Annual Report

at 31 December 2018

iren

Summary

Introduction

Directors' **report**

Consolidated Financial Statements and Notes to the Financial Statements

Separate Financial Statements and Notes to the Financial Statements

COMPANY OFFICERS

Board of Directors [1]

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

Board of Statutory Auditors [14]

Chairperson	Michele Rutigliano
Regular Auditors	Cristina Chiantia
	Simone Caprari
Alternate Auditors	Donatella Busso
	Marco Rossi

Financial Reporting Manager

Massimo Levrino

Independent Auditors

PricewaterhouseCoopers S.p.A. [15]

(1) Appointed by the Shareholders' Meeting of 9 May 2016 for the three years 2016-2017-2018.
(2) Appointed Chairperson by the Shareholders' Meeting of 09 May 2016.
(3) Appointed Deputy Chairperson at the meeting of the Board of Directors of 09 May 2016.
(4) Appointed Chief Executive Officer at the meeting of the Board of Directors of 09 May 2016.
(5) Member of the Remuneration and Appointments Committee, appointed on 12 May 2016.
(6) Member of the Transactions with Related Parties Committee, appointed on 12 May 2016.
(7) Member of the Control, Risk and Sustainability Committee appointed on 12 May 2016.
(8) Member of the Control, Risk and Sustainability Committee appointed on 12 May 2016.
(9) Member of the Control, Risk and Sustainability Committee appointed on 12 May 2016. Mr. Pietrogrande was also appointed Chairperson of the said Committee during the Committee meeting held on 18 May 2016.
(10) Member of the Remuneration and Appointments Committee, appointed on 12 May 2016. Ms Rocco was also appointed Chairperson of the Remuneration and Appointments Committee during the Committee meeting held on 24 May 2016.
(11) Member of the Transactions with Related Parties Committee, appointed on 12 May 2016.
(12) Member of the Remuneration and Appointments Committee, appointed on 12 May 2016.
(13) Member of the Transactions with Related Parties Committee, appointed on 12 May 2016. Ms Zanardi was also appointed Chairperson of the Transactions with Related Parties Committee during the Committee meeting held on 24 May 2016.
(14) Appointed by the Shareholders' Meeting of 19 April 2018 for the three years 2018-2019-2020.
(15) Appointed by the Shareholders' Meeting of 14 May 2012 for the nine years 2012–2020.

NOTICE CONCERNING THE SHAREHOLDERS' MEETING

The shareholders are called to the ordinary meeting to be held at the Sala Campioli, Via Nubi di Magellano 30, Reggio Emilia on 22 May 2019 at 11 a.m., on single call, to discuss and resolve the following

Agenda:

1) Separate Financial Statements at 31 December 2018, Directors' Report on Operations and proposal for allocation of the profit: related and consequent resolutions.
2) Conferment of appointment on the independent auditors in accordance with art. 13 of Italian Legislative Decree no. 39 of 27 January 2010 as amended, for the nine years 2021-2029: related and consequent resolutions.
3) Remuneration Report (section 1, under the terms of Art. 123-ter, paragraph 3 of the Consolidated Finance Act): related and consequent resolutions.
4) Appointment of the Board of Directors and related positions for which the Shareholders' Meeting is statutorily responsible for the three years 2019-2020-2021 (expiry: date of approval of the financial statements for financial year 2021): related and consequent resolutions.
5) Determination of the annual fee to be paid to members of the Board of Directors under the terms of art. 21 of the articles of association: related and consequent resolutions.
6) Proposal for a supplement to the fees for the independent auditing appointment for financial years 2018-2020: related and consequent resolutions.

The Chairperson of the Board of Directors
(Paolo Peveraro)

LETTER TO SHAREHOLDERS

"Let's not pretend that things will change if we keep doing the same things"

Albert Einstein

Dear Shareholders,

We present to you a financial report which once again is very positive.

In a difficult context for our country, all Iren's indicators are positive and we can say that the Group is in excellent health, with good growth prospects as confirmed by the Business Plan to 2023 and by the 2018 results which we bring for your approval.

The Iren Group ended 2018 with revenue of more than 4 billion euro (+9.3% compared to the previous year), and a Gross Operating Profit of 967 million euro (up 17.8% compared to 2017). The Group's net profit was 242 million euro, (+1.8% compared to 2017). Net Financial Debt at the end of 2018 came out at 2,453 million euro, up by 81 million euro compared to the previous year, reflecting the effects deriving from M&A operations for 156 million euro.

These results testify not only to the Group's ability to grow in the industrial supply chains in which it operates and through various operations that consolidated its vocation as a leading aggregator and development driver in its core territories, but also the ability to innovate its business model to interpret the great changes of our time remaining attentive to the territories, from large cities to small communities. Changes which compared to the past are characterised by an unprecedented speed of impact.

During 2018 with the contribution of European House Ambrosetti a study was carried out which confirmed the importance of your company in the economic, cultural and social growth of our territories.

Today Iren is an industrial entity of primary importance at the national level which has reached 25th place among all companies of the Italian industrial segment, 6th place in its sector of reference and 3rd among comparable companies; it contributes directly and indirectly increasingly to value creation for the country thanks also to the strong indirect and induced impact generated through the activation of supply and sub-supply chains which produce a value creation multiplier effect so we can say that for every euro of Added Value generated directly by Iren an additional 0.8 is activated in the entire Italian economy.

In a context of declining national investments, both public and private, Iren distinguishes itself as one of the top national performers with investments, growing sharply over the last few years, destined above all to improving service quality and environmental performance with the objective declared in the Plan to invest a further 3 billion euro by the end of 2023, of which 50% destined for sustainability, generating once again a significant impact in socio-economic terms on its territories.

Iren contributes to the sustainability of the national energy mix generating 86% of electricity from renewable and assimilated sources and invests in projects to increase energy efficiency with recognised and certified results. It manages growing volumes of waste with a proportion of separate collection higher than the Italian average and its performance in the segment of water networks is much better than the Italian average.

The company takes part in both national and international research networks (in 22 countries with more than 270 partners) and has established itself as one of the leading Italian operators in Corporate Venture Capital; it invests in training involving the residents of its territories with courses orientated to sustainability, it contributes to the development of culture through donations and sponsorships with particular attention to the world of theatre representing the top private supporter in many of the territories in which it operates.

Today the Group has about 8,000 employees: also in this case, thanks to the activation of supply and sub-supply chains and to the induced effect on consumption, for each person employed in Iren 3 further jobs are created.

The efficient management of the company, the continual growth, in terms of both size and economic-financial indicators, the development of skills and quality in the services provided, the maximum attention to environmental sustainability and to care for internal resources. These are the key factors that have enabled us to achieve the results we are presenting for your approval and which enable the proposal to the Shareholders' Meeting of a dividend up by 20% compared to 2017, a figure that places Iren among the stocks with the best remuneration policy in the sector.

Numbers that give an idea of the Group's importance on the national scene because without investments there is no work, without work there is no growth, without growth there is no future.

Iren is building its future: it will be that of increasingly *linking* innovation, technology and sustainable development to people's daily life. We shall continue to produce and sell electricity, to light up and sweep roads, to distribute water and gas and collect waste, but we shall do all this combining it increasingly with digitalisation, the Internet of Things, electric mobility, recycling and reuse of materials and environmental compatibility.

Only in this way, as happened for municipal utilities in the 20th century, we shall be protagonists, in close contact with the communities, territories and local authorities, of a new modernisation of the country.

The Board of Directors, which has reached the end of its mandate, would like to thank all our employees for their expertise and commitment shown every day in their work, which have led to achieving these results.

Finally, please allow me to thank all members of the Board of Directors and the Board of Statutory Auditors for their decisive contribution to the growth of your Company.

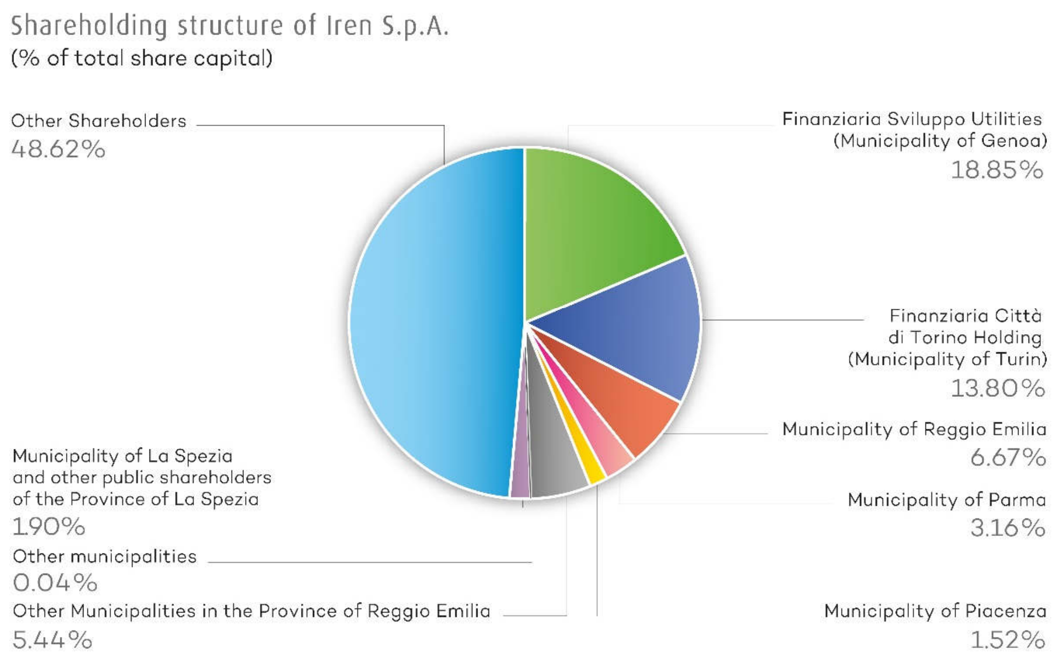
The Chairperson of the Board of Directors

(Paolo Peveraro)

SHAREHOLDING STRUCTURE

During the period, following the completion of the merger between Iren and the ACAM Group, which took place in April, Iren S.p.A.'s capital increased with the issuing of 24,705,700 new ordinary shares subscribed by 27 public entities that already held shares in ACAM itself, which therefore acquired a 1.9% stake in the share capital.

At 31 December 2018, the Company's share capital therefore amounted to 1,300,931,377 euro, fully paid up, and is entirely made up of ordinary shares with a par value of 1 euro each. At the same date, based on the available information, the Iren shareholding structure is presented below.



We can note that, following the non-proportional partial demerger of Finanziaria Sviluppo Utilities (FSU, formerly held equally by the Municipality of Genoa and Finanziaria Città di Torino Holding – FCT Holding-), effective 27 July 2018, the same is held entirely by the Municipality of Genoa and is the holder of an equity interest in Iren S.p.A. of 16.335%, corresponding to half the shares held previously. Iren shares were assigned for the same percentage stake (16.335%) to the other shareholder, FCT Holding, as the beneficiary of the demerger. For more details on the demerger operation, please see the section "Significant events of the period".
At the end of November 2018, following the sale of shares representing 2.5% of the share capital, the equity interest held by FCT Holding changed. In December FSU increased its equity interest to 18.85%, by purchasing Iren shares from qualified and institutional investors.
At 31 December 2018 there are no private shareholders that hold a stake of more than 3% of the share capital.

A century of **history**

1905 The Parma municipal company for electric lighting is founded

1907 The Turin municipal company AEM is founded

1922 The Genoa municipal company for gas is founded

1936 The Genoa municipal company becomes AMGA

1962 The Reggio Emilia municipal company AMG is founded

1965 The Parma municipal company becomes AMPS

1972 The Piacenza municipal company ASM is founded

1994 From the Reggio Emilia municipal company AGAC is set up

Mission

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

For everyone, every day.

1996 AMGA Genoa is listed on the Stock Exchange

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

2005 AMPS, TESA and AGAC set up ENIA

2006 AEM Turin and AMGA Genoa set up IRIDE

2007 ENIA is listed on the Stock Exchange

2010 IRIDE and ENIA set up IREN

2015 AMIAT enters to be part of Iren Group

2016 IRETI is born TRM and ATENA Vercelli enter the Group

2018 ACAM La Spezia joins the Group

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

Vision

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

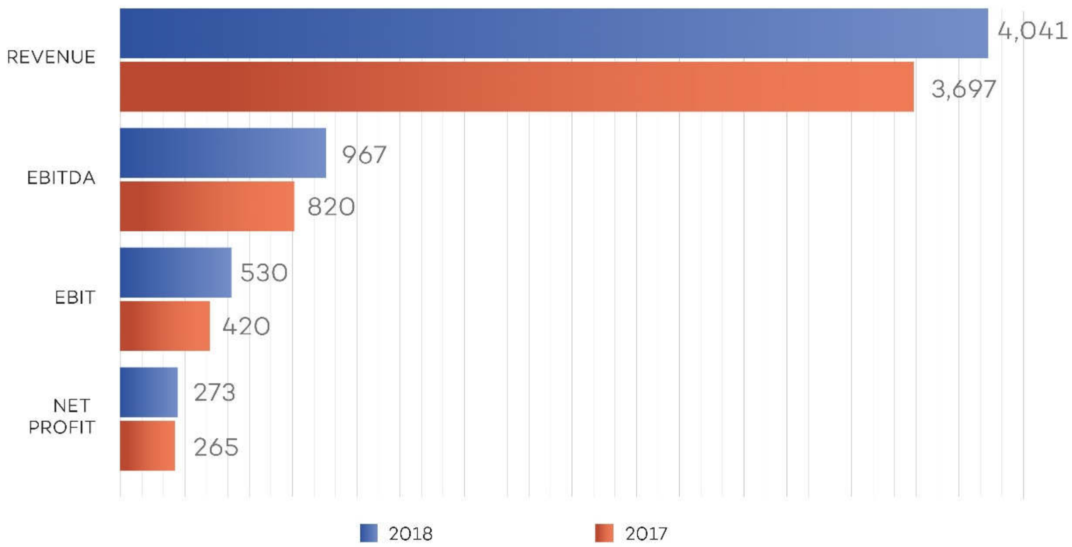
For everyone, every day.

KEY FIGURES OF THE IREN GROUP: HIGHLIGHTS OF FINANCIAL YEAR 2018

Economic data

millions of euro

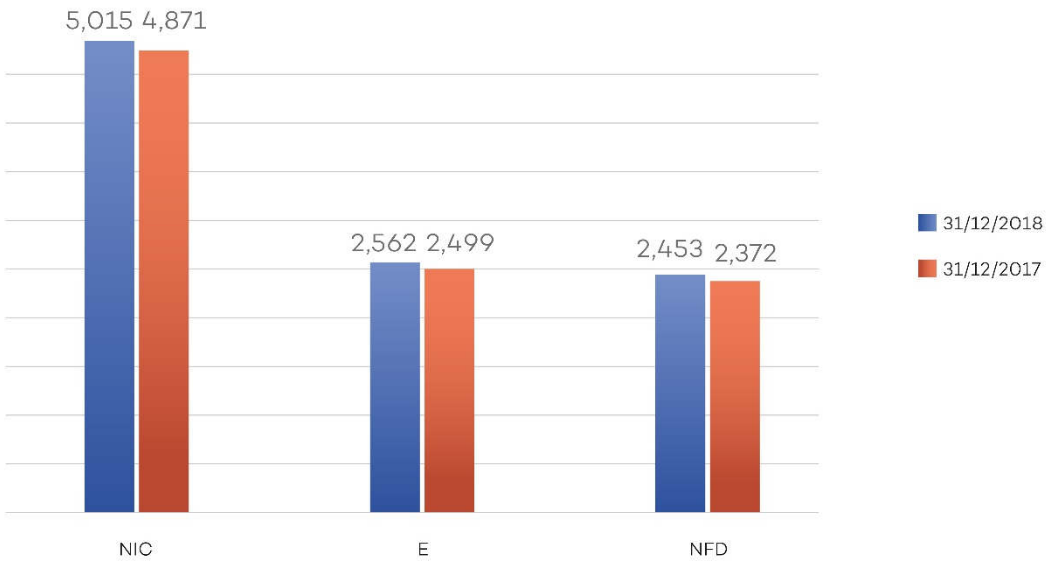
	Financial year 2018	Financial year 2017	Changes %
Revenue	4,041	3,697	9.3
EBITDA	967	820	17.8
EBIT	530	420	26.2
Net profit	273	265	3.0
EBITDA Margin (EBITDA/Revenue)	23.9%	22.2%	



Financial position data

millions of euro

	31.12.2018	31.12.2017	Changes %
Net Invested Capital (NIC)	5,015	4,871	3.0
Equity (E)	2,562	2,499	2.5
Net Financial Debt (NFD)	2,453	2,372	3.4
Debt/Equity (Net Financial Debt/Equity)	0.96	0.95	

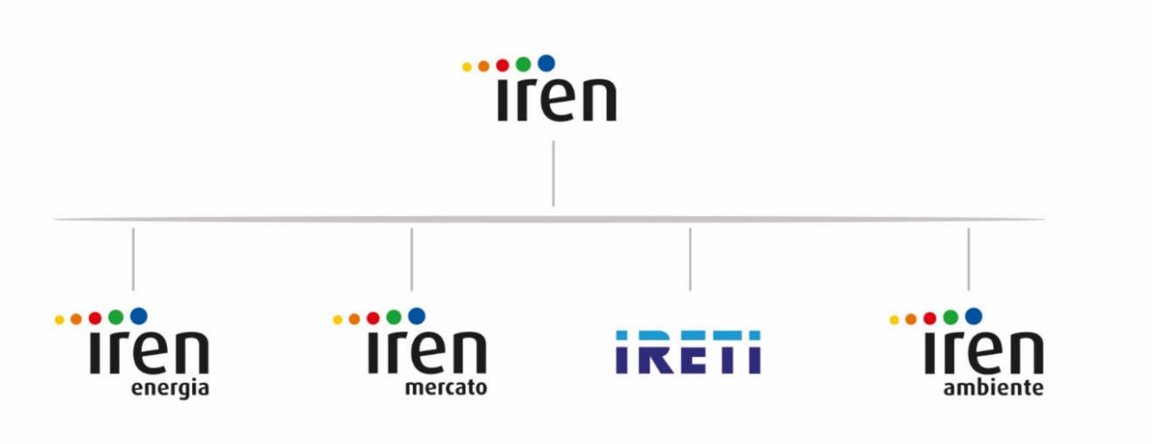


Technical and commercial figures

	Financial year 2018	Financial year 2017	Changes %
Electricity produced (GWh)	9,002	9,033	(0.3)
Thermal energy produced (GWht)	2,932	2,996	(2.1)
Electricity distributed (GWh)	3,836	4,248	(9.7)
Gas distributed (mln m^3)	1,303	1,305	(0.2)
Water distributed (mln m^3)	187	181	3.3
Electricity sold (GWh)	15,669	15,921	(1.6)
Gas sold (mln m^3)*	2,637	2,652	(0.6)
District heating volume (mln m^3)	93.7	87.1	7.6
Waste handled (tonnes)	2,268,791	2,015,568	12.6

* of which, 1,477 mln m^3 for internal use in financial year 2018 (1,530 mln m^3 in financial year 2017, -3.5%)

THE CORPORATE STRUCTURE OF THE IREN GROUP



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

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

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

The Group has an important customer portfolio and a significant number of plants supporting operating activities; some indicators of the group's size are reported below:

Gas Distribution: through its network of 8,028 kilometres Iren serves more than 742,000 customers.

Electricity Distribution: with 7,692 kilometres of high, medium and low voltage underground and overhead networks, the Group distributes electricity to almost 721,000 customers in Turin, Parma and Vercelli.

Integrated water cycle: with 23,360 kilometres of pipeline networks, 11,162 of sewerage networks and 1,323 treatment plants, Iren provides services to just less than 2,830,000 residents.

Waste management cycle: with 154 equipped ecological stations, 3 waste-to-energy plants, 2 active landfill sites, 27 treatment, selection, storage and composting plants, the Group serves 165 municipalities for a total of approximately 2,320,000 residents and almost 2,300,000 tonnes managed in 2018.

Production of electricity and heat: the Group has a considerable number of electricity production plants, mainly hydroelectric and cogeneration plants, with production of thermal energy distributed through an urban district heating network, with total installed capacity of approximately 2,852 MW of electricity.

District heating: through around 993 kilometres of dual-pipe underground networks the Iren Group supplies heating for an overall volume of 93.7 million m^3, equivalent to a population served of over 868,000 residents.

Sales of gas, electricity and heat energy: during 2018 the Group sold more than 2.6 billion m^3 of gas, just less than 16,000 GWh of electricity and approximately 2,900 GWh_t of heat for the district heating networks.

On 1 April 2018, the ACAM group, operating in the management of the integrated water and environmental hygiene service in the province of La Spezia, became part of the Iren group.
In particular, ACAM Acque S.p.A. is the group company that carries on its business, as leading operator, in the sector of management of the Integrated Water Service (IWS), overseeing all stages of the water cycle, from water catchment to the subsequent stages of purification and distribution to users, collection and transport of civil and industrial waste water and purification. The company operates in 26 municipalities in the province of La Spezia, serving approximately 207,000 residents through approximately 1,900 kilometres of water network and 858 kilometres of sewer network.
The company ACAM Ambiente S.p.A. is the main manger of the integrated waste cycle in the province of La Spezia and provides urban hygiene services to a catchment area of approximately 205,000 residents (door-to-door collection, road collection and sweeping and urban cleaning) and waste processing through the management of 9 collection centres. Through the company ReCos S.p.A., it manages waste reclamation and processing plants with collection and composting centres and the activity of sending separated materials for recycling.

NETWORKS BU

The lead company IRETI and the business unit's subsidiaries handle the integrated water cycle, electricity distribution, natural gas distribution and other minor activities.

Integrated Water Services

IRETI, directly and through the operating subsidiaries Iren Acqua, Iren Acqua Tigullio, ASM Vercelli and ACAM Acque, 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, Vercelli, La Spezia, and several municipalities in the regions of Piedmont, Valle d'Aosta, Lombardy and Veneto.
Overall, in the optimal territorial areas ("Ambiti Territoriali Ottimali" - ATOs) managed, the service is provided in 265 municipalities serving over 2.8 million residents. During 2018 the Networks BU distributed approximately 187 million cubic metres of water, through a distribution network of 23,360 kilometres. As regards waste water, the company manages a total sewerage network spanning 11,162 kilometres.

Gas distribution

IRETI distributes natural gas in 75 municipalities of the Provinces of Reggio Emilia, Parma and Piacenza, in the Municipality of Genoa and in 19 other municipalities nearby. Through ASM Vercelli it distributes gas in the City of Vercelli and in 11 other municipalities of the province. The distribution network made up of 8,028 kilometres of high, medium and low-pressure pipes serves a catchment area of approximately 742,000 customers. During 2018, IRETI introduced 1,303 million cubic metres of gas into the network.

Electricity distribution

IRETI provides the electricity distribution service in the cities of Turin, Parma and, through ASM Vercelli, in the city of Vercelli with 7,692 kilometres of network in medium and low voltage. The energy distributed during 2018 amounted to 3,836 GWh.

WASTE MANAGEMENT BU

The Waste Management Business Unit carries out waste collection and disposal activities mainly through geographically distributed companies: Iren Ambiente, operating in the Emilia area, AMIAT, TRM, , ASM Vercelli and REI operating in the Piedmont area, ACAM Ambiente and ReCos operating in the Liguria area.
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 separated waste collection; it also manages an important customer portfolio to which it provides all the services for special waste disposal.
The Waste Management BU's plants consist mainly of 3 waste-to-energy plants (TRM, in Turin, with approximately 533,000 tonnes disposed of, PAI, in Parma, with approximately 181,000 tonnes and Tecnoborgo, in Piacenza, with approximately 114,000 tonnes). From the second quarter of 2017 a new landfill site also for hazardous waste, excluding municipal waste, based in Pianezza (TO) also began its operating activities.

ENERGY BU

Production of electricity and heat

The Energy BU has total installed capacity of 2,852 MW (in electricity).
Specifically, it has 28 electricity production plants directly available to it: 20 hydroelectric plants (of which 3 mini-hydro plants contributed with acquisition of the company Maira), 6 thermoelectric cogeneration plants and 1 conventional thermoelectric plant, to which must be added 1 cogeneration plant managed on the basis of a business unit rental contract.
The Energy BU also has 194 photovoltaic production plants with installed capacity of 20 MW.
All primary energy sources used – hydroelectric and cogeneration – are eco-friendly. 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, and reduces the need to make use of other forms of production that have a greater environmental impact.
On the thermoelectric side, 40% of total heat production capacity is generated by Group-owned cogeneration plants, while the remainder comes from conventional heat generators. Iren Energia also oversees the Group's electricity and thermal energy planning and dispatching activities, as well as operations on the power exchange.
In September, Iren Energia acquired 66.23% of Maira S.p.A., a company operating in the construction and management of hydroelectric plants in Piedmont, owner of 3 mini-hydro plants located in Val Maira (province of Cuneo), of a photovoltaic plant (11 KWp) and of a woodchip boiler (400 kWt) fed through a short supply chain.

District heating

Iren Energia has the largest district heating network in the country with 993 kilometres of dual pipes. The extension of the dual-pipe network amounts to 632 km in the territory of Turin, 10 in the Municipality of Genoa, 220 in the Municipality of Reggio Emilia, 103 in the Municipality of Parma and 28 in the Municipality of Piacenza.
The total volume heated at 31 December 2018 amounted, in the catchment area historically served by the company, to 88.4 million m^3. To this volume must be added the 5.3 million m^3 in the new catchment area managed on the basis of the annual rental of the SEI Energia business unit, operating in the municipalities of Grugliasco, Rivoli and Collegno, making the total 93.7 million m^3.

Energy efficiency services

Iren Energia, through its subsidiary Iren Rinnovabili, handles the development and management of public street lighting, traffic light and similar services and, in particular, operates in the energy efficiency sector, performing activities for the design, creation and management of actions to reduce consumption and save energy. In addition, it operates in the business of supplying energy services and global services destined for residential buildings, private and public structures and industrial and commercial complexes, and in the study, design, construction, installation, management, maintenance and conduction of the related heating, conditioning, water, sanitary, refrigeration, electrical and solar panel systems.

MARKET BU

Through Iren Mercato and Salerno Energia Vendite, the Group sells electricity, gas and heat, through district heating networks, supplies fuel for the Group, and provides customer management services to the Group's investee companies.
On 6 September 2018 Iren Mercato and the company Spienergy finalised the transaction for the acquisition, by Iren Mercato, of the entire equity interest held by Spienergy in Spezia Energia Trading based in La Spezia. The company operates in the sale of gas and electricity on the final market, mainly small and medium-sized enterprises, both through its own commercial network and through a portfolio of third-party commercial partners that operate reselling the commodity acquired wholesale.
Iren Mercato operates, in the context of the free market, all over the country, with a higher concentration of customers served in Central and Northern Italy, and handles the sale of the energy provided by the Group's various sources on the market, represented by final customers and wholesalers.

The main Group energy sources available for its activities are the thermoelectric and hydroelectric plants of Iren Energia. Iren Mercato also acts as “higher protection” service operator for retail customers in the electricity market in the Province of Turin and the Parma area; historically it operated in the direct sale of natural gas in the territories of Genoa and Turin, and in Emilia. Lastly, it handles heat sales to district heating customers in the Municipality of Turin and the provincial capitals of Reggio Emilia, Parma, Piacenza and Genoa and sales development in new district heating areas.
During 2018, the new downstream business line became fully operational. It was launched during 2017 and sells retail customers innovative products in the areas of home automation, energy saving and domestic plant maintenance.
Again, in the period, “IrenGO at zero emissions” was also launched; this is an innovative offer for electric mobility aimed at private and business customers and public bodies with the objective of reducing the environmental impact of mobility. The Group has already tested the potentials and benefits of e-mobility through the internal launch of a series of initiatives, such as the installation of recharging infrastructures and the gradual introduction of electric vehicles, adopting and applying the electric mode. All the IrenGO internal and external electric mobility initiatives have 100% green energy supply coming from the Group’s hydroelectric plants.

Sale of Natural Gas

Total volumes of natural gas procured during 2018 were 2,845 million m^3 of which 1,159 million m^3 were sold to final customers outside the Group, and 1,477 million m^3 were used within the Iren Group both for electricity and thermal energy production and for the provision of heating services; 209 million m^3 of gas were destined for storage.
At 31 December 2018, gas customers managed by the Market Business Unit amounted to approximately 907,000, principally spread throughout the traditional Genoa, Turin and Emilia Romagna catchment area and surrounding development areas, and customers of the catchment areas of Vercelli brought in by Atena Trading and the area in Campania brought in by Salerno Energia Vendite. In particular, Salerno Energie Vendite is present in almost all the provinces in Campania as well as in a number of municipalities of the Basilicata, Calabria, Tuscany and Lazio regions. The catchment area expanded further with the acquisition of Spezia Energia Trading which operates mainly in the La Spezia area.

Sale of electricity

The volumes sold in 2018 by the Mercato BU amounted to 8,931 GWh. Retail electricity customers managed at 31 December 2018 were more than 876,000, distributed mainly in the areas traditionally served, corresponding to Turin and Parma, and in the other areas covered commercially by Iren Mercato and by Atena Trading and, from the fourth quarter of 2018, also by Spezia Energy Trading.

Sale of heat through the district heating network

Iren Mercato manages the sale of heat, purchased from Iren Energia, to customers receiving district heating in the municipalities of Turin, Nichelino, Genoa, Reggio Emilia, Piacenza and Parma.

INFORMATION ON THE IREN STOCK IN 2018

Iren stock performance on the Stock Exchange

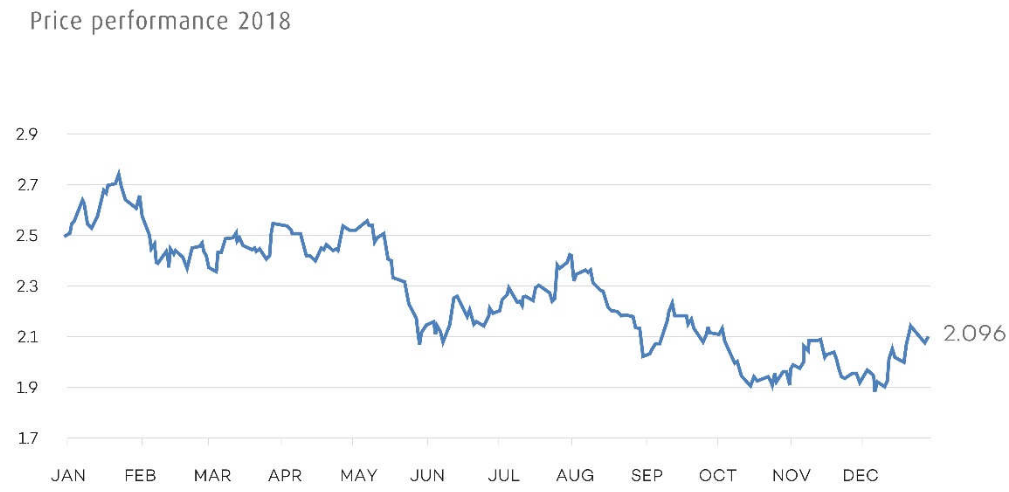
During 2018 the FTSE Italia All-Share (the main Borsa Italiana index), recorded a reduction of 16.71%, due mainly to the worsening of the macroeconomic scenario.

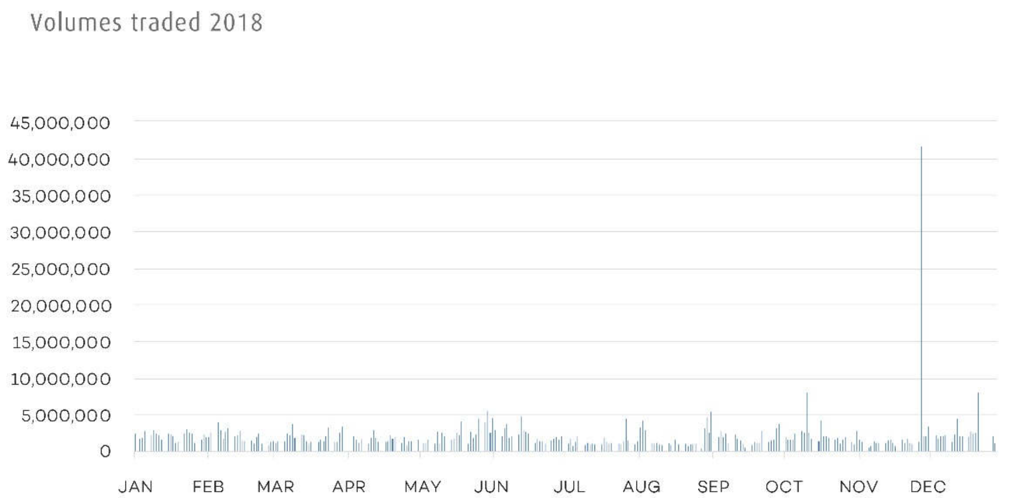
In this context companies operating in anticyclical sectors, such as multiutilities, were also affected by potential regulatory risks, with particular reference to activities under concessions and management of the integrated water cycle. This uncertainty affected mainly the companies operating in these business areas, among which Iren, whose stock in the period dropped by 16.16% compared to 31 December 2017.

Performance of Iren stock compared to competitors

At 31 December 2018, the price of Iren stock stood at 2.096 euro per share, with average trading volumes during the period of approximately 2.06 million units per day. The average price in the twelve months was 2.26 euro per share, reaching the highest point since the foundation of Iren (2.74 euro per share) on 23 January and a low for the year, 1.88 euro per share, on 6 December.

The two charts below show the price performance and volumes traded in Iren stock in 2018.





Stock coverage
During the period the Iren Group was followed by eight brokers: Banca IMI, Banca Akros, Equita, Fidentiis, Intermonte, KeplerCheuvreux, Main First and Mediobanca.

Directors' report

at 31 December 2018

MARKET CONTEXT

THE MACROECONOMIC SCENARIO

In the second half of 2018 the growth of the global economy slowed down slightly, confirming what had already been recorded in the first half of the year. The estimates provided by the World Bank and the OECD see 2018 closing with total growth of approximately +3%, down about -0.1 percentage points compared to the previous year. This slowdown affected the growth of many advanced economies, in particular those of the Euro area and Japan, and economies in the development stage, including China. This effect was particularly uneven among the different countries. The United States, in fact, recorded an annual growth rate of +2.9%, up compared to the +2.2% of the previous year. The impact of the expansive fiscal policies certainly played a crucial role for the growth of the country. On the contrary, the growth rates of the Euro zone and Japan recorded a drop compared to 2017 respectively of -0.5 and -1.1 percentage points, thus coming out at +1.9% and +0.8%. Among developing countries China continues to grow at a rate of more than 6% (+6.5%), but down by 0.4% compared to 2017.

The slowdown of global growth is the result of several factors: on the one hand the expansion of the American economy boosted the world economy through higher US demand for goods, on the other the protectionist policies of the American government, the geopolitical tensions and falling international trade affected investment decisions and production in many countries.

On its part the Italian economy suffered from the slowdown of global growth, above all that of the economies of the euro area and, in particular, the German economy. In the third quarter of 2018 a quarterly drop in GDP of -0.1% was recorded. The GDP of the fourth quarter then fell further compared to the previous quarter by 0.1%, thus signalling the status of technical recession of the Italian economy.

According to the ISTAT data published in March 2019, GDP grew in volume on an annual basis by 0.9%. Domestic demand was supported by investments, which recorded growth of 3.4% on an annual basis (down compared to the +4.4% of 2017), while the final consumption of households recorded a marginal increase (+0.7%), significantly less that the increase in 2017 (+1.5%).

Household spending

In 2018 a 1.3% increase was recorded in the number of employees and a drop in that of self-employed workers (-0.3%). Income from subordinate employment grew by 3.3%. On an annual basis in 2018 spending for the final consumption of Italian households recorded a slowdown compared to the rate of increase in 2017. Consumption slowed down in particular in the second half of the year, recording the lowest annual growth in the third quarter, before rising again slightly at the end of the year.

Investments

As mentioned, investments were the most dynamic component of demand, increasing by 3.4% compared to 2017. The growth refers in particular to investments in means of transport. However, the general rate of growth of investments slowed down sharply during the year, going from annual growth of more than 5% in the first half to annual growth of almost zero in the fourth quarter.

The trend in investments was probably affected both by increased yields on government securities, particularly high from June onwards, which made access to credit more costly, and by other factors of uncertainty such as the stalled negotiations for an agreement on Brexit. The end of Quantitative Easing (QE), in addition, is expected to have a potentially negative effect on the possibility of access to credit for businesses, because, although the European Central Bank (ECB) will put in place a plan for reinvestment of securities maturing, it will reduce liquidity from the market in a period of a non-positive economic cycle.

