99 euro was set by the Stability Law for 2016 at 2,999.99 euro.

## **Gas distribution**

The Letta Decree, approved with Legislative Decree no. 164 of 2000 introduced competition to the Italian natural gas market by deregulating gas imports, exports, transport, dispatch and sales.

Storage activities aim to compensate fluctuations in consumer demand within the national gas system so as to guarantee a strategic reserve of natural gas. Storage activities are performed by the company on the basis of concessions awarded by public tender procedures. Distribution activities are considered a public service and can only be performed by companies that do not already provide other services in the gas industry. The distribution service is currently assigned on the basis of public tenders for a maximum 12 years.

In a Decree of 19 January 2011 the Ministry of Economic Development determined the geographical areas for the natural gas distribution sector. With Ministerial Decree 12/11/2011, no. 226, the Regulation on public tender criteria and the assessment of bids for the assignment of gas distribution services was also approved. This Regulation establishes that the municipality which is the chief municipality is the Commissioning Body for managing the tender. The deadline for identifying the Commissioning entity is set as six months from entry into force of the regulation (11 February 2012) for the Parma, Reggio Emilia, Turin 1 and Turin 2 areas, 24 months for the Genoa 2 area, 30 months for the Genoa 1 area and 36 months for the Piacenza 2 East area.

The related tenders must be launched within 15 months of the above deadlines by the Provincial Capital, or within 18 months by an entity identified by the Municipalities belonging to the territorial area (if this does not include the Provincial Capital).

In 2013 the “Decreto del Fare” (Action Decree, Italian Decree Law no. 68 of 21 June 2013) introduced a number of amendments to the “Criteria Regulation” which defines the basic rules for conducting area-related tender procedures. The peremptory nature of deadlines is envisaged for appointment of the Commissioning Body, with a penalty for failing to meet the deadlines and the strengthening of substitution powers through the appointment of an “*ad acta* commissioner”. The deadlines for the call for tenders were then extended for different periods, as results from the rules indicated below.

These concessions are currently operating under the extended regime pending the launch and award of public invitations to tender.

Italian Law Decree 145/2013 converted into Italian Law no. 9 of 21 February 2014 established in Art. 1 paragraph 16 that “The expiry terms provided for in paragraph 3 of Article 4 of Italian Law Decree no. 98 of 9 August 2013, are extended for a further 4 months. The deadlines pursuant to Annex 1 to the regulation pursuant to the Decree of Minister of Economic Development no. 226 of 12 November 2011, related to areas included in the third group of the said Annex 1, and the respective terms pursuant to Annex 3 of the same regulation, are extended by four months.”

Article 30-*bis* of Italian Law Decree 91/2014 the “competitiveness decree”, converted with amendments by Italian Law 116/2014, established an extension of the deadlines for publication of the calls for tenders for assignment of the gas distribution service.

Italian Law no. 21 of 25 February 2016 (containing Conversion with amendments, of Law Decree no. 210 of 30 December 2015, containing an extension of terms provided for in legislative measures published in the OJ General Series no. 47 of 26 February 2016) establishes that the terms pursuant to Art. 3, paragraph 1, of the regulation pursuant to the decree of the Ministry of Economic Development and of the Ministry for Relations with the Regions and Territorial Cohesion no. 226 of 12 November 2011, on non-publication of the call for tenders pursuant to Annex 1 of the said regulation, are extended respectively by twelve months for the areas of the first group, by fourteen months for the areas of the second group, by thirteen months for the areas of the third, fourth and fifth group, by nine months for the areas of the sixth and

seventh group and by five months for the areas of the eighth group, in addition to the extensions current at the date of entry into force of the law converting the present decree.

The launch of tenders for ATEM are therefore as of today envisaged (unless extended) according to the following calendar, which takes into account the term for publication of the call for tenders:

- Reggio Emilia - tender extended for two years owing to earthquake, no change - 11 November 2016
- Parma – 11 November 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.

Amongst the major changes in the regulatory framework of the gas distribution sector, the most important are the measures adopted by the Authority for Energy and Gas (now the Authority for Electricity, Gas and Water Service – AEEGSI) regarding:

- distribution and metering tariffs;
- distribution and metering service.

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 Italian 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 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.

On 13 March 2015 the AEEGSI issued clarifications in relation to Resolution 367/2014.

Both the Ministerial Decree of 22 May 2014, and Resolution no. 367/2014 were appealed by the Iren Group respectively the former to the Lazio Regional Administrative Court (henceforth RAC) and the latter to the Lombardy RAC.

The Lombardy RAC, Second Section, handed down - rejecting the appeals lodged by Iren Emilia and Genova Reti Gas (companies merged into IRETI) against AEEGSI Resolution no. 367/14 - 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). The ruling is now pending.

The “Sblocca Italia” Law Decree in Art. 37 provides for “*Urgent measures for natural gas procurement and transport*” and in Art. 38 “*Measures for enhancing national energy resources*”.

The Ministerial Decree of 20 May 2015 updates the regulation on the criteria for tenders for gas distribution (MD 226/2011), completing the legislative framework of reference. In addition, the decree clarifies the methods of recognition of expenses related to the energy efficiency certificates that the incoming Operator must pass on to the Commissioning Body.

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)”. With the said Resolution 296/2015/R/COM the AEEGSI establishes functional unbundling obligations for electricity and gas operators. In particular we can note the obligation to unbundle the communication policy and the brand between sale and distribution companies. It is specified that interfacing with final customers must involve the use of distinct information channels, physical spaces and personnel.

With the Resolution of 30 July 2015–407/2015/R/gas the AEEGSI Ordered “Amendments to the Resolution of 26 June 2014, 310/2014/R/gas on determining the repayment value of natural gas distribution networks”.

In particular these amendments are attributable, on the one hand, to the changes, on the sales of portions of grid by the outgoing to the incoming operator, introduced by Ministerial Decree no. 106 of 20 May 2015 containing an amendment to Italian Decree no. 226 of 12 November 2011, on the other to the introduction of the possibility for the commissioning bodies, following a justified request and in a logic of administrative simplification, to present the data on the VIR and the RAB, needed for assessments of differences by the Authority, with reference to 31 December of year t-2.

Art. 3 “Provisions on the subject of easements” of Italian Law no. 154 of 28 July 2016, containing Powers Delegated to the Government and further provisions on the subject of simplification, rationalisation and competitiveness of the agricultural and food industries, and sanctions on the subject of illegal fishing, in force since 25 August 2016, obliges owners of private roads to allow the passage of pipes for connection to the gas network of domestic or business users, including the installation of meters. As the provision indicated is an obligation, the Mayor of the competent Municipality, at the request of the interested parties, authorises the execution of the works, taking into due consideration the seasonality of the crops growing in the fields adjacent to the private roads involved in the work, in order to impede or limit any damage to these crops.

#### *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.

With Resolution 352/2012/R/gas, provisions were adopted to complete the regulation of the default service, establishing the remuneration of the distribution company that provides the default service and the entry into force of the regulations governing the remuneration of the default service, fixed starting from 1 January 2013, taking into account Ministerial Decree of 3 August 2012, which aimed at including, under final customers entitled to use a supplier of last resort, also customers that have remained without a supplier based on personal choice and that are owners of supply points that cannot be disconnected.

By means of Judgement no. 3296 of 29/12/2012 of section III of the Lombardy RAC, Resolution 99/11 was deemed illegitimate given that, in breach of the EU and national principle of unbundling, also functional, of distribution activities and gas supply activities, it introduced the default service, making gas distribution companies responsible for it.

The AEEG submitted an appeal with an application for monocratic precautionary measures against the judgement of the Regional Administrative Court. On 28 January 2013 the Council of State upheld the AEEG’s appeal on a provisional basis, and suspended the effects of the judgement of the Lombardy Regional Administrative Court, setting the hearing on the merits of the case for 19 February 2013. Following this suspension decision, the AEEG saw fit to publish Resolution 25/2013/R/gas on 30 January 2013, “Urgent provisions, in implementation of the monocratic decrees of the Council of State on 28 January 2013, concerning the default service on natural gas distribution networks”.

Given the establishment of a technical round table with the AEEG, adjournment of discussion of the appeal was requested in order to be able to continue the work of the round table commenced with operators in the meantime.

The Council of State then adjourned discussion of the precautionary suspension application to the hearing in Chambers of 9 July 2013.

At the hearing of 9 July 2013 the Council of State set the date of the hearing for discussion of the merits of the appeals filed by the AEEG against the Milan Regional Administrative Court judgements of December 2012 as 4 March 2014.

On 21 November 2013 the AEEG adopted another resolution, 533/2013/R/GAS, on regulations for default. On 21 January 2014 an appeal was filed based on additional grounds for its cancellation.

Subsequently the following resolutions were issued:

- on 6 June 2013 Resolution 241/2013/R/gas “Reform of the rules on the distribution default service, following the declared impossibility to perform all the activities pursuant to the TIVG, as regards the balancing of direct withdrawals”;
- on 27 February 2014 Resolution 84/2014/R/gas “Rules on default and last resort services, amendments and additions to the TIMG and TIVG;
- on 29 May 2014 Resolution 246/2014/R/gas “measurement of natural gas withdrawn at redelivery points to which the distribution default service is provided following failure to physically disconnect”.

With a judgement filed on 12 June 2014, the Council of State accepted the appeal lodged by the AEEG against the judgements with which the Milan Regional Administrative Court, in December 2012, had ruled that Resolution 99/11 was unlawful ordering it to be cancelled.

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, since the default of the final customer served is almost fully socialised and made chargeable to the community.

With Resolution no. 418/2014/R/GAS of 7 August 2014, the Authority approved the criteria and methods for identifying last resort suppliers (LRSs) and distribution default service suppliers (DDSs) with reference to the period 1 October 2014–31 September 2016.

In addition with the same Resolution no. 418/2014/R/GAS of 7 August 2014, the Authority amended, among other things, paragraph 30.4 of the TIVG establishing that “in cases in which the tender procedure (chosen by the DDS) does not make it possible to identify a DDS, or in cases of non-performance of the (default) service by the selected supplier the distribution companies which perform the service in areas where it should have been performed by the supplier are responsible for the activity of economic settlement of the physical gas items attributable to direct withdrawals made by the final customer.

AEEGSI Resolution no. 258/2015/R/com of 29 May provides for “first actions on default in the electricity and natural gas retail markets and revision of switching times in the natural gas sector”.

In particular the documentation transmission procedure between vendor and distributor in order to facilitate legal initiatives was implemented.

It should be noted that the resolution in a “recital” qualifies as an obligation of result - on the distribution company - the physical disconnection of the redelivery point.

A fourth appeal on additional grounds was launched against the resolution in question, 258/2015/R/com, and at the moment the judgement on the merit is pending and a public hearing has not yet been fixed to discuss the same.

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 Redelivery 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. Changes to the TIVG, the TIMG and Annex A to the Authority’s Resolution 102/2016/R/com” with which it defined the public tender procedures for the identification of suppliers of last instance and suppliers of the default service, starting from 1 October 2016.

The measure also makes specific changes to the regulations related to arrears, to the provision of the services of last instance and to transfers.

### ***Electricity distribution***

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.

Specifically, the Bersani Decree:

- liberalised production, imports, exports, purchases and sales of electricity from 1 January 2003, provided that no company is authorised to produce or to directly or indirectly import more than 50% of the total electricity generated or imported into Italy, with a view to increasing market competition in the production of electricity;
- envisaged the establishment of the Single Buyer, which is in charge of signing and managing supply contracts, with a view to guaranteeing the necessary generation capacity and continuous supply of electricity, the safety and efficiency of the entire system and equal treatment in terms of tariffs;
- envisaged the setup of the “Power Exchange”, a virtual marketplace in which producers, importers, wholesalers, distributors, the national grid operator, the Single Buyer and other free market operators can buy and sell electricity at set prices through a tender procedure;
- envisaged the creation of an entity to manage the Power Exchange (i.e. the Electricity Market Operator or Market Operator) and assigned transmission and dispatch activities under concession to the national transmission grid operator (Terna); electricity distribution activities are performed under concession granted by the Ministry of Economic Development.

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.

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

The AEEG established a tariff regime that came into force on 1 January 2000. This system replaced the “cost plus” one with a new “price cap” mechanism, which provides for a limit on annual tariff increases corresponding to the difference between the inflation rate and the increase in productivity achievable by the service supplier, together with further factors, such as improving quality. According to the price cap method, tariffs should reduce by a fixed percentage each year in order to encourage regulated operators to improve efficiency and gradually pass on their savings to the end user.

In the fourth regulatory period (2012–2015), provisions are in force that regulate the main electricity distribution activities, which apply to a market that is now fully deregulated.

These activities are:

- 1) transmission, distribution and metering service tariffs (Resolution ARG/elt 199/11)
- 2) social tariff (Resolution 402/2013/R/com which replaced from 1 January 2014 Resolution ARG/elt 117/08)
- 3) quality of service (Resolution ARG/elt 198/11)
- 4) default (Resolution ARG/elt 4/08)
- 5) switching (Resolution ARG/elt 42/08)
- 6) regulation of physical and economic items of the settlement dispatching service (Resolution ARG/elt 107/09)
- 7) unbundling (Resolution ARG/elt 11/07)
- 8) indemnity system (Resolution ARG/elt 191/09).

As regards point 1), the mechanism of the average national tariff supplemented by adjustments (general and company-specific) is replaced by a single tariff for each distributor.

As regards point 2), in order to protect domestic customers in situations of difficulty (economic and physical), the electrical bonus rules are simplified and certain critical points removed.

On point 3), Resolution 198/2011 (TIQE - integrated code on electricity quality) regulates the commercial and technical quality for 2012–2015.

The “rapid quote” mechanism came into force in 2013 together with new indicators for the replacement of faulty meters and for restoration of the correct value.

With regard to point 4), the system defined by Resolution 4/08 continues to apply:

- a) protection of the receivables of vendors and safeguards for providers;
- b) definition of specific regulations for managing suspension of supply in the event of default of final customers, connected to the low voltage network, and not equipped with electronic meters, making provision for disclosure obligations for distributors.

On point 5), Resolution 42/08 regulated the dispatching, transport and metering of electricity in the event of a change of vendor at the same active supply point, or assignment of a new or previously deactivated supply point to a vendor (switching).