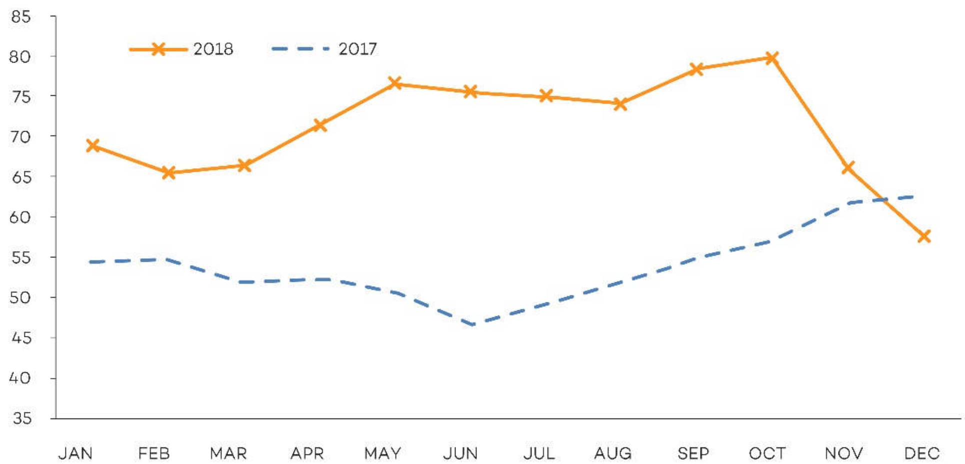
Exports

Foreign trade recorded a sharp slowdown in the early months of the year, caused mainly by advances and the beginning of the commercial squeeze against Europe and China by the government of the United States. This trend, however, reversed in the third quarter: in this period Italy recorded an increase in exports of goods and services of 1.1% compared to an increase in imports of 0.8%. At the annual level, exports increased less than imports (+1.9% compared +2.3%), recording a worsening of the Italian balance of payments.

THE OIL MARKET

The oil market began 2018 continuing the rising trend which had characterised the two previous years. Global economic development was the driver of the increase in oil demand, up on average by 1.3 million barrels a day (MBD) and reaching more than 100 MBD in the fourth quarter of the year. Supply was instead affected by the OPEC+ agreement, signed at the end of 2016, which saw cooperation between the member countries of the OPEC cartel and the non-OPEC delegation led by Russia. Consolidation of the agreement and the cap on production defined at the aggregate level among the member countries of the cartel was an important element driving the rising global prices. The rising prices and the volatility of the markets were also due to other factors: we can note among them the expectations of a potential reduction in output owing to the US sanctions against Iran, which would have affected also importers of oil from the country.
The set of these bullish factors pushed Brent to a price of 86 $/bbl recorded at the beginning of October, a figure that had not been reached since October 2014. However during the last three months of the year there was a substantial turnaround in the situation: from the peaks of October, prices fell by 25 $/bbl coming down to 50 $/bbl in the Christmas period before recording a slight rise and ending the year at around 54 $/bbl. At least two elements were in play driving this decrease: a first factor was the increase in American production, up by more than 1.5 MBD between 2017 and 2018 (+17%) reaching the record figure of 11.6 million barrels a day in the fourth quarter of the year. A second element is related to the US sanctions against Iran: the US government, just after entry into force of the sanctions regimen, in fact decreed, in a surprise, exemption for a period of six months of application of the sanctions for eight countries (including Italy) causing a related relaxation of the upward tensions that had accumulated on the markets.
Overall, 2018 ended with an average spot price of Brent oil of 71.33 $/bbl, up by 31.9% compared to 2017, which had ended with an annual average of 54.08 $/bbl. In Euro, the price of Brent in 2018 came out at 60.40 €/bbl measured at an average Euro/Dollar exchange rate in 2018 of 1.18, up by 4.56% compared to 2017.

BRENT price trends ($/bbl)



Source: REF-E processing of Reuters data

THE ELECTRICITY MARKET

Supply and demand

In 2018 the production of electricity in Italy was 280.2 TWh, down by 1.4% compared to 2017. Demand for electricity, of 321.9 TWh, was met by domestic production for 87%, while for the remaining 13% by that imported across foreign borders. Domestic thermoelectric production, coming out at a volume of 185 TWh, represented 69.9% of net domestic production, showing however a drop of 7.6% compared the figure for 2017; production from hydroelectric sources was 49.3 TWh (+31.2% compared to 2017) accounting for 17.6% of domestic supply, while from geothermal, wind and photovoltaic sources production was 45.9 TWh (-1.3% compared to 2017), 16.4% of domestic supply.
In 2018 consumption was more or less in line with that of the previous year (+0.4%) although with different contributions from the different zones. In the North in fact demand increased by 2.6%, while it fell in the remaining zones: in the Centre (-0.7%), the South (-4.4%) and the Islands (-0.6%).

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

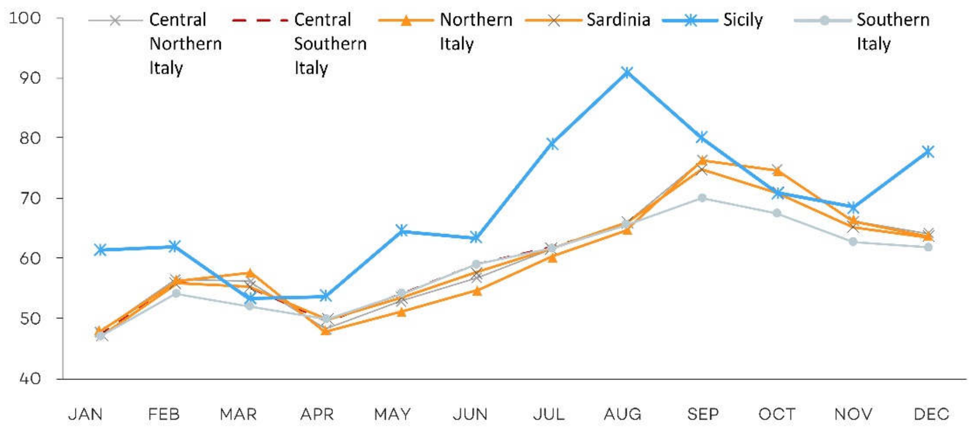
	up to 31/12/2018	up to 31/12/2017	Change %
Demand	**321,910**	**320,548**	**0.4%**
Northern Italy	153,396	149,444	2.6%
Central Italy	93,797	94,428	-0.7%
Southern Italy	44,550	46,606	-4.4%
Islands	28,161	28,318	-0.6%
Net production	**280,234**	**284,356**	**-1.4%**
Hydroelectric	*49,275*	*37,557*	*31.2%*
Thermoelectric	*185,046*	*200,305*	*-7.6%*
Geothermoelectric	*5,708*	*5,821*	*-1.9%*
Wind and photovoltaic	*40,205*	*40,673*	*-1.2%*
Pumping consumption	**-2,233**	**-2,378**	**-6.1%**
Foreign balance	**43,909**	**38,570**	**13.8%**

Source: Terna

Day-Ahead Market (DAM) prices

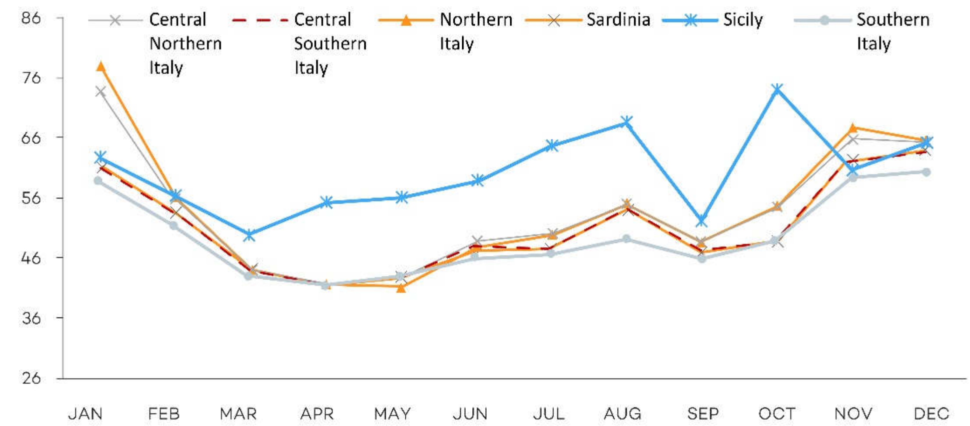
In 2018 the average price of electricity came out at 61.3 €/MWh, a higher figure compared to 2017 (+13.6% compared to the 53.94 €/MWh of 2017), showing a similar trend for all zones, although in Sicily the price was decidedly higher than in the others. The highest percentage increase, of 19%, occurred in the South zone, while the Centre-South and Sardinia recorded an increase of 18%, Sicily 14%, the Centre-North 13%, the North 12%.
This annual increase in the SNP characterised the months from March to October, and was particularly high during September, the month in which the annual peak was recorded, with a change of more than 50% compared to the 2017 prices.
The zonal prices were generally aligned with each other, as happened in 2017, with the exception of Sicily which recorded for almost the whole year a decidedly higher price than in the other market zones (as already happened in 2017). Consequently, this zonal price was the highest, with an annual average “baseload” CCT of 8.12 €/MWh, that is with a higher spread from the SNP compared to 2017 (when it came out at 6.75 €/MWh).

Italian zonal price trends 2018 (€/MWh)



Source: REF-E processing of GME data

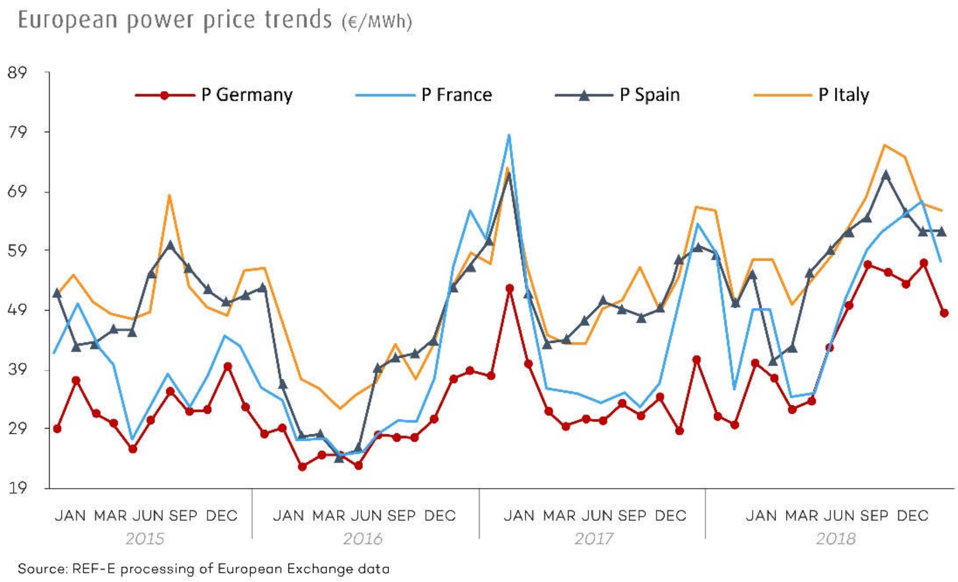
Italian zonal price trends 2017 (€/MWh)



Source: REF-E processing of GME data

Trends in the main European power exchanges

The European power exchanges recorded an average price of 50.65 €/MWh, up by 15.6% compared to 2017. The negative spread with the SNP was 10.7 €/MWh, while in the previous year it had come out at 10.1 €/MWh. In particular, the last quarter of 2018 recorded prices 21% higher compared to the same period of 2017.



Futures of Baseload SNP on the EEX

The table below compares the average prices of futures of the available products referred to the Single National Price for the last quarter of 2018. For products with December and January delivery gradual downward changes were recorded throughout the quarter, while for the Q1 19, Q2 19 and Q3 19 products the trend was not constant, recording downward changes on the quarter respectively of 4.30 €/MWh, 1.10 €/MWh and 1.80 €/MWh. The annual future for 2019 followed the same trend, from 69.5 €/MWh in October to 67 €/MWh in December. All the futures considered in any case reached higher levels compared to the fourth quarter of 2017.

Oct-18 Futures		Nov-18 Futures		Dec-18 Futures	
Monthly	**€/MWh**	**Monthly**	**€/MWh**	**Monthly**	**€/MWh**
Nov-18	75.8	Dec-18	67.3	Jan-19	64.7
Dec-18	76.0	Jan-19	69.6	Feb-19	71.6
Jan-19	75.2	Feb-19	73.8	mar-19	72.6
Quarterly		**Quarterly**		**Quarterly**	
Q1 19	74.1	Q1 19	70.4	Q1 19	69.8
Q2 19	63.4	Q2 19	60.3	Q2 19	62.3
Q3 19	69.1	Q3 19	65.9	Q3 19	67.3
Yearly		**Yearly**		**Yearly**	
Y1 19	69.5	Y1 19	66.2	Y1 19	67.0

Source: Reuters on EEX data

THE NATURAL GAS MARKET

Supply and demand

Uses and sources of natural gas in the period January-December 2018 and comparison with previous years

GAS WITHDRAWN (bln m³)*	2018	2017	2016	% change 2018 vs. 2017	% change 2017 vs. 2016
Industrial use	14.3	14.4	13.4	-0.8%	7.3%
Thermoelectric use	23.4	25.4	23.3	-8.1%	9.2%
Distribution plants	32.3	32.6	31.5	-1.0%	3.4%
Third party network and system consumption / line pack	2.4	2.3	2.2	4.2%	3.8%
Total withdrawn	**72.3**	**74.7**	**70.4**	**-3.2%**	**6.1%**

**Cumulative amounts at 31 December 2018*

Source: REF-E processing of SRG data

GAS INPUT (bln m3)*	2018	2017	2016	% change 2018 vs. 2017	% change 2017 vs. 2016
Imports	67.4	69.2	65.0	-2.6%	6.5%
Domestic production	5.1	5.2	5.6	-2.3%	-6.5%
Storage	-0.3	0.2	-0.2	(*)	(*)
Total input (incl. storage)	**72.3**	**74.7**	**70.4**	**-3.2%**	**6.1%**
Maximum capacity	135.9	133.6	132.7		
Load Factor	**49.6%**	**51.8%**	**49.0%**		

**Cumulative amounts at 31 December 2018*

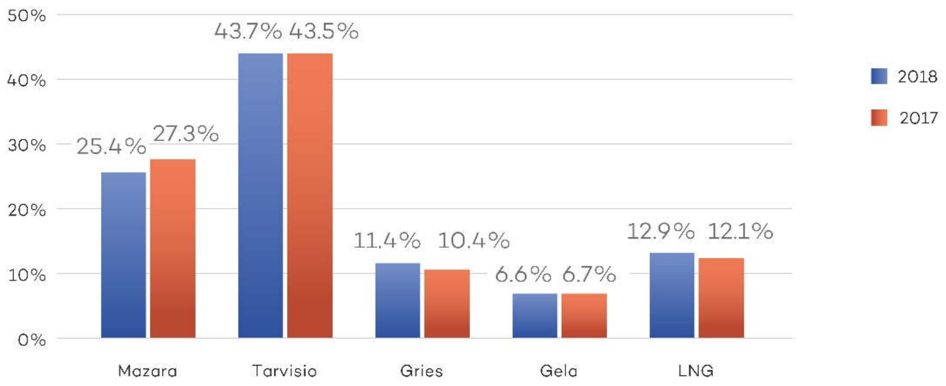
The figure for storage indicates the net change

Source: REF-E processing of SRG data

In 2018 natural gas consumption recorded the first drop after three years of continual growth, a decrease of 3.2% compared to 2017, for a total of 72.3 billion m³ consumed. The lower consumption was the result of an overall drop in demand, recorded in all three main sectors: the highest percentage change was recorded by the thermoelectric segment (-8.1%), which the industrial and residential segments showed decidedly more limited decreases (-0.8% and -1%, respectively).
Residential demand, 32,3 billion m³ in 2018, was just less (-0.3 billion m³) than that recorded during 2017. The drop was due mainly to the mild temperatures recorded towards the end of the year, which greatly affected withdrawals of gas for heating purposes, going substantially to balance the strong consumption recorded during the first quarter of 2018 following the weather contingencies that struck the entire European continent.
It is presumable that the reduction in industrial consumption, this latter of 14.3 billion m³ in 2018, can be attributed to the general slowdown of the Italian economy, which produced its effects starting from the second half of the year.
The lower demand for gas coming from the thermoelectric segment (which came out at 23.4 billion m³ in 2018), the main driver of overall growth of gas consumption between 2015 and 2017, is instead linked to higher contribution recorded in the generation stage of electricity coming from renewable sources, and in particular that coming from the hydroelectric segment, thanks to the greater availability of water in the reservoirs deriving from higher rainfall compared to 2017.

As regards supply, imports from abroad fell by approximately 2.6 per cent compared to the levels of 2017, coming out at around 67.4 billion m³. The incoming flows at the Tarvisio entry point (29.5 billion m³) confirmed once again the centrality of Russian gas in the overall Italian budget (43.7% of the national market) despite a slight reduction in terms of total volumes imported (-2%); the balance of gas coming from North Africa fell, with imports of Algerian gas (which remains however the second source of the resource for our country, with a market share of more than 25% in 2018), at the entry point of Mazara del Vallo, down by around 9% and those of Libyan gas entering at Gela that fell by about 4%; imports from Passo Gries, instead, increased by 7%, coming out at 7.7 billion m³ despite the particular price conditions which disadvantaged north-European gas exports during the last few weeks of the year; LNG also increased again (+3%), with a total of almost 8.7 billion m³ and a market share of almost 13%.

Imports by port of entry over the total



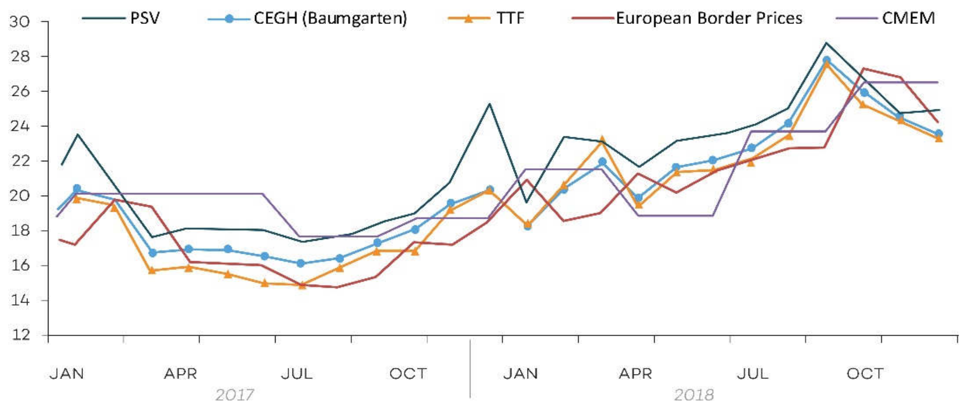
*Cumulative amounts at 31 december
Source: REF-E processing of SRG data

Domestic production recorded another slowdown (-2.2%), down to a new record low with just 5.1 billion m³ of gas produced.
The balance of storage systems (outputs +/inputs -) went instead from +0.2 billion m³ in 2017 to approximately -0.3 billion m³, owing to the higher injections (11.8 billion m³) recorded during the year following the massive outputs to the network which became necessary during the strong weather contingencies that occurred between February and March.

Wholesale gas price
In 2018, the wholesale prices of European and global natural gas, despite the drop recorded in the last quarter of the year, showed again an upward trend. These are the main causes of the annual increase in prices: the overall growth in world demand for gas (and liquefied gas in particular), driven by the Asian countries and preponderantly by China, which had important effects on prices especially during the first half of the year; the problems that involved the production of Dutch gas at the Groningen field and forced the government to draw up a plan that provides for closure of the same by the end of 2031 and restrictions on extractions already immediately; the trend in Brent prices, which rose gradually as the OPEC meeting in June came nearer and, before falling sharply during the last quarter of the year, reached peaks of more than 80 $/bbl between September and October; the significant increase in the prices of the European ETSs, affected above all by the approaching entry into force of the Market Stability Reserve mechanism.
In particular, the Dutch TTF recorded in 2018 an average figure for spot prices of 22.80 €/MWh, up 31.7% compared to the 17.32 €/MWh of 2017. The average CEGH price rose by 26.7%, with an average figure of 22.98 €/MWh. On the PSV, the average spot price recorded +23.2% compared to the 2017 levels, coming out at around 24.31 €/MWh and showing once again that the Italian hub continues to remain a premium market compared to the northern European ones, with an average PSV-TTF spread of 1.51 €/MWh (down, however, by more than 37% compared to the previous year owing to the higher price increase recorded at the northern European hubs compared to the Italian one).

In 2018 the prices at the border, still in part oil-linked, followed the general upward trend and came out at an average level of 22.5 €/MWh, up by almost 32% compared to 2017. The average of Italian prices at the border was higher that the European average, coming out at around 23.2 €/MWh.
In the Italian market, the balancing price for 2018 was on average 20.4 €/MWh, approximately 24% higher compared to the figures for 2017. On the markets of the MGAS platform functional for the definition of the balancing price (MGP-GAS and MI-GAS), during the year a total volume of approximately 3.9 billion m³ was traded. The MI-GAS intraday market continues to be main segment of the platform managed by GME, with a total amount of volumes traded of approximately 2.64 billion m³.
The so-called "CMEM component", meant to reflect the cost of procuring gas in the protected market price and defined by the ARERA on the basis of the TTF forward prices, increased with an average of 22.91 €/MWh.

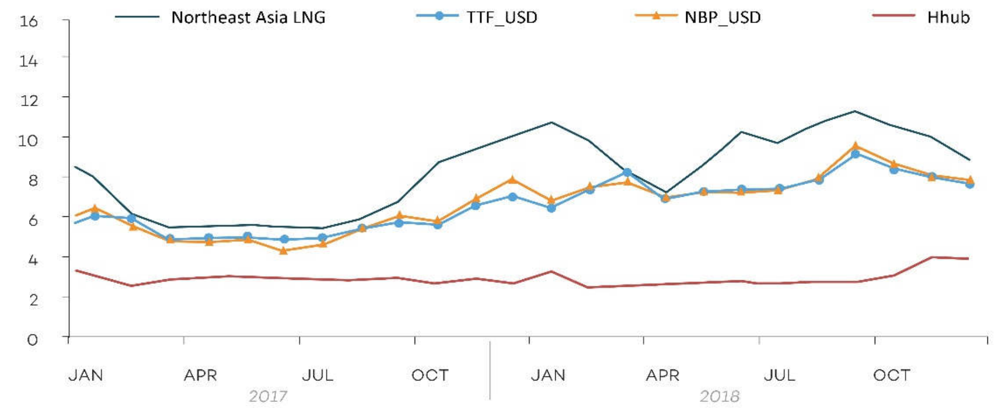
Wholesale prices in Europe (€/MWh)



Latest data 31 december
Source: REF-E processing of WGI - ARERA - Alba Soluzioni data

As regards the international markets, the growing demand from Asian countries (primarily China, owing to the policies of switching from coal to gas strongly promised by the government) triggered in the early months of the year a global upward trend of natural gas prices, supported by the increase in oil prices and, in Europe, by the contingencies that occurred on the continent and by the trend in CO_2 prices; the bullish trend of the markets therefore lasted up to the beginning of the current winter season, when, together with the drop in Brent prices, there were, both in Europe and in north-eastern Asia, the first effective signs (announced by the weather forecasts) of a milder winter than usual. In these conditions, the large quantities of gas procured in the first half of the year in north-eastern Asia, made it possible to slow purchases down during the second half, causing downward pressure on market prices.
At the annual level an increase in Asian spot prices was however recorded; the average came out in 2018 at a level of approximately 9.9 $/MMbtu, up by more than 40% compared to 2017.
Also in Great Britain and the USA, where the low levels of storage at the beginning of the winter season strongly affected (although only for a brief period) the trend of gas prices at the hubs, upward trends were again evident: in the United Kingdom 2018 ended with an average of more than 7.9 $/MMBtu (+36.4% compared to the levels of 2017), while in the USA, the average price at the Henry Hub reached 3.1 $/MMBtu after reaching peaks of almost 4.8 $/MMBtu between November and December.

LNG prices ($/MBtu)



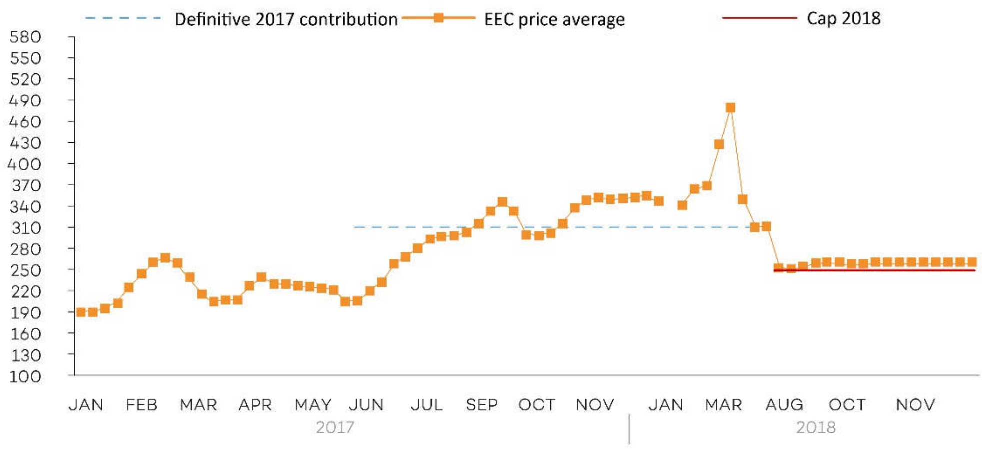
Latest data 31 december 2018
Source: REF-E processing of WGI data

WHITE CERTIFICATES (EECs)

Market trend

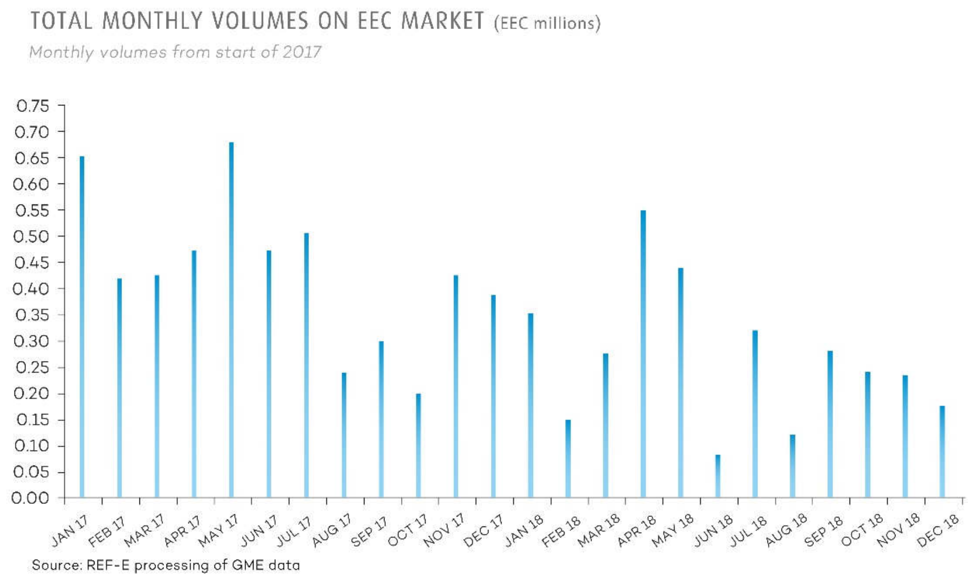
In 2018 the prices of Energy Efficiency Certificates (EECs) traded on the exchange recorded a new increase, reaching in the early months of the year price peaks of almost 480 €/EEC. Starting from March however, the prices turned the rising trend around coming out initially at around 250 €/EEC (value of the cap on refund in the tariff obtainable by operators set in the decree of the Ministry of Economic Development of 11 May 2018) before converging on 260 €/EEC (price of EECs issued by GSE in the case of excess demand) starting from September. The annual average of weighted average prices was overall approximately 294 €/EEC, that is approximately 25 €/EEC (equivalent to a 9.42% change) higher compared to that for the previous year.

EEC: weighted average market price and tariff contribution (€/EEC)

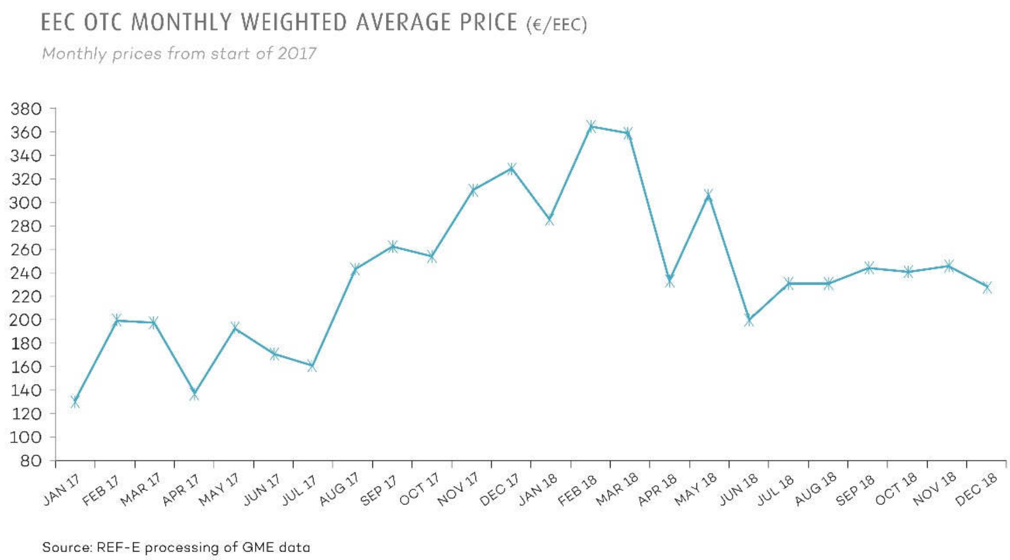


* ARERA, DMRT/EFC/4/2018.
** REF-E calculation using GME data, last listing 31/12/2018
Source: REF-E processing of GME and ARERA data

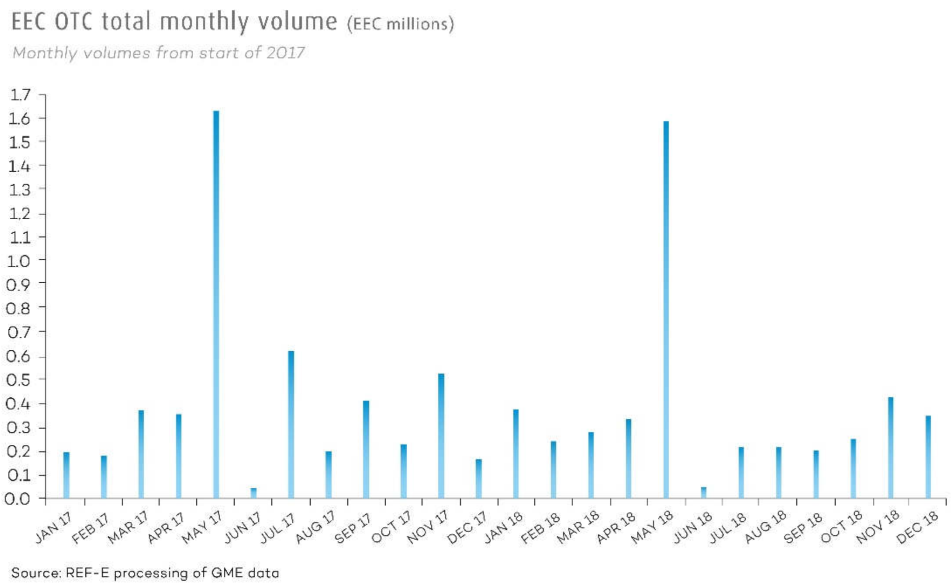
The total volumes traded on the exchange recorded a decrease compared to 2017: total certificates traded were approximately 3.21 million (-38% compared to the 2017 total) owing to the limits imposed on the supply of certificates. The trend in the volumes shows peaks, although modest ones, in January and July, as well as in the months immediately preceding compliance for the obligation year. A gradual reduction in trades was then recorded in the last quarter of the year.



Also on the OTC market the prices recorded significant increases: the 2018 average price (263 €/EEC) was higher than that of the previous year by approximately 50 €/EEC. The highest prices were recorded in February, with peaks of more than 360 €/EEC. Overall, however, OTC prices remained lower compared to the exchange peaks.



OTC volumes also decreased compared to 2017, coming out at approximately 4.54 million EEC (compared to more than 5 million in 2017). It is worth noting the peak reached in May, at the end of the obligation year, with a total volume traded of approximately 1.6 million EECs, slightly less than the volume recorded in May 2017.



SIGNIFICANT EVENTS OF THE PERIOD

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

On the basis of the delegated power received from the Board of Directors on 20 December 2017, on 8 January 2018 the Deputy Chairperson of Iren S.p.A., Prof. Ettore Rocchi, carried out, with a positive result, the checks on the existence of the requirements pursuant to Art. 6 of the Iren S.p.A. bylaws for investors that acquired all the remaining 62,305,465 savings shares owned by FCT Holding S.p.A., a holding company with the Municipality of Turin as its sole shareholder, to be converted at par into Iren ordinary shares.
On the basis of the article in the Bylaws, the disposal of the savings shares held by FCT Holding S.p.A. entailed in fact their conversion into ordinary shares, after verification that the transfer, for any reason, was made to parties not related to the Municipality of Turin.
The transfer occurred following further requests for conversion (see the explanation in “Significant events of the period” in the financial statements at 31 December 2017) received starting from 20 December 2017, related to the “exchangeable” bonds issued by FCT Holding on 30 December 2015 for an amount of 150,000,000 euro that had as underlying a total of 80,498,014 Iren savings shares and 290,353 Iren ordinary shares owned by the same.
Following the aforementioned conversion, the Company’s share capital is made up of only ordinary shares.

Award of 4 lots of the Consip tender for supplying electricity to the Public Administration for 2018

The Group, through Iren Mercato, strengthened its presence as an electricity supplier to Public Administrations in the North West with the award in January 2018 of four lots of the Consip EE15 tender, for a total amount for the supply estimated at 365 million euro of revenue.
Iren Mercato was confirmed therefore, also for 2018, as a major supplier for Public Administrations in Lombardy (lots 2 and 3) and Emilia Romagna (lot 6), while it became one again for the Public Administrations of Piedmont and Val d’Aosta (lot 1), for a total annual volume of supplies estimated at 2.4 TWh.
Among the players that took part in the tender Iren Mercato’s technical and economic offer was the most competitive and for the supplies it provides for both fixed prices and variable prices linked to the value of energy on the power exchange. In addition, due also to the Group’s renewable-source production assets, the Public Administrations involved have the option of purchasing certified “green” energy for all the quantities of their energy needs. The agreement with Consip is for a term of 12 months, with the possibility of being extended for a further six. In this context, Iren Mercato can take orders from Public Administrations up to exhaustion of the maximum energy ceilings provided for in each lot.

Sale of the shareholding held in Mestni Plinovodi

The transfer of the shareholding - representing 49.88% of the share capital of Mestni Plinovodi d.o.o., a company operating in the distribution and sale of gas in Slovenia - from IRETI, a company controlled by Iren S.p.A, to Adriaplin d.o.o., a company in the ENI group, was completed on 9 March 2018.
The price for the transfer of the shareholding was 8 million euro, with an economic benefit of 3 million euro, already recognised in the financial statements at 31 December 2017 as a recovery in the value of the shareholding in the light of the planned transfer.
The sale of the shareholding falls in the context of the business rationalisation implemented by the Iren Group in the last three years, which also includes the sale of assets and shareholdings deemed non-core, in order to release funds and seize opportunities for growth within the relevant areas.

Closing of the merger between Iren and the ACAM Group

On 11 April 2018 the merger was completed between Iren and the ACAM Group, which operates in integrated water service management, environmental service management and, to a lesser extent, energy services in the province of La Spezia.

The aforementioned operation had been launched in May 2017 with the bid made by Iren in the context of the transparent procedure promoted by ACAM to identify an economic operator with which to implement a corporate and industrial business combination, and it continued on 29 December 2017 with the signing of an investment agreement, subject to suspensive conditions, between Iren, ACAM S.p.A. and 31 public entity shareholders of ACAM, with the simultaneous resolution from Iren's Board of Directors to increase the share capital for payment, divisible, reserved for ACAM shareholders who had taken on the commitment to sell to the Company their entire shareholding held in ACAM.

Following the fulfilment of all of the conditions precedent specified in the investment agreement, including the necessary approval by the "Autorità Garante della Concorrenza e del Mercato" [Italian Antitrust Authority], the operation was carried out through:

- the acquisition by Iren of the ACAM shares held by 31 public entities, essentially equal to the entirety of its share capital, against total consideration of 59,000,274.29 euro; and
- the simultaneous subscription, by 27 ACAM shareholders, of a total of 24,705,700 new ordinary shares in Iren S.p.A., in the context of the capital increase reserved for them, representing 1.90% of Iren's share capital after the increase, for a total amount of 52,623,141.00 euro (including share premium).

The subscription price for each newly-issued Iren S.p.A. ordinary share was 2.13 euro, of which 1.00 euro to be attributed to share capital and Euro 1.13 as a premium. The Company offset the subscription price for the newly-issued shares payable by the subscribing ACAM shareholders with the selling price of the ACAM share capital payable by Iren, while the residual price payable by the Company to the selling and non-subscribing shareholders, totalling 6,377,133.29 euro, was paid in cash.

The ACAM shareholders that subscribed the reserved capital increase simultaneously signed the existing shareholders' agreement between the Iren public shareholders, bringing to the blocking and voting syndicate governed by it all the newly-issued shares subscribed by them in the context of the capital increase (with the exception of a single shareholder, which assumed a distinct commitment not to transfer the shares subscribed). The shareholders' agreement will expire in May 2019 and will be renewed tacitly for a further two years, unless terminated.

On the same date, ACAM, ACAM Acque and ACAM Ambiente fully repaid the existing debt exposures to the relevant financial institutions, equal to around 130 million euro.

Following that repayment, the debt restructuring agreement under Article 182 *bis et seq*. of the Budget Law, signed by the companies in the ACAM Group and approved by the Court of La Spezia, and the appended restructuring plan, were terminated, as they had become ineffective due to the obtaining of the objectives specified therein.