As regards point 6), Annex A to Resolution ARG/elt 107/09 summarises in a single document (the Integrated Code on Settlements - TIS) all provisions regarding settlement, i.e. the settlement of the physical and economic items of dispatching (monthly settlement, annual adjustments, metering corrections, etc.) in order to obtain:

- a) the correct accounting and economic valuation of energy withdrawn by each dispatching user;
- b) containment of the economic and administrative impact for dispatching users due to adjustments of measurements;
- c) accounting and administrative simplification for Terna and the distributors.

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

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

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

As regards functional unbundling, first and foremost, within the domain of a vertically integrated company, each regulated activity must be assigned to an Independent Operator, that must manage it with decision-making and organisational autonomy, pursuing objectives of efficiency, cost-effectiveness, neutrality and non-discrimination.

The Independent Operator nominates a Guarantor for the correct management of commercially sensitive information (Data Guarantor), which monitors the proper management of information (intended as commercially sensitive information, i.e. relevant for market competition).

In order to achieve these objectives the Independent Operator is equipped with a plan of obligations, a document containing a series of organisational and managerial measures whose minimum requirements are set by the Authority.

Furthermore, on an annual basis, the Independent Operator drafts an Annual Report on the Measures Adopted and sends it to the Authority.



As already specified in the above section Gas distribution, with Resolution 296/2015/R/COM the AEEGSI establishes functional unbundling obligations for electricity and gas 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.

As regards point 8), Resolution ARG/elt 191/09 defined the “Indemnity System”, which guarantees compensation to the outgoing vendor in the event of the non-collection of amounts due for the invoices issued in the last few months of supply, before the effective date of switching for the service provided. The subsequent Resolution ARG/elt 219/10 issues the rules for operation of the Indemnity System. This system allows all vendors to claim compensation on the final customer, regardless of the change of vendor requested by the final customer.

### **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 the production of electricity 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 interministerial decree in the process of being issued in agreement with the State-Regions Conference, in relation to the investments deemed necessary. The choice of the best bid for assignment of the concession will be based predominantly on the economic bid for the acquisition of water resources and 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 interministerial decree that will establish the criteria and the new concession will take effect from the fifth year after the original expiry and, in any case, no later than 31 December 2017. Ownership of the business unit relating to the exercise of the concession is transferred from the outgoing 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). The Italian Government’s reply to the European Commission’s objections is being prepared. 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 Decree of the President of the Piedmont Regional Executive 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.

## ***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, as amended by Italian Legislative Decree no. 219 of 10 December 2010.

Regulation of the integrated water service management is based on the following principles:

- establishment of an integrated system for management of the entire water cycle;
- identification by Regional Governments of “Ambiti Territoriali Ottimali - ATOs” [Optimal Territorial Area Authorities], within which the integrated water services are to be managed. Each ATO is responsible for: (a) organising the integrated water service, through a plan which has to define the investment and management policies (the Area Plan), (b) identifying an operator for the integrated water service, (c) determining the tariffs applied to users, (d) monitoring and supervising the service and the activities conducted by the operator to guarantee correct application of the tariffs and achievement of the objectives and quality levels established in the Area Plan;
- organisation of the integrated water service is based on a clear segregation of duties between the various governing bodies. The state and regional authorities carry out the general planning, while the local authorities supervise, organise and control the integrated water services system.

Italian Law no. 42 of 2010 ordered the suppression of the ATOs when a year had passed from entry into force of this law; this term was extended to 31 December 2012.

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, the Emilia Romagna Region with Regional Law no. 23 of 23-12-2011 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 - Province of Savona;
- ATO Centre/West 2 - Province of Savona;
- ATO Centre/East – Province of Genoa;
- ATO East – Province of La Spezia.

The Law (Article 10) extended the option for autonomous management of the IWS to Municipalities with a population of up to 3,000 inhabitants. This provision was challenged by the Government (raising a question of unconstitutionality) as it clashes with the rules (Art. 148, 5th paragraph of Italian Legislative Decree 152/2006 - Consolidated Law on the Environment), which limit this option to Municipalities with a population of up to 1,000 inhabitants.

With Judgement no. 31 of 10 February 2015 the Constitutional Court declared unconstitutional Article 10 paragraph 1 of Liguria Regional Law no. 1/2014.

The Integrated Water Services sector was also affected by the Referendum held on 12 and 13 June 2011, the result of which partially repealed Article 154 paragraph 1 (integrated water service tariff) of Italian Legislative Decree no. 152 of 13 April 2006 “Determination of the tariff for the integrated water service” only in the part envisaging that this should be “based on adequate remuneration of invested capital”.

This repeal does not produce direct and immediate effects on the current tariffs, but is limited to changing the criteria to be adopted by the competent Authority in preparing the “Tariff Method”, as now defined in the Ministerial Decree of 1 August 1996.

The Constitutional Court clarified that given the outcome of the Referendum the Regional Governments must identify the entity to replace the ATOs. This entity shall be responsible for assigning management of the water services in compliance with European principles on public tender procedures.

The functions concerning the regulation and control of water services were transferred to the Italian Authority for Electricity, Gas and Water services.

The Authority required a tariff structure by operator/area similar to the pre-existing one to be maintained during the temporary phase.

On 25 June 2013 (Resolution 273/2013), the AEEGSI approved a specific provision defining the criteria for calculating the amounts to be repaid to end users, corresponding to the return on invested capital and paid in the water bills in the post-referendum period from 21 July until 31 December 2011.

The decision made by the Authority is censurable from various points of view, in particular the fact that it conflicts with EU rulings that envisage coverage of this cost item. Instead, the Authority appears to have eliminated the return on invested capital from the tariff without envisaging any alternative means of covering the financial expense. The Lombardy Regional Administrative Court, with a judgement dated 20 February 2014, accepted the arguments of the appellants (including Iren Acqua Gas) ruling that AEEGSI Resolution no. 273/2013 should be cancelled for the reasons maintained by the same. With Resolution no. 643 of 27 December 2013 the AEEG approved the "Water Tariff Method and completion rules" (MTI), containing the methods and parameters for calculating the costs (current expenses -OPEX- and capital expenses -CAPEX-) that must provide adequate remuneration through the tariff applied to water service users.

The rules of this Resolution are applicable from financial year 2014 onwards.

By 31 March 2014, the entity with responsibility for the Territorial Areas must:

- define the objectives and (on the Operator's proposal) prepare the Plan of Action;
- prepare the tariff for 2014 and 2015;
- prepare the Economic and Financial Plan (covering the duration of the assignment), which must ensure that operational balance is achieved by the Operator;
- submit these calculations to the AEEG for final approval.

Italian Law Decree 133/2014 of 12 September 2014 known as the "Sblocca Italia" Decree (Art. 7) introduced a number of changes to the rules of the IWS contained in the Consolidated Law on the Environment (Italian Legislative Decree no. 152/2006).

In brief it is established that:

- the Regions (if they have not already done so) must identify the governing entities of the area by 31 December 2014 - otherwise the government's substitutive powers would apply;
- the local authorities must take part in the governing entity of the area (which replaces the Area Authority) - failure to join the governing entities of the area is sanctioned with exercise of the substitutive powers by the President of the Region;
- the concept of *single* management of the IWS is introduced;
- the governing entities of the area (if they have not already done so) must choose the form of management of the IWS and begin the assignment procedures within the term of 30 September 2015;
- the relationship between the governing entity of the area and the operator is regulated by an agreement prepared on the basis of a standard agreement prepared by the AEEGSI - the existing agreements are supplemented in accordance with the provisions of the said agreements, with the methods established by the AEEGSI;
- the new operator must pay the outgoing operator an amount to reimburse the investments made, determined according to criteria defined by the AEEGSI;
- in the event of early termination of the assignments, the outgoing operator is owed an indemnity as a refund of the investments made (not depreciated) and for loss of earnings (10% of the service still to be provided assessed on the basis of the economic-financial plan), with a reference to the rules of the Contracts Code;
- the definitive project of the works and actions provided for in the Investment Plan included in the Area Plans (and the related substantial changes) must be approved by the governing entities of the area - approval of the projects entails the declaration of public utility and constitutes authorisation and/or variant to the town and territorial planning instruments - the governing entity of the area convenes the conference of services and constitutes the expropriating authority (a role which may be delegated to the operator);
- in order to ensure observance of the principle of single management, the IWS operator takes over from the other entities operating in the same area with effect from entry into force of the law, but if

these entities manage the service on the basis of an assignment granted in accordance with the *pro-tempore* current law, the takeover will occur at the expiry of the assignment.

Finally the AEEGSI adopted, among other things, the following resolutions of interest to the Group:

- Resolution no. 6/2015/R/IDR of 15 January 2015 regarding the launch of a proceeding for defining the water tariff method for the second regulatory period with reunification of the proceeding pursuant to Resolution 374/2014/R/IDR and identification of a single term for completion of the proceeding.
- Resolution no. 8/2015/R/IDR of 15 January 2015 regarding the launch of a proceeding for defining the criteria for structuring the tariffs applied to users of the water services.
- Resolution no. 83/2015/A of 5 March 2015 regarding the establishment and operation of the Permanent Observatory on regulations covering energy, water and district heating;
- Resolution no. 107/2015/R/IDR of 12 March 2015 containing the list of managements excluded owing to failure to deliver the plants from the tariff update for the first regulatory period 2012–2015. The list also includes the Group's associates AMAT of Imperia and AIGA of Ventimiglia. These Companies have presented to the AEEGSI a plea for a revision of the decision and are preparing an appeal to the RAC in the event of a negative reply or no reply within the terms for proceeding with an appeal.
- Resolution no. 122/2015/R/IDR of 19 March 2015 regarding the launch of a proceeding for the creation of solidaristic economic and financial equalisation systems covering the tariffs of the integrated water service also on the national scale.
- Resolution no. 656/2015/R/IDR of 23 December 2015 regarding the Standard Agreement for regulating relations between awarding entities and operators of the Integrated Water Service - Rules on the essential minimum contents.

With this measure - taking into account the observations received on the previous Consultation Documents 274/2015/R/idr and 542/2015/R/idr - the Authority adopts the Standard Agreement for regulating relations between awarding entities and operators of the integrated water service, with which besides the operating agreements currently in force must be made compliant.

It can be noted that the consultation document 274/2015/R/IDR of 4 June 2015 of the AEEGSI containing "Criteria for preparing one or more model agreements for management integrated water service" and the consultation document 273/2015/R/IDR of 4 June 2015 of the same Authority, containing "Regulation of the contractual quality of the integrated water service or of each of the single services that make it up". Both texts govern the actions on the subjects of launching and managing the contractual relationship and obligations of recording contractual quality data.

It is worth noting the judgement of the Council of State, Section V, no. 3236 of 26 June 2015 which ruled that Municipalities have no legitimate competence in management of the integrated water service, already devolved to the old optimal territorial area authorities (ATOs), today replaced by the area governing bodies, as organisational structures having a distinct legal subjectivity, in the light of the constant administrative and constitutional jurisprudence. This was established by the Council of State, rejecting the appeal lodged by a Municipality at the Lazio Regional Administrative Court (henceforth RAC), to challenge the silence/non-fulfilment in relation to its request to adopt a measure necessary to ensure immediate payment to the Municipality of the compensation for use of certain water springs, as well as the adoption of the measures indispensable to conclude the proceeding for renewal of the concession for use.

In challenging the lack of active legitimation of the Local Authority in the proceeding, as the case in question involved a matter devolved to the competence and responsibility in the regulation of interference of the ATOs, the Council of State affirmed that these latter are the only subjects holding the power of representation, also in relation to all the subjects that obligatorily are part of the said Area Authority.

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 is being appealed.

We can note finally 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.

With this measure - taking into account the observations received on the previous Consultation Documents 274/2015/R/idr and 542/2015/R/idr - the Authority adopts 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.

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 relative sewerage and purification plants were provided and operated by the local entity and that the failure to use the relevant services depends on the user's conduct that voluntarily decides not to become connected, 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.

### ***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).

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), according to the aforementioned law, 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 plant engineering. 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: Torinese.

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 Legislative Assembly of the Emilia-Romagna Region approved Regional Law 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 individual 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. Incentives are provided for information and education activities, with the possibility for Municipalities that plan information and education initiatives to destine to these activities a proportion of the income deriving from applying the tariff. With the new law the Region intends to transit from a linear economic model based on the exploitation of natural resources to a circular economy, in which materials

are constantly reused. And to do this it identifies instruments such as precise tariffs and puts in place incentives aimed at Municipalities that send less waste for disposal and bonus schemes for businesses. Based on Assembly Resolution no. 67 of 3 May 2016, the Region of Emilia Romagna approved the new regional waste management plan (PRGR), which is effective until 2020.

The Emilia Romagna Region approved the following resolutions:

- 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”), aimed at defining the forms, presentation times, criteria and the procedure for the assessment of the Technical Schedule which shows that the dangers have been identified and their probability and seriousness have been assessed (Art. 6, para. 1, R.L. 26/2003), the procedures related to the inspection activities (Art. 15 R.L. 26/2003) and the methods of coordination among the various subjects responsible for them;
- Regional Executive Resolution no. 1240 of 1 August 2016 (“Guidelines for the operation of municipal centres for re-use”) which implements the provisions at the European level of Directive 2008/98/EC, which gives priority in the waste hierarchy to prevention through reducing the production of the same, and the provisions at the national level of Art. 180 bis of Italian Legislative Decree 152/2006, which calls on Municipalities to promote initiatives aimed at encouraging the re-use of products.

It can be also noted that 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 “Decreto Milleproroghe ” 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. 10 of 22 January 2016 “Amendment and abrogation of legal measures that provide for the adoption of non-legislative implementing measures, under the terms of Article 21 of Italian Law no. 124 of 7 August 2015”, in particular with Article 1, paragraph 9, provides for the suppression of the second sentence of Article 11, paragraph 2, of Italian Law Decree no. 101 of 31 August 2013, converted, with amendments, by Italian Law no. 125 of 30 October 2013. With this intervention the following rule is therefore abolished: *“A decree of the Ministry for the Environment and Protection of the Territory and the Sea, adopted within sixty days from the date of entry into force of the law converting the present decree, after consulting the Ministry of Economic Development and the Ministry of Infrastructures and Transport, shall govern the methods for a stage of experimentation for application of the SISTRI, starting from 30 June 2014, to entities or businesses that collect or transport hazardous urban waste professionally, including foreign carriers that carry out transports of hazardous urban waste in Italy or cross-border transports starting from this country, or that carry out operations to process, recover, dispose of, sell and intermediate hazardous urban waste, starting from the moment in which the said waste is conferred to municipal collection centres or ecological stations or other gathering or storage areas”*.

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.

The “Sblocca Italia” Decree converted by Italian Law 164/2014 states that within ninety days from entry into force of the conversion law (10 February 2015) the Prime Minister must identify with his decree

energy recovery and urban and special waste disposal plants, existing or to be built, to create an integrated and modern management system for such waste capable of achieving national security in self-sufficiency and superseding the infringement proceedings for failure to implement the European laws on the sector. For this purpose he or she must consult the Permanent Conference. The Prime Minister must carry out the check with regard to: a) the total processing capacity at the national level of urban and similar waste by the incinerator plants in operation or authorised at the national level; b) the incinerator plants with energy recovery to be created to cover the residual need (for the purpose of gradual socio-economic rebalancing). The Ministerial Decree implementing “Sblocca Italia” is still being prepared, and we are awaiting its approval and consequent publication so that it can be considered effective.

The Stability Law for 2015 (Italian Law no. 190 of 23 December 2014) in paragraph 615 of Art. 1 replaced the second sentence of Art. 149-*bis* of Italian Legislative Decree no. 152/2006 establishing that direct assignment of the service can be made to entirely publicly-owned companies, in possession of the requisites prescribed by the European legislation for in-house management, in any case invested in by local authorities located in the optimal territorial area.

All the “energy recovery” (no longer “thermo-treatment”) plants, both existing and to be built, must be authorised to saturation of the thermal load, but only in the event of a positive environmental compatibility assessment of the plant in operating mode (including observance of Italian Legislative Decree 155/2010 on air quality).

The plants in question must give priority to urban waste produced in the regional territory (and to those of other Regions, only for the availability remaining after the regional needs are met).

If these plants receive urban waste from other Regions, the operators of the plants must pay the Region a new contribution (max 20 euro per ton) destined to finance a fund used to prevent waste, provide incentives for Separate Collection, for reclamation work and to limit tariffs. The law establishes that the expenses of this contribution “*may not be transferred into tariffs, charged to citizens*”.

Only hazardous special waste with infection risk remains permitted, “*in a complementary manner*” and observing the principle of proximity, on condition that the plant is fitted with a dedicated loading system that “*excludes also all contact between the personnel involved and the waste*” (to this end the Integrated Environmental Authorisations - IEAs - are made compliant).

The reduction to a half of the terms for expropriation procedures was confirmed (for proceedings in progress, the remaining terms are reduced to 1/4). The reduction to a half of the terms envisaged for the Environmental Impact Assessment and the IEA was not confirmed.

The Prime Minister must

carry out a study of the existing offer of plants also as regards recovery of the organic fraction, divided into Regions. Until the plants in question are built, the Regions may authorise, where technically possible, an increase of up to 10% of the capacity of such plants to encourage the recovery and production of high-quality compost.

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*”.

In January 2015 Ministerial Decree no. 272 of 13 November 2014 came into force; this makes known the methods for preparing the reference report at the moment of requesting or renewing the IEA.

The “Decreto Milleproroghe” (Italian Law Decree no. 192 of 31 December 2014, converted into Law no. 11 of 27 February 2015) and the subsequent “2016 Thousand Extensions” (Italian Law Decree no. 210 of 30 December 2015) moved to 29 February 2016 the term of the prohibition on conferring to landfills waste with LCV (Lower Calorific Value) of more than 13,000 Kj/kg. Following Italian Law 21/2016 the term for prohibition of the aforesaid conferment was postponed to 29 February 2016. In the so-called “environmental annex” (Italian Law 221/2015) the prohibition was in the meantime definitively eliminated.

Italian Law no. 190 of 2014 has also been in force since the first of January. 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.

Regulation (EU) no. 1357/2014 of the European Commission came into force on 1 June 2015; this innovates the hazardous waste classification system. The Regulation replaces Annex III of Directive 2008/98/EC, and consequently the entire Annex I to Part IV of Italian Legislative Decree no. 152/2006.

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.

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 “Ufficio del Massimario” [Information Office] 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 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 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).

At the end of 2015 the 2016 Stability Law (Italian Law no. 208 of 28 December 2015) was published, and it has been in force since 1 January 2016. There were various measures in the Environmental field: incentives and subsidies are introduced for renewable energies as well as actions on the subject of urban regeneration; on the subject of reclamations a fund of 10 million euro was established for each of the years 2016, 2017 and 2018, in part destined for sites of national interest for which it is necessary to act urgently in order to fulfil European obligations; as regards unauthorised landfill sites an increase is introduced for the assets of the fund set up to finance an extraordinary reclamation plan for landfill sites identified by the competent state authorities in relation to EU Infringement Procedure no. 2003/2007; spending of 5 million euro is authorised for the year 2016 for the launch of an extraordinary programme aimed at verifying the effectiveness of the polluting emission levels of vehicles. Again on the subject of emissions, the legislative changes involve, in addition, the income from auctions of greenhouse gas emission quotas.

The stability law also makes changes to Italian Legislative Decree 152/2006: in Art. 6, paragraph 17, regarding the prohibition of search activities, prospecting and extracting liquid and gaseous hydrocarbons in the sea within the perimeter of protected marine and coastal areas, the exceptions currently provided for are abolished.

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 also approved; this provides for - among numerous other measures - amendments to Italian Legislative Decree 152/06 and subsequent amendments and additions and to other laws on the subject of waste. At the end of September 2015 the Ministerial Decree of 24 June 2015 came into force. This contains “Amendments to the Ministerial Decree of 27 September 2010, related to definition of the criteria of admissibility of waste in landfills”. The significant amendments regard in particular Arts 3, 5, 6, 7, 8 and the entire Annex 3, on the Sampling and analysis of waste.

Since 2 February Italian Law no. 221 of 28 December 2015 has been in force. This is the so-called “Environmental Annex”, which introduces numerous and important changes among its 79 articles in numerous fields but especially on Waste Management, not only amending the Consolidated Environmental Act itself (modifying for example Articles 183, 187, 188, 190, 193), but also introducing



new and important changes on the subjects of Waste of Electrical and Electronic Equipment (WEEE - e-waste), Compost, Mixing, Landfills, etc..

In 2015, the European Commission adopted the “Green Action Plan” aimed at SMEs.

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 Legislative Decree no. 152 of 3 April 2006”.

Ministerial Decree no. 88 of 24 February 2016 came into effect, with the “Regulation concerning the requirements for those handling waste impounded in ports and airports pursuant to article 259 or article 260 of Legislative Decree no. 152 of 3 April 2006”.

The Prime Minister’s Decree came into effect on 7 March 2016 referring to the “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”. The aims of the provision are the 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.

On 14 June 2016, the Senate’s 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 of Electrical and Electronic Equipment (WEEE).

On 25 February 2016, the Decree issued by the Ministry of Agricultural and Forest Policies came 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).

Official Gazette no. 70 of 24 March 2016 published a notice from the Court of Cassation announcing the application for a repeal referendum of Art. 35, paragraphs 1, 2, 3, 4, 5, 8 and 9 of Legislative Decree no. 133/2014 (so-called “Sblocca Italia” Decree, converted into Law no. 164/2014), on the subject of waste incineration plants.

Article 35 makes provision, inter alia, for the issuing of a Council of Ministers Presidential Decree (DPCM) that identifies the overall capacity for the treating of urban waste and similar by incineration plants, as well as incineration plants with energy recovery to be built to meet the remaining requirement, with these structures classified as strategic infrastructure of major national interest (paragraph 1).

Fise Assoambiente has prepared guidelines to support companies in formulating the organisational model pursuant to Legislative Decree no. 231/2001, with the objective of preventing environmental crimes that the company could be liable for. The document, which was drafted in conjunction with Certiquality, approved by the Ministry of Justice in December 2015 (as required by Art. 6, paragraph 10 of Legislative Decree no. 231/2001) and distributed during March 2016, serves as a support tool to companies when adopting the corporate organisational model, in their assessment of the risk of environmental crimes arising, and in defining adequate prevention and control procedures. In particular, these Guidelines provide a specific in-depth study on the sector of waste management compared with the general directives issued by Confindustria on the subject with their own Guidelines in 2014.

On 13 April 2016, the WEEE Coordination Centre, Assoraee, Assorecuperi and Assoformet signed a new Programme Agreement on the treatment of WEEE, to ensure adequate and uniform treatment levels and the qualification of companies in the sector.

The agreement that was signed by the parties pursuant to Art. 33, paragraph 5, lett. g) of Legislative Decree no. 49/2014 and that comes into effect 30 days after signing, provides that the Coordination Centre makes its portal available, containing services dedicated to accredited plants.

Subscribing to the Agreement is open to all treatment operator associations that intend to join.

The Official Gazette dated 24 June 2016 published Ministerial Decree of 26 May 2016, containing the “Guidelines for calculating the separate waste collection percentage for urban waste” pursuant to Art. 205, paragraph 3-quater of Legislative Decree no. 152/2006.

Law Decree no. 113 of 24 June 2016 (containing the “Urgent financial measures for territorial entities and the territory”, in Official Gazette no. 146 of 24 June 2016 that came into effect on 25 June) was approved, which stipulated specific finance to implement the interventions under the judgement handed down by the EU Court of Justice on 2 December 2014, relating to EU infringement procedure no. 2003/2007.

Ministerial Decree no. 134 of 19 May 2016 containing “Regulation concerning the application of the Climate Correction Factor (CFF) 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 abrogating 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. Adjustment of the Italian legislation became necessary following the identification, by Dir. 2015/1127, of a different climate correction factor from that adopted in the Ministerial Decree of 7 August 2013.

Italian Law no. 132 of 28 June 2016 is currently in force. This set up the National Network System for Environmental Protection (Sistema Nazionale a rete per la Protezione dell’Ambiente - SNPA) and contains the regulations for the Higher Institute for Environmental Protection and Research (Istituto Superiore per la Protezione e la Ricerca Ambientale - ISPRA).

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 abrogations of and amendments to national laws in order to make them comply with the European rules.

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.

On 25 August 2016 Italian Law no. 154 of 28 July 2016 came into force. This contains “Powers delegated to the Government and further provisions on the subject in 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 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

For installations subject to the IEA: 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 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).

The Commission's Implementing Decision (EU) 2016/629 of 20 April 2016 was published, which amends Directive 2008/68/CE of the European Parliament and Council relating to the internal transport of hazardous goods.

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".

Commission Regulation (EU) 2016/1179 of 19 July 2016 is in force. This amends Regulation (EC) no. 1272/2008 (the so-called CLP Regulation) on classification, labelling and packaging of substances and mixtures.

### ***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 tax of a capital nature (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.

### **District Heating Service**

With Resolution 411/2014/R/com of 7 August 2014, the Authority for Electricity, Gas and Water Services (AEEGSI) approved the procedure for adopting the measures on the subject of regulation and control in the sector of district heating and district cooling, for the purpose of implementing the provisions of Italian Legislative Decree no. 102 of 4 July 2014, which transposed Directive 2012/27/EU on energy efficiency, that is (Art. 10, paragraph 17): *“The Authority [...], with one or more measures to be adopted within twenty-four months from the date on which the present decree comes into force and on the bases of guidance formulated by the Ministry of Economic Development, in order to promote the development of district heating and district cooling and of competition:*

- a) defines the standards of continuity, quality and security of the district heating and district cooling service, including plants supplying heat and the related accounting systems [...];*
- b) establishes the criteria for determining the tariffs and connection of users to the district heating network and the methods for exercising the right to disconnect;*
- c) subject to the provisions in letter e), identifies methods with which the network operators make public the prices for supplying heat, connection and disconnection, the ancillary equipment, for the purpose of cost-benefit analyses on the diffusion of district heating made under the terms of the present Article;*
- d) identifies reference conditions for connection to the district heating and district cooling networks, in order to encourage the integration of new heat generation units and the recovery of the useful heat available in the local area, in coordination with the measures defined to implement paragraph 5 for exploitation of the economically exploitable potential;*
- e) establishes the heat sale tariffs, exclusively in cases of new district heating networks if there is an obligation to connect to the district heating network, imposed by Municipalities or Regions.”*

Again in Resolution 411, the AEEGSI set up an interdepartmental Work Group with the task of performing a first reconnaissance on the actual situation of the sector in question.

Following the reconnaissance made by the Work group and taking into account the observations received from the operators in the sector, with Resolution no. 19/2015/R/tlr, the AEEGSI defined the priorities to take into consideration in order to regulate the new sector of district heating, in keeping with the results of the fact-finding investigation carried out.

In the “Madia Decree” schedule pending approval, on the subject of local public services, district heating could fall under the definition of local public services of general economic network interest. Consequently, before contracting a service, the local Entity needs to ascertain whether the service could be carried out without public intervention or could be carried out based on different conditions in terms of physical and economic accessibility, continuity, non-discrimination, quality and safety, and that the services have not already been provided and that they cannot be provided in a satisfactory manner and under conditions corresponding with public interest by companies operating according to normal market practices. If within the scope of its autonomy, the Entity deems the network service to be of general economic interest, the service will be managed according to one of the following options:

- assignment in concession based on an public procedure;
- assignment to a mixed company with private shareholder selected by a public procedure;
- in-house management within the limits set by law.

### **Energy efficiency**

Italian Legislative Decree 102/2014 transposed the New European Directive on Energy Efficiency 2012/27. The decree:

- establishes a framework of measures for the promotion and improvement of energy efficiency which combines to achieve the national energy saving target;
- lays down rules aimed at removing obstacles on the energy market and at overcoming market shortcomings that hold back efficiency in the supply and final uses of energy.