For more information regarding the terms and conditions of the operation and capital increase, including all of the related conditions, please refer to the contents of the section "Significant events of the period" in the Directors' Report at 31 December 2017.

The business combination with the ACAM Group enables the expansion of the Iren Group's concession portfolio, with the possibility, among other things, to aim to become the Ligurian regional operator of reference in water services, and to consolidate the current positioning in waste management services.

Shareholders' Meeting of Iren S.p.A.

The Iren S.p.A. Ordinary Shareholders' Meeting held on 19 April 2018 approved the Company's Financial Statements in relation to financial year 2017, the 2017 Directors' Report and the first section of the 2017 Remuneration Report, and resolved to distribute a dividend of 0.07 euro for each of the 1,300,931,377 eligible ordinary shares, including the 24,705,700 ordinary shares subscribed by the shareholders of ACAM S.p.A. by virtue of the increase of the share capital reserved for them, resolved by the Iren Board of Directors on 29 December 2017. The dividend was paid starting from 20 June 2018 (ex-dividend date 18 June 2018 and record date 19 June 2018).

With approval of the financial statements at 31 December 2017 the term of office of the Board of Statutory Auditors expired. For the three years 2018-2020 the Shareholders' Meeting therefore appointed, on the basis of the lists presented: three Regular Auditors in the persons of Cristina Chiantia, Simone Caprari and Michele Rutigliano, electing the latter as Chairperson of the Board of Statutory Auditors; two Alternate Auditors in the persons of Marco Rossi and Donatella Busso. The Board of Statutory Auditors will remain in office up to the date of approval of the financial statements for the year ending 31 December 2020.

Agreement between the companies in the AMIAT Group, Iren Energia, Iren Mercato and the Municipality of Turin

On 12 July 2018, Iren S.p.A., in its capacity as authorised agent, with representative powers, of its subsidiaries AMIAT, Iren Energia and Iren Mercato as one party, and the City of Turin as the other signed an Agreement aimed at governing, with a single structure, the progressive repayment of the receivables due to the aforementioned companies from the said Municipality, as well as specifically reconciling certain receivable items currently contested or viewed differently and, on the occasion, reviewing and redetermining some of the obligations established in the existing contractual relationships.

The Agreement falls within the scope of various existing relationships between the Municipality of Turin, the Group’s largest customer, and the aforementioned companies; in particular: AMIAT, the contractor for integrated management services for urban waste and winter road management, as well as services and work related to the closure and post-operational management of the Basse di Stura controlled landfill plant and other services associated with and/or complementary to the aforementioned ones; Iren Energia, the contractor for public street lighting and traffic light services, as well as the management of heating and electrical systems of municipal buildings used to provide services to the community; Iren Mercato, currently the Municipality’s thermal energy supplier for district heating and, previously, electricity supplier for public street lighting and traffic light systems.

The initiatives undertaken represent an evolution in the series of contractual addenda entered into between 2012 and 2015 and, more specifically, the agreement signed in 2012 by Iren (also in the name and on behalf of Iride Servizi S.p.A., now Iren Energia, and of Iren Mercato) and the Municipality of Turin for purposes similar to the current ones, and also include the launch of projects in the context of services already provided. As far as Iren is concerned, the conclusion of the Agreement provides in particular for:

- obtaining formal recognition from the Municipality of the Group’s receivable position, also following the reconciliation of disputed items or items not interpreted in the same way by all parties;
- formalising at the same time the plans for repayment of receivables past due at 30 June 2018 from the Municipality and fixing objectives of gradual reduction of the annual balances of receivables past due that the Municipality undertakes to observe to enable orderly collection of the receivables and an improvement in the Group’s gross financial position, with the objective of reducing receivables to zero by the end of 2026;
- introducing offsetting mechanisms for items and a commitment to express consent, by the Municipality, for any transfer of receivables accrued in relation to it;
- introducing protective mechanisms in the case of breach by the Municipality, including, among other things, the detailed application of default interest (increasing the interest applied to current accounts), according to the significance of the breach, and the ability to activate an acceleration clause in relation to the Municipality, terminating the current accounts;
- approving, also as a result of the redefinition or revision of some previous contractual obligations, the completion of industrial projects on the basis of the existing service contracts and implementing the ordinary three-year revision procedure provided for in the AMIAT service contract.

We can note that the process of defining the Agreement was launched with the approval, on 20 February 2018, by the Board of Directors of Iren S.p.A., after a favourable opinion of the Committee for Transactions with Related Parties (CTRP), of a proposal, to be submitted to the Municipality of Turin, for a preliminary agreement between the Company (special agent, with representative powers, of AMIAT, Iren Energia and Iren Mercato) and the said Municipality, to arrive at a subsequent (definitive) Agreement aimed at defining certain relationships between the parties.

This preliminary agreement proposal was submitted to the Municipality of Turin which, with a resolution passed by the Municipal Executive Committee on 27 March 2018, approved the substantive contents of the operation. The Municipality and Iren consequently proceeded to sign a Preliminary Agreement on 3 April, through an exchange of correspondence, containing the essential elements, the terms and conditions to be

reflected in a complete and precise manner in the subsequent Final Agreement, which the parties undertook to negotiate in good faith and define initially by 30 June 2018 and, following an extension agreed, by 15 July 2018.
After subsequent discussions, the parties resolved to proceed with the signing of the final contract with a resolution of the Board of Directors of Iren S.p.A. passed on 2 July 2018, after issuance of the favourable opinion of the CTRP, and with resolutions, dated 3 July, of the Municipal Executive Committee of Turin and of the competent administrative bodies of the other Group companies involved in the operation. The Final Agreement, as above, was consequently signed on 12 July 2018.

Iren's signing of the agreement was classified as a significant transaction pursuant to Article 4, paragraph 1, sub-paragraph a) of the Regulation Containing Provisions on Transactions with Related Parties, adopted by CONSOB with resolution no. 17221 of 12 March 2010, as subsequently amended, since the equivalent value of the transaction—an indicator of significance—exceeds the threshold of 5% of Iren S.p.A. capitalisation. As a result of the above, a disclosure document was issued, published and filed within the legal terms, to which you should refer for further information.

Demerger of FSU with beneficiary FCT Holding

On 27 July 2018, the asymmetric non-proportional partial demerger of Finanziaria Sviluppo Utilities S.r.l. (FSU) came into effect. Up to that date, the company had held an equity interest of 32.67% in the share capital of Iren S.p.A., and was 50% owned by the Municipality of Genoa and 50% indirectly owned by the Municipality of Turin through Finanziaria Città di Torino Holding S.p.A. (FCT Holding, wholly controlled by the latter). As a result of the demerger:

- half of the shareholders' equity of FSU was assigned to FCT Holding, against the cancellation of the related equity interest of the latter in FSU, and with consequent reduction of half of the share capital;
- following the reduction of capital, the Municipality of Genoa, therefore, came to hold 100% of the share capital of FSU.

Following this operation, FSU (wholly controlled by the Municipality of Genoa) and FCT Holding (wholly controlled by the Municipality of Turin) each came to hold, at the date of effectiveness, an equity interest in Iren S.p.A. of 16.335% of the share capital.

Acquisition of Spezia Energy Trading

On 6 September 2018, Iren Mercato acquired Spezia Energy Trading, a company controlled by Spienergy, based in La Spezia, and part of the ENOI Group. Spezia Energy Trading operates in the sale of electricity and gas both to final customers, primarily Small and Medium-sized Enterprises (SMEs), and on the wholesale market.
Based on the agreements, before the closing of the acquisition transaction, all of Spienergy's customer portfolio was contributed to Spezia Energy Trading. This portfolio is made up of electricity contracts for 1.6 TWh (corresponding to approximately 42,500 PODs) and gas contracts for 0.26 TWh (corresponding to approximately 1,300 PDRs), distributed in particular in the centre-north area. The business acquired is involved in a programme of further development and integration with Iren Mercato's customer portfolio.
The transaction enables a sharp acceleration of the growth plan in the SME field of the Market Business Unit with respect to what is provided for in the business plan, making use of a customer portfolio with good margins in territories contiguous to those of reference of the Group and together with the expansion of the indirect sales network supplemented by the development of new distribution channels.

Industrial partnership with Fratello Sole in the energy efficiency and e-mobility sector

On 7 September 2018, Iren Energia finalised an industrial partnership with Fratello Sole S.c.a.r.l., a company operating in support of charitable and socially-useful entities in the field of saving on energy costs.
The partnership, observing the principles contained in the Business Plan, involves an equity investment in the newly-incorporated company Fratello Sole Energie Solidali S.r.l., a social non-profit enterprise that will supply management and energy efficiency services in relation to the property assets of the third-sector shareholders that founded Fratello Sole S.c.a.r.l.. The transaction regards potential property assets of 300 buildings and the work will develop over the next 4 years, with the possibility of parallel development of e-mobility projects for customers.

Following the transaction, Fratello Sole Energie Solidali is held 60% by Fratello Sole and 40% by Iren Energia which will act in the capacity of technical partner.
The company will be responsible for energy efficiency work and will involve the technical partner as implementer and/or main contractor for feasibility analyses, planning and implementation.

Issue of a second Green Bond of 500 million euro

As part of the existing Euro Medium Term Notes (EMTN) Programme, on 12 September 2018 Iren S.p.A completed with full success the issue of its second Green Bond, for an amount of 500 million euro and a duration of 7 years, strengthening further the process of optimising its financial profile and its presence in the green segment, also through a structured programme of issues focused mainly on the economic, environmental and social sustainability of the projects financed.
These securities, which have a minimum unit price of 100,000 euro and mature on 19 September 2025, pay a gross annual coupon of 1.95%. They were placed at an issue price of 99.129%. The effective gross rate of return on maturity is 2.085%, corresponding to a yield of 150 basis points above the 7-year mid-swap rate. The new bond is listed on the regulated market of the Irish Stock Exchange and at the multilateral trading facility “ExtraMOT PRO”, organised and managed by Borsa Italiana, in the segment devoted to Green Bonds. The Green Bond is destined to finance and refinance projects related to energy efficiency, to renewable sources, to increasing efficiency in managing the waste cycle, to purifying waste water and to electrical mobility, all environmentally sustainable and recognised as such through certification by an independent body (DNV GL).
The current issue supplements the Green Bond of the same amount placed in October 2017, taking the total to 1 billion euro of “green” issues carried out by Iren, equivalent to approximately 40% of its bond portfolio, testifying to the Group’s tangible commitment in the inclusion of “ESG” (Environment, Social and Governance) issues in the process of study and selection of the strategic investment options.

Business plan to 2023

On 26 September 2018, the Board of Directors approved the Business Plan to 2023, which confirms the strategic framework of the previous Plan with the addition of new growth opportunities deriving from the development achieved in the last four years.
The main trends which, in the next few years, will influence the Group’s strategies are energy in transition, sustainable development; the technological revolution and the central role of the customer/citizen; from these come the choices on which the Plan is based, which can be summarised in the following inter-related strategic pillars:

- **organic growth**, related to development of the integrated water service, to activities in favour of customers, to district heating, to waste treatment plants and to participation in gas tenders;
- **efficiency**, with a further action to increase efficiency in addition to the synergies already achieved in the previous three years, mainly through Performance Improvement initiatives;
- **customers**: the redefinition of the role of the customer/citizen, increasingly active and participative in purchase decisions, orients investments towards digital customer relations processes and towards a plan for the development of innovative services with high added value (electrical mobility, energy efficiency and New Downstream);
- **environmental sustainability**, through the definition of “ESG” (Environment, Social, Governance) targets in response to the objectives set by the United Nations on the subject of climate change through the use of water resources, the circular economy, decarbonisation and resilient cities;
- **people**: strong focus on skills and on an agile and efficient organisation, through improving the Talent & Performance Management processes in terms of intelligent selection of human resources, growth through training and incentives for the same. A major generational turnover is foreseen; this will be supported by the recruitment of new resources to a greater extent with respect to the numbers leaving;
- **digitalisation and innovation**: development is pursued through direct creation of Industry 4.0 and digitalisation projects in order to increase efficiency and offer to customers/citizens services in line with the needs arising. A Corporate Venture Capital programme in a structured open innovation process must be added to this.

Based on these strategic pillars, the Iren Group foresees:

- an EBITDA of 1,020 million euro in 2023, with an increase of approximately 200 million euro compared to the final figure for 2017, mainly due to organic growth (120 million euro) and synergies (65 million euro);
- a Group net profit, again in 2023, of approximately 300 million euro;
- total investments over the period of the plan, including those made in the year just ended, of 3 billion euro (500 million euro more than the previous Business Plan). Among them, the investments provided for in the regulated sectors amount to 1.4 billion euro (of which approximately 1 billion destined for improvement of the water service, by increasing efficiency, developing the water network and building water treatment plants). Approximately 900 million euro is reserved for development investments, associated with district heating, energy efficiency, treatment plants and the reconfirmation of gas distribution concessions. Finally, approximately 700 million euro is earmarked for maintenance on non-regulated activities;
- cash generation that will make it possible to achieve a Net financial position/EBITDA ratio in 2023 of 2.3x, less than the figure of 3.0x considered at the moment adequate for optimising the Group's financial structure, so as to make it possible to allocate additional financial resources to other growth options along internal and external lines, not included in the plan targets but already clearly identified;
- a planned dividend of 8.4 euro cents/share for financial year 2018, up 20% compared to the last one distributed. In addition, constant subsequent increases in the order of 10% per year are envisaged, with a dividend of 13.5 euro cents/share in 2023. From 2019, the pay-out ratio is expected to come out at 50% - this remuneration is compatible with maintenance of the level of investment grade (Fitch Rating equivalent to BBB).

Acquisition of Maira S.p.A.

On 28 September 2018, Iren Energia completed the transaction to acquire a controlling stake in Maira S.p.A., with registered office in San Damiano Macra (CN). The transaction also provides for the possibility for Iren Energia to exercise, on fulfilment of certain conditions, a call option for the purchase of 60% of shares of the investee Alpen 2.0 S.r.l., with registered office in Turin, Italy.

Maira is a company operating in the construction and management of hydroelectric plants in Piedmont and currently has in concession and manages 3 mini-hydroelectric plants for a total installed capacity of 5 MW, with annual production of approximately 15 GWh.

Alpen 2.0 S.r.l. was set to become a platform for the acquisition and operation of mini-hydroelectric plants mainly in the North West area and has in progress the development of a number of greenfield projects in Piedmont, for a total production capacity of approximately 18 GWh/year.

The operation is part of a process of developing the Energy Business Unit through strengthening the presence in the Group's core territories, with particular reference to production from renewable sources.

Acquisition of 48.85% of SETA, a public operator in the northern Turin area

On 17 October 2018 Iren Ambiente completed the operation for the acquisition from SMC Smaltimenti Controllati S.p.A. (Waste Italia Group) of a business unit consisting of the equity interest of 48.85% in the share capital of Società Ecologica Territorio Ambiente (SETA) S.p.A. and the activities of closure and post-closure management of the Chivasso 0 landfill site.

SETA is the concessionaire of the integrated municipal waste collection service in the contest of Catchment Area 16 (Province of Turin) with approximately 228 thousand inhabitants served in more than thirty municipalities in the area to the north of Turin. The company is 51.15% controlled by a number of municipalities that are members of the Catchment Area 16 Consortium, both directly for 32.37% and indirectly through the Consortium itself which holds 18.78%.

The transaction was finalised at the end of a process that involved Iren Ambiente expressing its interest in acquiring the business unit in the context of a prior arrangement procedure requested by SMC and launched at the Court of Milan in July 2018. The purchase price of the unit was 2.9 million euro.

SETA has a workforce of more than 230 employees and achieved in 2017 revenue of 36.3 million euro, with an annual total of waste collected of approximately 90 Kton. The entry into the company's capital will make it possible to achieve significant synergies with the other Group companies which operate in the territory of the Turin metropolitan area.

Confirmation of Iren's rating

On 28 November 2018 the Fitch rating agency confirmed for the Group a BBB- rating (investment grade), with a stable outlook. The judgement is based mainly on the update of the business plan to 2023 which, in continuity compared to previous years, confirms the prevalence of regulated and quasi-regulated activities (approximately 70% of Gross Operating Profit (EBITDA)), and on the positive results achieved in the last few years. Fitch, finally, in expressing its judgement assesses positively the management's financial discipline in pursuing the targets set.

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

Income statement

IREN GROUP INCOME STATEMENT

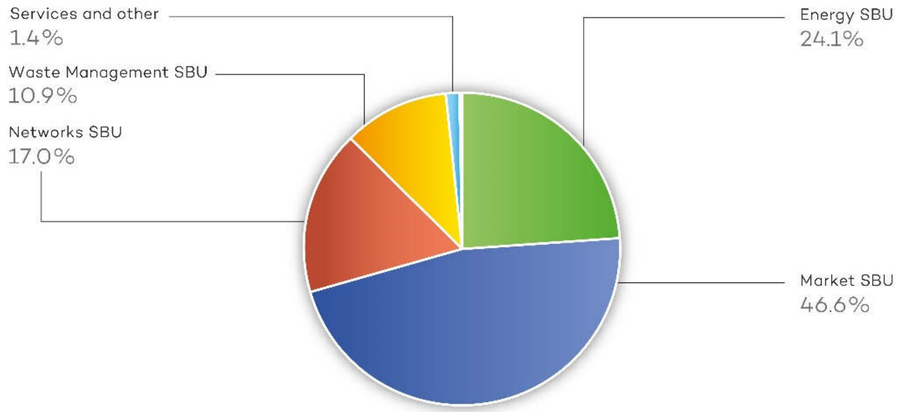
thousands of euro

	Financial year 2018	Financial year 2017	Change %
Revenue			
Revenue from goods and services	3,764,386	3,448,664	9.2
Change in work in progress	(84)	(22,792)	(99.6)
Other income	276,387	271,263	1.9
Total revenue	**4,040,689**	**3,697,135**	**9.3**
Operating expenses			
Raw materials, consumables, supplies and goods	(1,377,066)	(1,248,639)	10.3
Services and use of third-party assets	(1,271,959)	(1,166,638)	9.0
Other operating expenses	(64,653)	(99,814)	(35.2)
Capitalised expenses for internal work	33,198	27,724	19.7
Personnel expense	(393,618)	(389,552)	1.0
Total operating expenses	**(3,074,098)**	**(2,876,919)**	**6.9**
GROSS OPERATING PROFIT (EBITDA)	**966,591**	**820,216**	**17.8**
Depreciation, amortisation, provisions and impairment losses			
Depreciation and amortisation	(354,947)	(321,865)	10.3
Provisions for impairment of receivables	(52,217)	(46,660)	11.9
Other provisions and impairment losses	(28,933)	(31,342)	(7.7)
Total depreciation, amortisation, provisions and impairment losses	**(436,097)**	**(399,867)**	**9.1**
OPERATING PROFIT (EBIT)	**530,494**	**420,349**	**26.2**
Financial income and expense			
Financial income	42,844	46,246	(7.4)
Financial expense	(148,976)	(128,678)	15.8
Total financial income and expense	**(106,132)**	**(82,432)**	**28.8**
Share of profit (loss) of associates accounted for using the equity method	776	22,532	(96.6)
Value adjustments on equity investments	(35,614)	8,670	(*)
Profit (loss) before tax	**389,524**	**369,119**	**5.5**
Income tax expense	(116,287)	(104,359)	11.4
Net profit (loss) from continuing operations	**273,237**	**264,760**	**3.2**
Net profit (loss) from discontinued operations	-	-	-
Net profit (loss) for the period	**273,237**	**264,760**	**3.2**
attributable to:			
- Profit (loss) for the period attributable to shareholders	242,116	237,720	1.8
- Profit (loss) for the period attributable to minorities	31,121	27,040	15.1

(*) Change of more than 100%

Revenue

In financial year 2018, the Group achieved revenue of 4,041 million euro, up by 9.3% compared to the 3,697 million euro of financial year 2017. The expansion of the consolidation scope contributed to the increase in revenue: Salerno Energia Vendite and the Iren Rinnovabili group, consolidated respectively from 1 May 2017 and from 1 January 2018, Maira and Spezia Energia Trading consolidated from October 2018, and in particular the companies of the ACAM La Spezia group, starting from 1 April 2018. As well as by the increase in commodity prices, revenue was favourably affected by significant contingencies associated with the management of energy efficiency certificates and by the revision of the estimate of receivables for invoices to be issued of the Market business unit.



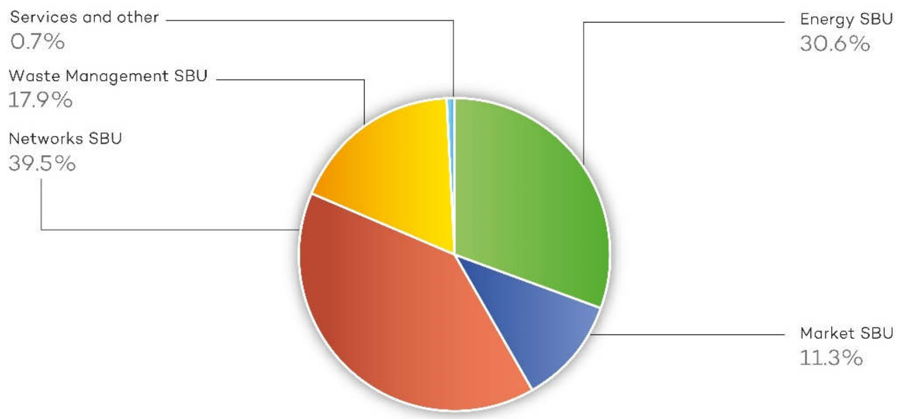
Revenues

Gross Operating Profit (EBITDA)

Gross operating profit (EBITDA) amounted to 967 million euro, up by 17.8% compared to the 820 million of financial year 2017.

2018 was characterised by a severe deterioration in the energy sector, with consequent pressure on margins within that sector in terms of both electricity production and gas sales. However, the improvement in the management of energy efficiency certificates, in part thanks to the recognition of greater quantities and mainly as a result of emergence of contingencies linked to an increase in their value due to the rise in market prices, made it possible to absorb the negative effects of this scenario. The economic impact of the said contingency was 60 million euro. The financial year also benefited from a further contingent asset of 41 million euro attributable to the revision of the estimate of receivables for invoices to be issued mainly related to the sale of gas.

The improvement in the margin, as well as from the extraordinary components as above, derives from operating synergies, an increase in hydroelectric production, which benefited from particularly favourable rainfall, and changes in the scope connected with the consolidation of Salerno Energia Vendite, Spezia Energia Trading, of the ACAM La Spezia group and of the Iren Rinnovabili group.



EBITDA

Operating profit (EBIT)
Operating profit totalled 530 million euro, with an increase of +26.2% compared to the 2017 figure of 420 million euro. Higher depreciation and amortisation of approximately 33 million euro was recorded, of which approximately 12 million euro attributable to the aforementioned expansion of the consolidation scope, as well as higher net provisions and impairment of approximately 3 million euro.

Financial income and expense
The economic components of a financial nature showed a balance of net financial expenses of 106.1 million euro (82.4 million euro in financial year 2017).
In particular financial expenses amounted to 149 million euro (128.7 million euro in 2017). The increase compared to the previous year was mainly attributable to higher charges for liability management operations; the decrease in the average cost of financial debt mitigates the effects of this.
Financial income amounted to 42.8 million euro, down from the 46.2 million euro of 2017.

Share of profit (loss) of associates accounted for using the equity method
The pro-rata results of associates accounted for using the equity method amounted to +0.7 million euro.
The figure for financial year 2017, significantly higher at +22.5 million euro, included among other things the pro-rata amount of the positive results of OLT Offshore LNG Toscana (+12.5 million euro), achieved following the favourable definition of the regulatory scenario, connected to the additional remuneration of invested capital related to previous years, and the profit of the ASTEA group, affected by the capital gain made following the sale of its subsidiary ASTEA Energia.

Value adjustments on equity investments
This item came out in the period at -35.6 million euro, and mostly refers to:
- the write-off of the equity investment in OLT Offshore LNG Toscana for -27.7 million euro, made for alignment to the fair value provided for as a consequence of the probable sale, in the light of the results that emerged in the programme of activities launched for this purpose;
- the write-downs related to the investees Acque Potabili (5 million euro) and AMAT (2.1 million euro, writing it off), made respectively owing to the prospects of uncertain income and the adverse regulatory context.

The figure for the previous year (+8.7 million euro) included mainly the effects of redetermining at fair value the previous interests in a number of associates, partially offset by the write-off of the investee Fingas.

Profit (loss) before tax
As a result of the above trends the consolidated profit before tax came out at 389.5 million euro, up on the 369.1 million euro in financial year 2017 (+5.5%).

Income tax expense
Income taxes for the period were 116.3 million euro, an increase of 11.4% compared to the comparative period, also in relation to the increase in the profit before tax, with an effective tax rate of 29.9% (28.3% in financial year 2017). The increase in the tax rate was due above all to non-deductible extraordinary negative income components.

Net profit (loss) for the period
As a consequence of what is presented above, in the period we can note a net profit substantially in line compared to the previous year (+3.2%), coming out at 273.2 million euro. The figure is due to the Group's profit of 242.1 million euro, while profit attributable to non-controlling interests was 31.1 million euro.

Statement of Financial Position

RECLASSIFIED STATEMENT OF FINANCIAL POSITION OF THE IREN GROUP (1)

thousands of euro

	31.12.2018	31.12.2017	Change %
Non-current assets	5,786,294	5,412,159	6.9
Other non-current assets (liabilities)	(431,648)	(177,981)	(*)
Net Working Capital	132,325	181,869	(27.2)
Deferred tax assets (liabilities)	148,745	64,011	(*)
Provisions for risks and employee benefits	(621,063)	(618,194)	0.5
Assets (Liabilities) held for sale	524	8,724	(94.0)
Net invested capital	**5,015,177**	**4,870,588**	**3.0**
Shareholders' equity	2,562,371	2,498,803	2.5
Non-current financial assets	*(147,867)*	*(165,767)*	*(10.8)*
Non-current financial debt	*3,013,303*	*3,023,888*	*(0.4)*
Non-current net financial debt	2,865,436	2,858,121	0.3
Current financial assets	*(849,993)*	*(675,468)*	*25.8*
Current financial debt	*437,363*	*189,132*	*(*)*
Current net financial debt	(412,630)	(486,336)	(15.2)
Net financial debt	2,452,806	2,371,785	3.4
Own funds and net financial debt	**5,015,177**	**4,870,588**	**3.0**

(*) Change of more than 100%

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

The main changes in the statement of financial position for the year are commented on below.
Non-current assets at 31 December 2018 amounted to 5,786 million euro, increasing compared to 31 December 2017, when they were 5,412 million euro. The increase (+374 million euro) was essentially due to the algebraic sum of the following determinants:

- technical investments in property, plant and equipment and intangible assets (447 million euro), depreciation and amortisation (355 million euro) and disposals (23 million euro) in the period;
- the assets acquired, including goodwill, following consolidation of the ACAM group and of ReCos, mostly consisting of plants related to the integrated water service and to the environment supply chain (263 million euro) as well as of Maira (9 million euro), mainly related to mini-hydroelectric assets, and of Spezia Energy Trading (5 million euro).

For more information on the segment details of investments in the period, reference should be made to the section "Segment Reporting" below.

"Other non-current assets (liabilities)" show a negative balance of 432 million euro. The increase in net liabilities compared with 31 December 2017, of 254 million euro, is mostly attributable to recognition of long-term deferred income, relating both to the cumulative effect at 1 January 2018 of the change in the accounting treatment of connection contributions, adopted as of that date following the entry into force of IFRS 15 - *Revenue from Contracts with Customers* and to the change in the scope due to the consolidation of the ACAM group companies.
Recognition of the tax effect deriving from first adoption of the aforementioned IFRS 15 determined most of the increase in the item Deferred tax assets (liabilities), which increased by 85 million euro compared with the figure at 31 December 2017, coming out at 149 million euro at the end of the period.

Net Working Capital was 132 million euro (182 million euro at 31 December 2017); the decrease (-50 million euro, or 27.2%) is attributable mainly, on the one hand, to a decrease in the position related to energy efficiency certificates and, on the other, to the trends in the commercial and tariff components.

“Provisions for Risks and Employee Benefits” amounted to 621 million euro, substantially in line compared with the figure for 31 December 2017.
The decrease in the “Assets (Liabilities) held for sale”, equal to 8 million euro, relates to the sale of the shareholding in the associate Mestni Plinovodi which took place in the period. We can also note that the equity investment in OLT Offshore LNG Toscana was classified in this item. This has been written off as noted above in the comments on the economic situation under the item “Value adjustments on equity investments”.

Equity amounted to 2,562 million euro, compared to the 2,499 million of 31 December 2017 (+64 million euro). The main changes in the period were related, as well as to the net profit (+273 million euro), to the cumulative effect at 1 January 2018 deriving from first adoption of IFRSs 9 and 15 (-138 million euro), to the capital increase, with the related premium, subscribed by the public-body shareholders of the former ACAM (+53 million euro), to dividends paid (-113 million euro) and to the variation of the cash flow hedge reserve (-16 million euro).

Net financial debt at the end of the period was 2,453 million euro, an increase of 81 million euro compared to 31 December 2017 (+3.4%). The increase reflects the business combinations that occurred during the year, in particular for acquisition of the ACAM group, for approximately 180 million euro.
For further analytical details please see the statement of cash flows presented below.

STATEMENT OF CASH FLOWS OF THE IREN GROUP

Change in net financial debt

The statement below details the movements in the Group's net financial debt that occurred in the period.

in thousands of euro

	Financial year 2018	Financial year 2017	Change %
A. Opening Net financial (debt)	**(2,371,785)**	**(2,457,107)**	**(3.5)**
Cash flows from operating activities			
Profit (loss) for the period	273,237	264,760	3.2
Adjustments for non-financial movements	738,824	611,342	20.9
Utilisations of employee benefits	(16,764)	(5,675)	(*)
Utilisations of provisions for risks and other charges	(40,272)	(26,625)	51.3
Change in other non-current assets and liabilities	13,450	22,721	(40.8)
Other changes in capital	(58,329)	(17,586)	(*)
Taxes paid	(128,947)	(123,338)	4.5
B. Cash flows from operating activities before changes in NWC	**781,199**	**725,599**	**7.7**
C. Cash flows from changes in NWC	**(3,302)**	**(65,705)**	**(95.0)**
D. Cash flows from/(used in) operating activities (B+C)	**777,897**	**659,894**	**17.9**
Cash flows from /(used in) investing activities			
Investments in property, plant and equipment and intangible assets	(446,984)	(357,299)	25.1
Investments in financial assets	(800)	(17,486)	(95.4)
Proceeds from the sale of investments and changes in assets held for sale	22,780	7,164	(*)
Changes in consolidation scope	(231,324)	(66,575)	(*)
Dividends received	3,339	4,143	(19.4)
E. Total cash flows from /(used in) investing activities	**(652,989)**	**(430,053)**	**51.8**
F. Free cash flow (D+E)	**124,908**	**229,841**	**(45.7)**
Cash flows from /(used in) financing activities			
Capital increase	52,622	-	-
Dividends paid	(113,080)	(89,965)	25.7
Interest paid	(113,539)	(157,866)	(28.1)
Interest received	14,595	15,589	(6.4)
Change in fair value of hedging derivatives	(15,945)	24,000	(*)
Other changes	(30,582)	63,723	(*)
G. Total cash flows from /(used in) financing activities	**(205,929)**	**(144,519)**	**42.5**
H. Change in net financial (debt) (F+G)	**(81,021)**	**85,322**	**(*)**
I. Closing Net financial (debt) (A+H)	**(2,452,806)**	**(2,371,785)**	**3.4**

(*) Change of more than 100%

The increase in financial debt derives from the following determinants:

- an operating cash flow of +778 million euro; higher than what was recorded in 2017;
- a cash flow from investing activities (-653 million euro) that was affected by the technical investments of the period (447 million euro, up compared to the 357 million euro of 2017) and the effect of the acquisition of the ACAM group companies, ReCos, Maira and Spezia Energy Trading (231 million euro, present in the item "changes in consolidation scope"), net of the cash-in deriving from the sale of the equity investment in Mestni Plinovodi and of a number of business units related to water management in areas not of reference for the Group (for a total of 23 million euro, present in the item "Proceeds from the sale of investments and assets held for sale"). We can note that, not considering the effects of the change in the consolidation scope, the cash flow from investing activities would lead to a free cash flow of the period higher than that of financial year 2017;
- as regards the cash flow components of financing activities (-206 million euro), we can note that the outgoings related to dividends paid (-113 million euro) and to net interest paid in the period (-99 million) were partially offset by the positive flow deriving from the capital increase reserved for the public shareholders of the former ACAM for 53 million euro.

We can note finally that the statement of cash flows prepared according to the format of a change in cash and cash equivalents is presented in the Notes to the Consolidated Financial Statements.

SEGMENT REPORTING

The Iren Group operates in the following business segments:

- Networks (Electricity Distribution Networks, Gas Distribution Networks, Integrated Water Service)
- Waste Management (Waste collection and disposal)
- Energy (Hydroelectric Production and production from other renewable sources, Combined Heat and Power, District Heating Networks, Thermoelectric Production)
- Market (Sale of electricity, gas, heat)
- Other services (Public Lighting, Global Services energy efficiency 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 one area, the following segment information does not include a breakdown by geographical area.
Net invested capital compared to the figures at 31 December 2017 and the income statements for financial year 2018 (up to the operating performance) are presented below by business segment, compared with the figures for financial year 2017.
In financial year 2018, in line with the 2017 contributions, non-regulated activities contributed to the formation of gross operating profit (EBITDA) for 27%, regulated activities accounted for 45%, while semi-regulated activities for 28%. the contribution of regulated activities and non-regulated activities is determined excluding the extraordinary and non-repeatable effect related to the valuation of energy efficiency certificates commented on in the section on energy and net of the effect of revision of the estimate of receivables for invoices to be issued as described in the comments of the market segment.

Statement of financial position by business segment at 31 December 2018

millions of euro

	Networks	Waste Management	Energy	Market	Other services	Non-allocable	Total
Non-current assets	2,609	946	1,882	146	61	142	5,786
Net Working Capital	(21)	70	47	41	(5)		132
Other non-current assets and liabilities	(610)	(156)	(122)	(7)	(8)		(903)
Net invested capital (NIC)	**1,978**	**860**	**1,807**	**180**	**49**	**142**	**5,015**
Shareholders' equity							2,562
Net financial position							2,453
Own funds and net financial debt							**5,015**

Statement of financial position by business segment at 31 December 2017

millions of euro

	Networks	Waste Management	Energy	Market	Other services	Non-allocable	Total
Non-current assets	2,272	933	1,876	131	32	168	5,412
Net Working Capital	59	50	50	10	14		182
Other non-current assets and liabilities	(435)	(166)	(101)	(25)	4		(723)
Net invested capital (NIC)	**1,896**	**817**	**1,825**	**116**	**49**	**168**	**4,871**
Shareholders' equity							2,499
Net financial position							2,372
Own funds and net financial debt							**4,871**

Income Statement by business segment financial year 2018

millions of euro

	Networks	Waste Management	Energy	Market	Other services	Netting and adjustments	Total
Total revenue and income	947	610	1,345	2,602	83	(1,546)	4,041
Total operating expenses	(605)	(455)	(1,020)	(2,463)	(77)	1,546	(3,074)
Gross Operating Profit (EBITDA)	**342**	**155**	**325**	**139**	**6**	**-**	**967**
Net am./depr., provisions and impairment losses	(166)	(80)	(137)	(53)	(1)	-	(437)
Operating profit (EBIT)	**176**	**75**	**188**	**86**	**5**	**-**	**530**

Income Statement by business segment financial year 2017

millions of euro

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

Starting from 1 January 2018 the Group's consolidated income statement contains the economic figures of the Iren Rinnovabili Group companies, starting from 1 April 2018 those of the ACAM La Spezia Group companies and, from October 2018, of Maira and Spezia Energy Trading; the economic results of financial year 2018 are therefore affected by the inclusion of these figures in the consolidation scope. We can also note that the income statement items include, along the entire time period in question, the results of the subsidiary Salerno Energia Vendite, while in 2017 they were included starting from 1 May.

Networks SBU

In financial year 2018 the Networks business segment, which comprises the businesses of Gas Distribution, Electricity and the Integrated Water Service, recorded revenue of 947 million euro, up slightly by +1.2%, compared to the 936 million euro for financial year 2017. The consolidation of ACAM Acque starting from 1 April 2018 contributed to the increase in revenue.

The gross operating profit (EBITDA) was 342 million euro, up by +1.6% compared to the 336 million euro of financial year 2017.

Net operating profit (EBIT) totalled 176 million euro (-1.4% compared to the 2017 figure of 179 million euro). The positive trend of gross operating profit (EBITDA) was more than offset by greater amortisation and depreciation for roughly 13 million euro and higher net provisions, net of impairment, of around 5 million euro.
The changes in gross operating profit for the segments concerned are illustrated below.

		Financial Year 2018	Financial Year 2017	Δ %
Revenue	€/mln	947	936	1.2%
Gross Operating Profit (EBITDA)	€/mln	342	336	1.6%
EBITDA Margin		*36.1%*	*35.9%*	
from Electricity Networks	*€/mln*	*74*	*76*	*-2.9%*
from Gas Networks	*€/mln*	*80*	*87*	*-7.6%*
from Integrated Water Service	*€/mln*	188	173	*8.3%*
Operating Profit (EBIT)	€/mln	176	179	-1.4%
Investments	€/mln	268	207	29.0%
in Electricity Networks	*€/mln*	*44*	*31*	*42.4%*
in Gas Networks	*€/mln*	*59*	*55*	*7.0%*
in Integrated Water Service	*€/mln*	165	121	35.7%
Electricity distributed	GWh	3,836	4,248	-9.7%
Gas introduced into the network	Million m^3	1,303	1,305	-0.2%
Water sold	Million m^3	187	181	3.1%

Networks SBU - Electricity

Gross operating profit (EBITDA) amounted to 74 million euro, down -2.9% from the 76 million euro of financial year 2017.
The drop in the profit is attributable mainly to lower revenue from connections and from contingent assets related to electric transport occurring in 2017 and non-recurring, partially offset by lower operating costs and an increase in electricity equalisation.
During the period investments for 44 million euro were made, up by +42.4% compared to the 31 million euro of financial year 2017. They were mainly related to new connections, to the construction of new LV/MV substations and LV/MV lines as well as to the completion of a number of primary substations.

Networks SBU - Gas Distribution

The gross operating profit of gas distribution amounted to 80 million euro, down -7.6% compared to the 87 million euro of financial year 2017. The drop in profit is attributable mainly to an effect, negative compared to 2017, associated with energy efficiency certificates, only partially offset by the improvement in Total Revenue Constraint (TRC).
Investments made in the period amounted to 59 million euro, up (+7%) compared to the 55 million euro of 2017, and regarded the provisions of ARERA resolutions, in particular making the network compliant with cathodic protection, and the installation of electronic meters.

Networks SBU - Water Cycle

The gross operating profit of the period amounted to 188 million euro, up by +8.3% compared to 173 million euro in financial year 2017. The increased profit was mainly due to an increase in Operator Revenue Constraint (ORC), to synergies connected with the rationalisation of operating costs and to the consolidation of ACAM Acque as of 1 April 2018, which more than offset the absence of the positive extraordinary items related to financial year 2017, in particular for tariff adjustments and insurance payouts, which were non-repeatable.

Investments in the period totalled 165 million euro, up sharply (+35.7%) compared to the 121 million euro of 2017 and concerned the construction, development and maintenance of distribution networks and plants, the sewerage network and, in particular, the construction of new water treatment plants.

Waste Management SBU

At 31 December 2018 the revenue of the segment amounted to 610 million euro, up +10.7% from the 551 million euro of financial year 2017. The increase was due for approximately 39 million euro to the expansion of the consolidation scope related to ACAM Ambiente and ReCos, to higher revenue from collection and intermediation of special waste, to higher energy revenue and to revenue related to an increase in the quantities of waste disposed of.

		Financial Year 2018	Financial Year 2017	Δ %
Revenue	€/mln	610	551	10.7%
Gross Operating Profit (EBITDA)	€/mln	155	149	4.5%
EBITDA Margin		*25.5%*	*27.0%*	
Operating Profit (EBIT)	€/mln	75	67	11.1%
Investments	€/mln	31	27	15.4%
Electricity sold	GWh	486	497	-2.3%
Thermal energy produced	GWh_t	177	181	-2.5%
Waste managed	tonnes	*2,268,791*	2,015,568	12.6%
Emilia area separate waste collection	%	*74.3*	*69.9*	*6.3%*
Piedmont area separate waste collection	%	*47.3*	*46.4*	*1.9%*
Liguria area separate waste collection	%	*69.9*	-	*(*)*

(*) Change of more than 100%

Gross operating profit of the segment amounted to 155 million euro, an improvement of +4.5% compared to the 149 million euro recorded in 2017. The improvement in the profit is mainly attributable to the positive contribution deriving from the increase in waste volumes disposed of in the Group's plants (REI landfill and WTE), to the increase in the price of the electricity produced, partially absorbed by the absence of a number

of positive extraordinary factors, associated with disposal tariffs, which had characterised financial year 2017 and by lower revenue from collection services and services ancillary to the environmental hygiene service.
Operating profit amounted to 75 million euro, with an improvement of +11.1% compared to the 2017 figure of 67 million euro. Higher depreciation and amortisation of 8 million euro was recorded, of which 2 million euro from the change in the consolidation scope owing to the consolidation of ACAM Ambiente, more than offset by lower provisions of 9 million euro.

The investments made in the year amounted to 31 million euro, up by +15.4% compared to the 27 million euro of financial year 2017 and refer to investments for the maintenance of various plants and investments in equipment and vehicles supporting waste collection based on the door-to-door and separation methods.

Energy SBU

At 31 December 2018, the revenue of the Energy SBU totalled 1,345 million euro, up by 21.9% compared to the 1,104 million euro of financial year 2017. Starting from 1 January 2018 the Energy SBU includes the economic results of the Iren Rinnovabili Group companies.

		Financial Year 2018	**Financial Year 2017**	**Δ %**
Revenue	€/mln	1,345	1,104	21.9%
Gross Operating Profit (EBITDA)	€/mln	325	255	27.2%
EBITDA Margin		*24.1%*	*23.1%*	
Operating Profit (EBIT)	€/mln	188	138	36.0%
Investments	€/mln	80	56	42.6%
Electricity produced	GWh	8,371	8,398	-0.3%
from hydroelectric and other renewable sources	*GWh*	1,496	1,111	34.7%
from cogeneration sources	*GWh*	5,692	5,979	-4.8%
from thermoelectric sources	*GWh*	1,183	1,308	-9.5%
Heat produced	GWh_t	2,755	2,815	-2.1%
from cogeneration sources	GWh_t	2,255	2,469	-8.7%
from non-cogeneration sources	GWh_t	500	346	44.4%
District heating volumes	Million m^3	94	87	7.6%

At 31 December 2018 electricity produced was 8,371 GWh, down slightly, by -0.3%, compared to 8,398 GWh, in financial year 2017. The drop regarded mainly the thermoelectric segment as a result of the unfavourable energy scenario on the profitability of electricity generation.
Total thermoelectric production was 6,875 GWh, of which 5,692 GWh from cogeneration sources, down (-4.8%) compared to the 5,979 GWh of financial year 2017 and 1,183 GWh from thermoelectric sources in a strict sense, down (-9.5%) compared to the 1,308 GWh of financial year 2017.
Production from renewable sources was 1,496 GWh, of which 1,476 GWh hydroelectric and, marginally for approximately 20 GWh, from other renewables (photovoltaic), and overall up (+34.7%) compared to the 1,111 GWh of financial year 2017.
Heat production in the period was 2,755 GWht, down (-2.1%) compared to the 2,815 GWht of the previous year. Overall district heating volumes amounted to approximately 94 million m^3 up by +7.6% compared to the 87 million m^3 of financial year 2017.

Gross operating profit (EBITDA) amounted to 325 million euro, up +27.2% compared to the 255 million euro recorded in financial year 2017.
Financial year 2018 was characterised by a worsening of the energy situation compared to financial year 2017, due to an increase in the cost of gas, which was more than the increase in electricity prices, as well as a significant increase in the proportion of expenses for Emissions Trading System (ETS or also CO_2)

certificates. Despite the unfavourable scenario conditions, a significant increase in EBITDA was recorded overall thanks, on the one hand, to an increase in unit profits from the despatching services market (DSM) and, mainly, to contingent assets, of around 60 million euro, consequent to the measurement of energy efficiency certificates (EECs) assigned during the year and related to the period 2015-2017, as well to a significant increase in their market prices. This made it possible to absorb the higher costs of ETS (CO_2) certificates and the absence of extraordinary items referable to capacity payment, which had characterised financial year 2017 and are non-recurring. The consolidation of Iren Rinnovabili also contributed to the improvement in the profit.

The operating profit (EBIT) of the Energy segment totalled 188 million euro, an increase of +36% compared to the 138 million euro of financial year 2017. The gross operating profit (EBITDA) trend was partially absorbed by the increase in depreciation and amortisation of 5 million euro and higher provisions and impairment losses for a total of 15 million euro.

Investments in the period amounted to 80 million euro, up (+42.6%) compared to the 56 million euro of 2017, and refer for 31 million euro to district heating networks, for 34 million euro to cogeneration, for 8 million euro to thermoelectric production and for 7 million euro to hydroelectric production.

Market SBU

At 31 December 2018 the revenue of the segment amounted to 2,602 million euro, up +7.6% from the 2,418 million euro of financial year 2017. As of May 2017, the consolidation scope of the Market SBU includes, as mentioned, the company Salerno Energia Vendite, operating mainly in Grosseto and Salerno in the gas and electricity sale sector. Spezia Energy Trading has also been consolidated starting from the last quarter of 2018.

Gross operating profit (EBITDA) amounted to 139 million euro, up +25.4% compared to the 111 million euro recorded in financial year 2017. The improvement in the profit is mainly attributable to a contingent asset of approximately 41 million euro due to the revision of the estimate of receivables for invoices to be issued, so-called "accrued consumption", related to earlier years, of which the preponderant part relates to gas sales.
Net of the contingent asset as above, the profit would have been 98 million euro, down by 11.8% owing mainly to the worsening of profits on gas sales (-14.1% compared to 2017), owing in particular to the absence of the favourable procurement conditions, associated with the use of storage, which had characterised financial year 2017.
Sales of electricity also fell, by -5.3% compared to 2017, as a result of a worsening of the scenario connected with the sharp increase in the purchase price of electricity which characterised the second half of 2018.

The operating profit (EBIT) amounted to 86 million euro, up +25.2% compared to the 69 million euro recorded in financial year 2017. Net of the contingent asset the operating profit would have been 45 million euro, down by -34.8%. The negative trend in gross operating profit was amplified by higher depreciation and amortisation of around 5 million euro and higher provisions of the same amount.

The income statement below also shows the results net of the effect connected with the revision of the estimate of receivables for invoices to be issued, which determined the aforesaid extraordinary positive effect of approximately 41 million euro. For the purposes of operational comparison with financial year 2017 the “adjusted” figures are therefore shown (net of the aforesaid contingent asset).

Δ adj %	Financial year 2018 adjusted			Financial Year 2018	Financial Year 2017	Δ %
5.9%	2,561	Revenue	€/mln	2,602	2,418	7.6%
-11.8%	98	Gross Operating Profit (EBITDA)	€/mln	139	111	25.4%
	3.8%	*EBITDA Margin*		*5.3%*	*4.6%*	
-5.3%	19	*from Electricity*	*€/mln*	21	20	6.2%
-14.1%	77	*from Gas*	*€/mln*	126	90	40.3%
43.5%	*2*	*from Heat and other services*	*€/mln*	*-8*	1	(*)
-34.8%	45	Operating Profit (EBIT)	€/mln	86	69	25.2%
		Investments		31	21	51.0%
		Electricity Sold	GWh	8,931	9,741	-8.3%
		Gas Purchased	Million m^3	2,845	2,860	-0.6%
		Gas sold by the Group	Million m^3	1,159	1,122	3.3%
		Gas for internal use	Million m^3	1,477	1,530	-3.5%
		Gas in storage	Million m^3	209	208	0.0%

(*) Change of more than 100%

Sale of electricity

The volumes of electricity sold amounted to 8,931 GWh (net of pumping, network leaks, dedicated withdrawals and including balancing) down by -8.3% compared to the 9,741 GWh of 2017.
Volumes sold on the free market, including the segments of business and retail customers, and wholesalers, amounted to a total of 8,329 GWh, down -8.4% compared to the 9,088 GWh of financial year 2017. The decline in free-market sales is attributable to the wholesale segment, for which sales came to 1,516 GWh, down by -50% compared to 3,032 GWh in 2017. Final customer sales increased instead in both the business segment, coming out at 5,453 GWh compared with 4,771 GWh in 2017 (+14.3%), and the retail segment, 1,360 GWh compared with 1,286 GWh in 2017 (+5.8%).
Sales in the protected market amounted to 483 GWh, also down (-8.8%) compared to 529 GWh in financial year 2017.

The gross operating profit (EBITDA) of electricity sales amounted to 21 million euro, an improvement of +6.2% compared to the 20 million euro of financial year 2017. Electricity sales also benefited from a contingent asset of approximately 2 million euro attributable to the revision of the estimate of receivables for invoices to be issued. Net of the item in question the gross operating profit would have amounted however to 19 million euro, down by -5.3% compared to the previous year. The drop in the first margin, consequent to the upward trend of electricity purchase prices, was partially absorbed by the increase in marketing components.

Sale of Natural Gas

The volumes purchased amounted to 2,845 million m³, down (by -0.6%) compared to the 2,860 million m³ of financial year 2017.
The gas sold by the group amounted to 1,159 million m³, up by +3.3% compared to the 1,122 million m³ of financial year 2017, while internal consumption was 1,477 million m³, down (-3.5%) compared to the 1,530 million m³ of 2017.

Gross operating profit (EBITDA) of gas sales amounted to 126 million euro, up +40.3% compared to the 90 million euro recorded in 2017. The improvement was generated by a contingent asset for an amount of approximately 49 million euro attributable to the revision of the estimate of receivables for invoices to be issued as above. Net of this component the operating profit would have amounted to 77 million euro, down by -14.1% compared to financial year 2017. The worsening of the margin is mainly attributable to falling margins and to the disappearance of the favourable procurement conditions guaranteed by the use of storage, which had characterised financial year 2017. A number of tariff recoveries related to ARERA resolution 737/17 and the consolidation of Salerno Energia Vendite and Spezia Energy Trading contributed to offsetting, although only partially, the combined effect of these negative components.

Sales of heat and other services

Sales of heat and other services show a gross operating loss of -8 million euro, down compared to a profit of 1 million euro in 2017. The drop in the margin was caused by a contingent liability for revision of the estimate of receivables for invoices to be issued of approximately 10 million euro. Net of this negative component there would have been a profit of 2 million euro, up compared to 2017 owing to the tariff recoveries related to ARERA resolution 737/17.

Investments in the period amounted to 31 million euro, up compared to the 21 million euro of financial year 2017.

Services and other

Revenue in the period of the segment, which comprises public lighting services, traffic lights, heating system management and other activities, amounted to 83 million euro, down compared to the 127 million euro of financial year 2017. The decrease in revenue is attributable to a different allocation of assets which previously were considered common and divided over several business areas, and are now included mostly under electricity production.

		Financial Year 2018	Financial Year 2017	Δ %
Revenue	€/mln	83	127	-34.4%
Gross Operating Profit (EBITDA)	€/mln	6	-31	(*)
EBITDA Margin		*7.4%*	*-24.2%*	
Operating Profit (EBIT)	€/mln	5	-33	(*)
Investments	€/mln	38	47	-19.5%

(*) Change of more than 100%

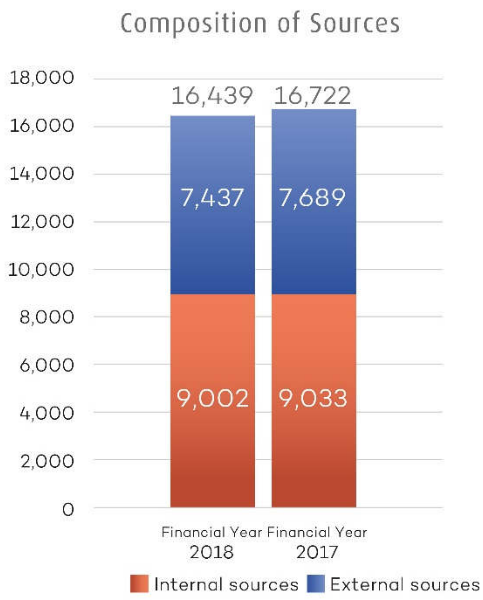
Gross operating profit amounted to 6 million euro, up compared to the -31 million euro of financial year 2017.
The improvement in the profit was mainly due to the fact that in financial year 2017 the provisions set aside to cover the retirement incentive pursuant to art. 4 of the Fornero Law for approximately 34 million euro was accounted for in the "Services and other" segment, as an non-recurring cost transversal to all business segments.

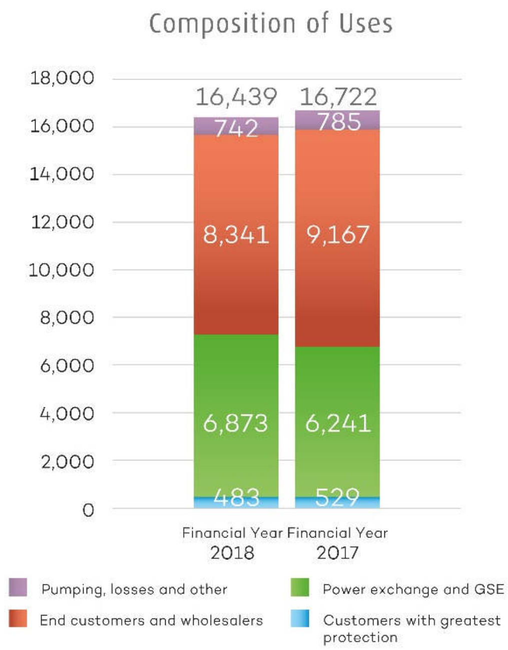
Investments in the period amounted to 38 million euro, up compared to 47 million euro in 2017, and related largely to information technology, vehicles and property services.

ENERGY BALANCES

Electricity balance sheet

GWh	Financial Year 2018	Financial Year 2017	Changes %
SOURCES			
The Group's gross production	9,002	9,033	(0.3)
a) Hydroelectric	*1,528*	1,136	34.5
b) Cogeneration	*5,692*	5,979	(4.8)
c) Thermoelectric	*1,183*	1,308	(9.6)
d) Production from WTE plants and landfills	*599*	610	(1.8)
Purchases from Acquirente Unico [Single Buyer]	533	556	(4.1)
Energy purchased on the Power Exchange	5,189	4,703	10.3
Energy purchased from wholesalers and imports	1,715	2,430	(29.4)
Total Sources	**16,439**	**16,722**	**(1.7)**
USES			
Sales to protected customers	483	529	(8.7)
Sales on the Power Exchange and GSE	6,873	6,241	10.1
Sales to final customers and wholesalers	8,341	9,167	(9.0)
Pumping, distribution losses and other	742	785	(5.5)
Total Uses	**16,439**	**16,722**	**(1.7)**

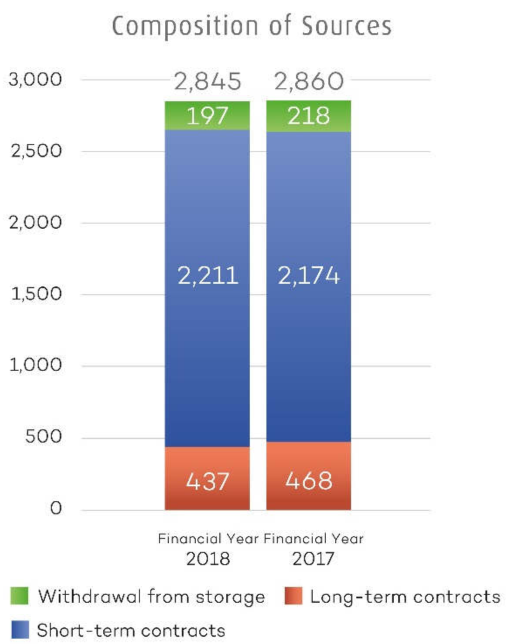


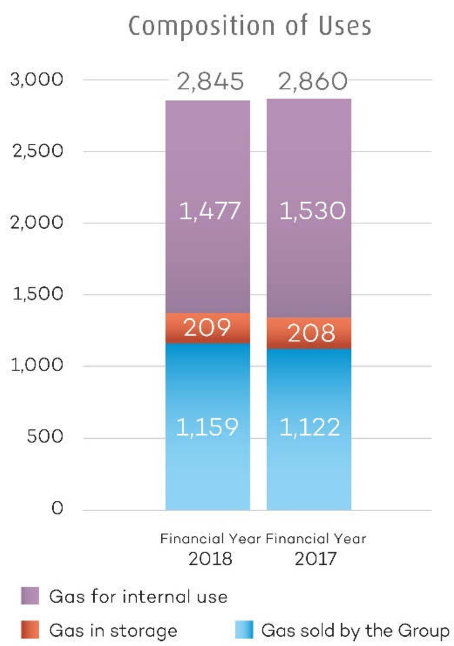


Gas balance sheet

Millions of m³	Financial Year 2018	Financial Year 2017	Changes %
SOURCES			
Long-term contracts	437	468	(6.6)
Short- and medium-term contracts	2,211	2,174	1.7
Withdrawals from storage	197	218	(9.6)
Total Sources	**2,845**	**2,860**	**(0.5)**
USES			
Gas sold by the Group	1,159	1,122	3.3
Gas for internal use (1)	1,477	1,530	(3.5)
Gas in storage	209	208	0.0
Total Uses	**2,845**	**2,860**	**(0.5)**

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





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

Income statement

INCOME STATEMENT OF IREN S.p.A.

thousands of euro

	Financial Year 2018	Financial Year 2017	Change %
Revenue			
Revenue from goods and services	179,288	154,608	16.0
Other income	11,850	6,131	93.3
Total revenue	**191,138**	**160,739**	**18.9**
Operating expenses			
Raw materials, consumables, supplies and goods	(17,790)	(10,636)	67.3
Services and use of third-party assets	(106,372)	(92,735)	14.7
Other operating expenses	(7,203)	(5,384)	33.8
Capitalised expenses for internal work	10,369	9,746	6.4
Personnel expense	(78,239)	(72,519)	7.9
Total operating expenses	**(199,235)**	**(171,529)**	**16.2**
Gross Operating Profit (EBITDA)	**(8,097)**	**(10,790)**	**(25.0)**
Depreciation, amortisation, provisions and impairment losses			
Depreciation and amortisation	(14,945)	(11,247)	32.9
Provisions for impairment of receivables	(9,600)	(214)	(*)
Other provisions and impairment losses	(55)	3,285	(*)
Total depreciation, amortisation, provisions and impairment losses	**(24,600)**	**(8,176)**	**(*)**
Operating profit (EBIT)	**(32,697)**	**(18,966)**	**72.4**
Financial income and expense			
Financial income	265,480	285,312	(7.0)
Financial expense	(126,831)	(108,039)	17.4
Total financial income and expense	**138,649**	**177,273**	**(21.8)**
Value adjustments on equity investments	-	-	-
Profit (loss) before tax	**105,952**	**158,307**	**(33.1)**
Income tax expense	19,976	8,649	(*)
Net profit (loss) from continuing operations	**125,928**	**166,956**	**(24.6)**
Net profit (loss) from discontinued operations	-	-	-
Net profit (loss) for the period	**125,928**	**166,956**	**(24.6)**

(*) Change of more than 100%

Revenue
Total revenue for Iren S.p.A. was 191 million euro, primarily relating to activities for services provided to Group companies. The increase in the item reflects mainly the operation for merger by incorporation of the companies ACAM S.p.A. and InTeGra S.r.l. with accounting effect from 1 April 2018.

Operating expenses
Operating expense amounted to 199 million euro and includes services and use of third-party assets (106 million euro), other operating expense (7 million euro) and personnel expenses (78 million euro). The increase in operating expenses compared to the previous year was the result essentially of management of

staff activities for the Group companies, and was also affected by the change in scope due to the merger of ACAM and InTeGra.

Depreciation, amortisation, provisions and impairment losses
Depreciation, amortisation, provisions and impairment losses amounted to around 25 million euro. Depreciation and amortisation, up compared to the previous year, amounted to 15 million euro; provisions for the impairment of receivables, of 10 million euro, refer to financial receivables and reflect the new methodology provided for in the accounting standard IFRS 9.

Financial income and expense
The balance between financial income and expense was positive at 139 million euro.
Financial income, amounting to 266 million euro, includes among other things dividends from subsidiaries and other companies (201 million euro), and interest income from loans to subsidiaries and associates (50 million euro) and joint ventures (13 million euro).
Financial expense amounted to 127 million euro, and related essentially to interest expense on loans and bonds (119 million euro) and on derivatives put in place to hedge the risk of oscillating interest rates (4 million euro).

Profit (loss) before tax
Profit before tax was 106 million euro.

Income tax expense
Income taxes were a positive 20 million euro because they consist mainly of income from tax consolidation. In fact, the Company opted for participation in the national consolidation tax scheme pursuant to Art. 118 of the new Consolidated Income Tax Act (TUIR) and calculates IRES on a taxable base corresponding to the algebraic sum of taxable profits/losses of each company included in the consolidation scope.

Net profit
Net of taxes for the year, the company recorded a profit of 126 million euro.

Statement of Financial Position

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

thousands of euro

	31.12.2018	31.12.2017	Change %
Non-current assets	2,637,590	2,598,575	1.5
Other non-current assets (liabilities)	65	(549)	(*)
Net Working Capital	63,250	19,308	(*)
Deferred tax assets (liabilities)	12,756	8,835	44.4
Provisions for risks and employee benefits	(57,046)	(50,586)	12.8
Assets held for sale	240	240	-
Net invested capital	**2,656,855**	**2,575,823**	**3.1**
Shareholders' equity	1,789,787	1,703,087	5.1
Non-current financial assets	*(1,620,371)*	*(1,551,273)*	*4.5*
Non-current financial debt	*2,676,602*	*2,644,420*	*1.2*
Non-current net financial debt	1,056,231	1,093,146	(3.4)
Current financial assets	*(675,421)*	*(523,259)*	*29.1*
Current financial debt	*486,258*	*302,849*	*60.6*
Current net financial debt	(189,163)	(220,410)	(14.2)
Net financial debt	867,068	872,736	(0.6)
Own funds and net financial debt	**2,656,855**	**2,575,823**	**3.1**

(*) Change of more than 100%

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

Non-current assets
Intangible assets, property, plant and equipment, investment property and financial assets totalled 2,638 million euro.

Net working capital
Net working capital was positive by 63 million euro. Deferred tax assets totalled 13 million euro, whereas provisions for risks and employee benefits amounted to approximately 57 million euro.

Shareholders' equity
2018 closed with equity of 1,790 million euro.

Net financial debt
At the end of 2018 net financial debt amounted to 867 million euro. Specifically, medium/long-term indebtedness, of 1,056 million euro, includes financial liabilities of 2,676 million euro and financial assets of 1,620 million euro. The latter mainly refer to loans to subsidiaries. The short-term net financial position totalled 189 million euro and comprises payables due mainly to banks of 486 million euro, current financial receivables, largely from Group companies, of 418 million euro, and cash and cash equivalents of 257 million euro.

CASH FLOW STATEMENT OF IREN S.P.A.

Change in net financial debt

The statement below details the movements in the Group's net financial debt that occurred in the period.

thousands of euro

	Financial year 2018	Financial year 2017	Change %
A. Opening Net Financial Position	**(872,736)**	**(977,654)**	**(10.7)**
Cash flows from operating activities			
Profit (loss) for the period	125,928	166,957	(24.6)
Adjustments for non-financial movements	(126,252)	(160,649)	(21.4)
Utilisations of employee benefits	(2,653)	(927)	(*)
Utilisations of provisions for risks and other charges	(2,968)	(2,501)	18.7
Change in other non-current assets and liabilities	(699)	15,477	(*)
Other changes in capital	-	696	(100.0)
Taxes paid	8,862	24,073	(63.2)
B. Cash flows from operating activities before changes in NWC	**2,218**	**43,126**	**(94.9)**
C. Cash flows from changes in NWC	**(6,249)**	**(20,753)**	**(69.9)**
D. Cash flows from/(used in) operating activities (B+C)	**(4,031)**	**22,373**	**(*)**
Cash flows from /(used in) investing activities			
Investments in property, plant and equipment and intangible assets	(27,156)	(25,953)	4.6
Investments in financial assets	-	-	-
Proceeds from the sale of investments and changes in assets held for sale	-	-	-
Dividends received	200,560	210,470	(4.7)
Acquisition of company branches	(53,794)	-	-
E. Total cash flows from /(used in) investing activities	**119,610**	**184,517**	**(35.2)**
F. Free cash flow (D+E)	**115,579**	**206,890**	**(44.1)**
Cash flows from /(used in) financing activities			
Capital increase	52,623	-	-
Dividends paid	(91,065)	(79,764)	14.2
Interest paid	(94,220)	(140,897)	(33.1)
Interest received	64,514	77,702	(17.0)
Change in fair value of hedging derivatives	(853)	18,605	(*)
Other changes	(40,910)	22,382	(*)
G. Total cash flows from /(used in) financing activities	**(109,911)**	**(101,972)**	**7.8**
H. Change in Net Financial Position (F+G)	**5,668**	**104,918**	**(94.6)**
I. Closing Net Financial Position (A-H)	**(867,068)**	**(872,736)**	**(0.6)**

(*) Change of more than 100%

The following table reconciles equity and the result of the Parent Company Iren S.p.A. at 31 December 2018 and 31 December 2017 with those of the consolidated financial statements.

thousands of euro

31/12/2018	Shareholders' Equity	Profit (loss) for the period
Shareholders' equity and profit for the year of the Parent Company	**1,789,787**	**125,928**
Difference between the carrying amount and associates accounted for using the equity method	32,831	10,395
Higher value from consolidation compared to the carrying amount of consolidated equity investments	395,457	296,081
Elimination of dividends from subsidiaries/associates	0	(200,521)
Elimination of intra-group margins	(53,555)	2,695
Others	20,923	7,538
Equity attributable to shareholders and profit for the year	**2,185,443**	**242,116**

"Elimination of intra-group margins" refers to the elimination of capital gains from the sale of business units or companies within the Group. In particular, the transaction relating to the Genoa integrated water cycle carried out by the former AMGA (positive effect of 2 million euro on the income statement and negative by 33 million euro on Equity).

thousands of euro

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

EVENTS AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

Acquisition of Busseto Servizi

On 8 January 2019 IRETI and the Municipality of Busseto (province of Parma) signed a contract for the transfer of all the shares of Busseto Servizi S.r.l.. The company manages the natural gas distribution service in the said Municipality, with more than 3,000 redelivery points present on a total of 90 km of network. The operation follows the result of the public tender issued by the Municipality on 18 July 2018, awarded to IRETI for approximately 4.1 million euro.

The contractual conditions associated with the acquisition provide for, until the next minimum territorial area ("Ambito Territoriale Minimo" - ATeM) tender, keeping Busseto Servizi as a separate corporate entity, with the related personnel currently employed, conservation of an operational headquarters in the old town centre and the commitment for Iren not to transfer the shares of the company for 2 years.

The operation is of particular significance from the industrial point of view, because the gas distribution infrastructure of Busseto Servizi is situated in one of the main ATeM of reference for the Group, of which IRETI holds, after this acquisition, 77% of the network.

Acquisition of the San Germano Group

On 30 January 2019 the Group, through Iren Ambiente, completed the acquisition of the entire equity interest in the company San Germano S.r.l. and in its subsidiary CMT S.p.A., held by the Derichebourg Group. The operation came into effect on fulfilment of a number of conditions precedent provided for in the preliminary acquisition contract, signed by the parties on 17 October 2018.

San Germano is based in Pianezza (Turin) and operates in waste collection and transport (250 kton/year) in 145 municipalities for approximately one million inhabitants served in the regions Piedmont, Sardinia, Lombardy and Emilia Romagna, with an annual turnover of approximately 65 million euro. The company has 20 operating sites and a workforce of more than 800 employees.

CMT operates in the treatment of separately-collected waste and paper, cardboard and plastic recycling, with turnover of approximately 11 million euro, at 6 sites in Piedmont and Sardinia, among which Pianezza and La Loggia, for an authorised capacity of approximately 100 Kton/year.

The transaction is part of a process of development of Iren through the Waste Management Business Unit, facilitating achievement of industrial growth objectives thanks to the acquisition of greater competitive abilities in the collection activity and to the development of recycling activities, both expanding the presence in the core territories (Piedmont and Emilia Romagna) and extending the business into new geographical areas considered of prospective interest (Sardinia).

Shareholders' agreement between IREN and First State Investments related to OLT Offshore LNG Toscana S.p.A.

On 22 March 2019 a shareholders' agreement was signed by, on the one hand, Iren Mercato and ASA - Azienda Servizi Ambientali S.p.A. (ASA), a company in which the Group has a 40% stake, and, on the other hand, First State SP S.à r.l. ("First State Investments" – FSI), related to the governance and to the circulation of the equity investments in OLT Offshore LNG Toscana (OLT), the company that has developed and manages the "FSRU Toscana" regasification plant with a capacity of 3.75 billion m^3 a year, anchored off the Tuscan coast.

First State Investments, the international division of Colonial First State Global Asset Management, operates in the management of infrastructural investments and holds, among other things, a large portfolio of equity investments in utilities operating in various European countries.

The agreement was signed at the same time as the signing of a sale contract between FSI and Uniper Global Commodities SE (which holds, jointly with Iren Mercato, control over OLT), regarding the sale of all OLT shares owned by the said Uniper, and will take effect at the moment of closing of this sale.

Under the terms of the agreements currently in being between Uniper, Iren and ASA, Iren and ASA are given a right of co-sale regarding all or some of the OLT shares that they currently hold, at the same terms and conditions laid down for the sale of the shares owned by Uniper. This right may be exercised within 6 months after receiving – also on 22 March 2019 – the notice related to the sale by Uniper to FSI.

Following these developments and in the context of the agreements reached with Uniper and FSI, the Iren Group will assess, in line with the considerations already made by the directors during 2018, all the viable options for making the most of its equity investment in OLT, considered no longer strategic in the context of the Group's portfolio of assets, continuing at the same time to support the development of the company.

Shareholders' Meeting: approval of the proposed amendment of the Articles of Association and of the purchase of treasury shares

On 5 April 2019 the Shareholders' Meeting of Iren S.p.A., in Extraordinary session, approved the amendment of articles 5.4; 18.1; 19.2; 19.3; 19.4; 19.6; 25.5; 27.1; 28.1; 28.2; 28.3 of the Articles of Association.

The main changes regard (i) the cessation of the delegated power given to the Board of Directors for capital increases reserved for Public Bodies; (ii) the increase in the number of directors, which goes up from 13 to 15 and pursues the objective of ensuring representation of both shareholders of the former ACAM that have become shareholders of Iren S.p.A., and the shareholder FCT following the demerger of FSU; (iii) the qualified majority for some resolutions of the Board of Directors; (iv) the increase in the number of directors taken from the majority list, which goes up from 11 to 13; (v) the increase in the number of regular members of the Board of Statutory Auditors, which goes up from 3 to 5.

The Shareholders' Meeting, on the same date and in Ordinary session, also authorised the Board of Directors to purchase and dispose of Iren S.p.A. treasury shares, also fractions of the same, under the terms of articles 2357 and following of the Italian Civil Code, and of art. 132 of Italian Legislative Decree no. 58 of 24 February 1998.

The Shareholders' Meeting defined, according to what was proposed by the Board of Directors, purposes, terms and conditions for exercising the aforesaid authorisation, and gave the same all the widest powers, to be exercised with the widest discretionality, so that it may proceed to implement the purchase deeds in full observance of the current legislation.

In this regard, the Board of Directors may carry out the transactions for purchase and disposal of treasury shares for a maximum of 65,000,000 of the Company's shares, such however as not to exceed one twentieth of the share capital. The treasury share purchase programme is permitted for eighteen months starting from the present shareholders' meeting resolution. The maximum counter-value of the shares purchasable in the context of this programme may not exceed the amount of the distributable profits and of the available reserves resulting from the latest financial statements approved.

The purpose of this operation is to give the Group a stock of shares available for external growth operations, also replacing the capital increase resolved in 2016 and revoked with approval of the amendments to the articles of association described above.

On the same date, the Board of Directors, acknowledging this shareholders' meeting resolution, in turn gave a mandate to the Chief Executive Officer to launch the treasury share purchase programme, for a maximum of 26,000,000 shares, so as however not to exceed 2% of the share capital. In addition, the Board authorised the CEO to determine the criteria and conditions related to the deeds of sale, disposal and/or use of the treasury shares, having regard to the methods of implementation actually used, to the trend in the prices of the shares in the period prior to the transaction and the best interests of the Company.

Acceptance of the recommendations of the Corporate Governance Code of Listed Companies (July 2018 edition) and approval of the Guidelines for Shareholders on the qualitative and quantitative composition of the Board of Directors

Again on 5 April 2019, the Board of Directors also resolved to accept the recommendations of the Corporate Governance Code of Listed Companies in the July 2018 edition, together with the update of the document in which evidence is provided of the governance solutions adopted by the Company with reference to the provisions of the said Code.

Implementing what is recommended by Application Criterion 1.C.1. lett. (h) of the Code, taking into account the mandate expiring with approval of the annual financial statements at 31 December 2018, the Board also approved the guidelines for Shareholders on the qualitative and quantitative composition of the administrative body which will be appointed for the three years 2019-2021.

BUSINESS OUTLOOK

For 2019, the growth in Italian GDP is expected to be at a lower rate compared to the last few years, owing mainly to the slowdown of the global economy and the contraction of consumption and public and private investments in Italy.

In this context, also thanks to the greater investments planned and realised in the regulated segments to improve distribution network efficiency, Iren is expected to maintain stable, anti-cyclical cash flows. Investments will grow, above all, in the integrated water cycle, with the aim of supplying higher quality services and reducing network losses, with a view to assuring a sustainable use of the resource.

In remaining on the topic of sustainability matters, the door-to-door waste collection service will be further expanded so as to increase the percentage of separate waste collection, which already today exceeds the national average. Given the lack of waste treatment and disposal infrastructures affecting much of the Italian system, over the next few months, the Group will be developing important waste treatment plants, so as to more decisively continue the concept of the circular economy.