The following articles are particularly significant:

- Article 5. Improvement of the energy performance of properties belonging to the Government (starting from 2014 and up to 2020, energy requalification work will be done on buildings owned by the central Government and occupied by it for at least 3 per cent annually of the usable covered area air conditioned, with 30 million euro of dedicated financing in the period 2014–2020);
- Article 8. Energy diagnosis and energy management systems (Obligation for large companies to carry out energy diagnosis at sites located in Italy by 5 December 2015 and subsequently every 4 years);
- Article 9. Measurement and invoicing of energy consumption (the AEEGSI will, among other things, have to define the criteria concerning the technical and economic feasibility of supplying individual meters for electricity, gas and district heating users and identify the methods with which the measurement operators provide to final customers “intelligent” individual meters);
- Article 10. Promoting efficiency for heating and cooling (see on this point the paragraph “District Heating Service”);
- Article 11. Energy transformation, transmission and distribution (aimed at maximising the energy efficiency of energy transformation, transmission and distribution);
- Article 12. Availability of qualification, accreditation and certification systems (UNI-CEI, in collaboration with CTI and ENEA, prepares technical standards on the subject of energy diagnosis for the residential, industrial, tertiary and transport sectors).

With a communication of 1 July 2015 the Ministry of Economic Development made known that three decrees were about to be published in the Official Journal implementing European directives on the subject of energy efficiency in buildings which come into force on 1 October 2015 to define:

- adjustment of the national guidelines for the energy certification of the buildings;
- the methods for compiling the technical project report, for the purposes of applying the prescriptions and minimum energy performance requirements in buildings;
- the methods for calculating energy performance and defining the prescriptions and minimum requirements of buildings.

The first decree is aimed at defining the new methods for calculating energy performance and the new minimum efficiency requirements for new buildings and those being restored.

The second decree adjusts the formats of the technical project report to the new legislative framework, according to the different types of works: new constructions, significant restorations, energy requalifications.

The third decree updates the guidelines for the certification of the energy performance of buildings (APE). The new APE model will be valid over the whole country and, together with a new commercial announcement template and the national energy certificates database (SIAPE), will offer more information on the efficiency of buildings and systems, enabling easier comparison of the energy quality of different property units and orienting the market towards buildings with better energy quality. With the issue of these measures, starting from 1 January 2021 new buildings and those being significantly restored must be built in such a way as to reduce energy consumption to a minimum covering it mostly with the use of renewable sources. For public buildings this deadline will be brought forward to 1 January 2019.

On 15 July 2015 the Ministerial Decree of 26 June 2015, containing national guidelines for the energy certification of the buildings, was published in the EU Official Journal;

#### **APEE 2014**

In June 2014 the APEE (Action Plan for Energy Efficiency) 2014 was approved definitively by the Cabinet, after public consultation. The document, prepared by the ENEA, contains the energy efficiency targets set by Italy to 2020 and the policies activated to achieve them. In particular the Plan proposes to strengthen

the already existing measures and instruments and to introduce new mechanisms to overcome the difficulties encountered in certain sectors. Specific attention is paid to describing the new measures introduced with Italian Legislative Decree 102/2014 which transposed Directive 2012/27/EU. Compared with the APEE 2011 and with the figures up to 2012, up to now the targets for 2016 have been 58.6% achieved.

### ***Post-Green Certificates Incentive, Renewable Electricity Source Incentives, Energy Efficiency Certificates and the ETS***

#### *Post-Green Certificates Incentive*

As established by the Ministerial Decree of 6 July 2012, starting from 2016 the incentive mechanism using Green Certificates has been replaced by a new form of incentive. The subjects that have gained the right to GCs (owners of plants with IAFR – “Impianto Alimentato da Fonti Rinnovabili”- Plant Powered by Renewable Sources qualification) conserve the benefit up to the end of the subsidy period, but in a different form.

The new mechanism, in fact, instead of being based on the issue of tradeable certificates, guarantees on electricity production the payment by the GSE of an additional tariff in euro with respect to the revenue deriving from selling the energy.

For the transition to the new incentive mechanism, owners of IAFR plants that have gained the right to make use of Green Certificates, must sign an Agreement with the GSE to benefit from the tariff incentive for the remaining period of the right.

#### *Non-PV RES incentives*

The Ministerial Decree of 6 July 2012 establishes the methods of providing incentives for electricity production from plants powered by non-photovoltaic renewable sources, with power of no less than 1 kW. The incentives envisaged by the decree apply to new-entry plants, fully reconstructed or reactivated plants, those subject to enhancements or upgrading, which come into operation from 1 January 2013.

On 29 June 2016, the Official Journal published Ministerial Decree dated 23 June 2016 (new FER MD), which will remain in force until 31 December 2016 (31 December 2017 for plants that directly access the incentives under the MD). It stipulates the same procedures as the previous Decree regarding direct access, the register and auction; the MD differs from the previous one in terms of the number of tenders that will be published: applicable only until the end of the current year, provision is made for a single tender and register tender, both published by the GSE by 20 August 2016.

With Resolution no. 29/2016/R/efr (“Determination of the average selling price of electricity in 2015”), the AEEGSI determined the average selling price of electricity recorded in 2015 at 51.69 €/MWh; this price is used to calculate the price of withdrawal by the GSE of the GCs related to production in 2015 (100.08 €/GC) and, using the same formula, minus a coefficient K depending on the date of entry into operation of the individual plant, the figure, for 2016, of the post-GC incentive.

#### *Spread Incentives Decree*

In November 2014 the Ministry of Economic Development published the decree known as the “Spread Incentives” decree, on the remodulation of incentives for electricity production from non-photovoltaic renewable sources. The decree states that producers of electricity from renewable sources, owners of plants that benefit from incentives in the form of green certificates, all-inclusive tariffs or bonus tariffs can choose between two options:

- a) continue to enjoy the incentive system due for the remaining period of eligibility. In this case, for a period of ten years running from the end of the period of eligibility for the incentive system, work of any kind carried out on the same site does not have the right of access to further incentives, including dedicated Withdrawal and Exchange on site, chargeable to the electricity prices or tariffs;
- b) opt for a remodulation of the incentive payable, for which the incentive currently received (all-inclusive tariff or Green Certificate) is reduced extending by 7 years the incentive period. In this case:
- c) for work carried out on the same site as the plant for which the remodulation option has been exercised, there is no right of access - up to the end of the new incentive period - to further incentives, with the exception of Dedicated Withdrawal and Exchange On Site (provided that they are compatible with the incentive mechanism enjoyed);

- d) the regions and local authorities, each for the part they are responsible for, adjust to the duration of the incentive the validity over time of the permits issued for the construction and operation of the plants.

Owners of plants that benefit from Green Certificates or All-Inclusive Tariffs (Ministerial Decree of 18 December 2008) can choose this option, while the following are excluded:

- plants using renewable sources (other than biomass and biogas up to 1 MW) for which the period of eligibility for incentives ends by 31 December 2014;
- biomass and biogas plants of power of not more than 1 MW, for which the period of eligibility for incentives ends by 31 December 2016;
- plants using renewable sources regulated by Decree of the Ministry of Economic Development of 6 July 2012 (decree on electrical renewable energy source incentives from 1 January 2013, with the exception of plants “in transition”);
- plants using renewable sources which still receive the CIP6.

#### *Tax concessions*

Tax concessions for energy savings, consisting in amounts deductible from IRPEF (personal income tax) or IRES (business income tax), are permitted when works are completed to increase the energy efficiency level of existing buildings.

A deduction of 65% will apply to expenses incurred from 6 June 2013 to 31 December 2015 for energy performance upgrading works on existing buildings.

It should be remembered that the expense incurred prior to 6 June 2013 benefited from a 55% deduction. From 1 January 2016 a 36% tax benefit is envisaged for property restructuring costs.

#### *Energy efficiency certificates (EECs)*

Italian Legislative Decrees 79/99 and 164/00 introduced the obligation for electricity and gas distributors (with at least 100,000 customers at year end 2001) to increase the energy efficiency of end users of energy.

Provision was made for the transfer to Società Gestore dei Servizi Energetici S.p.A. of energy saving evaluation and certification management activities relating to projects presented under the energy efficiency certificate mechanism.

#### *Emission Trading System*

In accordance with the Kyoto Protocol, from 2008 to 2012 industrialised countries and transition economies are committed to reducing the global emission of greenhouse gases by an overall 5%, compared to the levels for 1990.

The reduction targets, different for each member country, are 8% for the European Union and 6.5% for Italy.

To meet the reduction obligations established by the Kyoto Protocol, Directive 2003/87/EC defined a trading system for the greenhouse gas emission quotas within the European Union, i.e. the “Emission Trading System” (ETS). The Italian law transposing Directive 2003/87/EC is Legislative Decree no. 216 of 4 April 2006.

The Emission Trading System provides that a maximum limit is established for emissions from industrial plants producing greenhouse gas, by allocating each plant (through the National Assignment Plans) a given number of emission quotas, which give the right to emit a corresponding quantity of tonnes of carbon dioxide into the atmosphere during the year to which the quotas refer.

Italian Legislative Decree no. 30 of 13 March 2013 transposed Directive 2009/29/EC into Italian law. This directive introduces new rules for the European ETS (Emission Trading Scheme) for trading greenhouse gas emissions and new activities subject to application of the regulations in the period 2013–2020.

The decree amends the field of application by defining it more precisely as regards combustion plants and extending the system to gases other than CO<sub>2</sub>. It also:

- provided for the possibility of excluding small plants;
- introduced the possibility of establishing simplified rules for the monitoring, reporting and checking;
- modified the method of assigning the quotas providing for the quotas to be assigned through auctions. More precisely, for thermoelectric plants and carbon capture and storage plants, assignment is totally by auctioning, except for cogeneration plants which can receive certificates free of charge for heat energy used in district heating.

With the Ministerial Decree of 21 February 2014, the Ministry of Economic Development defined the methods for reimbursing credits payable to operators for ETS quotas due to new-entrant plants for the period 2008–2012 but not released owing to exhaustion of the stock.

### ***Sale of natural gas and electricity***

Article 1 of Italian Legislative Decree no. 21 of 21 February 2014 made changes to the Consumer Code implementing Directive 2011/83/EU on consumers' rights, replacing Chapter I, Title III, Part III of the Consumer Code relating to "Consumers' rights in contracts".

These changes came into force on 13 June 2014 and apply to contracts concluded after that date.

With Resolution 100/2016/R/com of 10 March 2016 the AEEGSI laid down Rules on issuing closing invoices for cessation of the supply of electricity or natural gas.

The AEEGSI issued the consultation document of 10 March 2016 no. 93/2016/R/gas where it illustrates the Authority's new orientations in relation to the insurance in favour of final gas customers, currently governed by Resolution 191/2013/R/gas of 9 May 2013, which expires on 31 December 2016, by activating a new policy with effects starting from 1 January 2017.

With Resolution 17/2016/R/com of 21 January 2016 the AEEGSI issued rules on the minimum content of grounded replies to customer complaints, on the subject of invoicing of anomalous amounts for electricity and gas.

### **CONCESSIONS AND ASSIGNMENTS**

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

- Natural gas
- Electricity
- Integrated water cycle
- Environmental service management

### ***Distribution of natural gas***

#### ***Genoa area***

The natural gas distribution service in the municipality of Genoa and the neighbouring municipalities is carried out by 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. (21.32% controlled by the G.P.O. Consortium of which IRETI holds 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 - Atena S.p.A. (subsidiary of IRETI): 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 selling natural gas mainly through Iren Mercato - which also sells electricity. This activity is also carried out through direct or indirect investment in vendor companies including:

- GEA Commerciale S.p.A. and Salerno Energia Vendite S.r.l. for the Grosseto area and for Central Southern Italy;
- ASTEA Energia S.r.l. for the Marcie area;
- Atena Trading S.r.l. for the Vercelli area.

### ***Electricity sector***

IRETI (using the assets previously owned by AEM Torino Distribuzione, incorporated from 1 January 2016) manages in the city of Turin the public electricity distribution service 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 Atena S.p.A.
- Marcie area, with ASTEA S.p.A.;

### ***District heating sector***

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.

### ***Integrated Water Service***

#### ***Genoa area***

IRETI S.p.A. (company deriving from the merger by incorporation, among other things, of Iren Acqua Gas into Iren Emilia) 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 Mediterranea delle Acque S.p.A. (60% controlled by IRETI), IdroTigullio S.p.A. (66.55% controlled by Mediterranea delle Acque S.p.A.) and AMTER S.p.A. (49% owned by Mediterranea delle Acque S.p.A.).

On 23 April 2015 the business unit made up of the set of assets and the related legal relationships regarding the drinking water distribution activity 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 was sold, with effect from 1 July 2015, by Acque Potabili S.p.A. to Iren Acqua Gas S.p.A., today IRETI S.p.A..

At the same time, with a deed dated 19 June 2015 and with effect from 1 July 2015 the company Acque Potabili S.p.A. sold to Iren Acqua Gas S.p.A. (today IRETI S.p.A.) at the conditions provided for in the deed of sale, the equity investment 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
<i>Genoa area</i>	ATO/operator agreement	16.04.2004/5.10.2009	31 December 2032
<i>Reggio Emilia</i>	ATO/operator agreement	30 June 2003	31 December 2011 (*)
<i>Parma</i>	ATO/operator agreement	27 December 2004	30 June 2025
<i>Piacenza</i>	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. (40% owned by IRETI) integrated water service in the municipality of Livorno and other municipalities in the Province;
- Central Marcie 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: ATENA S.p.A. (subsidiary of IRETI) for the Vercelli area;
- Municipality of Ventimiglia: AIGA S.p.A. (49% owned by IRETI);
- Municipality of Imperia: AMAT S.p.A. (48% owned by IRETI);
- Alessandria ATO: ACOS S.p.A. (25% owned by IRETI) for the municipality of Novi Ligure;

- Cuneo ATO: Mondo Acqua S.p.A. (38.5% owned by IRETI) – manages the municipality of Mondovì and 7 other municipalities in the Cuneo area.

### **Waste Management segment**

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
<i>Reggio Emilia</i>	ATO/operator agreement	10 June 2004	31 December 2011 (*)
<i>Parma</i>	ATO/operator agreement	27 December 2004	31 December 2014 (*)
<i>Piacenza</i>	ATO agreement/operator	18 May 2004	31 December 2011 (*)
<i>Turin</i>	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.

In a temporary grouping of companies with F2i and ACEA Pinerolese, the Iren Group was awarded the tender offer launched by the city of Turin in 2012 for the sale of 80% of the share capital of TRM S.p.A. and 49% of AMIAT S.p.A. (the stake is currently 80% following a further acquisition of 31% from the municipality of Turin at the end of 2014).