As regards energy, generation and sales businesses, the increase in the volatility of electricity, gas and CO2 prices does not make it easy to foresee the trend in profits for these sectors for 2019. The Iren Group has taken action through hedging transactions to limit the aforesaid volatility and also to improve the flexibility of its production plants to be able to take advantage of new opportunities on the energy market. With reference to Environment, Social and Governance (ESG) issues, the Iren Group will continue to expand its district heating network, to offer solutions to improve the energy efficiency of buildings and to increase the high-value-added services for final customers among which electrical mobility projects, New Downstream and new digital services will become increasingly important.

In addition to the investments presented in the Business Plan, the Group is constantly on the lookout for new investment opportunities in both internal and external lines. These latter confirm Iren’s role as an aggregating multi-utility company in the north-west of Italy.

FINANCIAL MANAGEMENT

General framework
During 2018, the short-term part of the rate curve remained substantially stable, while the medium/long-term part was affected by significant volatility and, starting from October 2018, entered a trend which tends to be downward. The last intervention by the European Central Bank was the cut in interest rates in March 2016. The current rate is 0%.
Examining the trend in the six-month Euribor rate we can note that the parameter, which has been in negative territory since November 2015 and stable for a long time, during 2018 began a slight upward movement to the current level of -0.23%. The fixed rate quotations, reflected in the figures of IRSs at 5 and 10 years, recorded alternating stages and, with the recent drops, are not very far from the record lows of 2016.

Activities performed
During 2018, activities aimed at consolidating the financial structure of the Iren Group continued. The development of funding needs is monitored through careful financial planning, which enables requirements for new financial resources to be anticipated, taking into account the repayments of outstanding loans, the development of debt, the investments, the trend in working capital and the balance of short-term and long-term sources.
The organisational model adopted by the Iren Group, with the goal of financial optimisation of all Group companies, provides for Iren's centralisation of treasury management, medium/long-term loans management and financial risk monitoring and management. Iren has relations with the leading Italian and international banks, for the purpose of locating the types of loans best suited to its needs, and the best market conditions.

Moving on to examine in more detail the loan operations carried out in 2018, as explained in the paragraph "Significant events of the period" we can note that in September 2018 the placing of a bond issue, of the Green Bond type, was completed with full success, for the fourth consecutive year, for a benchmark amount of 500 million euro as part of the 2 billion euro Medium Term Notes (EMTN) Programme. The bonds, Fitch rating BBB, have a coupon of 1.95% and maturity 19 September 2025 (duration 7 years) and are listed on the regulated market of the Irish stock exchange, where the prospectus was filed, and on the ExtraMOT market of Borsa Italiana.

In December a total of 80 million euro of the "EIB Hydro Genoa and Parma" loan was used; this was for a total of 180 million euro, was signed in December 2014 and expanded in 2016. Following this operation, direct loans with the European Investment Bank (EIB), with a duration of up to 15 years, remaining unused and available still total 155 million euro.

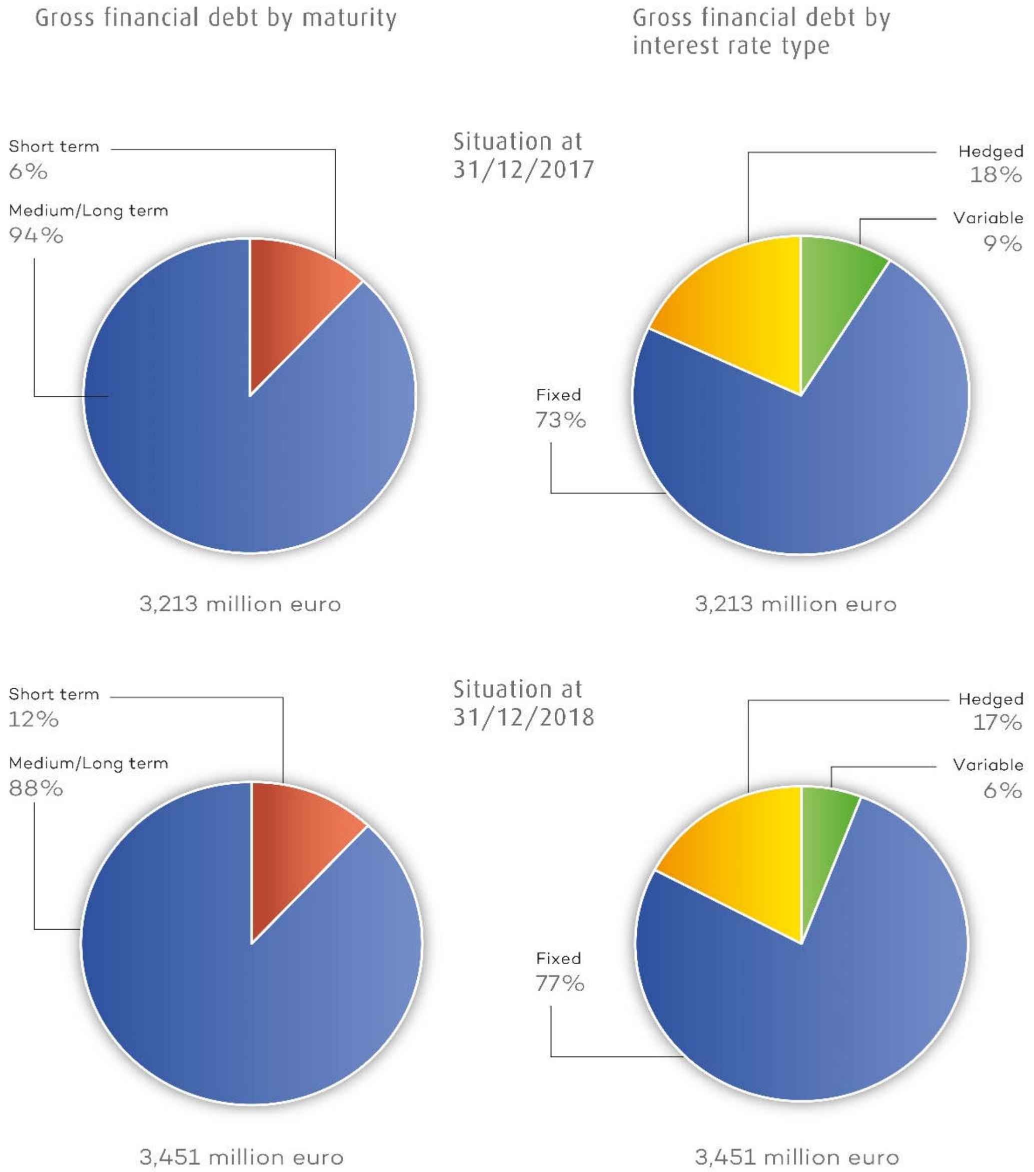
For the purpose of optimising the Group's financial structure and in connection with the aforementioned bond issue, the liability management activity continued in relation to existing debt positions; in this context bank loans of the parent company were repaid in advance for a total of 262 million euro it was decided to proceed, at the maturity of the interest instalment of June 2019, with the voluntary advance repayment of further loans in the portfolio with consequent classification as short term of a total amount of 199 million euro.

In the Group context loan positions for a total of 15 million euro of the ReCos, ACAM and Maira Companies were included in the consolidation scope, as well as the opening of a new position of 1 million euro of Studio Alfa, while with the aim of optimisation, positions of Iren Rinnovabili and its subsidiaries, ASM Vercelli, ACAM, Ireti and Maira were settled early for a total of 34 million euro, including three derivative hedging positions.

Financial debt at the end of the period is made up 33% of loans and 67% of bonds.

As regards financial risks, the Iren Group is exposed to various types, including liquidity risk, interest rate risk, and exchange rate risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit risks of fluctuations in the interest rate. In the period, no new Interest Rate Swap contracts were entered into. At 31 December 2018, the portion of floating rate debt not hedged by

exchange rate derivatives was 6% of gross financial debt, in line with the objective of the Iren Group which is to maintain adequate protection against significant increases in interest rates.
Overall, the activity carried out is aimed at refinancing debt with a view to improving the financial structure, structurally reducing the cost of capital and extending the average duration of financial debt.
The composition of gross financial debt by maturity and rate type, compared with the situation at 31 December 2017, is shown below.



Rating
In November 2018 the agency Fitch confirmed for Iren and its senior unsecured issues the rating BBB, with outlook stable. The judgement is based mainly on the update of the business plan to 2023 which, in continuity compared to previous years, confirms the prevalence of regulated and quasi-regulated activities (approximately 70% of Gross Operating Profit (EBITDA)), and on the positive track record of the results achieved in the period 2015 – 2018. Fitch, finally, in expressing its judgement assesses positively the management's financial discipline aimed at pursuing the targets set. Supporting the Group's liquidity profile and the rating level, Iren has the aforesaid medium/long-term loan facilities agreed and available but not used for 155 million euro, which are in addition to current cash and cash equivalents.

RISKS AND UNCERTAINTIES

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

- Financial Risks (liquidity, interest rate, exchange rate);
- Credit Risk;
- Energy Risks, attributable to the procurement of gas for thermoelectric generation and to the sale of electricity, heat and gas, and to the hedging derivative markets;
- Operational risks, associated with asset ownership, involvement in business activities, processes, procedures and information flows

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

The "Risk Management" Department, reporting to the Deputy Chairperson, operates within the Holding. This department is formally entrusted with the following activities:

- coordinating the process for integrated management of the Group's risks, including those related to M&A operations;
- assessing the Group's insurance needs, designing programmes, signing and managing policies.

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

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

1. FINANCIAL RISKS

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

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

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

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

2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables deriving from the sale of electricity, district heating, gas and the provision of energy, water and environmental services. The receivables are spread across a large number of counterparties, belonging to non-uniform customer categories (retail and business customers and public bodies); some exposures are of a high amount and are constantly monitored and, if necessary, covered by repayment plans. The Iren Group's Credit Management units devoted to credit recovery are responsible for this activity.
In carrying on its business, the Group is exposed to the risk that the receivables may not be honoured on maturity with a consequent increase in their age and in insolvency up to an increase in receivables subject to arrangement procedures or unenforceable. This risk reflects, among other factors, also the current economic and financial situation.
To limit exposure to credit risk, a number of tools have been activated. These include analysing the solvency of customers at the acquisition stage through careful assessment of their creditworthiness, transferring the receivables of discontinued and/or active customers to external credit recovery companies and introducing new recovery methods for managing legal disputes. In addition, methods of payment through digital channels are offered to Customers.
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 reflect, carefully and in accordance with the current legislation, the effective credit risks and are determined on the basis of the extraction from databases of the amounts making up the receivable and, in general, assessing any changes in the said risk compared to the initial measurement and, in particular for trade receivables, estimating the related expected losses determined on a prospective basis, taking into due consideration the historical series.
The control of credit risks is also strengthened by the monitoring and reporting procedures, in order to identify promptly possible countermeasures.
In addition, on a quarterly basis, the Risk Management Department collects and integrates the main data regarding the evolution of the Group companies' trade receivables, in terms of type of customers, status of the contract, business chain and ageing band. Credit risk is assessed at the consolidated, Business Unit and company levels.
Some of the above assessments are carried out at intervals of less than three months or when there is a specific need.

3. ENERGY RISK

The Iren Group is exposed to price risk, on the energy commodities traded, these being electricity, natural gas, environmental emission certificates, etc., as both purchases and sales are impacted by fluctuations in the price of such commodities directly or through indexing formulae. Exposure to exchange rate risk, typical of oil-based commodities, is present, but is attenuated thanks to the development of the European organised markets that trade the gas commodity in the euro currency and no longer indexed to oil products. The Group's policy is oriented to a strategy of active management of the positions to stabilise the margin taking the opportunities offered by the markets; it is implemented by aligning the indexing of commodities purchased and sold, through vertical and horizontal use of the various business chains, and operating on the financial markets.
For this purpose, the Group carries out planning of the production of its plants and purchases and energy and natural gas sales, in relation to both volumes and price formulae. The objective is to obtain a sufficient stability in the margins through:

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

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

4. OPERATIONAL RISKS

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

Of particular note are:

a. Legal and regulatory risks
The legislative and regulatory framework is subject to possible future changes, and therefore is a potential risk. In this regard a Department operates, reporting directly to the Chief Executive Officer, and dedicated to continual monitoring of the relevant legislation and regulations in order to assess their implications, guaranteeing their correct application in the Group.

b. Plant-related risks

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

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

c. IT Risks

IT Risks (Cyber Risks) are defined as the set of internal and external threats which can compromise business continuity or cause civil liability damage to third parties in the event of loss or divulgation of sensitive data. From an internal point of view, the operational risks regarding information technology are closely related to the business of the Iren Group, which operates network infrastructures and plants, including through remote control, accounting operational management and invoicing systems and energy commodity trading platforms. The Iren Group is, in fact, one of the leading Italian operators on the Power Exchange and any accidental unavailability of the system could have considerable economic consequences, connected with the non-submission of energy sale or purchase offers. At the same time, problems related to supervision and data acquisition on physical systems could cause plant shutdowns and collateral and even serious damage. A breakdown of invoicing systems could also determine delays in issuing bills and the related collections, as well as damage to reputation.

To mitigate such risks, specific measures have been adopted, such as redundancies, highly-reliable systems and appropriate emergency procedures, which are periodically subject to simulations, to ensure their effectiveness.

The Iren Group is also exposed to the risk of cyber attacks aimed both at acquiring sensitive data and at stopping operations, causing damage to plants and networks and compromising service continuity. Market benchmarks also show that attacks aimed at acquiring companies' and third-party data are increasingly frequent, with consequent civil liability and sanctions, including serious ones, and at acquiring industrial secrets. The perimetral security technologies have been updated. The data network has been further segregated according to the functional use; in addition a vulnerability management system has been introduced, and extended also to suppliers that process sensitive corporate data for various reasons. The support of an external Security Operation Centre (SOC) is being launched for 24h monitoring, with the use of the Iren security platforms.

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 2023 which defines its strategic orientations and the related industrial objective from which the economic and financial figures of reference derive. The said objectives refer to:

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

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

TRANSACTIONS WITH RELATED PARTIES

Up to 30 June 2018, the following remained in force: (i) the *"Internal Regulation on Transactions with Related Parties"* (hereinafter also "TRP Internal Regulation"), in the version most recently updated with a resolution of the Board of Directors of Iren passed on 13 March 2015, after the favourable opinion of the Company's Committee for Transactions with Related Parties (hereinafter also "CTRP", wholly made up of Independent Directors); (ii) the Operating Procedure for the Management of Transactions with Related Parties, which supplements and details the provisions of the aforesaid TRP Internal Regulation, approved by the Board of Directors of Iren on 15 March 2016, after a favourable opinion of the CTRP.

With the aim at arriving at unifying the aforementioned documents and consequently rationalising the related provisions, on 12 April 2018, after a favourable opinion of the Committee for Transactions with Related Parties, the Board of Directors of Iren approved the Procedure for Transactions with Related Parties (hereinafter also "TRP Procedure"), with entry into force deferred until 1 July 2018, the date on which it replaced the documentation previously in force on the subject, that is the TRP Internal Regulation and the Operating Procedure for the Management of Transactions with Related Parties, becoming the only document of reference in the Group. While awaiting entry into force of the above TRP Procedure, a number of amendments of a formal nature were made to the related text; these were submitted, after a favourable opinion of the CTRP, to the Board of Directors of Iren, which on 2 July 2018 approved an updated version of the TRP Procedure.

The current TRP Procedure is published on the Iren website (www.gruppoiren.it).

The above documents were prepared implementing:
- the provisions relating to transactions with related parties pursuant to Article 2391-*bis* of the Italian Civil Code;
- the Regulation containing provisions on transactions with related parties, adopted by CONSOB with its Resolution no. 17221 of 12 March 2010 as subsequently amended ("CONSOB Regulation"), taking into account the indications of CONSOB Communication no. DEM/10078683 of 24 September 2010 (the "CONSOB Communication");
- of the provisions pursuant to Art. 114 of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Finance or CLF) and the provisions of Regulation (EU) no. 596/2014 on market abuse.

The corporate documents adopted in accordance with the legislation on transactions with related parties, defined in coordination with the provisions of the administrative and accounting procedures pursuant to Art. 154-*bis* CLF, have as their purpose, in particular:
(i) to regulate the performance of transactions with related parties by Iren, directly or through subsidiaries, identifying internal procedures and rules capable of ensuring the substantial and procedural transparency and correctness of such transactions, and
(ii) to establish the methods of fulfilling the related disclosure obligations, including those provided for in the legal and regulatory measures in force and applicable.

These, very briefly, provide for:
a) identification of the perimeter of related parties;
b) definition of a transaction with a related party;
c) identification of cases of exclusion and of transactions "for small amounts";
d) procedures applicable to transactions of minor significance;
e) procedures applicable to transactions of major significance;
f) persons responsible for enquiries on transactions with related parties;
g) transactions for which the Shareholders' Meeting is responsible;
h) forms of disclosure.

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

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

LEGISLATIVE FRAMEWORK

The main legislative references of 2018 related to the Group Iren's sectors of competence are presented below.

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

Regulations relating to local public services of economic importance

The rules on local public services resulting from the regulatory framework are contained in the Italian Law no. 221 of 17/12/2012 as amended converting Italian Law Decree no. 179 of 18/10/2012 containing further urgent measures for growth of the country, Art. 34, para. 20 ff, as amended by Italian Law Decree no. 150 of 30/12/2013 - Extension of terms provided for by legislative measures, art. 13 *Terms on the subject of local public services,* in force since 1 March 2014.
On the basis of the legislative framework indicated, direct assignments granted as of 1 October 2003 to partially publicly-owned companies already listed on the Stock Exchange at that date, and to those controlled by them, cease at the expiry date provided for in the service contract; assignments that do not provide for an expiry date cease, with no extension possible, on 31 December 2020.
The functions of organising local public network services of economic relevance, including those belonging to the municipal waste sector, deciding on the form of management, determining the relevant utility tariffs, assigning the management and the associated control, are performed exclusively by governing bodies within the optimal geographical territories or areas.

With Decision no. 1134 of 8 November 2017, the National Anti-Corruption Authority issued the "New guidelines for implementation of the legislation on preventing corruption and transparency by companies and private-law entities controlled and invested in by public administrations and economic public bodies", which confirm the exclusion of listed companies from the legislation, except that it applies only to activities of public interest carried out by companies belonging to a listed group but invested in directly by a Public Administration. The Guidelines motivate the exclusion in light of the need for further study by the Ministry of the Economy and Finance and the Italian National Commission for Companies and the Stock Exchange (*Commissione Nazionale per le Società e la Borsa* - CONSOB) which, as of today has not yet been completed.

The Consolidated Law on Public Investee Companies (CLPIC) was published in the Official Journal with Italian Legislative Decree no. 175 of 19 August 2016, in force since 23 September 2016. The CLPIC was most recently amended by art. 1 paragraph 721 of the 2019 Budget Law (Italian Law no. 145 of 30 December 2018), which provided for the application of the same to listed companies and to companies controlled by them only if expressly provided for.

Code on Public Contracts

The Code on Public Contracts currently in force was approved with Italian Legislative Decree no. 50 of 18 April 2016 and adjusted with subsequent measures, most recently Italian Law Decree no. 135 of 14 December 2018, (Simplifications Law Decree) and Italian Law no. 145 of 30 December 2018 (2019 Budget Law).
We can note in particular:

- art. 5 of the Simplifications Law Decree (entitled "Rules on the subject of simplification and acceleration of procedures in public contracts under the community threshold"), which made a change to art. 80, paragraph 5 of Italian Legislative Decree 50/2016, introducing a series of reasons for exclusion from the contract or concession procedures referable to the conduct of economic operators in the stage of participation in the tender or execution of a previous contract. The amendments apply only to procedures in which calls for competition or notices of tender were published after the date on which the decree came into force, or otherwise, for procedures in which, at the same date, the invitations to present offers had not yet been sent. ANAC Guideline no. 6 had already dealt with this subject; it contains "Indications of the adequate evidence and of shortcomings in the execution of a previous work contract which can be considered significant to demonstrate the circumstances for exclusion pursuant to Art. 80, paragraph 5, lett. c) of the Code". On 28 September 2018, the ANAC sent to the Council of State, to obtain its opinion, the draft document of the revised guidelines in question, accompanied by a report illustrating the choices adopted. At the moment it is likely that the test of the relevant article will correspondingly be adjusted after the decree in question is converted into law;

- article 1, paragraph 912 of the 2019 Budget Law, which raised the thresholds for direct award and award through a negotiated procedure of work contracts. In particular it stated that "*while awaiting an overall revision of the code on public contracts, pursuant to Italian Legislative Decree no. 50 of 18 April 2016, up to 31 December 2019, the commissioning bodies, as an exception to article 36, paragraph 2, of the said code, can proceed to the award of works for an amount equal to or more than 40,000 euro and less than 150,000 euro by direct award after consultation with, if they exist, three economic operators and through the procedures pursuant to paragraph 2, letter b), of the said article 36 for works for an amount equal to or more than 150,000 euro and less than 350,000 euro*".

Implementing the Code, ANAC's activity of revising and publishing Guidelines is continuing. During 2018 the following main measures were published:

- Resolution no. 4 of 10 January 2018: revision of Guidelines no. 5, containing "Criteria for choosing the tender commissioners and for registering experts in the obligatory National Register of the members of selection boards";
- Resolution no. 138 of 21 February 2018: revision of Guidelines no. 1, containing "General guidance on the award of services related to architecture and engineering";
- Resolution no. 206 of 1 March 2018: revision of Guidelines no. 4, containing "Procedures for the award of public contracts of an amount less than the community significance threshold, market surveys and formation and management of the lists of economic operators";
- Resolution no. 318 of 28 March 2018: Guidelines no. 9, containing "Monitoring of awarding administrations on the activity of the economic operator in public-private partnership contracts";
- Resolution no. 424 of 2 May 2018: revision of Guideline no. 2, containing "Economically most advantageous offer";
- Resolution no. 614 of 4 July 2018: Guideline no. 11, containing "Indications for checking observance of the limit pursuant to article 177, paragraph 1, of the code by public bodies or private holders of concessions for works, public services or supplies already in being at the date of entry into force of the code not awarded with the formula of project finance or with public tender procedures according to European Union law".

  On 2 November 2018 Reporting Notice no. 4 of 17 October 2018 was published on the ANAC Portal; this concerns checks on awards of concessionaires under the terms of art.177 of Italian Legislative Decree 50/2016 and the formalities of motorway concessionaires under the terms of art.178 of the said code.

  The said Guidelines, and the Reporting Notice indicated above, were appealed to the Regional Appeals Court of Lazio by the Iren Group companies, together with other listed companies that are concessionaires of local public services, with an intervention *ad adiuvandum* of Utilitalia. The hearing for discussions of the merits has been set for this coming 22 May 2019.

Reform of the Bankruptcy Law

As regards the subject in question, at 31 December 2018, no action had been taken by the Government, which by 14 November 2018 should have prepared a set of rules on arrangement procedures, resolving crises of over-indebtedness and the privileges and guarantees system, implementing the provisions of Italian Law no. 155 of 19 October 2017 delegating power to the Government "for the reform of the rules on companies in crisis and insolvency".
On 10 January 2019 the Cabinet approved in a final examination the legislative decree which introduces the new Code on companies in crisis and insolvency, completing the procedure for implementing the Delegated Law.

AWARD AND PERFORMANCE OF GAS DISTRIBUTION SERVICES

The rules on the gas distribution service were profoundly changed by the provisions of the so-called Letta Decree, approved with Legislative Decree no. 164 of 2000, which introduced competition into the Italian natural gas market by deregulating gas imports, exports, transport, dispatch and sales.
In a Decree of 19 January 2011 the Ministry of Economic Development determined the geographical areas for the natural gas distribution sector and with Ministerial Decree no. 226 of 12/11/2011, the so-called Criteria Decree (updated most recently with Ministerial Decree no. 106 of 20/05/2015) the Regulation on public tender criteria and the assessment of bids for the assignment of gas distribution services was adopted.

The terms for calling tenders, initially set at six months from when the regulation came into force, were extended several times and the concessions are currently operating under the extended regime pending the calling and award of public tenders.
Although the dates as identified in Italian Law 21 of 25 February 2016 "Conversion into law, with amendments, of Law Decree no. 210 of 20 December 2015" passed some time ago (as per the list presented below), as of today, the tenders in the minimum territorial areas ("Ambiti Territoriali Ottimali" - ATeMs) indicated of interest for the IRETI and ASM Vercelli companies—which were awarded the service—have not yet been called.

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

On the subject of performance and award of gas distribution services, it is important to mention Resolution 382/2012/R/gas, which presents the standard service contract template for natural gas distribution, MD 226/2011 for the standard tender template and MD 22 May 2014 of the Ministry of Economic Development related to the "Guidelines on criteria and application methods for assessing the reimbursement value of natural gas distribution plants".

Italian Law no. 124 of 4 August 2017 (OJ no. 189 of 14 August 2017) "Annual law for the market and competition", in Article 1, paragraph 93, instead regulates cases where, when certain aggregate area parameters are observed, the RIV/RAB differences of plants—where the RIV has been determined on the basis of the Ministry's Guidelines—need not be subject to ARERA assessment. In paragraph 94, it states that ARERA must decide on a simplified procedure for examining tenders and regulating calls when these documents have been prepared in accordance with the "standard" ones laid down by the ministerial decrees (MDs).
Lastly, paragraph 95 provides for an amendment to Art. 10 of MD 226/2011, with reference to participation as Temporary Consortia in tenders for the award of the service. On this point it states that "For the purposes of participating in area tenders as temporary groups of companies and ordinary consortia, the technical capability requirements identified in Article 10, paragraph 6, letters a., c. and d., of the regulation pursuant to Decree no. 226 of 12 November 2011, can be possessed also by only one of the participants; the requirements identified in Article 10, paragraph 6, letter b., must be possessed cumulatively by the participants."

Italian Legislative Decree no. 56/2017, published on 5 May 2017, contained provisions additional and corrective to the Code on Public Contracts, and in particular supplemented the rules and provided a clarification on the scope of application of Italian Legislative Decree no. 50 of 18 April 2016, on tenders for the award of the gas distribution service, to be read in continuity with the MED Departmental Circular of 23 March 2017.

IRETI appealed the M.D. of 22 May 2014 and the subsequent M.D. 106/2015, and the appeal to the Council of State against judgment no. 11242/2016 is currently pending. With this judgment, the Lazio Regional Administrative Court rejected the appeals lodged for cancellation of the above measures.
The Council of State, for another case brought on the same subject, referred the question to the Court of Justice of the European Union so that it could establish "whether these principles and rules prevent national

legislation… that provides for retroactive application of the criteria for determining the amount of the reimbursements due to the former concessionaires with an effect on earlier negotiated relationships or whether this application is justified, also in light of the principle of proportionality, by the need to protect other public interests of European significance related to the need to permit greater protection of the competition structure of the relevant market together with greater protection of users of the service that could indirectly suffer the effects of any increase in the amounts due to former concessionaires”.

With Resolution 69/2018/R/Gas, the Authority expressed its observations on the RIV values of the municipalities of the Genoa 1 – City ATeM and Genoa Plant with difference between RIV and RAB more than 10%, in relation to the provisions of article 15, paragraph 5 of Italian Legislative Decree 164/00, as amended most recently by article 1, comma 16, paragraph of Italian Law Decree 145/13.

Functional unbundling

Functional Unbundling, in groups integrated vertically translates into an obligation to manage the essential infrastructures in a neutral manner, without favouring in any way any business that performs commercial activities in the energy sector. According to the rules on Functional Unbundling, natural gas distribution is managed in a neutral manner if it is entrusted to an Independent Operator, that is to say an administrator which, although it operates within the integrated group, has ample decision-making and organisational autonomy, or if the Independent Operator adopts a series of measures capable of preventing discriminatory conduct in the field of governance, organisation, procedures, information technology, personnel, procurement and many other important aspects of business management. Resolution 296/2015/R/com issued by f approved the rules on functional unbundling obligations for companies operating in the electricity and gas sectors (TIUF, *Testo Integrato Unbundling Funzionale* - Consolidated Rules on Functional Unbundling)” which establish, among other things, an obligation to unbundle the communication policy and the brand between sale and distribution companies.
IRETI is part of the Iren Group, which is a Vertically Integrated Company (VIC) in the sectors of both electricity and natural gas under the terms of Art. 1.1 of the TIUF, because the group performs both activities included in the list pursuant to Art. 4.1 of the TIUF, and deregulated activities in the energy sector. Therefore, in order to implement functional unbundling, it entrusted the administration of the natural gas and electricity distribution business to an Independent Operator, in possession of all the powers and characteristics provided for in the regulations.
With CD 307/2017, ARERA illustrated the Authority's orientations on the subject of recognition of the costs incurred by electricity and natural gas distribution companies for changing the brand and the related communication policies, following the introduction of the provisions of the TIUF (Annex A to Resolution 296/2015/R/com) on the subject. In the context of the above consultation, the Authority began collecting data on the operating and capital costs incurred by operators to fulfil the brand unbundling obligations.

Default service

The default service temporarily complements and replaces the last-instance supply service destined to operate when in the management of supply contracts with final customers situations in which customers remain without their vendor occur, including for transitional periods. The service in question was introduced by the Regulatory Authority implementing Art. 7, paragraph 4 of Italian Legislative Decree no. 93 of 2011 with Resolution ARG/gas 99/11. This Resolution was initially considered unconstitutional and suspended by the Lombardy RAC with judgement no. 3296 of 29/12/2012, a judgement then overturned by the Council of State. Very briefly the Council of State, following the AEEGSI’s pleadings, decided that the default service is associated with the balancing service and that the same cannot be considered sales activity but, rather, as ex post settlement activity of the objective debt relationships created following withdrawals made by customers that have remained connected to the distribution network. This was also considering the fact that the typical risk of sales activity does not exist, since the default of the final customer served is almost fully socialised and made chargeable to the community. With Resolution 513/2017/R/gas of 6 July 2017, the Authority defined the detailed rules for assessing claims aimed at partial payment or exoneration from payment of the amount provided for, in exchange for gas withdrawn, in cases of failure to physically cut off redelivery points provided in the distribution default service, then further supplemented with the subsequent Resolution 190/2018/R/gas of 29 March 2018. These measures are the result of complex discussions with the operators which led to the identification of a taxonomy of typical cases based on events that have really happened and presented to the Authority by the operators themselves.

AWARD AND PERFORMANCE OF ELECTRICITY DISTRIBUTION SERVICES

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, although it maintained a regulated monopoly arrangement for transmission and distribution. The distribution activity is entrusted to IRETI (formerly AEM Torino Distribuzione S.p.A. and before that AMPS S.p.A.) by the Ministry of Productive Activities in a concession up to 2030 in the respective territories of the Municipalities of Turin and Parma and, through ASM Vercelli, in the Municipality of Vercelli.
Measures were adopted in 2007 to guarantee functional unbundling. As already specified in the Gas distribution section, with Resolution 296/2015/R/COM functional unbundling obligations were introduced also for electricity distribution operators.

Network Code (CADE) and general system expenses

ARERA Resolution 481/17/R/eel defined the new structure of general system expenses.
The rules on general system expenses (ESOs) are laid down primarily in Art. 3, paragraph 11, of Italian Legislative Decree no. 79/99, in Art. 39, paragraph 3, of Italian Law Decree no. 83 of 22 June 2012, and for the methods of exacting them Arts 40 and following of the Consolidated Rules on providing electricity transmission and distribution services.
The Lombardy RAC, accepting appeals presented by a number of vendors, declared illegitimate Resolution 268/2015/R/eel (CADE - Standard Network Code for transport of electricity) in the part in which it states that the guarantees that vendors are obliged to provide to the distributor must cover the ESOs as well as the fees for the transport. This ruling clarified that final customers are the subjects of the electricity supply chain obliged, from the legal and economic points of view, to pay the ESOs, highlighting the absence of laws that provide for translation to vendors of the obligation on final customers and not recognising in this context that the Authority has a power to supplement itself contracts between distributors and vendors.
The Authority appealed the judgement and acted transitionally with Resolution 109/2017/R/eel, on the one hand reducing the quantification of the guarantees and, on the other, launching a proceeding for the purpose of identifying mechanisms aimed at recognising adequate compensation to vendors and distributors for any non-collection of the tariff components covering ESOs.
Council of State Judgment no. 5620/2017 of 30 November 2017 rejected the Authorities appeal confirming the cancellation of Resolution 268/2015/R/eel and implicitly “confirming” that Resolution 109/2017/R/eel is fully in force.
ARERA, with a press release published on 29 December 2017, after the decision of the Administrative Court mentioned above, affirmed that resolution 109/2017 contains transitional and provisional rules which are fully applied in all their parts in relation to all parties involved (distribution companies and transport users), with particular reference to the obligations to pay the general system expenses already laid down in the regulations in compliance with the current legislation covering such parties.

With Resolution 50/2018/R/eel of 1 February 2018, ARERA, in confirming the current management of ESOs, introduced however the recovery of ESOs paid but not collected and not recoverable by the distributor, which may present a request for access to the recovery if it is compliant with the payments of the ESOs from 1 January 2016 and with reference to vendors with a transport contract terminated at least 6 months before. The recovery is covered by a specific account opened at the Cassa per i Servizi Energetici e Ambientali (the Energy and Environmental Services Fund), used also for recovery of the ESO receivables of vendors, as outlined in CD 52/2018/R/eel.

Subsequently with Resolution 430/2018/R/eel of 2 August 2018, ARERA set the deadline for completion of the proceeding for compliance with the judgements handed down by the Lombardy RAC, Sect. II, on the subject of guarantees provided by transport users, pursuant to Resolution 109/2017/R/eel, expanding its scope, and setting as a new deadline for completion 30 June 2019. On 11 December 2018, with Resolution 655/2018/R/eel, the Authority defined urgent actions in terms of rules and resolutive remedies applicable by distribution companies, in cases of non-compliance or non-integration of the guarantees given by transport users.

AWARD AND PERFORMANCE OF INTEGRATED WATER SERVICES

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, (Consolidated Law on the Environment), this too the subject of periodic important amendments) and with the issue of Art. 23-bis of Italian Law Decree no. 112 of 25 June 2008, converted with amendments into Italian Law no. 133 of 6 August 2008, related to “public services of economic significance”.
Following the Referendum held on 12 and 13 June 2011 with the abrogation of Art. 23 bis, the community legislation on the minimum competition rules on the subject of public tenders for the award of management of public services of economic significance came into immediate force.
As regards existing operations, as laid down in Art. 34 of Italian Law Decree no. 179/12 converted into Italian Law no. 221/12 and supplemented by Italian Law no. 115 of 29 July 2015, Art. 8, paragraph 1, the awards of services carried out by listed companies and companies controlled by the former will remain active until the natural expiry envisaged for each of them on the basis of the measures governing the relationship with the individual Municipalities.

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 optimal territorial areas (“Ambiti Territoriali Ottimali” – ATOs), the Emilia Romagna Region with Regional Law no. 23 of 23 December 2011 set forth the “Rules for the territorial organisation of the functions related to local public environmental services”, which lays down the rules relating to regulation of public environmental services and in particular to the territorial organisation of the integrated water service and the integrated urban waste management service in Emilia Romagna, and states that on the basis of the principles of subsidiarity, differentiation and adequacy, the entire regional territory constitutes the optimal territorial area in accordance with Articles 147 and 200 of Italian Legislative Decree no. 152 of 2006. ATERSIR is the Regulatory Agency for environmental local public services of the Emilia-Romagna Region.

The Liguria Region, with Law no. 1 of 24 February 2014, attributed the functions on the subject of organisation and management of the Integrated Water Service and Integrated Waste Management.
As regards the IWS, the Law identified 5 ATOs:

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

It should be noted that article 10 paragraph 1 of the aforementioned law was declared unconstitutional by the Constitutional Court with judgement no. 31 of 10 February 2015.
On 30 September 2015 the Province of Savona approved Resolution no. 70/2015, with which it approved the Plans of the areas and defined the subjects to which they were to be assigned through an in-house procedure (and therefore excluding Acquedotto di Savona, the Savona water company, merged into IRETI with effect from 1 January 2016). The resolution was appealed by the Group and as of today the proceeding is still pending. Regional Law no. 1 of 24 February 2014, as amended, had delimited optimal territorial areas identifying two Centre-West ATOs (1 and 2, respectively Coastal and Po Valley ATO). With Regional Law no. 17 of 23 September 2015 the coastal ATO Centre-West 1 was divided into two optimal territorial sub-areas (Centre-West 1 and 3, this latter known as “western”). Constitutional Court judgement no. 173, filed on 17 July 2017, entailed the abrogation of Regional Law 17/2015 in relation to the definition of the third ATO, reinstating the initial situation provided for in Regional Law 1/2014, with a single coastal area (ATO Centre-West 1) and a Po Valley area (ATO Centre-West 2). There were two fundamental criticisms: one of a procedural nature, that the Liguria Region joined the case late, the second, of a substantial nature, that the Liguria Region had issued a law which, in reality, should have been the responsibility of the state. It is written in fact: “The Regions are given the power to modify the dimensions of the ATOs, which however must not normally be smaller than at least the provincial territory’. Exceptions to the dimensions defined by the state legislation are possible, but must observe the criteria established by the same, consisting of the unity of the hydrographic basin, uniqueness and adequacy of management. Exceptions, in addition, are permitted provided that the Region gives reasons for the decision on the basis of territorial and socio-economic differentiation criteria and on the basis of principles of proportionality, adequacy and efficiency with respect to the characteristics of the service, also as proposed by the municipalities”.

As of today, following Constitutional Court judgment no. 173/2017 the Province is engaged, as the Governing Body of the Centre-West 1 Area, in preparing and approving a new single area plan, and a new award of the integrated water service.