Two SPVs were set up for the purchase of investments (TRM V and AMIAT V). The company TLR V. (merged by incorporation into Iren Energia starting from 1 January 2016) was also set up, for the creation of the infrastructural and commercial district heating system between the waste-to-energy plant and the district heating operators of the municipality of Grugliasco and Beinasco.

TRM is the company that built the Turin waste-to-energy plant and is responsible for waste disposal for the city and for municipalities in Turin province.

AMIAT is the company responsible for waste collection and transport in Turin.

### **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.

By resolution of 27 November 2012, the Municipal Council of Turin extended the assignment of these service agreements to 31 December 2020.

## FINANCIAL INCOME AND EXPENSE

### General framework

During the first nine months of 2016 the downward trend in interest rates continued, bringing interest rates - especially the medium/long term rates - on par with the lowest levels on record, and then following the "Brexit" vote, there was a further general drop to new lows. After a period of stability that lasted for the whole of 2015, the European Central Bank intervened with a further cut in the base rate which from March 2016 came down to 0%.

Examining the trend in the six-month Euribor rate we can note that the parameter continued on the trend of slow but progressive decline, in negative-rate territory since November 2015 and now at -0.21%. Fixed rate quotations, reflected in the value of the IRS at 5 and 10 years, recorded new record low levels; the trend remained downwards until September 2016 with a recent turnaround.

### Activities performed

During the first nine months of 2016, activities aimed at consolidating the financial structure of the Iren Group continued. The development of funding needs is monitored through careful financial planning, which enables requirements for new financial resources to be anticipated, taking into account the repayments of outstanding loans, the development of indebtedness, 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. The Group has relations with the leading Italian and international banks, for the purpose of identifying the types of loans best suited to its needs, and the best market conditions.

Moving on to discuss in detail the financing transactions completed in the first nine months of 2016, we can note that new medium/long-term loans were finalised for a total of 20 million euro.

The direct loans with the European Investment Bank, duration up to 15 years, agreed in December 2014 and December 2015, remain unused and available for a total of 230 million euro.

Financial indebtedness at the end of the period is made up 64% of loans and 36% of bonds.

In order to optimise the Group's financial structure, liability management continued in respect of existing debt positions with a view to taking advantage of favourable market opportunities.

In the context of the Group, new mainly medium-long term debt positions fell into the consolidation scope, following the acquisition of control of TRM S.p.A. in January 2016, for a total of 325 million euro (318 million euro at 30 September 2016) with an equivalent interest rate swap position, and another 4 million euro (3 million euro at 30 September 2016) with the acquisition of control of the Atena Group.

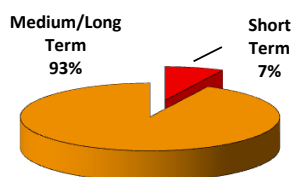
With regard to financial risks, the Iren Group is exposed to different kinds of risk, including liquidity risks, and the risk of fluctuations in the interest and exchange rates. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit such risks.

In the first nine months of 2016 four new Interest Rate Swap contracts were signed hedging a total of 190 million euro of debt, with maturity at 2027/2028 and effects starting from December 2017/2018. The fair value of the interest rate hedges was a negative 143,752 thousand euro at 30 September 2016.

At 30 September 2016, the portion of floating rate debt not hedged by exchange rate derivatives was 20% of consolidated gross financial indebtedness, in line with the objective of the Iren Group which is to maintain a balance between positions at floating rate and at fixed rate or in any case protected from significant increases in interest rates.

Furthermore, the financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored; no critical points have emerged regarding the coverage of current financial commitments. At the end of the period short-term bank credit facilities used by the Parent Company totalled 26 million euro.

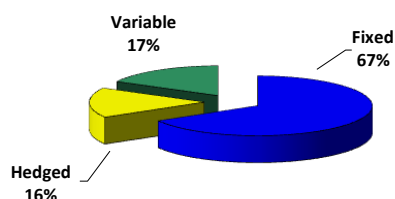
### Gross Financial Indebtedness by maturity



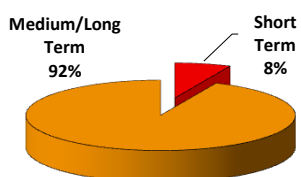
2.913 million euro

Situation at 31/12/15

### Gross Financial Indebtedness by rate type

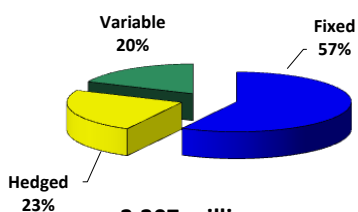


2.913 million euro



3.307 million euro

Situation at 30/09/16



3.307 million euro

### Rating

On 15 October 2015 the Fitch agency assigned the Iren Group a BBB- rating, with a stable outlook. The reasons that led to attribution of the "Investment Grade" rating are mainly associated with the balanced mix of its business portfolio between regulated and semi-regulated activities, the liquidity profile, the solid nature of its shareholding structure and the Group's strategy at the base of the latest business plan oriented to greater efficiency, integration and debt reduction. In support of the liquidity risk indicators, in addition to the above mentioned available lines for medium/long term funding, three-year committed credit lines were negotiated, which at 30 september 2016 amounted to 140 million euro.

## 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, 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) 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 Law on Finance);
- the regulation containing provisions on transactions with related parties, adopted by CONSOB with its Resolution 17221 of 12 March 2010 and subsequently amended with Resolution 17389 of 23 June 2010 (the *“CONSOB Regulation”*).

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, 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 transactions with related parties in accordance with the principles of transparency and fairness. Most of these transactions concern services provided to the customers in general (gas, water, electricity, heat, etc.) and are governed by contracts normally applicable to these situations.

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

## 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 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, was set up within the Holding. This department is formally entrusted with the following activities:

- coordinating the process for integrated management of the Group’s risks;
- assessing the Group’s insurance needs, designing programmes, signing and managing policies, with the collaboration of the Legal Unit.

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 currency risk and interest rate risk.

#### a) Liquidity risk

Liquidity risk is the risk that the financial resources available to the company will be insufficient to cover financial and commercial 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 subsidiaries 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; no critical points have emerged regarding the coverage of current financial commitments. At the end of the period short-term bank credit facilities used by the Parent Company totalled 26 million euro.

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. It is noted that during the period, new medium-long term loans were finalised and utilised for 20 million euro.

Financial indebtedness at the end of the period is made up 64% of loans and 36% of bonds.

Details of the activities carried out in this area and of the individual transactions are shown in the paragraph "Financial income and expense".

#### 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 hedging contracts entered into, together with fixed-rate loans, hedge approximately 80% of gross financial indebtedness against interest rate risk, in line with the Iren Group target of maintaining a balance between loans at floating rate and at fixed rate or in any case protected against significant increases in the interest rate.

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 water and environmental services. The receivables show no particular concentration since the exposure is spread across a large number of counterparties, belonging to non-uniform customer categories (retail and business customers and public entities).

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 introduced and identified. 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.

In view of the continuing unfavourable economic situation, the control over credit risks has been improved by strengthening the monitoring and reporting procedures, in order to promptly identify 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 customers, 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, including the related currency risk, on the energy commodities traded, (that is electricity, natural gas, heat, etc.) as both purchases and sales are impacted by price fluctuations directly or through indexing formulae.

The Group’s strategy is to minimise the need to turn to the financial markets for hedges, both by aligning the indexing of the commodities purchased and sold and by exploiting, vertically and horizontally, its various business segments.

For this purpose, the Group carries out planning of the production of its plants and purchases and sales of energy, in relation to both volumes and price formulas.

The objective is to balance opportunely self-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 and sufficient stability of the margins.

### 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 has been set up, 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

The main operational IT risks are related to the availability of core systems which regard accounting operational management and invoicing processes and the 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.

To mitigate such risks, specific measures have been adopted, such as the redundancy of parts of the system and appropriate emergency procedures ("Disaster recovery"), which are periodically subject to simulations, to ensure their effectiveness.

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 2021 which defines its strategic orientations. It is articulated according to the following macro-drivers which determine its targets for economic, capital and financial figures:

- making the Group's organisation and processes more efficient;
- development;
- consolidation of the regulated sectors (renewal of concessions: hydroelectric, gas distribution, integrated water cycle and environmental sector);
- non-recurring operations.

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.

# ORGANISATION AND IT SYSTEMS

## Organisation

From 1 January 2016, after the corporate operations carried out during 2015, the Iren Group is made up of four sub-holding Companies, 100% controlled by the Parent Company Iren SpA, which head up the corresponding Business Units:

1. WASTE MANAGEMENT Business Unit (sub-holding: Iren Ambiente SpA): it coordinates and manages the activities of sweeping, collection and management of collection centres, management of waste processing and disposal plants and the related heat and electricity production plants;
2. ENERGY Business Unit (sub-holding: Iren Energia SpA): it coordinates and manages the electricity production/energy-heat cogeneration plants, the heat distribution (so-called district heating) plants and networks and the activities related to “indoor” technological services (electrical systems and heating systems, technological global service);
3. MARKET Business Unit (sub-holding: Iren Mercato SpA): it coordinates and manages the commercial services to Customers (electricity, heat and gas, etc.), and the marketing activities for development on the reference markets;
4. IRETI SpA - NETWORKS Business Unit (sub-holding: IRETI SpA): it coordinates and manages the integrated water services and the gas and electricity plants and distribution networks.

During the first nine months of 2016 work continued on reorganising the Group; this is aimed at strengthening the unitary nature of governance and accelerating the integration process, making operations more efficient and focusing on the business in keeping with the provisions of the Business Plan approved by the Board of Directors of Iren S.p.A. on 16 June 2015.

The numerous projects in progress for pursuing savings included in the Business Plan are both for corporate rationalisation, business process re-engineering and performance improvement and involve both the corporate staff Departments and the Business Units.

## Information Technology

During 2015 the first stage of the project to revise and integrate the systems in support of the processes of the administrative-accounting area and of management control was completed, launching the new transactional environment common to the main Group companies, the single treasury management system enabling the single treasury model centralised under Iren SpA, and the new Enterprise Performance Management (EPM) platform for managing the Planning, Budgeting, Forecasting and Final Consolidation processes.

The overall programme, entitled *IrenOne*, continued with a second “go-live” moment for the new transactional environment at 1 January 2016, and during the first quarter of 2016 was completed with the post-launch activities; in this second stage the activities were carried out harmonising the action areas of the Programme with the evolutions linked to the Group’s “overall” corporate and organisational rationalisation Project (the so-called “100% Operations” Project). The second stage of *Iren One* included the roll-out of the group payroll system on AMIAT. In the coming months it will continue with the “porting” on the *Iren One* platform of the new companies that are coming into the Group’s consolidation scope.

During the second quarter of 2016, the necessary interventions were undertaken to ensure faster accounting closing times (Fast Closing Project), together with the integration activities to consolidate the accounts within the corporate scope for the Atena Group.

In addition, the project for integration of TRM and Atena was launched, with the objective for these latter of adopting the Group systems operating in the Administration, Finance and Control, Procurement and Logistics area.

The porting was completed in July 2016 for TRM and planned for January 2017 for the Athena Group.

Two strategic projects were introduced relating to (i) the revision of the payments cycle and (ii) the design of the Group's management reporting system. The aim of the first project is to harmonise the administrative management processes for the payments cycle, laying the foundations for digitalising processes in the administrative and works' areas, whereas the second through a specific Business Unit, seeks to provide a series of indicators for a reporting system dedicated to top management.

The project for Revision of the Payments Cycle completed the analysis activities and the implementation stage is about to begin, while the Group Head Office Reporting project has completed the study and, in the last quarter of the year, the plan is to create the prototype of the system and identify the system integrator to which to entrust the creation of the entire system.

In relation to the Energy business unit, as part of the "Torino In Luce" (Turin in Light) project, the project was completed to create the App for the reporting by residents of any poor services of public lighting and to manage the consequent maintenance actions. As per the agreed plan, project work is underway for the management of maintenance interventions, including the adoption (first application for the Group) of an automatic scheduling platform for maintenance notices and work orders. All the relevant functions will have mobile access to ensure the highest level of operational efficiency possible.

A study to assess the adoption of a specific system has been undertaken for the heat supply chain. The platform in question is the reference product on the district heating and heat service management market, and has already been adopted or is under assessment by all the major Italian groups operating in the sector. Based on the availability of a series of active licences with Atena, it has been decided to conduct a pilot experiment during the upcoming 2016–17 thermal season. Testing on the system in production will be done for approximately 100–200 plants, distributed between Turin (Iren Servizi e Innovazione scope of services) and Genoa (Iren Gestioni Energetiche scope of services), in terms of both technical and commercial processes, using the same installation as the Atena Group. This will take advantage of significant synergies, without having to incur the costs for buying servers and licences. By the end of the year, a final decision will be taken as to whether to adopt the system or not.

As regards, instead, the heat services front the WFM TLR and TLR Works Portal project was completed.

On the front of the Waste Management BU the project was completed to revise the system for calculating the precise tariff for the municipality of Reggio Emilia and the first stage of the GEOSAI project, relating to the creation of the data warehouse prototype for analysing the collection and sweeping services. During its initial stage of usage, the latter made it possible to support the data analysis underway to prepare for the upcoming Parma tender to assign urban hygiene services.

The second phase of the GEOSAI project began in June, which aims to complete the set of operating indicators used to monitor the performance of services, and automate the supply of data collected by the devices installed on board vehicles.

For Iren Mercato, the first quarter projects have been completed (Bill 2.0 and managing instalment packages for leds), and an important Switch project has gone into production, which has automated back-office sales processes linked to the processing of electricity contracts until they are loaded into the commercial systems. The project is characterised by high levels of automation, thanks to real-time integration (application to application) with Iren Mercato's management systems and the Single Buyer's Integrated Information System.

In the third quarter of the year, besides the conclusion of work on post go-live arrangement of the Switch project -and of the RAI licence fee, the group is about to get into the heart of the implementation stage of the end-of-year regulatory actions (RCU on condition and gas Transfers).