The Ministry of Infrastructures and Transport with a note of 17 April 2018 reaffirmed the principle and the position that water services in a port area are not a matter governed by the Ministerial Decree of 14 November 1994 (later abrogated by Italian Legislative Decree 232/2017) *"because Italian Legislative Decree 152/2006 prevails as the later legislative norm that change the rules on the entire subject of the integrated water service".* On this point the Tuscany RAC had already expressed itself with judgement 933/2017, according to which the identification of service of general interest in ports, falling under the responsibility of the Port System Authority (and, therefore, to be awarded by the latter through a public tender procedure) must be identified also with reference to the rules for the sector related to the different types of services. Therefore, the integrated water service, also in ports, is governed by Italian Legislative Decree 152/2006.

AWARD AND PERFORMANCE OF INTEGRATED DISTRICT HEATING SERVICES

Under the current legislation, and according to the most recent jurisprudential guidance (Lombardy RAC sect. I judgement no. 1217 of 9 May 2014), the district heating service does not constitute in and of itself a local public service, but represents in any case a natural monopoly.
The classification of district heating is, therefore, not unequivocal and depends on a discretionary and grounded assessment by the single entities, on the basis of the specific conditions of the relevant market and the existence or otherwise of limitations on competition that can represent a barrier to universal and non-discriminatory offers. Besides, some time ago ARERA began regulatory activity in the sector.

AWARD AND PERFORMANCE OF WASTE MANAGEMENT SERVICES

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 the 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) and in Italian Presidential Decree no. 59 of 13 March 2013 (Single Environmental Authorisation).

Regional legislation

Given that Territorial Area Authorities ceased to exist on 31 December 2012, the Emilia Romagna Region set up the Territorial Agency of Emilia Romagna (ATERSIR) for water and waste services in which all the municipalities and provinces take part and which is responsible for the regulation functions for the entire regional territory, and determination of the urban waste disposal tariffs on the basis of the regional criteria, of the private and public plants. This agency became operational in 2012.
The Piedmont Region instead 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.
Piedmont Regional Law 7/2012 further modified the structure of the Areas by dividing them into four. The four current Areas are made up as follows:
a) area 1: Novarese, Vercellese, Biellese and Verbano, Cusio, Ossola;
b) area 2: Astigiano and Alessandrino;
c) area 3: Cuneese;
d) area 4: Turinese.

The ATOs have a role of planning the activities and applying the provisions of the Regional Waste Management Plan, and planning the flows and disposal tariffs.

In turn the ATOs are divided into Catchment Area Consortia which have a significant role at the management level.

The Emilia Romagna Region recently approved the following measures:
- R.L. no. 24 of 21 December 2017, containing “regional rules on the protection and use of the territory”;
- Regional Law no. 4 of 20 April 2018, Annex A.2 - Rules on assessment of the environmental impact of projects;
- Regional Executive Resolution no. 34 of 15 January 2018, “Provisions on waste flows pursuant to the Regional Waste Plan approved with Legislative Assembly Resolution no. 67 of 3 May 2016;
- Regional Executive Resolution no. 1758 of 22 October 2018 - Analysis concerning the trend in waste production in 2018 and provisions related to waste flows implementing art. 25 of the Technical Rules of the Regional Waste Management Plan approved with Legislative Assembly Resolution no. 67 of 3 May 2016;
- Regional Executive Resolution no. 1762 of 22 October 2018 - Standard Regulation governing the waste tariff payable: acknowledgement of the work of the Guidance Committee for implementation of the Memorandum of Understanding signed by the Emilia-Romagna Region, ATERSIR and ANCI on the subject of precise tariffs.

The Piedmont Region recently issued the following measures:
- Regional Council Resolution no. 253-2215 of 16 January 2018 - Regional Special Waste Management Plan (RSWP);
- Regional Law no. 1 of 10 January 2018 - Rules on the subject of waste management and integrated municipal waste management service and amendments to regional laws no. 44 of 26 April 2000 and no. 7 of 24 May 2012;
- Legislative Assembly Resolution no. 1 of 6 March 2018 epigraph - Supplement to the Regional Waste and Reclamation Plan approved with Legislative Assembly Resolution no. 14 of 25 March 2015, (Regional Waste and Reclamation Plan including monitoring plan and summary declaration). Adoption of the criteria for assessing the risk of defining action priorities;
- Regional Executive Resolution no. 27-7252 of 20 July 2018 Regional Law no. 1/2018 art. 3 – Resolution of the Regional Committee no. 140-14161 of 19 April 2016 - Regional Plan for the Management of Municipal Waste and Water Treatment Sludge. Provisions on experiments for reducing waste production with instruments different from application of the precise tariff implementing the Environmental Monitoring Plan.

The Liguria Region, with Regional Law no. 1 of 24 February 2014 (subsequently amended with Law no. 12/15), laid down rules for identifying optimal territorial areas for exercising the functions concerning integrated waste management.
A single regional area was established and divided into four areas coinciding with the territories of the Metropolitan City of Genoa and the Provinces of Imperia, Savona and La Spezia.
The Liguria Region is responsible for governing the waste cycle in the regional ATO, which exercises these functions through an Area Committee made up of: President of the Regional Council or their delegate, the competent regional executive members, the mayor of the Metropolitan City of Genoa or his/her delegate, the presidents of the Provinces or their delegates. The functions connected with the organisation and award of the services, to be performed with reference to the respective territorial area, are the responsibility of the Metropolitan City of Genoa and the Provinces of Imperia, La Spezia and Savona. These entities can delimit in their respective territories uniform zones under the terms of Italian Law no. 56/14 (Delrio Law) which represent management areas, designating a leading Municipality and delegating the functions related to awarding the services to the Municipalities located in each area. The aforementioned Law no. 1/14 also states that the Provinces and the Metropolitan City must approve the Area Plan and the Metropolitan Plan, containing the structuring and organisation of the services related to waste collection and transport, separate collection and use of the infrastructures serving the separate collection, the definition of the award areas and the management of residual non-separate waste and its disposal, within a year from approval of the Regional Plan, with RCR no. 14 of 25 March 2015.

The Liguria Region recently issued the following measures:
- Regional Council Resolution no. 1 of 6 March 2018 - Supplement to the Regional Waste and Reclamation Plan approved with Liguria Legislative Assembly Resolution no. 14 of 25 March 2015, (Regional Waste

and Reclamation Plan including Monitoring Plan and summary declaration). Adoption of the criteria for assessing the risk of defining action priorities;

- Regional Executive Resolution no. 574 of 14 July 2017 - Determination of the amount of the contribution for the area management system, with which the contribution due to the Region for the area waste management system is determined on the basis of the recycling results achieved in 2016 by the Municipalities, ascertained with Regional Executive Resolution no. 448 of 7 June 2017;
- Regional Executive Resolution no. 889 of 31 October 2018 - Treatment activity on residual municipal waste prior to conferment to landfills for non-hazardous waste. Integration of the Regional Guidelines pursuant to Regional Executive Resolution no. 1208 of 20 December 2016.

National legislation

The regulation on cessation of the classification of milled asphalt as waste was published in the Official Journal of 18 June 2018; this is the Decree of the Ministry for the Environment no. 69 of 28 March 2018, in force since 3 July 2018.
The Ministerial Decree of 1 February 2018, in force since 23 February 2018, regards operators that perform activities of collection and transport of non-hazardous waste of ferrous and non-ferrous metals and are registered in the National Register of Environmental Operators both according to the ordinary procedure, as described in Art. 212 of Italian Legislative Decree 152/2006, and according to the simplified registration methods.
With Resolution no. 108 of 22 December 2017, published in the Official Journal of 15 May 2018, the Inter-ministerial Committee for Economic Planning (ICEP) updated the National Strategy for Sustainable Development (NSSD), the national document of reference for implementation of the 17 Sustainable Development Goals (SDGs) defined by the 2030 Agenda for Sustainable Development, adopted in 2015 by the United Nations.
Decree no. 94 of 28 March 2018 was also issued by the Ministry of the Environment; this sets forth new rules for the preparation of ascertainment, charging and notification reports of the proceedings provided for in the context of the sanctions system on the subject of environmental impact assessment (EIA).
Italian Law no. 108 of 21 September 2018, converted the Italian Law Decree Known as “Milleproroghe” (A Thousand Extensions), extending to 30 June 2019 the term for the start of the obligation to manage in an associated form the fundamental functions of small municipalities (up to 5,000 residents, 3,000 if in Mountain Communities): these include, in particular, associated management of collection, sending for recovery and disposal of municipal waste and collection of the related taxes.
Italian Law 130/2018 (known as the “Ponte Morandi” Decree), on the subject of purification sludge in agriculture, confirmed that the only current law of reference is Italian Legislative Decree 99/1992, adding a series of exceptions.
Italian Law no. 132 of 1 December 2018 (conversion of the safety decree), lays down in art. 26 bis an obligation on operators of existing or newly-built waste storage and processing plants to prepare an internal emergency plan.
You are reminded finally that from 1 January 2019 Italian Law no. 145 of 30 December 2018 (2019 Budget Law) is in force, with various provisions also on the subject of the environment.

SISTRI
Italian Law Decree no. 135 of 14 December 2018, containing “Urgent rules on the subject of support and simplification for businesses and for the public administration” (Simplifications Law Decree) abrogated the electronic system for controlling the traceability of waste (SISTRI) starting from 1 January 2019.

European legislation

On 4 July 2018 the four “Circular Economy” directives (all dated 30 May 2018) came into force in Europe; these were published in EU OJ L. 150 of 14 June 2018.
Directive 849 amends the previous ones in relation to end-of life vehicles, batteries, accumulators and WEEE, no. 850 amends Directive 1999/31/EC on landfills, 852 the rules on packaging and, finally, 851 which amends amply and substantially the same Waste Framework Directive, that is Directive 98/2008/EC. These directives must be transposed by the Member States by 5 July 2020.
EU Commission Notice no. 124 published in EU OJ C 124 of 9 April (“technical guidance on the classification of waste”) clarifies the classification of so-called “mirror entries”.

Tariff system for waste management services

The 2014 Stability Law established from 1 January 2014 the IUC tax (Imposta Unica Comunale - single municipal tax) comprising: a municipal property tax (IMU), a component referring to "indivisible" services (TASI) and the waste tax (TARI) destined to finance the cost of the urban waste collection and disposal service.
The prerequisite for the TARI tax is the ownership or possession of properties susceptible to producing waste and commensurate with the floor surface area of the property. The rates can be reviewed by the municipalities on the basis of service quality standards.
Italian Law 205/2017 extended for 2018 for Municipalities the method of making the TARI commensurate on the basis of the ordinary average criterion.

CONCESSIONS AND ASSIGNMENTS

MAJOR HYDROELECTRIC SHUNT CONCESSIONS

The legislative change regards the introduction in Italian Law no. 12 of 11 February 2019 (published in Italian OJ no. 36 of 12 February 2019), on conversion of Italian Law Decree no. 135 of 14 December 2018, ("Simplifications Law Decree"), of new rules on the subject of large hydroelectric shunts that provides for:

- modification of the ownership regimen and of the criteria for determining the compensation due to the outgoing concessionaire on expiry of the concession: for so-called "wet" works transfer of ownership to the Regions in a status of regular operation is provided for, subject – if the concessionaire has carried out at its own expense, in the period of validity of the concession, investments provided for in the deed of concession or in any case authorised on the "wet" works - to payment of compensation equal to the value of the part of the asset not depreciated; for so-called "dry" works, application of art. 25 para. 2 ff. of Italian Royal Decree 1775/1933 is provided for; on the basis of this the State has the option of taking immediate possession of the same, paying a price equal to the estimated value of the material in the work, calculated at the moment of entry into possession, net of the depreciated assets. In any case, for dry works the price will be paid according to the methods that will be established by the regional laws, without prejudice to a different regimen according to whether these are movable and unmovable assets which are expected to be used by the new concessionaire;
- assignment to the Regions of the task of governing with their laws, by 31 March 2020, the methods and procedures for assigning major water shunting concessions. These new concessions may have a duration of 20 and 40 years, which may be increased by up to a maximum of 10 years. The procedures must be launched within two years from the date of entry into force of the related regional law;
- the provision for a six-monthly fee for concessionaires of large shunts to be paid to the Regions. This fee will be determined in a regional law, after consulting ARERA, and divided into a fixed component linked to the average nominal power of the concession and a variable component linked to revenue;
- the possibility for the Regions to lay down in a law the obligation for concessionaires of large shunts for hydroelectric purposes to provide annually and free of charge to the same 220 kWh for each kW of average nominal power of the concession, for at least 50% destined for public services and categories of users of provincial territories affected by the shunts;
- attribution to Regions which have not already taken action, of the power to regulate with their laws (within one year from entry into force of the law and in any case no later than 31 March 2020) methods, conditions and amounts of the additional fees and any other consequent charges payable for large shunt concessions that provide for a term of expiry prior to 2023, including those already expired "*for the continuation on behalf of the Regions themselves of operation of the shunts, works and plants after the expiry of the concession and for the time necessary for completion of the assignment procedures and in any case no later than 31 December 2023*"; it is also specified that expired concessionaires "*up to assignment of the concession*" are obliged to provide at the request of the Region energy of an amount and according to the methods established by the new law and to pay an additional fee, with respect to the public land fee, for operating the plants while awaiting the assignment. The definition of the minimum value of the said additional fee is deferred to a decree of the MED (after consulting ARERA) and after obtaining the opinion of the State-Regions Conference but, in the absence of this, it may be determined by the Regions in an amount in any case not less than 20 euro for each kW of average nominal power of the concession for each year.

NATURAL GAS DISTRIBUTION

Genoa area
As regards the natural gas distribution service in the area of the Municipality of Genoa and Municipalities nearby, the same is provided by IRETI (a company deriving, among other things, from the merger by incorporation of Genova Reti Gas, the previous Operator and of the parent company of the latter Iren Acqua Gas into Iren Emilia). We can note that the concessions are currently operating under the extended regime pending the launch of public invitations to tender, the deadline for launching which is specified in the paragraph above "Gas distribution".

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

Other geographical areas
The Iren Group also operates in numerous other entities throughout Italy through assignments or concessions given to mixed capital companies in which Iren Group companies have a direct or indirect investment.
These concessions are currently operating under the extended regime pending the launch of public invitations to tender.
The main assignments and concessions are:

- Province of Ancona / Macerata - ASTEA S.p.A. (in which a 21.32% stake is held by the G.P.O. Consortium, which IRETI controls in turn with 62.35%): Municipalities of Osimo (AN), Recanati (MC), Loreto (AN) and Montecassiano (MC) assignment expired on 31 December 2010 and in *prorogatio*;
- Municipality of Vercelli and other municipalities of the Province – ASM Vercelli S.p.A. (formerly ATENA S.p.A., which IRETI controls with 60%): award of 1999 expired on 31 December 2010 and in *prorogatio*;
- Province of Livorno - ASA S.p.A. (40% owned by IRETI); Municipalities of Livorno, Castagneto Carducci, Collesalvetti, Rosignano Marittimo and San Vincenzo – award expired on 31 December 2010 and in *prorogatio*.

ELECTRICITY

IRETI manages the public service of electricity distribution in the City of Turin on the basis of a ministerial concession. This concession expires on 31 December 2030. IRETI also distributes electricity in the Municipality of Parma, with the same expiry date.
Through local mixed companies, the Iren Group also distributes Electricity in the following main areas:

- Municipality of Vercelli, with the subsidiary ASM Vercelli S.p.A., which manages in the City the public electricity distribution service on the basis of a ministerial concession, which expires on 31 December 2030;
- Marche area, with DEA S.p.A., controlled by ASTEA S.p.A., manages the public electricity distribution service in the municipalities of Osimo (AN), Recanati (MC) and Polverigi (AN), with expiry on 31 December 2030.

DISTRICT HEATING

Iren Energia manages the district heating distribution service through concession, award or authorisation to lay networks in the following areas:

- Municipalities of Turin and Moncalieri (TO);
- Municipality of Nichelino (TO);
- Beinasco (TO);
- Reggio Emilia;
- Parma;
- Piacenza;
- Genoa.

In addition, Iren Energia holds an equity investment in the company Asti Energia Calore, established on 18 May 2015, which was awarded the sub-concession for the district heating service in the town of Asti.

INTEGRATED WATER SERVICE

Liguria area

IRETI S.p.A. holds the management assignment for the integrated water service in the 67 municipalities of the Province of Genoa, serving a total of 880,000 residents. The assignment was granted by Decision no. 8 of the Genoa OTA Authority on 13 June 2003 and will expire in 2032.

The integrated water service in the territory of the Municipalities of the Province of Genoa is managed by IRETI through the safeguarded operators. The authorised and/or safeguarded companies of the Iren Group that perform the function of operator are Iren Acqua S.p.A. (formerly Mediterranea delle Acque, 60% controlled by IRETI), Iren Acqua Tigullio S.p.A. (formerly IdroTigullio, 66.55% controlled by Iren Acqua) and AMTER S.p.A. (in which Iren Acqua, again, has a 49% stake).

IRETI also provides the drinking water distribution service in the Municipalities of Camogli, Rapallo, Coreglia and Zoagli in the Genoese ATO and the integrated water service in the Municipality of Bolano in the Province of La Spezia.

The company (for the perimeter of the former Acquedotto di Savona - Savona Water Company) manages finally only the segment of the water service in the following ATOs:

- Savona area, in the municipalities of Albissola Marina, Albissola Superiore, Quiliano, Vado Ligure, Celle Ligure, Noli, Spotorno, Bergeggi, Savona, Stella, Varazze;
- Centre West 2 - comprises all the municipalities located on the Po valley side, managing the service, through the C.I.R.A. Consortium in the municipalities of Altare, Cairo Montenotte, Carcare, Cengio;
- as regards the Province of Imperia: Bordighera, Camporosso, Isolabona, Dolceacqua, Perinaldo, Vallecrosia, San Biagio della Cima, Vallebona, Seborga, Soldano. For AIGA, IRETI manages *in prorogatio* a part of the territory of the Municipality of Ventimiglia.

On 11 April 2018, the operation was also finalised for the acquisition by Iren of the ACAM Group, which operates in La Spezia and its Province, managing (through ACAM Acque) the water service with a concession valid until 31 December 2033.

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, in a safeguarding arrangement, 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 Service in the Parma, Piacenza and Reggio Emilia ATOs is 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.

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.

As a consequence of the dispute that arose in the Rimini area and the negative results, the ATERSIR Area Board, on 31 January 2018, resolved to revoke, in self-protection, the measures related to the restricted procedure opened for Piacenza and to give a mandate to the technical structure of the Agency to carry out the procedure of updating the list of assets destined for performance of the Integrated Water Service and the related residual value to be paid to the outgoing operator for the purposes of the new award, and to give a mandate to the technical offices for the preparation of the documents of the Procedure opened for the award in concession of the IWS. We are awaiting publication of the call for tenders.

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”.
With a resolution of the Local Council of Reggio Emilia (Consiglio Locale di Reggio Emilia - CLRE) 2018/2 of 30 July 2018 - “Guidelines for Local Authorities of the province of Reggio Emilia for the future mixed company under public control of the integrated water service” were approved. These are useful for guiding the Agency in performing the technical, economic and legal enquiries in preparation for drafting the documentation needed for the tender procedure aimed at implementing the “ARCA” - Azienda Reggiana per la Cura dell'Acqua (Regional Water Care Company) - Project. We are awaiting publication of the call for tenders.

The table below summarises the data on the existing agreements in the Group’s main areas of operation:

ATO	REGIME	SIGNING DATE	EXPIRY DATE
Genoa area	ATO/operator agreement	16 April 2004/ 5 October 2009	31 December 2032
Reggio Emilia	ATO/operator agreement	30 June 2003	31 December 2011 (*)
Parma	ATO/operator agreement	27 December 2004	30 June 2025
Piacenza	ATO/operator agreement	20 December 2004	31 December 2011 (*)
Vercelli	ATO/operator agreement	13 March 2006	31 December 2023
La Spezia	ATO/operator agreement	20 October 2006	31 December 2033

(*) Service extended until new agreements are defined

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

ENVIRONMENTAL SERVICE MANAGEMENT

The Iren Group provides waste management services on the basis of specific service assignments from the Local Authorities, governed by agreements signed with the provincial ATOs.

The table below contains details of existing agreements in the Group's main areas of operation:

ATO	REGIME	SIGNING DATE	EXPIRY DATE
Reggio Emilia	ATO/operator agreement	10 June 2004	31 December 2011 (*)
Parma	ATO/operator agreement	27 December 2004	31 December 2014 (*)
Piacenza	ATO/operator agreement	18 May 2004	31 December 2011 (*)
Turin	ATO/operator agreement	21 December 2012	30 April 2033 (*)
Vercelli (Municipality)	Municipality/operator agreement	22 January 2003	31 December 2028
Other Municipalities in the Vercelli area (except Borgosesia)	Work contract with C.O.Ve.Va.R.	1 February 2011	31 January 2019
La Spezia (Municipality)	Municipality/operator agreement	10 June 2005	31 December 2028 (collection and road sweeping) 30 January 2043 (waste disposal)

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

We can note that Iren Ambiente presented a tender for "The award in concession of the public service of integrated municipal and similar waste management in the territorial catchment area of Parma" (44 Municipalities) and for the analogous award in Piacenza.
ACAM Ambiente, controlled by Iren Ambiente and operating in La Spezia and its Province, manages the service of the integral waste cycle, with in-house award, in 20 Municipalities of the Province (including the Municipality of La Spezia). In addition, it performs the activity of waste disposal, with award in a contract/on a time-and-materials basis/in-house, in 12 other Municipalities of the said Province.

Services provided to the Municipality of Turin
On 31 October 2006, Iren Servizi e Innovazione took over the following from AEM Torino S.p.A.:

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

By a resolution of 3 November 2010, the Turin City Council decided to assign service agreements to Iren Servizi e Innovazione for the thermal plants and electrical and special systems for municipal buildings until 31 December 2017. The assignments were extended up to 31 December 2020 with a resolution of the Turin Municipal Executive Committee of 27 November 2012. Following the merger by incorporation of Iren Servizi e Innovazione into Iren Energia, with a deed of 27 December 2016, starting from 1 January 2017, Iren Energia took over the above Agreement and the above service contracts.
From 1 October 2018, following the partial demerger of the business unit related to management of the public lighting service, traffic lights and heating, electric and special systems maintenance for the Municipality of Turin, Iren Rinnovabili took over from Iren Energia in the said activities.

FINANCIAL YEAR 2018 ENERGY AND GAS REGULATORY FRAMEWORK

The main regulatory measures referred to 2018 with the greatest impact for the energy businesses of the Iren Group are presented below.

GAS

Gas Energy Management

Res 670/2017 - Provisions on the subject of performance of the adjustment sessions with reference to the years starting from 2013 and up to entry into force of the new rules on gas settlement and Res 782/2017
The resolution establishes that the economic adjustment items will be determined with a procedure divided into two processes: the first functional to the calculation of the adjustment of the economic items attributed to the balancing user (BU) at the moment of the definitive balancing, applying again the algorithm already used in the balancing session and redetermining the unbalancing of each BU; the second aimed at assessing the quantity attributable to each BU, involved in the compensation, of the difference between input and withdrawal at the redelivery point of the transport network (ReMi), dividing the recognised annual quota of this difference in proportion to the withdrawals allocated in the year to the BU at the same ReMi.
On this subject, with resolution 782/2017 the Authority approved operating provisions for determining the physical and economic adjustment items for the years 2013-2016. At the end of June 2018, SNAM published the results of the multi-annual adjustment session 2013-2016; after the checks by the Balancing Users (BUs), which became necessary because some critical operating issues occurred when the figures were made available, the session was completed at the end of August 2018.

Res 72/2018 - Reform of the rules on gas settlement
ARERA approved the definitive rules on gas settlement and published the new TISG (Consolidated Text of rules for settlement of physical and economic items of the natural gas balancing service). The new rules introduce the climate correction factor W_{kr} in order to improve the profiling of gas withdrawals on the distribution network measured with a frequency of less than a month; this approach should contribute to reducing the value of differences on city gates. In addition, it is stated that the procurement of the difference between what is measured at the REMI and what is attributed to the BUs must be done by the Balancing Manager (BM) in the context of the balancing activity at a national level; for coverage purposes the fund to cover expenses connected with gas settlement is used. The withdrawals attributed (P) to each BU will be measured taking into account the factor W_{kr} of the day k; the imbalance of each BU will be calculated on the basis of the withdrawals attributed. The difference penalties will be calculated on the capacity used (C) calculated at the end of the balancing session, measured with the definitive W_{kr} published by SNAM. The difference $\Delta_{IO,}$, equal to the difference between P and C for each BU, is measured at the marginal spot market price. The consultation is in progress on incorporating the new rules into the SNAM Network Code. The new TISG will come into force on 1 January 2020. The definition of a system of bonuses/penalties aimed at giving incentives to distributors to reduce differences between figures measured at the Re-Delivery Points (RDPs) and the measurements at the ReMis has been postponed to subsequent measures.

CD 114/2018- Revision of the processes of defining commercial relationships between balancing users and distribution users. Revision of the processes of conferring capacity at redelivery points on the transport network
ARERA proposes to make use of the Integrated Information System (IIS) in order to reconstruct the gas supply chains (relations between BUs and Distribution Users - DUs). As regards the conferment processes at city gates, ARERA proposes a simplification consisting of attributing an official capacity based on the type of withdrawal and the consequent abrogation of the difference penalties.

CD 512/2018 - Criteria for tariff adjustment for the service of transport and metering of natural gas for the fifth regulatory period (5RP)
For the fifth regulatory period ARERA proposes a 40/60 entry/exit division of revenue (as in the transitional arrangement) and, in addition, the inclusion of the regional networks in the entry/exit perimeter, as provided for in the TAR Code, with attribution of the revenue from the regional network totally to the exit (the resulting entry/exit ratio would be 28/72). As regards determining the reference prices ARERA proposes the methodology based on the weighted distance for the capacity provided for again in the TAR code. ARERA's proposals are aimed at safeguarding the competitiveness of the Italian system in relation to the costs of importing and exporting natural gas.
Finally, as regards determining the revenue recognised, ARERA intends to begin to introduce a number of incentivising elements (output-based regulation elements in preparation for gradual transition to TOTal EXpense regulation). No update of the WACC has yet been proposed.

Res 32/2019 - Compliance with Council of State Judgement 4825/2016 cancelling the resolution of the Authority ARG/gas 89/10 – method of settling economic items between vendors and final customers for the period 2010-2012
The measure regulates the methods of reimbursing vendors consequent to the redetermination of the coefficient k, made with resolution 737/2017/R/gas, functional to determining the price of the raw material gas of the protection service in the two years 1 October 2010 - 30 September 2012, for compliance with Council of State Judgement 4825/2016. The adjustment is applicable only to customers who had a right to gas protection in those years: domestic customers, condominiums and others up to an annual consumption of 200.000 m^3/year. The amounts will be recovered through the UG2 component pursuant to art. 40.3 of the RTDG (Regulation of Tariffs of the service of Distribution and metering of Gas). The solution defined by the resolution provides for recovery by the vendors through presentation of a specific application to CSEA; each vendor has the right to accede to the mechanism on the basis of the number of points served and on the basis of the volumes of gas withdrawn for each type of final customer.

Gas networks

Res 69/2018 - Observations regarding the reimbursement value to be paid to holders of assignments and concessions for the natural gas distribution service, for the Municipalities of the Genoa 1 – City ATEM and Genoa Plant
With this resolution, the Authority declared suitable the Residual Industrial Value (RIV) of the Genoa ATEM that shows a difference with respect to the Regulatory Asset Base (RAB) of more than 10%, for the purpose of recognising tariffs.

Res 149/2018 – Determination of the definitive reference tariffs for the gas distribution and metering services, for the year 2017
This resolution approved the definitive reference tariffs for the gas distribution and metering services for the year 2017, on the basis of the RTDG, of the requests for adjustment of the figures presented by the middle of February 2018 and of the applications for tariff re-determination presented by a number of distribution companies.
For IRETI (i) the applications related to a number of Municipalities of Genoa for exit from the official tariff were accepted; (ii) for the tariff re-determination more information was requested for some Municipalities (iii); the continuation of analyses for the application related to the city of Reggio Emilia was confirmed.

The Ministerial Decree of 2 March 2018 (Ministry of Economic Development) - Promotion of the use of biogas in the transport sector
With this decree, Italy sets the goal of reaching by 2020 the threshold of 10% of renewable energy consumption in the transport sector, within which a national sub-target was set for advanced biogas and the other advanced biofuels, of 0.9% at 2020 and 1.5% in 2021. The mechanism provided for in the decree does not affect gas or electricity bills: in fact it is financed exclusively by the "obligated subjects" (economic operators that sell petrol and diesel, and which have for some time had the obligation to input a part of fuels in the form of biofuels, the cost of which is today already included in the final price at the pump). It is also envisaged that biofuels, mostly imported (biodiesel), must be replaced with biogas produced in the country, promoting the national supply chain, helping the waste cycle (OFMSW - Organic Fraction of Municipal Solid Waste) and Italy's farmers. The decree identifies and establishes the methods for disbursing

the incentives (CICs – Certificates of Input into Consumption) for the production and distribution of advanced biofuels and in particular advanced biogas obtained from waste, providing for a duration of the incentive for a maximum period of 10 years. The non-cumulability with other public incentives is also established, with certain exceptions: in particular for biogas production plants starting from OFMSW collected in a separate manner from the origin, only for the purposes of cumulability of incentives, the sections of reception and storage, pre-processing and any processing are not considered parts of the biogas production plant, because they are in any case functional to waste cycle management in accordance with the community hierarchy of the related processing.

CD 361/2018 - Update of the directives for connections of biogas production plants to natural gas networks and implementation of the rules of the decree of 2 March

The Authority issued for consultation guidance on the subject of connecting biogas plants to gas networks. The regulator defines the measures for implementing the MED decree of 2 March 2018 for "Promotion of the use of biogas and other advanced biofuels in the transport sector" as above. The Authority believes that it is opportune to establish that the network operators, in defining the quality specifications for input into the network make reference to the national standards of the decree of 18 May 2018 and for those not provided for in this to the European standards. From the point of view of security, a Risk Assessment Plan is proposed; this is to be agreed by producers, network operators and the competent authorities. On this subject, ARERA should entrust to the Italian Gas Committee (IGC) the preparation of guidelines on the methods of controlling the qualitative parameters of biogas. On road transport uses, the regulator confirms the obligation to install purification equipment at service stations downstream of the redelivery points. The CD finally lists the measures related to determining the quantity of biogas admitted to incentives and to rules on the subject of measurement for the purpose of determining this quantity, and attributes the certification activity to the Energy Services Operator (ESO).

CD 216/2018 - Implementation of the rules of article 14 of Italian Legislative Decree 257/16 on isolated LNG networks, with reference to the tariff profiles related to coverage of the network infrastructure costs

The ARERA proposes, for isolated Liquid Natural Gas (LNG) networks, regulation analogous to that on gases other than natural gas. For Sardinia a specific area is defined after creation of the related distribution backbone. A subsequent consultation will be launched on the remuneration of the sales service to issue the final resolution by the end of 2018.

ARERA states that the distribution and metering fees must cover, besides the network infrastructure, operating and maintenance costs of channelled networks, also those connected with storage depots and directly connected local regasifiers. The recognition will be made on a parametric basis through definition of a standard cost dimensioned for unit of volume of regasified LNG input into the network. In relation to the fees to cover operating costs, the Authority intends to assess the possibility of providing for the application of a specific component to cover operating costs related to the management of distribution networks in places with full introduction, to be set in keeping with the component envisaged for gases other than natural gas. The costs of marketing the distribution service will instead not be covered by the tariff.

Res 529/2018/R/gas - Launch of proceeding for the formation of measures on tariffs and quality, related to the gas distribution and metering service, for the fifth regulatory period

The Authority launched the proceeding for the launch of the 5th regulatory period and established that the 2019 investments will be recognised in keeping with the criteria provided for in the RTDG for previous years and not at standard costs. In addition it is reaffirmed that the standard costs method must be implemented by 30 November 2019, that is by the time the new RTDG is defined.

Res 669/2018 - Update of the obligation of commissioning smart gas meters (G4-G6)

ARERA sets new obligations for the installation of G4/G6 meters. In particular, companies which at 31 December 2013 served more than 200,000 RDPs, by the end of 2020 must have replaced 85% of traditional metering units. The Authority also announced that with reference to the performance of smart metering systems, ARERA will carry out further studies, also in collaboration with AGCOM, to assess in particular whether the level of reachability in remote reading/management of smart gas meters recorded with the current communication technologies can be raised only with a technological breakthrough or whether it can still be improved with greater care in procedures/installation on the part of the distribution companies or, possibly, with regulatory changes, especially if these are aimed at increasing the accessibility and reachability in remote reading/management of the said meters.

ELECTRICITY

Energy management

TERNA CD - Capacity Market (CM) - Rules on the system for remunerating the available electricity capacity - Stages of First and Full Implementation

Following the approval in February 2018, by the European Commission, of six capacity mechanisms including the Italian one, in March 2018 Terna issued for consultation two documents related to capacity market rules in the stages of first and full implementation.

Compared to the previous consultation (November 2016), and after interacting with the European Commission, with the documents of March 2018 Terna supplemented the rules with the following elements:

- participation extended to all resources, but with specific rules for remunerating demand (which in any case can take part in the auctions directly);
- incentivised Renewable Energy Sources are also admitted, provided that they renounce (limited to the delivery period) the incentives disbursed by the ESO (this category includes on-site exchange and dedicated withdrawal, which therefore preclude participation in capacity remuneration, while White Certificates and the Thermal Account are excluded);
- opening to participation including direct participation of foreign generation capacity, so Terna will take into account also the import capacity not offered by operators, simulating its indirect participation (with bonus set at 0 €/MW/year);
- exemption from obligations for capacity under maintenance;
- transition from ex ante nomination to ex post nomination by operators of the units with which the obligation is fulfilled;
- value of the Emission Index used to create a priority of selection of offers for sale in auctions;
- in discussion the possibility, in the full implementation stage, of trading an annual capacity product, in line with the European provisions, instead of a three-year one, so as to simplify the structure of the mechanism and comply with the European guidelines.

While awaiting full implementation of the rules (with an implementing Ministerial Decree), Terna must also prepare a study on the adequacy of the system and estimate the demand curve for the next ten years.

Res 261/2018 - Amendments and additions to the criteria and conditions for the rules of the remuneration system for the availability of electricity production capacity introduced by the Authority with Res. 98/11

This resolution changes the criteria and conditions for the rules of the electric capacity market and establishes, among other things, which will be indicated below, with resolutions for each auction, the economic parameters namely the maximum bonuses, the values of the ordinates of the significant points of the demand curves, the values of the parameters for calculating the exercise price and the amount of the minimum threshold.

The changes made with respect to the original Res 98/11 regard substantially:

- the definition of the method for the exercise price, which is set directly by the Authority, which may update it over time;
- the change in the offer obligations and the criteria for defining the reference prices, to take into account the quantities accepted on the Intra-day Market (IM) and to avoid opportunistic conduct;
- the differentiation between maximum bonus for the existing and new capacity, and the introduction of the concept of maximum bonus offerable (bid cap);
- transitional criteria for defining demand curves based on capacity costs;
- existing capacity subject to significant renewal, and so-called capacity “to be made compliant”, i.e. for which the competent authorities have imposed compliance with pre-set standards, are made equal to new capacity, to which higher remuneration is granted;
- implicit participation, made equal to offers with zero bonus, of units in an arrangement of essentiality;
- the priority, for the same bonus offered, of flexible capacity and capacity with lower CO_2 emissions.

While awaiting full implementation of the rules (with an implementing Ministerial Decree), the Authority must give an opinion on the rules put out for consultation by Terna, approve the regulation for participation of consumption units and define the final economic parameters of the mechanism.

ELECTRICITY NETWORKS

2G Smart Metering Systems

Res. 88/2018 – Rules on the subject of configuration of 2G smart metering systems
The Authority approved the functional provisions for configuring/viewing on the 2G display, and stated that the contractual information for the use of vendors had to be configured through the IIS from October 2018.

Res. 307/2018 - Further extension of the duration of monitoring of communication performance through "Chain 2" in the second generation (2G) smart metering system of e-distribution
This measure postponed the conclusion of the procedure for defining version 2.1 to 31 March 2019 and the monitoring of performance of communication on "Chain 2" in the 2G e-distribution system to 31 December 2018 to extend it to further subjects and check the current monitoring. Parallel with this resolution, CD 245/2018 continues the process of defining the functional specifications of 2G version "2.1".

Electricity distribution and metering tariffs

Res. 237/2018
Following a consultation process the tariff regime of electricity distribution and metering from 2018 was defined for distributors (DSOs) up to 100,000 withdrawal points (PODs), specifically:
- Parametric for DSOs < 25,000 PODs;
- Individual of reference for DSOs between 25,000 and 100,000 PODs.

For 2016 and 2017 the tariff regime of the previous regulatory period is confirmed for all DSOs.

Res. 497/2018
This resolution defines the definitive 2016 distribution and metering tariffs for DSOs between 25,000 and 100,000 PODs and makes it possible - although with a delay - to adjust the 2017 and 2018 tariffs of these DSOs.

Quality of the electricity service: resilience of the system

Res. 31/2018 – directives for the integration of sections related to resilience of the electricity system into the development plans of distribution companies
The resolution states that:
- from 2018 DSOs with more than 300,000 customers, from 2020 DSOs directly connected to the National Transmission Grid must prepare and publish by 30 June (2018) a Resilience Plan containing the actions chosen by the DSO to increase the effectiveness of resistance/recovery of the grid and must list details on costs/benefits/times of each action/group of actions;
- DSOs with more than 100,000 final customers must send to ARERA the expected benefits of the single actions and the progress;
- ARERA must examine the special recovery action proposals presented by a specific ARERA operators Workgroup (Resilience Workgroup);
- Heat waves are included among the critical factors.