The project for Accrual Calculation and the Analysis of Gas Revenue, after an initial development stage, is now at an advanced user testing stage and the stage of detailed analysis of the analogous project for electricity revenue has been completed.

In the same way the projects are continuing in the work programme on Credit Processes.

In relation to the projects of the Networks BU supply chains, the SITECO project to unify the technical-commercial system of the gas supply chain and the commercial quality project of the integrated water cycle are proceeding.

During the third quarter the main activities in the corporate area continued. These are the project to Integrate Atena, and the project to Rationalise the Material Databases, based on the use of one of the main market platforms (Creactives). The project to Adopt the eProcurement Platform, supporting the qualification and electronic tender processes, has been completed.

In the field of Territorial Information Technology Systems the planning stage of the new architecture of the single group system has been completed. In the second quarter the GEOIREN project was launched; this will lead to the unification of the SIT systems, both in respect of the consultation portion (envisaged for the start of 2017), and the updating portion (envisaged for the start of 2018).

In the Remote Control area, the project with Iren Energia to extend the District Heating Remote Management system in the area of Emilia was launched. This project will be completed at the beginning of 2018.

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

- Data Center consolidation project:
  - preparatory tests for moving the Turin DC were completed positively
  - detailed planning is in progress for the move, which will take place in October
  - activities for the migration of SAP to the Linux platform have begun
  - in November final planning of the Parma DC move will begin
- New Geographical Data Network: all the fibres that enable the highly reliable Turin-Genoa-Parma geographical ring are being turned on. The activity will be completed by the end of October.
- In the security field in July the new technology for controlling corporate e-mails came into operation and the specifications for choosing a vulnerability assessment tool are being defined.
- In July the system for monitoring the costs of mobile phones and land lines was launched.
- In the Distributed area the specifications for the choice of the new Service Desk tool are being drawn up.

## 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 2020 approved by the Board of Directors of Iren S.p.A. on 16 June 2015 provides for the implementation of an open innovation model which is intended to be: operational, covering all the businesses and focused on achieving the objectives of increasing efficiency, improving service quality and creating development opportunities, in order to anticipate people's, customers' and communities' new needs.

In particular, the Iren Group is investing in terms of research, development and innovation to optimise and improve operating applications and to introduce technological innovation into its processes and products. The Business Plan to 2020 envisages that approximately 25% of total operating investments will be dedicated to investments with innovative characteristics (approximately 3% of accumulated revenue).

The main research, development and innovation lines on which the Iren Group is investing regard:

- study of renewable sources for heat and electricity production;
- diffusion of "customer empowering" tools and increasing the awareness of users on the impact of consumption and on energy savings;
- 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, remote reading, smart metering and multi-metering systems;
- thermal and electrical storage systems;
- systems for the processing, purification and re-use of waste from sludge, waste water and other waste treatment processes;
- Internet of Things ("IoT") and domotics;
- "data intelligence" ICT tools;
- development of platforms for the creation of a single urban register of sub-services;
- optimised management of the integrated water cycle (districtualisation, identification and reduction of network losses);
- electrical mobility.

Iren intends to manage 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.

The first nine months of 2016 were characterised by the continued technical and development activities relating to the various projects co-financed by the Group, and in some cases in partnership with innovative start ups, and internal technology projects, for example on the issues of user engagement and user empowerment.

The research on innovative start-ups also continued during the first nine months of 2016, with partnership agreements signed and experimental projects launched.

An update of the main projects underway at 30 September 2016 is provided below.

## FINANCED RESEARCH PROJECTS IN PROGRESS

### Water Services

#### ***BlueSCities (Horizon 2020)***

Since February 2015 Iren has taken part in the BlueSCities project financed under H2020; this involves defining a “practical guide” to be applied in the efficient management of the integrated water cycle and of waste in urban areas. The project intends 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: IRETI, Fundacio CTM Centre Tecnologic, KWR Water B.V., Joint Research Centre, VTT teknologia Tutkimuskeskus, Redinn srl, De Montfort University, University of Istanbul, Strane Innovation, Easton Consult, TICASS, University of Athens.

Status: The project is in its second year, and Iren has begun 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.

#### ***GeoSmartCity (FP7)***

The objective of the GeoSmartCity project is 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: IRETI, Gisig, Sinergis srl, Intergraph CS SRO, Asplan Viak Internet AS, Epsilon Italia, Trabajos Catastrales 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: After successfully completing its second Review Meeting with the Commission in April 2016, the project is currently almost at the two thirds mark of its term (three years, with conclusion expected in February 2017). Most of the system functions have been developed and a pilot development is now planned in Genoa in which the municipality will tackle the subject of interoperability of its land register, while Iren will handle operations in the field by carrying out surveys with a total station with automatic error correction returning the figure acquired to the corporate information system and an operating procedure for the integration of this data. During the final project phase, the pilot and entire system will be tested, in addition to disseminating and planning the use of the results.

#### ***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, Mediterranea delle Acque, 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: Following on from the MEUR (Ministry of Education, Universities and Research) communication relating to the new classification, a reformulated budget was submitted, which will be incorporated into the finance decree that will shortly be released to the partnership. Work has begun in the Rapallo area, where concentrated investigations are underway to find water leaks, and the aqueduct networks are being divided into ten districts, which manage

pressure and monitor water leaks in real time, by analysing the minimum night-time outflow. Similar activities involving the drainage system and monitoring of water parasites have been introduced in a district of the city of Parma.

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

**Status:** The amendment for the introduction of IRETI as a partner in the project is going ahead. The documentation required to install the Roncocesi purification system is being finalised for delivery.

### ***ReQPro (Life+)***

The project is closely linked to the implementation of the tertiary treatment section at the Mancasale (RE) purification plant: the works have already been financed with a contribution from the Region of Emilia Romagna, and include sand filters for filtering and final disinfection using UV rays and oxygenated water, to make the water leaving the plant compliant with the requirements as per 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., is to assess the effect of treated water at the Mancasale purification plant on certain crops identified in conjunction with the Consorzio di Bonifica dell'Emilia Centrale and Po Valley Authorities.

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

**Status:** The treatment plant was completed in the first quarter of the year; the calibration and development phase is underway together with the installer, and running parallel to this, laboratory tests are being conducted on the water to be reused in order to check compliance with the relevant legislation.



## Energy

### ***CELSIUS (FP7)***

The project pursues increasing energy efficiency in high-density urban areas by recovering the heat produced by various emission sources.

Each partner city of the project has 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 is responsible, through IRETI, aims at achieving 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 has a duration of 57 months and ends in December 2017. The construction activities are being completed and the demo start is in progress.

### ***DIMMER – District Information Modelling and Management for Energy Reduction (FP7)***

The DIMMER project consists of developing effective web interfaces that provide real-time feedback on the energy impact of user behaviour at district level. In particular the Italian demonstrator will be located in Turin (Polytechnic district) and will be focused on software systems capable of optimising heat supply for district heating and assessing in real time the efficiency of heat exchangers.

Partners: Iren, Turin Polytechnic, CSI, Turin University, Manchester University, sponsored by the municipality of Turin, Italian and European SMEs.

Status: Iren carried out experiments aimed at optimising the management of thermal demand for the buildings related to the districts indicated in the project during the second half of the heating season: in view of the final project review, the preliminary analysis of the results showed tangible benefits in terms of peak shaving and peak shifting.

### ***EMPOWERING (Intelligent Energy Europe programme)***

The project intends to provide effective and easily-consultable tools to end users for energy saving; in particular additional information will be proposed to 2,000 electricity users and 1,100 district heating users (in Turin and Reggio Emilia) through an “intelligent bill” and an on-line tool on the websites of the participating Utilities.

Partners: Iren, Turin Polytechnic, municipality of Reggio Emilia, Danish, French and Spanish utility providers, Italian and European SMEs.

Status: The project ended on 31 March 2016: Iren, together with the other partners in the project, presented the results of the experiments during an international Forum in Brussels, in the presence of the Officer and of representatives of the EU.

### ***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 demonstration sites, of which one in the Province of Turin in the SITAF area of the Turin-Bardonecchia motorway.

Partners: Iren, Turin Polytechnic, FIAT, Pininfarina, Energrid and Scania Nissan research centres, other international industrial partners, Italian and European SMEs.

Status: the project is now in the stage of technical implementation of the induction recharging systems in the different pilot sites. Iren continues to support the partners tasked with

developing the Italian demonstrator for all the questions related to the impact of the solution on the electricity grid.

***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 be to: 1 - define the use-cases, with special reference to the distributors’ and electricity vendors’ requirements; 2 - provide technical and regulatory expertise to identify DSO and electricity vendors’ requirements/constraints; 3 - assess the results and project developments.

Partners: Iren, Fiat Research Centres, TecnoSitaF, ICOOR, Renault, Verbund, TomTom other overseas industrial partners, Italian and European SMEs.

Status: The proposal was accepted and the project’s official KickOff is envisaged for October 2016.

***FLEXMETER (Horizon 2020)***

The idea of the project is 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 (in analogy with what was requested by the AEEG in Resolution 393/2013). The project will also analyse the possibilities offered by the NIALM methodologies on analyses of disaggregated electricity consumption.

Partners: Iren, Turin Polytechnic, E-On, University of Grenoble, Siveco, University of Bucharest, Telecom Italia, University of Bologna, ST Microelectronics.

Status: The technology for the devices to install in the field are being finalised, as are the design of the user-interface to display consumption in near real time, in order to disaggregate consumption, user engagement and gamification.

***Store&Go – (Horizon 2020)***

The STORE&GO project will demonstrate 3 innovative Power to Gas (PtG) 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 PtG storage system into leading-edge energy production and distribution systems. Iren’s role will involve the study of the technical/economic possibilities of integrating PtG technology into thermoelectric production systems.

Partners: Iren, Turin Polytechnic, HST, Atmosstat, Climeworks; Studio BFP, DWGV, HSR, other university and industrial partners.

Status: Working in conjunction with the Polytechnic of Turin, Iren has begun technical and economic testing regarding the possible use of the PtG systems to support the flexibilisation and dispatching of electricity produced in large electricity generation plants.

***HOLIDES - Holistic Human Factors and System Design of Adaptive Cooperative Human-Machine Systems (ARTEMIS)***

The project has the objective of developing a technological platform which would make it possible to take into consideration human factors, that is the way in which people interact with complex technologies, right from the first stages of design and development of adaptive cooperative systems at different levels of automation. The platform will be tested through the development of applications in 4 different domains industrial (Avionics, Medical, Control Rooms and Automobiles), which are characterised by a high level of complexity from the point of view of safety.

Partners: 31 project partners from 7 different European countries, including: Iren, Fiat Research Centre, Lufthansa Flight Training – CST Gmb, HATOS, Philips, Honeywell International s.r.o., EADS Innovation Works France, University of Turin, Brno University of Technology, OFFIS e.V.

Status: The software application has been developed, with the aim of assisting the Iren control room in the management of emergency calls, and tests are being done.

***PROBIS – Procurement of Building Innovative Solutions (Framework Programme for Competitiveness and Innovation – CIP)***

The PROBIS project is concerned with redefining all the stages of an innovation contract, from identifying the requirements and needs (on the basis of what will be the pilot to be created), to dialogue with the market, to the functional performance specifications, to the reward criteria, up to the purely legal and legislative aspects and preparation of the related documentation and contractual forms.

Partners: Iren Servizi e Innovazione, Turin Environment Park, Agencia Andalus de l'Energia, Institut Andaluzo de Tecnologia, SP Technical Research Institute of Sweden, Lombardy Region, The European House Ambrosetti Spl, Nemzeti Innovacios Hivatal, Miskolk Holding Önkormányzati Vagyonkezelő Zártkörűen Működő Részvénytársasá, Borlänge Kommun.

Status: The contract tender documentation has been completed, and in line with the project objectives, an innovative tender scheme has been proposed, which provides for an initial design phase aimed at introducing innovative energy efficiency solutions, and a second phase to carry out the works.

**OTHER INNOVATION ACTIVITIES**

**Water Services**

During the first nine months of 2016 Iren continued to take part in the WssTP (Water Supply and Sanitation Technology Platform) project, launched by the European Commission in order to oversee research in the water sector, participating also 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. During the same period, numerous project proposals have been submitted which also aim to finance research grants relating to the subject of water quality. Some of the project proposals submitted referred to applying circular economy methodologies in the integrated water cycle sector, based on recovery techniques for phosphorous derivatives (H2020), as well as the purification of biogas using membrane technology.

More specifically, the research projects launched and completed concerned:

### **Water demonstrator**

In the first nine months of 2016, Iren began the work on studying and creating a water demonstrator as part of which “low cost” hydrophones and high-resolution pressure sensors will be studied and tested; these will be integrated into Iren’s ICT architecture for the monitoring of water leaks. Specifically, an initial feasibility study was done during the first nine months of the year, relating to a synchroniser module for leak detector applications. The system makes it possible to synchronise to under a millisecond, and uses a GPS signal as the appropriate tool to achieve this level of synchronisation. This will make it possible to have available an innovative technological nucleus to be integrated into the context of future pilot sites to be developed on a wider scale possibly financed by EU tenders (i.e. IoT).

### **Initiatives in the context of TICASS, innovation hub for energy and the environment of the Liguria Region**

The Iren Group has taken part in the TICASS Innovation Hub since its beginning in the field of studies and projects related to managing and safeguarding water, energy and environmental resources. In this context Iren studies in depth the questions it is interested in, participating in specific work groups devoted to studying subjects such as environmental monitoring, purification processes, reclamations and recovery of contaminated sites, analysis and assessment of environmental risks, prevention and reduction of chemical risks, management and use of waste, the recovery, recycling and re-use of materials, development of new technologies applied to sustainable processes, the production of energy from renewable sources, the use of water resources, the management and production of high-quality drinking water, the processing of industrial and civil waste water, the integral recycling of water, the production and storage of energy.

### **Projects included in the Amga Foundation’s research programme**

Iren is working on a number of projects included in the AMGA Foundation’s programme for the current year; 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*. 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**

A project is in progress to replace in the city of Turin approximately 54,000 lighting points fitted with discharge lamps with new LED lamps. The project is completely financed by Iren on an ESCo basis; approximately 49,500 lamps have been replaced from the start of the project to 30 September 2016. In energy terms, when the project is completed, the saving will be approximately 19.6 GWh per year, with lower emissions of approximately 3,600 TOE.

### **Remote control of district heating plants**

The project for the remote control of district heating systems aims at providing the tools for effective management of consumption control, the configuration of the operating parameters, and the technical maintenance and management of the SST (heat exchange substation) alarms in order to improve the services to district heating customers. To this end a technological platform has been designed, which is able to acquire the operating parameters from the substations, process the data and offer the necessary reporting and control tools.

### **Installation of storage systems on the district heating network**

In the city of Turin, Iren is continuing with the work to create two heat storage systems serving the district heating network at the BIT integration centre, which, added to the currently existing 12,500 m<sup>3</sup>, will take the total capacity to 15,000 m<sup>3</sup>. At the same time, design work is continuing on three further storage systems, aimed at optimising the network and maximising the heat produced in cogeneration, reducing the use of supplementary and reserve boilers.

### ***Flexibilisation of combined cycle plants***

Iren is proceeding with work on flexibilising its combined cycle plants, 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.

### ***Dam seismic research contract***

During 2015 a research contract with the Department of Structural, Building and Geotechnical Engineering of the Turin Polytechnic for seismic testing of dams was activated. The activities of the research programme were oriented to developing methods for the seismic testing of dams and of the related accessory structures, in the current scenario of the changing legislative context on the subject. An annual research grant has been activated to study the stability of the Ceresole Reale dam in seismic conditions, as have two traineeships aimed at characterising the materials of the said dam built at the end of the 1920s and the subject over the years of a certain amount of renewal and extraordinary maintenance work and four dissertations on the seismic testing of the dam and certain accessory works (guard house, intake and generator/compressor unit building). This activity was completed at the end of 2015. A research contract was signed in 2016 to develop analogous activities on the dam made of loose material in Contrada Sabetta, serving the Bussento (SA) plant.

### ***Monitoring of the Ciardoney glacier***

In the early months of 2016 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 June 2016 campaign recorded snow cover varying between 425 to 230 cm, for an equivalent average for the entire glacier of around 1300 mm, slightly up on the average for the entire 1992–2016 observation period.

### ***#OpenIren 2016***

The “#OpenIren 2016 Energy that innovates” call was officially launched on 27 May, which aims to find three innovation scouts, namely digital talents that support the identification and valuation of innovative projects, products or services that could service the business within the Iren Group, which is promoting the project together with the Turin Talent Garden.

After an initial training and brainstorming session with Iren, the three selected talents will need to select and analyse between three and six innovative solutions in the domotics and metering, big data, and marketplace & customer services sectors, taking into consideration possible repercussions on the Group’s business.

The call subjects range from intelligent management systems, the automation and simplifying of domestic control operations, through to the structured analysis of plant data, networks and sensors used to introduce new operational management systems, including the sale of services/devices and innovation in customer relationship processes.

The call and research by these talents will extend over 6 months.

## PERSONNEL AND TRAINING

At 30 september 2016 the Iren Group had 6,264 employees; compared to 31 December 2015 there was an increase compared to the previous 6,132 employees. The table below provides a breakdown of personnel at 30 september 2016, divided into holding and first-level companies (with related subsidiaries), compared with the figure at 31 december 2015.

Company	Workforce at 30.09.2016	Workforce at 31.12.2015
Iren S.p.A.	923	821
IRETI and subsidiaries	1,944	-
Iren Acqua Gas and subsidiaries	-	865
Iren Emilia and subsidiaries	-	794
Iren Ambiente and subsidiaries	2,289	2,257
Iren Energia and subsidiaries	623	915
Iren Mercato and subsidiaries	485	480
<b>Total</b>	<b>6,264</b>	<b>6,132</b>

The change in the workforce compared to 31 December 2015 is due to:

- continuation of the plan to reorganise the Iren Group subsidiaries, implementing the Business Plan adopted, which starting from 1 January 2016, besides transferring a number of business units, entailed the incorporation into Iren Emilia S.p.A. (the company name of which changed on the same date to IRETI S.p.A.) of the following Companies operating in the sector of electricity and gas distribution and of the integrated water service: Genova Reti Gas, AEM Torino Distribuzione (up to then controlled by Iren Energia), Iren Acqua Gas, Acquedotto di Savona, Eniatel and AGA;
- the inclusion of TRM S.p.A. in the Group, with effect from 1 March 2016, within the scope of Waste Management Business Unit (57 resources) and with effect from 1 May 2016, the companies Atena S.p.A. and Atena Trading S.r.l. in the scope of the Networks Business Unit (238 resources);
- the continuation of the process to revise the Business Units that the Group's different segments fall under, with the objective of simplifying the corporate structure with the transfer of business units: on 1 April 2016, from Iren Mercato S.p.A. to Iren Energia S.p.A. ("Power Management" unit), and from Iren Mercato S.p.A. to Iren Ambiente S.p.A. ("Commercial waste" unit), from Ireti S.p.A. to Iren S.p.A. ("Staff Corporate and Storage" unit) and from Iren Energia S.p.A. to Iren S.p.A. ("Storage" unit).
- continuation of the voluntary retirement incentive process, pursuant to Art. 4 of Italian Law 92/2012, which, with the objective of creating a generational change in the context of the Iren Group, will in any case take into account the organisational need to guarantee maintenance of the policy on the subject of limiting workforces.

### Training

Since it was first established, Iren has made training one of its fundamental tools in the professional development of human resources, developing the necessary technical, professional and managerial skills to support/facilitate operational changes and at the same time, to ensure the staff component remains constantly updated.

In relation to the first nine months of 2016, a total of approximately 64,000 hours of training were provided, with 74% of Group employees taking part in at least one training course, and an individual average of 11 hours.

## 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.

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

The Parent Company, all first-level companies, AMIAT and the main investees have systems that are certified in accordance with international ISO 9001 (Quality) standards.

The Parent Company, the first-level companies Iren Energia, Ireti, Iren Ambiente, AMIAT and the main investees are certified in accordance with the international ISO 14001 (Environment) standards.

The Parent Company, IRETI, Iren Energia, Iren Mercato and their main subsidiaries and AMIAT are in possession of the Certification under the terms of the OHSAS 18001 (Safety) standard.

During the first nine months of 2016 the audit for Quality, Environment and Safety Certification of IRETI was carried out and the planned audits to keep/renew certification for Iren S.p.A. and the Group companies were carried out regularly, giving positive results and therefore confirming the existing certifications.

An audit was also carried out for the acquisition of Multi-Site Accreditation by the Group company Laboratori Iren Acqua Gas.

The projects were launched for revision of the processes of Iren S.p.A., Ireti and Iren Mercato in relation to the corporate and organisational changes that have occurred, with the objective of using the certified systems as an effective instrument for improvement.

In this logic, besides numerous projects for expansion of the certifications mentioned, activities were carried out aimed at maintaining or acquiring:

- accreditation under the terms of UNI EN ISO/IEC 17025 and Accredia for the chemical-biological analysis laboratories;
- certification according to Reg. EC no. 303/2008 - FGAS for Iren Gestioni Energetiche, operating in the heat management sector, for the service provided on devices containing fluorinated greenhouse gases;
- certification for the sales of electricity produced solely from renewable sources, in compliance with the Certiquality Technical Document no. 66, by Iren Mercato;
- UNI 11352 certification by Iren Gestioni Energetiche and Iren Servizi e Innovazione.

## IREN AND SUSTAINABILITY

The Iren Group promotes policies in keeping with the principles of environmental, social and financial sustainability: respect for and protection of the territory, professional development of employees, customer satisfaction, constant dialogue with the community and the Public Administration, careful management of the supply chain, and transparent communications with shareholders and lenders. The Business Plan to 2020 represents the “bridge” towards the new Iren which, through continual innovation, rationalisation and increased efficiency of internal processes, selectivity of investments for profitability and attention to customers’ new needs, aims at becoming an aggregation hub and driver of development in the areas in which it operates, in addition to providing a new strategic direction for Corporate Social Responsibility.

In this context, the following are of particular note among the Group’s main sustainability initiatives carried out in the first nine months of 2016:

### Sustainability Report

The Sustainability Report contains full details of the Group’s economic, environmental and social sustainability performance, represents a tool for operational orientation and constitutes a document for constant and participated dialogue with the community and all stakeholders. For the 2015 edition the data were collected through the “sustainability report” application which provides for the tracing, checking and approval of all the data required. In addition the contents of the document were defined on the basis of the materiality analysis carried out with the involvement of the Group’s management and the Iren Territorial Committees of Piacenza, Parma and Reggio Emilia.

The 2015 Sustainability Report was approved by the Board of Directors on 15 March 2016 and published on the internet site.

The preliminary activities for collecting data related to the 2016 Sustainability Report are currently in progress, and the documents for the assessment of the significant themes for the purposes of the Iren Group’s next sustainability report have been sent to the members of the Territorial Committee

### Publications on Sustainability

To make the issues pertinent to sustainability more accessible to stakeholders, the internet site dedicated to the Sustainability Report (<http://irensostenibilita.it>) was updated. This contains the main data appearing in the Sustainability Report, divided in a point format and available in an English translation. The 2015 Sustainability Report was published on the corporate internet site in Italian and English, and specific information brochures were prepared and printed in both languages.

### Local Committees

In January 2016, the Local Committee for Genoa was established, which is added to the previously established Committees in Piacenza, Reggio Emilia, Parma and Turin. Local Committees were introduced to ensure a greater presence within the local community, based on participatory planning and consultation on issues such as environmental and social sustainability, innovation and the quality of services provided. In order to extend involvement, the Committees makes use of the on-line platform [www.irencollabora.it](http://www.irencollabora.it). This is a first at national level, where residents can participate directly, making proposals and suggestions on the issues relevant to the Committees, with the objective of generating concrete and tangible projects.

Each Committee comprises specific working groups that develop projects submitted within scope of the Committee or on the platform [Irencollabora.it](http://www.irencollabora.it). 64 Committee and working group meetings were held during the first nine months of 2016. The following 7 projects were also completed: “A more sustainable Campus is a Campus with no more plastic”, “Collection of used food oils”, “Subversive Vegetable Garden”, “Suq festival: culture of the environment, culture for the environment”, “The Vegetable Garden of the Piacenza Slow Food Convivium. Creation of vegetable gardens to promote and develop nutritional and environmental education in schools. Establishment of a learning community”, “Atelier for daily sustainability in the kitchen”, “Val Tassarò and Salamandrina project”. At 30 September 2016, there were 648 registered profiles, 502 registered users, 27 projects and 22 proposals.



### CDP (Carbon Disclosure Project)

The Iren Group participated for the fifth consecutive year, in the Carbon Disclosure Project survey “CDP Climate Change Report 2016”. Iren stands out at the world level for its environmental performance: this is what emerges from the report of the Carbon Disclosure Project (CDP), the independent non-profit organisation which at the global level collects, analyses and distributes data on the environmental performance of companies, cities, regions and countries.

Iren in fact received the highest recognition (level A) for the actions and strategies brought into play to reduce emissions and mitigate climate change.

More than 5,500 organisations take part in the annual survey of their greenhouse gas emissions and analyse the risks and opportunities associated with climate change, through the CDP which, operating at the request of 827 investors with assets of 100 billion dollars, holds the largest international database on the climate change management policies implemented by the most important global organisations.

On the basis of the scores assigned by the CDP, Iren was among the 9% of companies that obtained a level A for environmental performance to mitigate climate change.

### “Italian Resilience Award”

The Iren Group was awarded the “Italian Resilience Award” for the “Tomorrow the sun shines” project, part of “Ecoincentriamoci” the green forum of study and debate on the subjects linked to environmental sustainability. The Italian Resilience Award is organised by the website Econewsweb.it, in collaboration with the Kyoto Club and the green company Primaprint, with the patronage of the Ministry of the Environment, ANCI, Local Agenda 21 Coordination and “Borghi Autentici d’Italia” (Authentic Villages of Italy). The award is given to Municipalities and companies that have shown how the ability to share can facilitate the achievement of planning objectives and improve the quality of actions, encouraging eco-compatible development models, which take into account the climate changes in progress.

The project “Domani Splende il Sole” (Tomorrow the Sun Shines), organised by Iren Rinnovabili for the diffusion of clean energies in the province of Reggio Emilia through the installation of 100 photovoltaic plants on 100 public buildings, was recognised as a valuable multi-stakeholder planning model which united Municipalities, local companies and the Iren Group. The project combined the industrial and productive strategies with the intention to promote energy savings and the use of alternative energy sources and is proposed as a reference model replicable in other areas.

### Sodalitas Social Award

Iren took part in the 2016 edition of the Sodalitas Social Award, an award for Business Sustainability in Italy, candidating 8 projects, and won the 2016 Sodalitas Social Award, the most authoritative recognition of Business Sustainability in Italy, in the category Sustainable Innovation and Production Processes for the “Domani Splende il Sole” project.

### Edu.Iren

The “Edu.Iren” project continued. This is a programme of training courses (lessons for students and teachers, organised visits to plants, educational games) made available to schools free of charge, based on the many years of experience of the Iren Group companies at the local level in sustainability education projects in schools. The third edition of the Edu.Iren catalogue (educational offers for 2016–2017) presents significant changes with respect to the previous editions, which arise from the many relationships forged among Iren, teachers, associations, museums and institutions.

### Asylum seekers and refugees involved in cleaning Turin

Around twenty asylum seekers and refugees became involved during April, working for free as waste collectors in the city of Turin. Based on a protocol of intent signed between the city of Turin and a company in the AMIAT Group, refugees with the status of requiring international protection hosted by the city, were able to give something back thanks to the migrant projects associated with the local community.

These foreign nationals receive initial training from AMIAT and work a 6-hour shift on Saturdays for 12 week periods in all the city’s districts.

### New public park in Vallette, Turin

During May 2016, the new park located in the Vallette district of Turin was inaugurated. The public park originates from the redevelopment of an industrial area that previously housed the Iren cogeneration

plant during the eighties. The redevelopment work began in the summer of 2014 and once completed, recovered an area of around 13 thousand square metres to the city, creating a recreational area for children and adults in the neighbourhood.