Res 668/2018 – incentive mechanism for actions to increase the resistance to stresses of the electricity distribution grid due to extreme weather events
The resolution provides for the introduction of:
- bonuses/penalties for work contained in development plans of the period 2018-2023 launched from 2017 and that will end between 2019 and 2024;
- penalties for all resilience work carried out late, proportional to the cost of the work and growing according to the delay in performing it;
- bonuses only for work with Benefits greater than Costs with a maximum of 20% of the net benefit, within the limit of a maximum ceiling of net bonuses (that is net of penalties) of 25% of the total budgeted cost of the resilience work of the Development Plans (excluding the least probable work).

The resolution establishes that the penalties imposed in the three years 2019-2021 (as in the subsequent 2022-2024) will be cancelled totally if in the three years the work completed within the dates indicated in the first Resilience Plan in which it appears refer to at least 90% of the users involved assessed on completion. Finally it establishes that the bonuses will be halved in the event of delay (six months) and if blackouts occur for the same adverse weather phenomenon in the following 5 years.

CD 331/2018 – reclamation of old vertical columns of the electricity distribution network in apartment buildings
The document illustrates the mechanisms that can facilitate the removal of obstacles to the acquisition of the necessary authorisations by distribution companies to intervene in private properties. This is in order to guarantee efficient provision of the distribution service in safe conditions.

Res 50/2018 – rules on recognising expenses otherwise not recoverable for non-collection of general system expenses
Confirming the current management of payments of general system expenses (ESOs), the resolution introduces the possibility to request the reinstatement of the same, not collected and non-recoverable (for invoices past-due for at least 12 months and for receivables not collected frozen in bankruptcies/compulsory liquidation/prior arrangement), by DSOs compliant with payments of ESOs from 1 January 2016, referred to Users of the transport with contract terminated at least 6 months before.

Res 430/2018 - extension of the proceeding for guarantees of exacting ESOs
The resolution widens the scope and extends to 30 June 2019 the term for completing the proceeding for compliance with the judgements of the RAC on the subject of guarantees provided by transport users, to arrive at solutions for the organic reform of sectoral regulation.

Res 4/2018 – supplement to the network code for adjustment of the guarantees
The resolution provides for the inclusion, in all contractual relationships pending as of 12 December 2018 (in which users are obliged to adjust or supplement their guarantees), of termination of the transport contract when the vendor, despite the reminder followed by the notice to perform of the DSO, does not proceed within the deadline provided for to adjust the guarantee.

FINAL CUSTOMERS

Superseding Protection

Res 51/2018 – Offer comparison portal
The Resolution defines the rules for creation and management by the Single Buyer of the "Offer Comparison Portal" provided for in Art. 1.61 of the Competition Law and aimed at domestic final customers and small/medium enterprises. In particular it:
a) approves the regulation for operation of the Offer Portal;
b) establishes the timing for its implementation in successive steps;
c) postpones to subsequent measures the definition of some details for the future development of the said Offer Portal.

The Offer Portal was developed in the following progressive stages of loading and publication of:
- all the offers at Free Price At Equivalent Protection Conditions (Prezzo Libero A Condizioni Equiparate di Tutela – PLACET) of electricity and natural gas;
- offers (including dual fuel) available to domestic customers and formulated by vendors present in the Offer Finder;
- all the other offers available to all final customers of small size, published and distributed on the vendors' websites and/or at their physical sales points, on other websites and in the main information media with territorial coverage at least equal to the region;
- all the other subsequent offers.

Res 89/2018 – Approval of forms for general terms and conditions of supply of PLACET offers
Following res. 555/2017 ARERA approved and made available four separate forms (on the basis of the type of customer and the subject of the supply), noting that the contractual clauses contained therein reproduce provisions of the current regulations and legislation and therefore can be taken as a reference both by customers who intend to check their contract and for vendors that decide to draw up autonomously the General Terms and Conditions of Supply of PLACET offers. The Authority therefore prohibited vendors that adopt these forms to make amendments and/or additions including through supplementary and additional clauses in the contract.

Res 762/2017 - proposal to the Ministry of Economic Development on the List of parties authorised to sell electricity to final customers
The resolution approves the proposal to the Ministry of Economic Development on the criteria, requisites and methods for admission of parties carrying on the business of selling electricity in the Electricity Vendors List (EVL) provided for in the competition law, 124/2017. This is for the purpose of preparing the related ministerial decree.
The proposal identifies three kinds of requisites for access to the list: of honourability, of a financial nature and technical**,** distinguishing them into essential, for registering and remaining in the List, and "alerts", for the sole purpose of remaining. On 7 June 2018 the proposal received a substantially favourable opinion from the Council of State. We are awaiting the definitive decision of the MED .

Res 366/2018 - Simplification of offer comparison schedules
ARERA approved the changes in force since 1 October 2018 for harmonisation of criteria for calculating annual expense of the offer comparison schedules of the Code of Commercial Conduct with those of the Offer Portal, and changes to simplify the structure of the said schedules. ARERA decided to:
- exclude taxes and duties from the estimate of annual expense;
- include in the estimated annual expense of the comparison schedules any discounts applied automatically in virtue of acceptance of the offer, highlighting separately any other conditional discounts in the box "Description of the discount and/or bonus";
- use in the schedules the same criterion provided for in the Regulation for the estimate of the annual expense of variable-price offers;
- harmonise the structure of the electricity and gas schedules.

ARERA also revised the text of the current Code of Commercial Conduct, making the new text available together with a document that indicates the amendments and additions adopted with the resolution in question.

Italian Law Decree no. 91/2018, converted into Italian Law 108/2018 (known as 'Thousand Extensions 2018')
The law extends the term of the electrical Greater Protection Service to 1 July 2020.

Tariffs

Res 737/2017 - Compliance with Council of State judgement 4825/2016, cancelling the resolution ARG/gas 89/10 - Determination, now for then, of the value of the raw material gas for the period from October 2010 up to the Gas Reform of the Authority and CD 516/2018 - Compliance with Council of State judgement 4825/2016, cancelling the resolution ARG/gas 89/10 - Guidance on the methods of settling economic items between vendors and final customers - Resolution 32/2019 - Compliance with Council of State judgement 4825/2016, cancelling the resolution ARG/gas 89/10 - Methods of settling economic items between vendors and final customers for the period 2010-12
Resolution 737/2017 had established the value of the parameter K of the QE component valid for the period 2010-2012; this revision recognises the higher cost of gas procurement borne by operators and determines and increase now for then in the protected gas tariff. CD 516/2018 and the subsequent resolution 32/2019 define the methods for recovering earlier amounts. The solution defined by resolution 32/2019 provides for recovery through presentation of a specific application to the CSEA; the application must indicate the number of points served in the period with the related volumes of gas withdrawn for each type of final customer (domestic customers, condominiums and other supply points that withdraw up to 200 kSm3/year). The application must also contain a declaration that the underlying amounts have not already been invoiced (application made under the terms of Italian Presidential Decree 445/2000). From the amount paid to distributors an 'unpaid ratio' will be discounted; this will be differentiated by type of final customer and will be paid by the CSEA in three instalments: ¼ on 1 April 2020, ½ on 31 December 2020 and the remainder on 31 December 2021. The amounts will be recovered through the UG2 component pursuant to art.40.3 of the RTDG**.**

Invoicing

Res 97/2018 - Urgent implementation of the rules of Italian Law 205/2017 on invoicing and metering in the retail electricity market and launch of proceeding for complete implementation of the above rules in the electricity and natural gas sectors
ARERA defines the measures for first implementation of the 2018 Budget Law on the subject of invoicing and metering in the electricity sector (so as to guarantee the effective operation of the measures) and launches a proceeding for complete implementation of the provisions of the said law in the energy sectors.

- The two-year limitation provided for in the Budget Law (related to all commercial relationships of the supply chain, thus also between distributors and vendors) runs from the deadline within which the service provider is obliged to issue the invoicing document. The vendor must issue the invoice related to supplements made on the basis of adjustments of the metering figure within 45 days from the moment in which such adjustment is made available in the context of the IIS;
- for the electricity sector:
    - on first application, the provisions of the law regarded domestic and non-domestic final customers connected in LV;
    - the vendor must inform the above categories of users (at the same time as issuing the invoice and in any case at least 10 days before expiry of the payment deadline) of the possibility of claiming:
        - limitation of the receivable related to amounts that the vendor should have invoiced more than 2 years before, in cases of significant delays;
        - the right not to pay the amounts invoiced, in cases of adjustments of metering data related to periods of more than 2 years.

Consultation has begun to define cases of liability of the final customer and, consequently, the limits of liability of the distributor in taking readings (CD 570/2018).

Res 569/2018 - Provisions for strengthening protections to the advantage of final customers in cases of invoicing of amounts referred to consumption dating back to more than two years ago
With resolution 569/2018 ARERA established that the amounts subject to negative prescription can be invoiced separately or in the cycle invoice provided that they are adequately highlighted and provided that in relation to them no forms of automatic payment are activated. While awaiting implementation of the measures for which distributors are responsible, it is possible to include in invoices a message which, as the liability of the distributor or of the customer can still not be discerned, will indicate generically the possibility of applying shorter negative prescription.

Res 264/2018 – urgent action on invoicing
ARERA clarifies that in the case in which the vendor can claim against the distribution company the limitation of the receivable in the cases provided for in the 2018 budget law and in resolution 97/2018/R/COM, it must not invoice to final customers the corresponding amounts.

CD 52/2018 – Mechanism of recognising ESOs not collected and otherwise non-recoverable, applicable to users of the electricity transport service
The consultation proposes recovery of the ESOs paid to DSOs by free market vendors and safeguard providers (the latter from 2019) but not collected from final customers.
The application is optional, annual, with 2 liquidation sessions; the first will take place in 2019. An extraordinary advance session is provided for with simplified calculations already in 2018 for any users of the transport with serious exposure on ESOs. The necessary conditions for participation are:
- that the transport contract with the DSO has not been terminated;
- compliance with payment of the transport invoices;
- performance of all the actions for efficient management of the receivable.

The ESOs admitted to the mechanism are related to invoices with payment deadlines past due for at least 12 months at the date of presentation of the application for participation, accruing starting from 1 January 2016 and verifiable by the CSEA.

DISTRICT HEATING

Res 23/2018 - Rules for exclusion from the register of district heating and district cooling networks subject to regulation
The resolution presents the rules for exclusion of energy transport infrastructures that do not comply with the general requirements provided for in Italian Legislative Decree 102/2014 from the scope of application of the regulation of the district heating and district cooling service defined by the Authority under the terms of the same decree. With res. 369/2018 ARERA rejected some of the applications for exclusion received from operators.

Res 24/2018 (as amended by 277/2018) - Rules on connection contributions and methods for exercising the right of withdrawal
The resolution defines the regulation on the criteria for determining connection contributions and methods for users to exercise the right to deactivate the supply and disconnect from the district heating network for the period 1 October 2018 - December 2020.

Res 661/2018 - Regulation of the commercial quality of the district heating and district cooling services, for the regulation period 1 July 2019 - 31 December 2021
The resolution defines the regulation of the commercial quality of the district heating service for the regulation period 1 July 2019 - 31 December 2021 and provides for the launch of a proceeding for revaluation of the rules on the subject of exercising the right of withdrawal established by the TUAR (consolidated regulations on connection fees and the right of withdrawal) and a number of amendments to the same.

CD 637/2018 - Rules on the subject of transparency in the district heating and district cooling service. General framework and first guidance
The consultation document presents the first guidance on the subject of transparency of the district heating service, with reference to supply contracts, prices for providing the service, invoicing documents,

information on the subject of commercial quality, services of an environmental nature and monitoring of the prices of the service by the Authority.

CD 691/2018 - Regulating the technical quality of the district heating and district cooling service. General framework and first guidance
The consultation document presents the first guidance on the technical quality of the district heating service, with reference to the security and continuity of the service, and to the energy and environmental services.

REGASIFICATION

Capacity assignment auctions

Res 110/2018 - Approval of the regasification code prepared by the company OLT Offshore Lng Toscana S.p.A.
With this resolution ARERA positively examined, and consequently approved, the draft regasification code presented by OLT under the terms of article 24, paragraph 5, of Italian Legislative Decree No. 164 of 23 May 2000. The draft code implements, in addition, the provisions of the Consolidated Text for Access to Regasification Services (*Testo Integrato per l'accesso ai servizi di Rigassificazione* - TIRG) which introduces market mechanisms based on auction procedures for conferment on users of the regasification capacity.

Res 186/2018 - Definition of the criteria for calculating the reserve prices for conferment of the regasification capacity and Res 308/2018 - Rules on procedures for conferment of the regasification capacity
The first measure defined the criteria for calculating the reserve price in procedures for conferment of regasification capacities. As in the auctions held in the first half of the year for conferment of the regasification capacity of the LNG terminals of OLT Offshore (Livorno) and GNL Italia (Panigaglia, SP) only one discharge slot was assigned even though there were several offers, because all were formulated at a price that was too low with respect to that of reference set by the Authority, ARERA, with the second resolution updated the criteria for defining the reserve price. The “calibration” of the reserve price criteria became necessary in order to align the offer conditions to those expressed by the market, with the aim of minimising the system expenses incurred in application of the revenue coverage factor and increasing the liquidity of the gas market.

Res 398/2018 – Closure of the inquiries on the subject of payment of the costs incurred by the company OLT Offshore LNG Toscana S.p.A. for procurement of the LNG necessary for electricity production. In compliance with the recent judgements of the Council of State (nos 3356/2016 and 3552/2016), the Authority resolved on the criteria to be adopted for payment of the costs incurred for procurement of the LNG necessary for electricity production, providing for payment only of the quantities of boil-off gas necessary for self-producing electricity for operation of the terminal calculating them on the basis of the average recorded by the PFOR in the tariff year.

CD 590/2018 - Guidance for regulating LNG storage deposits and small-scale LNG services provided by regulated infrastructures
The consultation deals with the following subjects:

- storage plants: the Authority considers connected with or functional to connection and creation of the transport network only LNG storage deposits considered strategic under the terms of Italian Legislative Decree 257 and which, therefore, “perform regasification activity functional to input into the network”. In assessing the strategic nature of the infrastructures, ARERA intends to use the requisites for the cost/benefit analysis defined in Resolution 468/2018 on Ten-Year Plans of the transport network;
- access to the infrastructures for providing Small-Scale LNG (SSLNG) services: in the case of “capacity dedicated” to these services, each company may define the procedures autonomously (provided that it does not compromise in any way the regasification service) in exchange for payment for use of part of the infrastructure. In the case of SSLNG services that use part of the regasification capacity, the subjects involved must have this capacity available (and therefore must have previously taken part in the conferment procedures) or must have purchased it from other users;

- as regards tariffs, for terminals that make available dedicated capacity it is proposed to establish specific prices; for those that use a part of the regasification capacity the economic conditions envisaged for regasification itself are applied;
- as regards the guarantee factor the Authority is oriented to recognising it for regasifiers that offer also SSLNG service, but not for deposits. For these the Regulator is assessing in any case a mechanism that is more limited in time and related only to the capacity destined for regasification.

OTHER GENERAL MATTERS

Functional unbundling

Notice 15/2/2018 - Presentation of applications for recognition of costs incurred for change of brand and related communication policies (debranding)
The Authority launched the collection related to the presentation of applications for recognition of the costs incurred by electricity and natural gas distribution companies for change of the brand and redefinition of the Communication Policies.

Remuneration of capital invested in infrastructural services

Res 639/2018 - Update of the remuneration rate of invested capital for infrastructural services of the electrical and gas sectors, for the years 2019-2021
This measure makes the intra-period update of the basic parameters of the WACC common to all regulated infrastructural services of the electrical and gas sectors, under the terms of article 5 of the TIWACC, and of the level of gearing. The WACC figures are approved for regulated infrastructural services of the electrical sector, for the three years 2019-2021 of 5.9%; the WACC figures in the gas field, valid for the year 2019, are set for metering at 6.8%, for distribution at 6.3% and for regasification at 6.8%.

Short negative prescription

CD 408/2018 - Negative prescription for invoicing of amounts referred to consumption dating back more than two years: instruments to strengthen the protection to the advantage of final customers (subjective scope of application, disclosure obligations of vendors and management of complaints); CD 570/2018 - Two-year negative prescription in application of Italian Law 205/17: work aimed at making more efficient the interactions between subjects in the chain and optimising collection of the metering figure functional to invoicing of the final customer
ARERA intends to intensify the protection measures increasing the level of transparency of communications on short negative prescription in invoices: vendors are required to discern, at the moment of issuing invoices related to amounts subject to prescription, between liabilities of the vendor/distributor and of the customer (differentiated messages, separate indication of amounts, change in the method of payment if a SEPA Direct Debit is active - domiciliation). In order to identify cases of liability for the delay in invoicing attributable to the final customer (cases in which the short negative prescription does not apply), CD 570/2018 identifies for distributors as the adequate preliminary disclosure to the rounds of the personnel who make the readings and ex-post information; if, despite the disclosure the final customer does not permit access to make the readings, the distributor may attribute the liability to the customer and send the disclosure to the IIS and then to the vendor.

Incentives – White certificates

Res 487/2018 - Definition of the tariff contribution to cover the costs incurred by electricity and natural gas distributors subject to the obligations in the context of the energy efficiency certificate mechanism, under the terms of the inter-ministerial decree of 10 May 2018
The Authority approved the new rules on the tariff contribution for EECs, which, implementing the "corrective" inter-ministerial decree of this past 10 May 2018, provide for, among other things, the setting of a ceiling of Euro 250/certificate. The formula previously in force for determining the contribution was applied up to the date of publication of the resolution. The Authority also amended the text of the Rules on Operation of the Market for Energy Efficiency Certificates eliminating the passages related to the "session relevant reference price", by now no longer necessary after the introduction of the cap of 250 €/EEC.

PERSONNEL AND TRAINING

Personnel

At 31 December 2018, the employees working for the Iren Group totalled 7,042, up compared to the 6,285 employees at 31 December 2017. The table below provides a breakdown of personnel at 31 December 2018, divided into Holding and first-level companies and related subsidiaries, compared with the figure at 31 December 2017.

Company	Workforce at 31.12.2018	Workforce at 31.12.2017
Iren S.p.A.	1,036	945
IRETI and subsidiaries	2,120	1,952
Iren Ambiente and subsidiaries	2,550	2,266
Iren Energia and subsidiaries	832	653
Iren Mercato and subsidiaries	504	469
Total	**7,042**	**6,285**

The main changes in the workforce compared to 31 December 2017 were due to:
- entry into the Group of the Companies Iren Rinnovabili, Studio Alfa and Coin Consultech for a total of 135 resources at 1 January 2018; starting from 1 October these companies are included among the subsidiaries of Iren Energia. The number of employees at 31 December 2017 did not include the personnel belonging to these companies, although they were included in the scope, because they were acquired at the end of the year and therefore did not contribute to determining the Group's personnel expenses in 2017;
- entry into the Group of ACAM (incorporated into Iren S.p.A.) and of its subsidiaries ACAM Acque (controlled by IRETI), ACAM Ambiente (controlled by Iren Ambiente), In.Te.Gra. (incorporated into Iren S.p.A.) and Centrogas Energia (incorporated into Iren Rinnovabili), for a total of 699 resources;
- signing of the contract between SEI Energia S.p.A. (lessee) and Iren Energia S.p.A. (lessor) which provides, starting from 6 September 2018, for rental of the Business Unit comprising the District Heating activities in the Municipalities of Rivoli, Collegno and Grugliasco, for a total of 21 resources;
- finalisation on 6 September 2018, by Iren Mercato S.p.A., of the operation to purchase 100% of the share capital of Spezia Energy Trading S.r.l. for a total of 22 resources;
- finalisation on 28 September 2018, by Iren Energia S.p.A. of acquisition of 66.23% of the share capital of the Company Maira S.p.A. for a total of 2 resources;
- acquisition, on 17 October 2018, by Iren Ambiente S.p.A., of a business unit from SMC Smaltimenti Controllati consisting of a 48.85% stake in the share capital of SETA S.p.A. and of the activities of closure and post-closure management of the Chivasso 0 landfill site for a total of 2 resources;
- sale of a unit and sales of contracts by IRETI to the company Gestione Acqua (8 resources);
- launch of the new generational turnover plan.

Training and coaching of personnel

Also in 2018 training was confirmed in its role of supporting and accelerating the processes of change and transformation in progress within the Iren Group.
The result of organic planning that aims to organise and strengthen skills and abilities linked to roles and duties, through careful analysis of the training needs supplied by the results deriving from recognising skills, from projects and reorganisations that involve the Group, the training tends increasingly to a prospect of constant continuity along the entire professional life of the personnel, accompanying them in the aspects associated

- with entry into the company,
- with the introduction of new ways of working,
- with the updating of specific technical knowledge,
- with safety

and

- with enhancing relational and behavioural skills.

This makes it an important support not only for the enhancement of the role acquired but also for the requalification of the professionalism included in internal mobility paths, through targeted and dedicated actions.

The Group's employees (including workers with agency contracts) were provided with a total of approximately 131,000 hours of training (+26.8% compared to 2017), with approximately 6,600 resources who took part in at least one training initiative, approximately 95% of the total (+7.5%).
In particular, 100% of executives, middle managers and clerical staff and 80% of manual workers were involved in at least one training initiative.
The per capita average increased significantly to approximately 18.9 hours (+15% compared to the previous year). The gender average was 14.6 hours for women (+34% compared to the previous year) and 20.4 hours for men (+10.3% compared to the previous year). Also analysing the figure at the level of single grades the figures for average training hours were sharply up: 31.2 hours for executives (+59% compared to 2017), 25.5 for middle managers (+38.6%), 20.7 for clerical staff (+24%) and 16.2 for manual workers (+0.6%).
The internal training initiative planning activity was confirmed as a strong point for 2018, with teaching by both internal trainers and external consultants (so-called in-house training), which represented 91% of total hours (+1% compared to the previous year).
Managerial training also rose sharply, recording and increase of more than 139% compared to 2017. Specialist training and coaching were instead stable, although with high figures, representing 49.5% of total hours provided.
Within the Group's training actions training activities on safety in daily work practices were again very significant: in fact a total of almost 31,000 hours of training were provided in the fields of quality, safety and the environment, with particular reference to training linked to the State-Regions agreement.

The economic investment made by the Group in 2018, net of the costs of personnel in training and internal trainers, was approximately 970,000 euro: approximately 600,000 euro of this amount related to the use of financed training funds (Fonservizi and Fondirigenti), with an increase of 15% compared to the previous year. Also in 2018 the training activity satisfaction index was positive although slightly down (78.2% compared to 80% in the previous year), as was that of learning at 86.6%.

ORGANISATION AND IT SYSTEMS

Organisation

During 2018, numerous actions continued on reorganising the Group aimed mainly at strengthening the unitary nature of governance, achieving the objectives of operational effectiveness and efficiency and focusing more on the business in keeping with the provisions of the Strategic Guidelines of the Business Plan approved by the Board of Directors of IREN S.p.A.
In addition, the corporate rationalisation and integration operations continued, with the aim of completing, also with operations to transfer businesses and/or units internal to the corporate perimeter, the Group Organisational Model, and strengthening it with the entry of new businesses acquired following Merger & Acquisition operations (Iren Rinnovabili Group and ACAM Group), also through forms of functional coordination, where other forms of corporate integration were not possible.

To facilitate achievement of the objectives of the Group and of the single Companies that are a part of it, important projects were launched or continued. These were developed together with a profound change management process, and are based on four main lines: Customer relations, improving the service and performance, digitalisation and human resources.
Making reference to the paragraph “Information Technology” below, we present below by way of example a number of existing projects that have organisational implications:

- as regards Customer Relations, a complex programme continued with the aim of redesigning the entire customer management and relation process, from the first contact to invoicing, with the introduction of an innovative Customer Relationship Management (CRM) system;
- as regards improving the service and performance, in the context of the Networks Business Unit the project for the use of a new Asset Management system and of a Work Force Management (WFM) system was almost completed, while in the context of the Waste Management Business Unit, the “Just Iren Project” was launched. This provides for the creation of a new management, operational and IT model capable of optimising the management of the waste collection, sweeping and conferment process, facilitating also the interaction with Customers/Citizens and with local authorities to which the service is provided;
- as regards digitalisation, besides formalising the digital strategy in the context of the Business Plan, the “*Smartphone for all”* project was completed. This enables all the personnel to have a fundamental instrument for supporting the digitalisation of processes and activities;
- as regards human resources, work continued on the Performance Management and Compensation systems and the project was launched for implementing the new Information Technology system aimed at managing the entire Recruiting and Career & Succession Planning process.

Among actions for organisational improvement we can note also the Robotic Process Automation pilot project which was developed in the area of attendance control management, the project for making operational electronic invoicing and the project for digital management of Intercompany contracts.

During 2018 a survey of all personnel was also carried out for the first time on the Group’s conduct and organisational policies, using the methodology developed at the international level by a leading strategic Consultancy. This survey, which recorded a good level of participation, made it possible in turn to identify a number of improvement actions, which were launched in the fourth quarter of the year.

Information Technology

2018 saw the launch, continuation and completion of important projects which are strategic for the Group. In particular the execution stages of the following projects started: IRENWAY (architectural and process revision of the distribution sector), JUST IREN (redesign of the application map of the Waste Management BU) and WorkForce Management (WFM) on the water service.
The WFM project for gas distribution was instead completed, the area associated with the payable cycle workflow was consolidated, distribution of the devices provided for in the Smartphone for All Project was completed and the Analytics were carried out for the district heating sector.
The activities also continued on the Market Transformation programme and the stage related to the feasibility plan of the Work Force Management - Asset Management world was launched also for the electricity distribution sector.
A wider overview of the main projects is provided below. These are divided by Business Unit or relate to multiple aspects of the Group's business.

In the CORPORATE area the Robotic Process Automation project for the management and reconciliation of attendance was completed. Again in the HR area "Personnel Budget" projects continued; these aim to define and implement a budgeting, planning, forecasting and final data import model that will cover completely the activities of planning, reporting and analysis, and the adoption of the new Performance Management tool on the Success Factor platform with the Recruiting, Succession and Career Development modules.
As far as the project regarding the Payable Cycle processes is concerned, integration with the Bravo Solution platform for managing contracts is being completed and the collection of reports received during the first stages of the same has finished.
For the "Receivables DWH" project, stage 1 was completed in the first half of 2018, the squarings were checked also on the Net@DIS and SAP systems for the water segment and the last activities for definitive closure of stage 2 are in progress.

The activities connected with the Smartphone for All project were completed. The objective of this is to give a smartphone in use to the entire corporate population so that they can make more effective use of the services made available to Iren employees.
Finally, two projects arrived at first delivery: electronic invoicing, which began on 1 January 2019, and management of attendance, which provides for the possibility for employees to enter justification for absence using smartphones.
Projects are in progress to ensure ICT compliance with the General Data Protection Regulation and on Digital Payments, with the aim of making the corporate Information Technology Systems compliant with the latest legislative indications in the areas of privacy and payments.
Last but not least, operations have begun to upgrade the systems of the main staff units linked to the recent business combinations: ACAM, Iren Rinnovabili, Studio Alfa, the business unit related to district heating of SEI Energia and Spezia Energy Trading.

As regards the ENERGY BU, in 2018 the most important project was the District Heating Reporting based on Qlik Sense, a newly-introduced application that made it possible to conduct smart analyses aimed also at improving the commercial proposition. The first wave of the project regarded the analysis of heat production, distribution and sales data with the objectives of increasing saturation, reviewing tariffs, cross-selling, industrial savings and better planning.
Activities are also in progress for porting the functions and workflow of the previous custom TLR reporting application onto MOBI TLR and Gestione Lavori TLR (TLR Work Management) as regards the extension of the network and the substations.

Among the main activities, finally, an experiment is in progress, within the "Business Plan 4.0", related to the creation of a digital check list for inspecting plants. This experiment will go on for about 5 months and will involve the operator's check list in relation to the -3GT production unit of the Moncalieri thermoelectric plant.
Finally the porting of the contracts for the provision of services previously held by Iren Energia and now pertaining to Iren Rinnovabili was completed.
In the Remote Control area, the District Heating Remote Management system in the Emilia area is still being extended.

For the WASTE MANAGEMENT BU the JUSTIREN programme, after assignment of the award to the System Integrator, has arrived at the execution stage, with precise definition of an activity plan which will see the Turin area of operations as the first involved in releases of the programme in March 2020, ending in May 2021 with all the territories in which Iren provides the environmental hygiene service.
Again for the Turin area activities were completed in relation to the launch of the Junker App for managing separated waste collection, also with expansion to two new districts, Lingotto and Filadelfia.
In addition the ECOS Commerciale and ECOS web systems for managing relations with Municipality customers were released and the project to integrate the ECOS Contact Centre into ACAM was launched.

As regards the MARKET BU, the “Market Transformation” initiative is continuing with the implementation stages of migrating the invoicing platforms and revising the Web channel. In addition streams were launched aimed at:
- managing Analytics;
- revising the Document Composition;
- improving the use of social channels;
- integrating with the field of the New DownStream (extra commodity) offers;
- introducing SAP BW for reporting.

In the first half of 2018 the new CRM system was made available, but only for the commodities gas and electricity. The second half of the year saw some delays which led to a release of partial functions at the beginning of December.
In addition, the activities linked to Gas&Power invoicing are expected to be completed through data migration onto SAP ISU of all Iren invoicing systems (Net@, CNRG), and the adoption of a new web platform.
In relation to the new Call Centre management platform the second part of the project was completed. This involved the release of the advanced functions and integration with the new CRM.

In relation to the NETWORKS BU, the new Work Force Management system has come into operation, in particular for the gas commodity in all sub-areas (Work Force Automation, Scheduler and Emergency Response). The activities for the water sector were also launched, with partial entry into production.
Again in the Networks BU context, numerous software developments associated with regulatory changes provided for by the ARERA on the current distribution systems are also ongoing.
The strategic project Iren WAY has also been launched. This is aimed at revising and standardising the processes and IT systems supporting the commercial activities of the Networks. The award was assigned to the System Integrator for development of the system, and now the stage of preparing the Business Blueprint - that is functional analysis of the planned solution - is in progress.
Finally, the systems related to the context of gas tenders were consolidated and the processes and systems on Authority.net, for data transmission and interfacing with the Authority, were optimised.
Last but certainly not least, in the field of Territorial Information Systems, the GEOIren project is continuing. This saw the release of the Web component in the Gas segment. In the first quarter, the GEOWeb for IRETI system was released and the activities for convergence with a single management platform for Iren addresses are being performed. The call for tenders for the so-called “Toponymy Office”, that is the normalisation of addresses on all Iren databases was formalised, and the adoption of a Geographical Information System tool was assessed and accepted in particular for electricity distribution. Completion of the activity is planned for August 2019.

In the Remote Reading/Management area the activities to cover meters in radio frequency continued according to the project plan, reaching 86% coverage. The feasibility assessments were also completed for migration of the free phone numbers of the Networks BU to a new technological platform and the related supplier was engaged, also for the implementation stage.

At the level of transversal initiatives, consolidation and rationalisation continue on the Infrastructure front, in particular:
- Consolidation of the back-up systems on a single platform is in progress, with the second copy of the same in the Cloud;
- in the Security field the 24/7 Security Operations Center service was launched at the end of the year, with the support of an external provider;

- The End-To-End monitoring tool was released. This makes it possible to measure the performance of the IT systems and application platforms;
- in the Distributed field the project to review the video-conference management platform, the revision of the Group's board rooms, the replacement of the multifunction printers and of the related management system were launched.

In the field of DIGITAL TRANSFORMATION, in particular as regards Big Data and Analytics solutions, in May and June the ICT Department held a series of workshops which involved the main vendors and some consultancy firms, so as to study in depth the solutions and experiences currently present on the market and hear their point of view. In particular some specific use cases were studied:

- smart metering;
- monitoring of plants and networks;
- customer intelligence (solutions and experiences in support of Customer Profiling and Offer Management, Campaign Management, etc.);
- HR analytics.

At the wider and more strategic level, again on the subject of Digital Transformation, in July work began on the Digital Strategy project, in which all Business Units and Corporate Departments were involved.
The project had as its objectives:

- to share the trends in digital evolution;
- to measure the Group's digital readiness;
- to define Iren's digital strategy;
- to identify and prioritise the digital initiatives;
- to assess the economic, technological and organisational impacts and to prepare the business case;
- to define the implementation roadmap;

The initiative was completed at the end of November with the following deliverables: current and target digital readiness, digital strategy, roadmap and necessary investments, model for assessing initiatives and governance and a business case of 5 initiatives.

QUALITY, ENVIRONMENT AND SAFETY

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

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

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

Iren, Iren Ambiente, Iren Energia, IRETI, AMIAT, Iren Laboratori, Iren Acqua and Iren Acqua Tigullio have systems certified according to the international standards ISO 9001 (Quality), ISO 14001 (Environment) and OHSAS 18001 (Safety). In addition, Iren Mercato is certified with reference to the international standards ISO 9001 (Quality) and OHSAS 18001 (Safety) and to the Certiquality 66 Technical Document related to Green Energy Sales. All the above Companies, as regards ISO 9001 and ISO 14001, also made the transition to the 2015 revision of the above standards, updating their management systems on the basis of the new requirements, completing the updating process of all the Iren Group's Certified Systems.

During 2018 the supervisory audits were carried out by the Certification Bodies, with positive results, confirming the validity of all the Certifications held by the Companies.
Finally, immediately after the business combination which led to the reorganisation of Iren Rinnovabili, the Company obtained the Quality (ISO 9001), Environment (ISO 14001), Safety (OHSAS 18001), Energy Efficiency (ISO 50001), ESCO (UNI 11352) and F-Gas certifications.

RESEARCH AND DEVELOPMENT

In the IREN Group technological innovation is central to strategic decisions and in defining the products and services offered.
The Business Plan to 2023, approved by the Board of Directors of Iren S.p.A. on 27 September 2018, confirms the centrality of innovation in the Iren Group's Vision which will be expressed over the period of the plan in the development of all the sectors in which it operates with the objective of making Iren an example of excellence and innovation and the multi-utility sector.

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

- energy efficiency divided into several levels and assets (customer, building, urban agglomerate, energy assets of the Group);
- study of new systems for the recovery of energy losses and an increase in the efficiency of the plants;
- advanced remote management, remote reading, smart metering and multi-metering systems;
- thermal and electrical storage systems;
- processes aimed at maximising the recovery of energy and materials from different waste fractions;
- Internet of Things (IoT) and home automation;
- data intelligence ICT tools;
- optimised management of the integrated water cycle (districtualisation, identification and reduction of network losses) and instruments in support of sensors in the field;
- systems for the quantitative reduction and recovery of material and/or energy from sludge deriving from waste water treatment processes;
- electrical mobility and self-driving;
- "industry 4.0" solutions in support of the personnel involved in plant operation and maintenance activities, for predictive maintenance and monitoring in the field;
- projects with a view to smart cities.

Iren manages the innovation processes through an open innovation model and in , keeping with this model it has in progress fruitful collaborations with Universities, Research Centres, Innovation Hubs and innovative Startups. 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.

2018 was characterised both by the continuation of technical activities related to the Group's various co-financed projects and by the development, also in partnership with innovative companies and startups, of internal technological projects on the basis of planning which, starting from an analysis of the long-term scenario, is aimed at giving the Group the tools needed to seize the opportunities and mitigate the risks deriving from evolution of the markets in which it operates.

In addition, in the second half of 2018 "IREN UP", the innovative Corporate Venture Capital programme was launched, with the objective of accompanying Italian startups with the highest potential in the cleantech sector, from clean technologies to the circular economy. In the context of the above, IREN makes available a completely new personalised package of services that may include testing, technical support, legal advice, market tests, and commercial and industrial agreements. The programme provides for investments of more than 20 million euro for the first three years, with investment tickets from Euro 100,000 to 2 million, depending on the stage of life of the startup and the needs.
Also in relation to the IREN UP programme, during 2018 activities also continued in the search for startups that have developed innovative solutions capable of bringing benefits to the Group's business lines, also through participation in events devoted to putting into contact the demand for and the supply of technology.

On this point, the second edition of the IREN Startup Award was launched. More than 170 startups took part in the competition, which was won by the startup Smart Track in the seed category and the startup Ecoplasteam in the growth category. Specifically Smart Track has developed a platform that uses wearable devices and sensors capable of reporting promptly emergency situations for the health and safety of workers, while Ecoplasteam has developed a process for the treatment of polycoupled waste (for example Tetrapaks) that produces EcoAllene, an innovative totally recyclable plastic material with a very large variety of uses in the creation of objects and components.

Both startups, besides an economic contribution to the project, will receive a customised acceleration programme financed by IREN.
Completing the above, the startup Bepooler was the winner in the special category related to eco-sustainable mobility.

In addition, implementing the Framework Agreement for collaboration on research between the University of Turin and Iren S.p.A., on 19 July the closing event of the Challenge launched by IREN was held at the Turin ContaminationLab, a meeting place for students of all disciplines from the Polytechnic and the University of Turin. More than 80 students applied to respond to the first challenge proposed by IREN, "Identifying new models of electric mobility in urban contexts with high population density" – among them, 32 were selected to begin a training course of several weeks and 4 had access to the same number of study bursaries to collaborate with IREN for 10 months. The young people of the winning team, Up The Frequency, began in September 2018 to collaborate on mobility projects of interest to the Group.