#### Forum “Social Responsibility for Human Dignity and Environmental Protection”

On 24/9/2016 the forum “Social Responsibility for Human Dignity and Environmental Protection” was held in Piacenza. Taking part were the Chairperson of Iren, the Deputy Chairperson of Iren, the Chairperson of the Piacenza Territorial Committee, a professor of international and comparative agricultural policy at the University of Bologna and a television presenter in the role of moderator of the debate.

Similar forums will be held in the other areas of reference in the near future.

#### Children and colleagues in the plants

With adoption of the national initiative “Children in the office with mum and dad”, Iren opened the doors of a number of plants to the Group’s personnel and their family members.

#### Separate waste collection and waste recovery

In the Group’s various territories of reference numerous initiatives were organised to raise awareness about separate waste collection, recycling and the recovery of waste that is difficult to recycle (mobile phones, small household appliances, medicine, batteries, spectacles): teaching laboratories, meetings with families, foreign communities, refugees, plays.

#### Rebuild

The Rebuild project, promoted by Iren Rinnovabili, Iren Energia and the municipality of Reggio Emilia, which encourages the energy requalification of private buildings, was explained to the Ministry of Economic Development on 23 June during the presentation of the ENEA 5th Annual Report on Energy Efficiency.

We also note participation in conferences, events and initiatives aimed at sensitising on CSR-related issues (Altis, UniToGo, CSR Manager Network, etc.) and specific working tables and groups:

- “ESG Performance: do they count for people who judge companies? - Promoting sustainability performance among the criteria for judging financial operators” promoted by Altis;
- “Benchmarking sustainability” promoted by Utilitalis to create a benchmarking system for sustainability in the main Italian utilities;
- Discussion forums established by Assonime and Utilitalia on the issues of sustainability and social responsibility in view of the implementation of EU Directive 95/2014 on the disclosure of non-financial information (integrated reporting).







# Consolidated Financial Statements

at 30 september 2016

## Statement of financial position

thousands of euro

	30.09.2016	31.12.2015
<b>ASSETS</b>		
Property, plant and equipment	3,360,881	2,907,076
Property investments	13,570	14,148
Intangible assets with a finite useful life	1,404,387	1,363,451
Goodwill	170,106	126,723
Investments accounted for using the equity method	145,494	219,246
Other equity investments	7,171	17,821
Non-current trade receivables	63,086	73,788
Non-current financial assets	47,934	53,012
Other non-current assets	54,162	43,298
Deferred tax assets	284,191	252,812
<b>Total non-current assets</b>	<b>5,550,982</b>	<b>5,071,375</b>
Inventories	109,845	96,337
Trade receivables	750,316	841,022
Current tax assets	42,578	19,991
Other receivables and other current assets	230,328	163,366
Current financial assets	547,684	551,302
Cash and cash equivalents	183,873	139,576
<b>Total current assets</b>	<b>1,864,624</b>	<b>1,811,594</b>
Assets held for sale	977	5,420
<b>TOTAL ASSETS</b>	<b>7,416,583</b>	<b>6,888,389</b>

thousands of euro

	30.09.2016	31.12.2015
<b>SHAREHOLDERS' EQUITY</b>		
<b>Equity attributable to owners of the Parent</b>		
Share capital	1,276,226	1,276,226
Reserves and retained Profits (Losses)	481,628	429,444
Net profit/(loss) for the period	124,870	118,193
<b>Total equity attributable to owners of the Parent</b>	<b>1,882,724</b>	<b>1,823,863</b>
Non-controlling interests	293,345	237,803
<b>TOTAL EQUITY</b>	<b>2,176,069</b>	<b>2,061,666</b>
<b>LIABILITIES</b>		
Non-current financial liabilities	3,044,039	2,698,648
Employee benefits	135,341	135,092
Provisions for risks and charges	299,799	292,302
Deferred tax liabilities	186,100	141,840
Other payables and other non-current liabilities	202,167	205,209
<b>Total non-current liabilities</b>	<b>3,867,446</b>	<b>3,473,091</b>
Current financial liabilities	262,958	214,611
Trade payables	655,359	798,696
Other payables and other current liabilities	248,640	220,233
Current tax liabilities	99,049	21,687
Provisions for risks and charges - current portion	107,062	98,405
<b>Total current liabilities</b>	<b>1,373,068</b>	<b>1,353,632</b>
Liabilities related to assets held for sale	-	-
<b>TOTAL LIABILITIES</b>	<b>5,240,514</b>	<b>4,826,723</b>
<b>TOTAL EQUITY AND LIABILITIES</b>	<b>7,416,583</b>	<b>6,888,389</b>

## Income statement

	thousands of euro	
	First nine months 2016	First nine months 2015
<b>Revenue</b>		
Revenue from goods and services	2,059,446	2,030,877
Change in work in progress	12,368	880
Other income	156,554	187,107
<b>Total revenue</b>	<b>2,228,368</b>	<b>2,218,864</b>
<b>Operating expense</b>		
Raw materials, consumables, supplies and goods	(619,874)	(718,765)
Services and use of third-party assets	(743,040)	(693,921)
Other operating expenses	(55,679)	(61,048)
Capitalised expenses for internal work	15,829	19,037
Personnel expenses	(266,702)	(266,573)
<b>Total operating expense</b>	<b>(1,669,466)</b>	<b>(1,721,270)</b>
<b>GROSS OPERATING PROFIT (EBITDA)</b>	<b>558,902</b>	<b>497,594</b>
<b>Amortisation, depreciation, provisions and impairment losses</b>		
Amortisation/depreciation	(215,900)	(198,103)
Provisions and impairment losses	(57,560)	(46,699)
<b>Total amortisation, depreciation, provisions and impairment losses</b>	<b>(273,460)</b>	<b>(244,802)</b>
<b>OPERATING PROFIT (EBIT)</b>	<b>285,442</b>	<b>252,792</b>
<b>Financial income and expense</b>		
Financial income	17,747	19,987
Financial expenses	(96,214)	(87,693)
<b>Total financial income and expense</b>	<b>(78,467)</b>	<b>(67,706)</b>
Share of Profit (loss) of associates accounted for using the equity method	(674)	388
Value adjustments on equity investments	12,599	-
<b>Profit (loss) before tax</b>	<b>218,900</b>	<b>185,474</b>
Income tax expense	(78,652)	(69,766)
<b>Net profit (loss) from continuing operations</b>	<b>140,248</b>	<b>115,708</b>
Net profit (loss) from discontinued operations	-	-
<b>Net profit (loss) for the period</b>	<b>140,248</b>	<b>115,708</b>
attributable to:		
- Profit (loss) - Group	124,870	98,847
- Profit (loss) - non-controlling interests	15,378	16,861



## Statement of other comprehensive income

	thousands of euro	
	First nine months 2016	First nine months 2015
<b>Profit/(loss) for the period - Owners of the parent and non-controlling interests (A)</b>	<b>140,248</b>	<b>115,708</b>
<b>Other comprehensive income to be subsequently reclassified to the Income Statement</b>		
- effective portion of changes in fair value of cash flow hedges	(4,441)	5,052
- changes in fair value of available-for-sale financial assets	-	-
- portion of other profits/(losses) of companies accounted for using the equity method	4,743	2,821
Tax effect of other comprehensive income	24	(1,340)
<b>Total other comprehensive income to be subsequently reclassified to the Income Statement, net of tax effect (B1)</b>	<b>326</b>	<b>6,533</b>
<b>Other comprehensive income that will not be subsequently reclassified to the Income Statement</b>		
- actuarial gains/(losses) on employee defined benefit plans (IAS 19)	-	-
- portion of other profits/(losses) of companies accounted for using the equity method related to employee defined benefit plans (IAS 19)	-	-
Tax effect of other comprehensive income	-	-
<b>Total other comprehensive income that will not be subsequently reclassified to the Income Statement, net of tax effect (B2)</b>	<b>-</b>	<b>-</b>
<b>Total comprehensive income/(expense) (A)+(B1)+(B2)</b>	<b>140,574</b>	<b>122,241</b>
attributable to:		
- Profit (loss) - Group	127,340	105,380
- Profit (loss) - non-controlling interests	13,234	16,861

## Statement of changes in equity

	Share capital	Share premium reserve	Legal reserve
<b>31/12/2014</b>	<b>1,276,226</b>	<b>105,102</b>	<b>36,855</b>
Legal reserve			2,505
Dividends to shareholders			
Retained earnings			
Change in business combinations			
Other changes			
Comprehensive income for the period			
of which:			
- Net profit for the period			
- Other comprehensive income			
<b>30/09/2015</b>	<b>1,276,226</b>	<b>105,102</b>	<b>39,360</b>
<b>31/12/2015</b>	<b>1,276,226</b>	<b>105,102</b>	<b>39,360</b>
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			
<b>30/09/2016</b>	<b>1,276,226</b>	<b>105,102</b>	<b>45,585</b>

thousands of euro

Hedging reserve	Other reserves and retained earnings (losses)	Total reserves and retained earnings (losses)	Profit (loss) for the period	Equity attributable to the Group	Equity attributable to non-controlling interests	Total equity
<b>(39,695)</b>	<b>298,936</b>	<b>401,198</b>	<b>85,795</b>	<b>1,763,219</b>	<b>230,330</b>	<b>1,993,549</b>
		2,505	(2,505)	-		-
		-	(66,747)	(66,747)	(14,670)	(81,417)
	16,543	16,543	(16,543)	-		-
	511	511		511		511
	(172)	(172)		(172)	(58)	(230)
6,533		6,533	98,847	105,380	16,861	122,241
		-		-		-
		-	98,847	98,847	16,861	115,708
6,533	-	6,533		6,533		6,533
<b>(33,162)</b>	<b>315,818</b>	<b>427,118</b>	<b>98,847</b>	<b>1,802,191</b>	<b>232,463</b>	<b>2,034,654</b>
<b>(36,654)</b>	<b>321,636</b>	<b>429,444</b>	<b>118,193</b>	<b>1,823,863</b>	<b>237,803</b>	<b>2,061,666</b>
		6,225	(6,225)	-		-
		-	(70,192)	(70,192)	(16,506)	(86,698)
	41,776	41,776	(41,776)	-		-
	3,770	3,770		3,770	58,803	62,573
	(1,286)	(1,286)		(1,286)		(1,286)
	(771)	(771)		(771)	11	(760)
2,470		2,470	124,870	127,340	13,234	140,574
			124,870	124,870	15,378	140,248
2,470	-	2,470		2,470	(2,144)	326
<b>(34,184)</b>	<b>365,125</b>	<b>481,628</b>	<b>124,870</b>	<b>1,882,724</b>	<b>293,345</b>	<b>2,176,069</b>

## Statement of cash flows

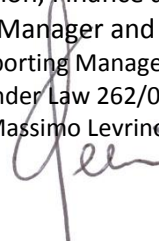
	thousands of euro	
	First nine months 2016	First nine months 2015
<b>A. Opening cash and cash equivalents</b>	<b>139,576</b>	<b>51,601</b>
<b>Cash flows from operating activities</b>		
Profit (loss) for the period	140,248	115,708
Adjustments:		
Income tax expense for the period	78,652	69,766
Share of profit (loss) of associates and joint ventures	(11,925)	(388)
Net financial expense (income)	78,467	67,706
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	215,900	198,103
Net impairment losses (reversals of impairment losses) on assets	4,868	-
Net provision for risk and other charges	63,533	62,003
Capital (gains) losses	(1,413)	(3,337)
Utilisations of employee benefits	(7,393)	(9,683)
Utilisations of provision for risks and other charges	(17,756)	(17,490)
Change in other non-current assets and liabilities	(1,390)	(2,239)
Other financial changes	(2,906)	(2,174)
Taxes paid	(30,561)	(26,533)
<b>B. Cash flows from operating activities before changes in NWC</b>	<b>508,324</b>	<b>451,442</b>
Change in inventories	(12,500)	(49,553)
Change in trade receivables	132,826	140,329
Change in tax assets and other current assets	(55,155)	42,523
Change in trade payables	(197,842)	(150,360)
Change in tax liabilities and other current liabilities	12,800	6,421
<b>C. Cash flows from changes in NWC</b>	<b>(119,871)</b>	<b>(10,640)</b>
<b>D. Cash flows from /(used in) operating activities (B+C)</b>	<b>388,453</b>	<b>440,802</b>
<b>Cash flows from /(used in) investing activities</b>		
Investments in intangible assets, property, plant and equipment and investment property	(156,552)	(160,557)
Investments in financial assets	(3,666)	(1,355)
Proceeds from the sale of investments and changes in assets held for sale	7,477	5,502
Changes in consolidation scope	(437,046)	(25,679)
Dividends received	7,099	7,368
<b>E. Total cash flows from /(used in) investing activities</b>	<b>(582,688)</b>	<b>(174,721)</b>
<b>F. Free cash flow (D+E)</b>	<b>(194,235)</b>	<b>266,081</b>
<b>Cash flows from /(used in) financing activities</b>		
Dividends paid	(86,698)	(81,417)
New non-current loans	20,000	250,000
Repayment of non-current loans	(88,719)	(113,681)
Change in financial liabilities	422,523	(223,858)
Change in financial assets	13,198	(79,339)
Interest paid	(53,783)	(54,991)
Interest received	12,011	13,485
<b>G. Total cash flows from /(used in) financing activities</b>	<b>238,532</b>	<b>(289,801)</b>
<b>H. Cash flows for the period (F+G)</b>	<b>44,297</b>	<b>(23,720)</b>
<b>I. Closing cash and cash equivalents (A+H)</b>	<b>183,873</b>	<b>27,881</b>

**Certification by the Financial Reporting Manager pursuant to Article 154-bis, paragraph 2 of Italian Legislative Decree no. 58/1998 (“Testo Unico della Finanza” [Consolidated Finance Act]);**

The undersigned Massimo Levrino, Financial Reporting Manager of IREN S.p.A declares, pursuant to paragraph 2 of Article 154-bis of the “Testo Unico della Finanza” (Consolidated Finance Act), that the accounting information contained in this Interim Report at 30 september 2016 corresponds to the documentary records, books and accounting entries.

10 November 2016

IREN S.p.A.  
Administration, Finance and Control  
Manager and  
Financial Reporting Manager appointed  
under Law 262/05  
Massimo Levrino





Iren S.p.A.  
Via Nubi di Magellano, 30  
42123 Reggio Emilia - Italy  
[www.gruppoiren.it](http://www.gruppoiren.it)