In 2018, Iren won the *SMAU 2018* Innovation award with the Industry 4.0 plan for the Energy Business Unit. Specifically, the project had the objective of identifying innovative solutions in the management of the Business Unit, with particular reference to the maintenance sector of the thermoelectric, hydroelectric and district heating divisions.

Also in 2018, the Group was a finalist in the "Technology, Research & Innovation" category in the award assigned by Top Utility, after winning first place in the 2017 edition.

The main projects underway are presented below. The total investment for the IREN Group is approximately 7.5 million euro, of which 3.5 million euro being financed. In relation to these amounts, the expense incurred during 2018 was euro 740,000, of which approximately euro 500,000 covered by loans.

FINANCED RESEARCH PROJECTS IN PROGRESS

Water Services

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

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

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

Status: The project provides for technical specifications with project work planned on the water pipe network in the Rapallo area and in the metropolitan area of Genoa. In more detail, the water pipe network serving the city of Rapallo was modelled and calibrated with the support of the University of Bologna. The water pipe system was also divided into districts, installing pressure control valve enabling significant savings in terms of volumes of water supplied. In the metropolitan area of Genoa similar activity is planned on the urban drainage network; this will be carried out with the support of the University of Palermo.

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

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

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

Status: During 2017, Iren took part in defining the instrumental specifications and coordinated the activities connected with the standardisation of the product and/or of the procedures for validating the analyses performed. In 2018, IREN was involved in the activity of monitoring the standards issued by the unification bodies and in debugging the measurement chain incorporated in the instrument, which includes a thread devoted to concentration of the bacteria, developed by the University of Monaco. The thread will subsequently be installed at the sections of a water supply system managed by IRETI in the Prato district (Genoa).

Waste Management

Biometh-ER (Life+)

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

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

Status: During 2018, the documents were sent to the competent bodies for continuing with stage 2 of the project that involves for Iren the installation of a compression, storage and distribution system for biogas for motor vehicles. Activities continued on analysing the biogas produced by the upgrading plant to check conformity according to the legislation. Contact was also made with the technological suppliers of the compression, storage and distribution station, and the documents that govern the laboratory activities to test the effects of biogas used in vehicles were prepared. The purification plant construction site activities therefore began for installation of the compression, storage and distribution station. The coordinator ASTER put in a request for an extension of completion of the project for a further 6 months.

Energy

CHESTER (Horizon 2020)

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

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

Status: The project began at the end of April 2018. The first project deliverables were finalised; these regard the mathematical model of the technological solution and collection of the plant data that constitute the use cases of the project. Work also began on outlining the main components of the CHEST system and on applying the mathematical model to the use cases of the project.

ESACOM (Piedmont Region - innovation hubs tender)

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

Partners: Iren S.p.A. (coordinator), Iren Energia, Pro Logic Informatica, Modelway, Screen 99, Eurix.

Status: The project began officially in September 2017. In the following months Iren, with the project partners, was involved in defining the general system architecture, the communication protocols and the specifications of the web portal for implementing and displaying the results of the energy regulation. In March, the definition of the system specifications was completed, and then installations began at the pilot sites. At the same time, development of the single elements of the platform was begun.

EVERYWH2ERE (Horizon 2020)

The objective of the project is to develop a power generator with “plug and play” fuel cells, easy to transport around the city for temporary electrical power in various sectors (building sites, music festivals, temporary events, exhibition centres).
The Iren Group, as a third party of Environment Park, will test a hydrogen skid for electricity production during events/trade fairs (uninterruptible power supply/mobile generator mode).

Partners: D’Appolonia, VTT, Powercell Sweden AB, Genport, Swiss Hydrogen, Mahytec, FHA, Delta1 gUg, Environment Park, Acciona Construccion, ICLEI, Linde Gas Italia

Status: The project kicked off in February 2018 and Iren took part in the project giving support to Environment Park in order to provide technical/legislative indications on the technology to be developed.

Evolution2G (EMEurope Call 2016)

The "eVolution2G" project, which began in June 2018, is intended to study in depth and test directly in the field the Vehicle to Grid (V2G) concept, that is a system in which electric vehicles have a balancing role on electricity grids.
The main innovations of the project are based on:

- development of light quadricycles with an innovative battery management system and a bidirectional recharge system, capable of interfacing with the electricity grid both to recharge and to "give back" its charge;
- development of an EMCS (Energy Management and Control System) prototype, for data management according to the various subjects involved, with a view to improving the balance of the electricity network;
- tests on prototypes of V2G recharging solutions, at both the domestic level and the public/urban level.

Partners: Iren S.p.A. (coordinator), Mecaprom, CTC Cartech Company, Aalborg University.
Status: In the first six months of the project the partners finalised the design of the various subsystems, identifying the technical specifications for supply of the recharging systems with a view to V2G and performed the benchmarking of similar solutions/projects, as well as legislative analysis

FABRIC - FeAsiBility analysis and development of on-Road charging solutions for future electric vehicles (FP7)

The project relates to the development of a charging system for on-road electric vehicles by means of induction coils sunk into the concrete road surface. The project provides for 3 demonstrator sites, of which one in the Province of Turin in the SITAF area of the Turin-Bardonecchia motorway.

Partners: Iren S.p.A., IRETI, Turin Polytechnic, FIAT Research Centre, Pininfarina, Energrid and Scania Nissan, other international industrial partners, Italian and European SMEs.
Status: In June, the final project meeting was held in Turin. During this meeting, there was a demonstration of the pilot system of dynamic inductive discharge at the Susa customs terminal. During the latest activities, Iren supported the project partners in validating the related results.

NEMO- Hyper-Network for electroMobility (Horizon 2020)

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

Partners: Iren S.p.A., IRETI, Fiat Research Centre, TecnoSitaf, ICOOR, Renault, Verbund, TomTom, other foreign industrial partners, Italian and European SMEs.
Status: During 2018, various services of the NEMO platform were developed. Iren is involved in defining the specifications of the services associated with the electricity market operators. In particular Iren is working, with the support of a number of suppliers, on the interface of some charging columns for the use of internal fleets with the NEMO platform for testing certain innovative functions (e.g. route planning based on effective battery consumption).

OTTEMPO (Piedmont Region tender - innovation hubs)

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

Partners: Iren S.p.A., TOP-IX Consortium, Hal Service.
Status: The project was launched in the early months of 2018; the first activities for Iren will involve defining the specifications and setting up pilots in the electricity and water segments.

PLANET – (Horizon 2020)

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

Partners: Iren S.p.A., Iren Energia, IRETI, Iren Mercato, Turin Polytechnic, ISMB, Teknologian tutkimuskeskus VTT Oy, HYPERTECH, CERTH, Grindrop, ITM Power (trading), VAASAETT, FGH, Sorea, Merit Consulting House.
Status: At the end of November 2017, the project kick-off meeting was held. The first project activities regarded the identification of the use cases; those considered most interesting by the end users are being processed with more detail for implementation of the IT data processing platform. In particular Iren is identifying the site (residential building) at which to create the experimental pilot and the technologies that will be tested in the said pilot.

Pump-Heat – (Horizon 2020)

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

Partners: Iren S.p.A. and Iren Energia, University of Genoa, D’Appolonia, Ansaldo Energia, KTH, Aristotele University, Mitsubishi Hitachi Power Systems Europe, Mayekawa, Siemens, Alfalaval, i-TES, Limmat Scientific, Novener, Orlen.
Status: The project officially began in October 2017. In 2018 work was done on the preliminary design of the pilot and the interfaces were created for connecting the same to the 3GT combined-cycle plant of the Moncalieri Thermoelectric Power Station. In particular Iren is responsible for designing the Balance of Plant to connect with the existing plant of the heat pump and heat storage prototypes with phase changing materials.

Store&Go – (Horizon 2020)

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

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

Status: The technical-economic analysis was completed, in collaboration with the Polytechnic of Turin on the combination of P2G in combined cycles in order to increase its flexibility and recovery of the energy lost in the balancing and of the combination of P2G to offset the fluctuation of non-programmable renewable sources. In May, the first demonstrator provided for in the project was inaugurated in the German town of Falkenhagen, while this past September the Italian pilot, created in the Municipality of Troia (Apulia) was inaugurated.

OTHER INNOVATION ACTIVITIES

During 2018, alongside the financed projects, Iren launched numerous self-financed projects, which involved the engagement of resources internal and external to the company. In particular, as regards external collaborations, Iren activated 34 research contracts with Italian Universities, of which 13 concluded in 2018, which regarded many different aspects: from the design and testing of innovative plant solutions in support of the Iren businesses to the creation of models and the identification of new processes and services.
A number of significant self-financed projects are presented below:

Acoustic data transmission
During 2017, a prototype system was designed and installed on the Liteggia-Serra pipeline (managed by Iren Tigullio). This has demonstrated the feasibility of the acoustic telemetry technique on metal pipes, applied to the management of filling a mountain tank. The apparatus makes it possible to send
signals and data through water pipes in conditions of unavailability of data transmissions with conventional vectors (GPRS, radio link, Wi-Fi, satellite).
In the early months of 2018, an additional research project was launched, with the objective of finalising and engineering the prototype system developed and testing the acoustic data transmission on plastic pipes to extend its application also to other sites.
During 2018 the project activities were carried out in relation to the Hardware and Software devoted to receiving and transmitting data, the development of a digital data protocol usable in acoustic transmission mode, the design and construction of a microturbine in order to make the acoustic transmission system energetically autonomous, the applicability of the transmission system also to polyethylene pipes. The technological nucleus developed was the subject of a patent application filed and the presentation of a proposal, currently being assessed, in the context of the Horizon Prize – Zero Power Water Monitoring .

Monitoring of hydraulic transients in water distribution networks
During 2018 the devices for monitoring hydraulic transients in water distribution networks were tested. The pressure loggers, identified after technological scouting activity, make it possible to record so-called "water hammers" and their georeferenced display, at the same time as an analysis of indicators that represent the overpressure cycles accumulated over time.
The test provided satisfactory results and IRETI, which manages the integrated water service, will proceed in 2019 with the installation of further loggers, integrated into the corporate IT system, experimenting on the use of the measurements acquired in managing pressures in a water district to be identified.

Management of Water Treatment Sludge

During 2018, activities continued on analysing and assessing sludge treatment systems aimed at reducing its quantity and making the process more efficient, improving the production of by-products (biogas or biomethane) and reducing the total management costs. The assessment includes the definition of mass balance sheets and the analysis of the costs, benefits and technical/economic implications.

In particular, activities continued in the context of the research contract activated with TICASS, for the purpose of assessing the benefits, in terms of reducing the quantities of sludge to be disposed of, deriving from the introduction of hydrolysis treatments in purification plants managed by the Group.

At the same time, collaboration activity began with a startup, with the objective of assessing yields and applicability of an innovative hydrothermal conversion process capable of transforming sludge and other organic waste with high humidity content (including digestate) into a biocarbon with chemical and physical characteristics comparable to those of peat or fossil lignite.

Benchmarking activity will also be carried out in collaboration with universities and innovation centres in the context of existing partnerships with the universities in the territories where Iren operates.

Projects included in the Amga Foundation's research programme

During 2018, Iren collaborated on a number or projects included in the AMGA Foundation's programme; these projects refer to economic regulatory issues and technical-scientific questions associated with the quality of water resources. Among these, it is worth mentioning the research on:

(i) determining the standard cost of capital in the regulation of public utilities with particular reference to the context of waste;
(ii) the scenario analysis for assessing the input of biogas in the natural gas distribution and transport networks;
(iii) analysis of the state of the art and application of a simplified model of operation of the natural gas network to study cases of practical-operational interest, aimed at assessing the possible effects generated by inputting biogas;
(iv) applications of cost-benefit analysis to the energy sector;
(v) cost characteristics and economies of scale in the waste management sector;
(vi) application of the Water Safety Plans to the water service: methodological and informative aspects for the stakeholders involved.

Waste Management

Feasibility study on a plant for the production of fuels from mixed waste plastics

During 2018 a study was commissioned for the preliminary design of a plant for the production of fuels, in accordance with certain technical specifications, using as input mixed waste plastics (plasmix) through a pyrolytic process. In particular, plasmix is made up of residual mixed plastics deriving from plants for the selection of plastic from separated waste collection. As it is a non-uniform material, as of now it is difficult to find an outlet on the recycling market and it is often sent to landfills or for incineration.

More specifically, the study involved the preliminary dimensioning of a plant in full scale through assessments of a technical (mass and energy balance sheets) and economic kind, with details of the outputs that can be obtained.

Research activity on wood waste

During 2018, in collaboration with TICASS, a study was completed of the main processes and technological solutions for processing wood waste managed by Iren, with particular reference to large pieces, for the purpose of analysing their applicability and consequent technical and economic impacts on the Group's plant layouts.

The study, launched in March, began with a first benchmark analysis of the main processes present at the European level and of the (national/EU) legislative context. Subsequently, a further study was carried out on the mechanical pre-treatment systems for reducing the size and eliminating the impurities present, with a rough estimate of the associated costs.

The study ended with an analysis of the most innovative processes, aimed at extracting (chemically or biologically) elements with high added value from the wood waste.

Energy

Industry 4.0 Programme

During 2017, Iren continued activity on seeking innovative solutions falling under the definition of “Industry 4.0” applicable to the Energy Business Unit, with particular reference to the maintenance sector. The analysis focused on specific verticals, that is operator safety, infrastructure monitoring and big data, concentrating on the thermoelectric, hydroelectric and district heating sectors. At the end of the analysis activity, more than twenty projects were identified; these will be tested during 2018.
The activities in question involved the study and adoption of remote-controlled solutions to supplement the current corporate practices adopted during inspections. In continuity with what was already done in 2017, survey activities on reservoirs continued with the use of drones in order to quantify the volumes of residues.
The testing activity was also extended to the inspection of rocky slopes overlooking the reservoirs. The solutions involved in the collaboration made it possible to reduce considerably the time take by activities performed with conventional techniques and increased the safety of the workers involved. Development of a rover for inspecting shunting tunnels is also in the completion stage. The robot will be capable of travelling along tunnels, acquiring images and 3D maps, communicating with the outside world via a wireless network which it will lay out during the inspection.
Again, in the hydroelectric sector, and in particular at the Venaus and Telessio plants, tests are continuing on the use, in an operating context, of smart glasses systems in order to enable interaction between the operating field and the control room and real-time data communication.
Training days were organised for maintenance staff.
The monitoring activity was extended also to district heating networks and thanks to the use of a high-resolution thermographic camera, mounted on an aircraft, it was possible to fly, in a winter night, over the city of Turin and identify using thermal image processing software the water and heat leaks of the network.
In the field of predictive maintenance, a model is being tested at the combined cycle unit in the New Energy Hub of Reggio Emilia, which starting from the operating data of the plant, is capable of predicting its operation, thus optimising the maintenance activities and preventing any malfunctioning and breakdowns.
In the district heating field an activity was launched for the remote monitoring of the environmental parameters of the network valve chambers, considered confined spaces, making use of a connectivity technology capable of sending the data to a centralised database and analysing this information. The project's goal is to increase operator safety and provide additional information useful for planning maintenance activities in such spaces.

Installation of storage systems on the district heating network

In the City of Turin, Iren is engaged in the work to create a new heat storage system serving the district heating network at the Mirafiori North site, which, added to the currently existing 15,000 m^3 in the city, will increase the current total capacity by a further 2,500 m^3. In addition, in the second half of 2018, the authorisation procedure for the San Salvario district storage system was completed with obtainment of the planning permission. This system is aimed at optimising network management, and expanding the user volumes served by the district heating. The construction work is being launched.

Monitoring of the Ciardoney glacier

During 2018 research activities continued on the behaviour of the Valle Orco glaciers, through monitoring of the Ciardoney glacier in the Gran Paradiso National Park. The initiative, launched in the 1990s, is carried out in the context of an agreement with the Italian Meteorological Society, renewed on 28 June during the 7th National “Energy and Territory” Conference held in Locana (TO), Italy. 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 campaign of September 2018 recorded that, despite the very snowy winter at high altitude in the western Alps, this year too the mass balance was negative, at -1.45 m of water equivalent over the glacier as a whole, very similar to the situation observed in September 2017 (-1.39 m) and to the (unfavourable) average of the previous 26 years of observation (-1.31 m). The terminus also receded considerably, -15.5 m, a figure that brings to almost 460 m the total retreat compared to what was noted with the first measurements of 1972.

LoRA network on Turin

During the second half of 2018 a first experimental stage of the LoRa project was launched; this involves the creation of an Internet of Things (IoT) connectivity network based on the LoRaWan communication protocol covering the City of Turin. This first stage was characterised by procurement and installation of 5 LoRa gateways to ensure the network coverage and by the creation of two servers: one to manage the gateways (Network Server) and one to create dashboards and display data (Application Server). The choice of the positioning of these first 5 gateways was made in coordination with the City of Turin to give the possibility of testing IoT equipment with a view to smart services (e.g. Smart Parking). On the basis of the results obtained in this stage, it will therefore be possible to begin the subsequent steps which involve extending the LoRa network to cover the entire city.

IREN AND SUSTAINABILITY

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

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

The Business Plan to 2023, presented in September, substantiates the Group’s vision and mission and defines the following strategic lines: customers, organic growth, efficiency, environmental sustainability, people, digitalisation and innovation. The objectives and targets defined in these contexts, represent a contribution of Iren to the aims of the UN 2030 Agenda, and increasingly make the Sustainability Report/Non-Financial Declaration – to which you are referred under the terms of Italian Legislative Decree 254/2016 – an instrument for monitoring operations, and their economic, environmental and social impacts.

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

OTHER INFORMATION

Protection of natural persons with reference to personal data
In application of the provisions of Italian Legislative Decree 196/03 as amended, entitled the "Personal Data Protection Code", Iren S.p.A. and the main Group companies have developed over the years a system for managing the processing of data and their security, in keeping with current legislation and in line with the organisational evolution that has involved the Group.
During 2017 the "Project for implementing the corporate personal data protection system" was launched for Iren S.p.A. and for the main Group companies in order to make the existing Privacy System compliant with the new EU Regulation 679/16 (GDPR), continuing at the same time to ensure compliance with the current national legislation (Italian Legislative Decree 196/2003 as amended, and with the supplementary measures issued by the Privacy Authority, etc.).
The GDPR substantially changed the concept of Privacy with the objective of strengthening the rights of individuals to personal data protection, introducing among other things, the concepts of privacy by design and by default and of accountability, thus obliging Companies to to set up their Privacy right from the start, adopting the best solutions in order to minimise personal data processing.
The Project launched was developed during 2018 and in May the Data Protection Officer (DPO) of Iren S.p.A. was identified in the figure of the 231 System Compliance and Privacy Manager, subsequently designated by the Data Controller (Iren S.p.A. CEO). The same then gave instructions, in the context of the activity of management and coordination of the subsidiaries, to the Data Controllers of the same, that they were to appoint as DPO the same person chosen for the Parent Company.
Subsequently all the Data Controllers of the main Group Companies therefore designated as DPO the Parent Company DPO and made the relevant communication to the Supervisory Authority.

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

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

INFORMATION ON IREN'S CORPORATE GOVERNANCE

INTRODUCTION

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

As of 31 December 2018 two Shareholders' Agreements were in force between the public shareholders of Iren. These are listed below:

- FSU – so-called Emilian Parties – La Spezia Shareholders Agreement, in effect from 9 May 2016.
  This agreement (hereinafter also the "Shareholders' Agreement") is attributable to a blocking and voting syndicate with the purpose of guaranteeing the development of the Company, of its investees and of its business, and of ensuring to the same unity and stability of guidance, also through the use of the instrument of increased votes, and in particular: (i) determining methods of consultation and joint decision-making regarding certain resolutions of the Company's Shareholders' Meeting; and (ii) setting certain limits on the circulation of the shares contributed.
  The FSU-Emilian Parties Agreement has a duration of 3 years and will be tacitly renewed, subject to the option to withdraw with the methods and in the terms pursuant to the Agreement, for a further two years; subsequently, any further renewal must be agreed in advance in writing.
- Emilian Parties Sub-Agreement in effect from 9 May 2016.
  This agreement is intended, among other things, to determine the respective rights and obligations, in order to (i) ensure uniformity of conduct and rules on decisions that must be taken by the Emilian parties in the context of what is provided for in the FSU-Emilian Parties-La Spezia Shareholders Agreement; (ii) provide for further commitments in order to guarantee the development of the Company, of its investees and of its business, and of ensuring to the same unity and stability of guidance; (iii) attribute a right of pre-emption in favour of the signatories in the event of sale of the Company's shares other than shares covered by the Block Syndicate under the terms of the Agreement; and (iii) confer on the Municipality of Reggio Emilia an irrevocable mandate to exercise on behalf of the signatories the rights attributed to these latter under the terms of the Agreement.
  The Emilian Parties Sub-Agreement has a duration of 3 years and will be tacitly renewed, subject to the option to withdraw with the methods and in the terms pursuant to the said Sub-Agreement, for a further two years; subsequently, any further renewal must be agreed in advance in writing.
- FSU – FCT Sub-Agreement in effect from 17 July 2018.
  This agreement is attributable to a blocking and voting syndicate with the purpose of ensuring that, following the Demerger, FCT and FSU will exercise jointly the powers of voting and indicating candidates for IREN's company officers, in substantial compliance with what is provided for in the Articles of Association of FSU current up to the date of the Demerger; all this, in the context and with the necessary observance of the Shareholders' Agreement, so that the provisions regarding FSU in this Shareholders' Agreement are passed on jointly, without a break, to FSU and FCT, which will act as a single party in relation to the other signatories, in accordance with what is provided for in the Sub-Agreement.
  The FSU-FCT Sub-Agreement has a duration of three years from the date of effectiveness of the Demerger and is renewed automatically on expiry for a period of a further 2 years, subject to withdrawal to be communicated at least 6 months before expiry.

As indicated in "Significant events after the reporting period", on 5 April 2019, the extraordinary Shareholders' Meeting of IREN, meeting on a single call, approved certain amendments to the articles of association deriving from the signing of a Deed Supplementing and Amending the Shareholders' Agreement signed on 9 May 2016 (hereinafter "Addendum to the Shareholders' Agreement") aimed at updating, among other things, the governance following the changes deriving from the demerger of the Signatory FSU and from acceptance of the Agreement of the so-called "La Spezia Parties".

Among the amendments to the articles of association, we can note, in particular, the increase in the number of members of the Board of Directors from 13 to 15 and the increase in the number of Regular members of the Board of Statutory Auditors from 3 to 5.
This Addendum came into effect from 5 April 2019.
Again with effectiveness from 5 April 2019 the "Emilian Parties" signed an "Addendum to the Emilian Parties Sub-Agreement" to guarantee coordination with the Shareholders' Agreement as amended by the Addendum.
As regards the contents of the Addendum to the Shareholders' Agreement and to the Emilian Parties Sub-Agreement, please see the content of the same made available to the public.

On this point, we can note that in the period between 1 January 2018 and 31 December 2018, Signatories to the Agreement sold, on the market, a total of 40,180,564 shares contributed to the FSU – Emilian Parties Agreement while Finanziaria Sviluppo Utilities s.r.l. purchased 32,750,001 shares.

On 11 April 2018 the business combination between IREN and the ACAM Group was completed. This had been launched in May 2017 with the bid made by Iren in the context of the transparent procedure promoted by ACAM to identify an economic operator with which to implement a corporate and industrial business combination, and it continued on 29 December 2017 with the signing of an investment agreement by Iren, ACAM S.p.A. and 31 public entity shareholders of ACAM, with the simultaneous resolution by the Company's Board of Directors to increase the share capital for payment, divisible, reserved for ACAM shareholders who had taken on the commitment to sell to the Company their entire shareholding held in ACAM, in partial execution of the delegated power conferred on it under the terms of art. 2443 of the Italian Civil Code by the Shareholders' Meeting on 9 May 2016.
Following the fulfilment of all of the conditions precedent specified in the Investment Agreement, including the necessary approval by the Italian Antitrust Authority, the business combination was carried out through, among other things (i) the acquisition by IREN of all ACAM's share capital and (ii) subscription at the same time by 27 Acam shareholders of a total of 24,705,700 new IREN S.p.A. ordinary shares, in the context of the Capital Increase as above.
With effect from 8 May 2018, the Municipality of La Spezia and 25 municipalities of the province of La Spezia signed the Shareholders' Agreement bringing all the shares held to the blocking and voting syndicate. Therefore in the light of the changes listed above, the number of Signatories to the Shareholders' Agreement has increased from 65 to 91.

For completeness we can note that on 11 January 2018 all the remaining 62,305,465 savings shares were converted into Iren S.p.A. ordinary shares. Therefore, following the above business combination, the share capital is Euro 1,300,931,377.00, represented only by ordinary shares.

On 27 July 2018, the asymmetric non-proportional partial demerger of the Signatory Finanziaria Sviluppo Utilities S.r.l. came into effect. On the basis of this fifty per cent of shareholders' equity was attributed to the beneficiary Finanziaria Città di Torino Holding S.p.A., which came to hold 212,499,617 ordinary shares, subsequently reduced to 179,567,787 following the sale of 32,931,830 shares.
The demerger therefore determined a change in the number of signatories of the FSU Shareholders' Agreement – the so-called Emilian Parties from 91 to 92.

The Company adopts a traditional corporate governance system, compliant, as will be seen below, with the principles of the Corporate Governance Code for Listed Companies issued by the Corporate Governance Committee – July 2018 edition (hereinafter the "Code").
The Board of Directors has the broadest range of powers for the ordinary and extraordinary administration of the company and, in particular, the power to take all action deemed appropriate to implement and achieve the corporate purpose, also organising the company and the Group into business segments, whether in the form of companies or operating divisions, with the sole exclusion of powers which by law or by the Articles of Association are the responsibility of the shareholders' meeting.
Under the terms of the Articles of Association (as most recently amended in relation to the new amount of IREN's share capital, following execution of the capital increase operation consequent to the entry of new public shareholders linked to the integration between the IREN Group and the ACAM group), the Board of Directors delegates its powers to one or more of its members and can also assign powers to the Chairperson, Deputy Chairperson and Chief Executive Officer provided they do not conflict with each other.

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

Iren's corporate governance system is in line with the provisions of the Consolidated Finance Act and of the Corporate Governance Code of Listed Companies.
Lastly, with a resolution of the Board of Directors of 5 April 2019, the Company formally adopted the Corporate Governance Code for Listed Companies in the version updated in July 2018.
After adoption a disclosure was made to the public through a press release distributed to the market.
On the same date the Board of Directors also approved an update of the document which highlights the governance solutions adopted by the Company with reference to the provisions of the Code. This was published on the IREN Group's website (www.gruppoiren.it), in the Section "*Investors– Corporate Governance – Corporate documents*".

The Articles of Association are in keeping with the rules of the Consolidated Law and the other provisions of laws or regulations applicable to listed companies.
In particular the Articles of Association state, among other things, that:

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

On 9 May 2016 the Iren Shareholders' Meeting, called *inter alia* to approve the financial statements at 31 December 2015, also proceeded to appoint the Company's Board of Directors for the three years 2016-2018, with expiry on the date of approval of the financial statements at 31 December 2018.
With a resolution of the Board of Directors meeting of 09 May 2016, the Chairperson just appointed, Paolo Peveraro, was given powers, delegated powers and responsibilities in relation to institutional relations, external relations, communication, relations with Regions and local authorities, relations with Regulators, merger & acquisition operations.
The Deputy Chairperson, Ettore Rocchi, was given powers, delegated powers and responsibilities in relation to corporate affairs, corporate compliance, committees (both Committees within the Board set up in accordance with the provisions pursuant to the Code, and Local Committees), risk management, internal auditing, corporate social responsibility.
The Chief Executive Officer, Massimiliano Bianco, was given powers, delegated powers and responsibilities in relation to administration, finance and control; personnel, organisation and information systems; procurement, logistics and services; legal affairs; Energia, Mercato, Reti and Ambiente business units, as well as wide delegated powers and powers of representation.

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

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

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

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

BOARD OF DIRECTORS

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

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

In accordance with art. 25 of the Articles of Association, resolutions of the IREN Board of Directors are carried by a vote in favour of the absolute majority of Directors in office.
For the matters indicated in Art. 25.5 of the Articles of Association ("Significant Matters"), resolutions of the Board are instead carried by the vote in favour of at least 10 Directors.
Articles 18, 19 and 20 of the Articles of Association govern the appointment, methods and criteria for the presentation of lists for the appointment of Directors, which adopts the list voting system.
During financial year 2018 the IREN Board of Directors held 19 meetings.

At 31 December 2018, in the Board of Directors, made up of 13 directors, nine[1] of them possess the requisites of independence both under the terms of the combined provisions of arts 147-*ter*, paragraph 4, and 148, paragraph 3, of the CLF, and under the terms of the Code.

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

The Board of Directors assesses the independence of its members with regard to the principle of substance over form. The independence of directors is assessed by the Board of Directors on appointment, and thereafter on an annual basis, or when significant circumstances occur for the purposes of independence. The outcome of the Board's assessments is disclosed to the market, with the methods identified in the Code.

As of 31 December 2018, 4 meetings of the Independent Directors had been held, under the terms of Application Criterion 3.C.6. of the current Code.

The Company has established a short-term bonus system (MBO) for the Chief Executive Officer of the Parent Company and the Group's Key Management Personnel: the targets are set respectively by the Company's Board of Directors and the Chief Executive Officer – on the proposal of the Company's Remuneration and Appointments Committee – on an annual basis and, if achieved, for the amount established at the end of an enquiry carried out by the Committee, give the right to receive the related bonus (after a resolution of the Board of Directors, as regards the figure of the Chief Executive Officer).

During its meeting on 27 November 2018, the Company's Board of Directors, on the basis of the enquiry carried out by the Remuneration and Appointments Committee, approved the 2019-2021 Long-Term Monetary Incentive Plan for the Group's Key Management Personnel and other resources (the so-called "Key Resources") who can contribute in a significant way to achieving the targets in the 2018-2023 Business Plan (as approved by the Board of Directors on 26 September 2018).

For more information on the remuneration policy, please see the Remuneration Report for financial year 2018 made available to the shareholders, in observance of the terms provided for in the current legislation, before the Shareholders' Meeting called to approve the Financial Statements at 31 December 2018.

As envisaged in the Italian Civil Code, directors with an interest in a given transaction must report such interest beforehand. On this point, with a resolution passed on 2 July 2018, the current text of IREN's Procedure for Transactions with Related Parties was approved by the Board of Directors.

REMUNERATION AND APPOINTMENTS COMMITTEE

The Board of Directors set up within it a Remuneration and Appointments Committee (hereinafter also "RAC"), composed of non-executive directors, most of whom independent, from among whom the Chairperson is chosen.

The Committee has duties of enquiry, consultation and proposal in relation to the Board of Directors, pursuant to Principle 6.P.4. and Application Criterion 6.C.5 of the Code – on the subject of remuneration – and pursuant to Application Criteria 5.C.1. and 5.C.2 – on the subject of appointments (incorporated into a Regulation approved by the Board of Directors of IREN S.p.A. on 1 August 2018), listed below:

a) to formulate proposals to the Company's Board of Directors on the definition of the policy on remuneration of Directors and Key Managers of the IREN Group, in compliance with the current legislation and having regard to the criteria recommended by the Code, after interaction with the Company's Control, Risk and Sustainability Committee, as regards the risk profiles;
b) to submit for the approval of the Company's Board of Directors the annual Remuneration Report prepared under the terms of art. 123-*ter* of the CLF, for its presentation to the Shareholders' Meeting called for approval of the annual financial statements;
c) to assess periodically the adequacy, overall consistency and actual application of the policy under a) above, availing itself, in this last regard, of the information provided by the competent delegated bodies and formulating proposals on the subject to the Board of Directors;
d) to present proposals or express opinions to the Company's Board of Directors on the remuneration of executive directors and other directors who hold special positions and establishing performance objectives relating to the short and medium/long-term variable component connected with this remuneration;

e) to monitor the application of the decisions adopted by the said Board by verifying, in particular, the actual achievement of the short- and medium/long-term performance targets pursuant to point d) above;
f) to formulate proposals to the Company's Board of Directors on the remuneration of the members of the Committees set up within the Board itself;
g) to establish the annual board evaluation procedure on the operation of the Board itself and of its Committees and on their size and composition, also taking into account elements such as the professional characteristics, experience, including managerial, and gender of its members, and their seniority in office; specifically, after coordination with the Chairperson of the Board of Directors, the Committee identifies the subjects with which the assessment is concerned and, having regard to the best practices, also availing itself of the assistance of an expert consultant in the sector;
h) taking into account the results of the board evaluation as in point g) above, to formulate opinions to the Board of Directors on the subject of the dimensions and composition of the same and of its Committees (including the requisites of professionalism, integrity and independence of the related members) and to express recommendations on the professional and managerial figures whose presence on the Board of Directors is considered opportune, so that the Board of Directors can express its guidance to the shareholders before the appointment of the new administrative body;
i) to express recommendations to the Board of Directors as regards the maximum number of appointments as Director or Statutory Auditor in other listed companies in regulated markets (including abroad), in financial, banking and insurance companies or in large companies, compatible with an effective fulfilment of the appointment as Director of IREN S.p.A. taking into consideration the participation of the Directors in the Committees set up within the Board;
j) to express recommendations to the Board of Directors on any problematic cases connected with application of the prohibition on competition provided for in relation to Directors in art. 2390 of the Italian Civil Code;
k) compatibly with the current with statutory provisions, to propose to the Board of Directors candidates for the position of Director in the cases of co-option pursuant to Art. 2386 paragraph 1 of the Italian Civil Code, if it is necessary to replace Independent Directors, ensuring observance of the prescriptions on the minimum number of independent directors and on the quotas reserved for the less represented gender;
l) to carry out the enquiry on preparation of the plan for the succession of the Executive Directors, if the Board of Directors decides to adopt this plan;
m) to report, through its Chairperson, on the most significant questions examined by the Committee on the occasion of the first useful meeting of the Board of Directors of IREN;
n) to report on the methods of performing its duties to the Shareholders' Meeting called for approval of the annual financial statements, through its Chairperson or another member indicated by the same.

No Director shall take part in meetings of the Committee in which proposals are formulated to the Company's Board of Directors on their remuneration, unless the proposals regard all the members of the Committees set up within the administrative body.
In performing its duties, the Committee has the right to accede to the information and corporate units necessary for it to carry out its tasks, and to avail itself of external consultants, under the terms laid down by the Board of Directors.
In the case of operations regarding the remuneration of the Directors of the Company and the Key Management Personnel of the IREN Group, the Committee also performs the duties of the Committee of independent directors responsible for the examination and enquiry pursuant to the current Procedure on the subject of Transactions with Related Parties, limited to cases in which its composition makes it possible to meet the minimum requisites of independence and non-relatedness of its members required by the CONSOB T.R.P. Regulation.

On 12 May 2016, IREN's Board of Directors appointed the following Directors as members of the Remuneration and Appointments Committee:
- Moris Ferretti, recognising that he possessed adequate knowledge and experience on financial matters and remuneration policies;
- Marta Rocco;
- Isabella Tagliavini.

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

In financial year 2018 the Remuneration and Appointments Committee met 18 times (of which once jointly with the Control, Risk and Sustainability Committee), preparing proposals and opinions recorded in the minutes of the Committee meetings.
As per the indications of the Code, the meetings of the Committee were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him.

CONTROL, RISK AND SUSTAINABILITY COMMITTEE

In accordance with the Code the Board of Directors has set up an internal Control, Risk and Sustainability Committee.

At 31 December 2018, the Committee was made up of three non-executive and independent directors[2].

The Control, Risk and Sustainability Committee performs the general task of supporting, through adequate preliminary activities, the assessments and decisions of the Board of Directors relating to the internal control and risk management system, as well as those concerning approval of the periodic financial reports. The functions pursuant to Application Criterion 7.C.1 of the Code were attributed to the Committee (namely expressing preliminary opinions with respect to resolutions of the Board of Directors on a series of questions, including the appointment / revocation and remuneration of the Manager of the Internal Audit Unit) as were those pursuant to Application Criterion 7.C.2., listed below:

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

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

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

- Alessandro Ghibellini;
- Marco Mezzalama;
- Paolo Pietrogrande;

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

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

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

With a resolution passed on 20 December 2016 IREN S.p.A.'s Board of Directors also attributed duties of consultation and proposal in relation to the Board of Directors on the subject of sustainability to the then Control and Risk Committee, which, starting from that date, took on the name Control, Risk and Sustainability Committee.
On 14 February 2017, the Company's Board of Directors detailed these duties, establishing that the Control, Risk and Sustainability Committee, in assisting the administrative body:

- supervises the "sustainability" policies and observance of any principles of conduct adopted on the subject by the Company and its subsidiaries;
- examines the guidelines of the sustainability plan and supervises the implementation methods;
- assesses, together with the competent Group Unit and after consulting the independent auditors, the proper use of the standards adopted for the purposes of preparing the non-financial disclosures provided for in the current legislation;
- supervises the system for assessing and improving the environmental, economic and social impacts deriving from the business activities in the local areas;
- examines the periodic reports on the implementation of the structured methods of discussion with stakeholders in the local areas in which the Group operates, in particular through the Local Committees, and those on the consistency with the corporate social responsibility questions of the Group's cultural and image promotion activities.

The Committee expresses opinions to the Board of Directors on the subject of:

- definition of "sustainability" policies and principles of conduct, in order to ensure value creation over time for the shareholders and for all the other stakeholders;
- definition of a sustainability plan (strategic priorities, commitments and objectives) for the development of the Group's economic, environmental and social responsibility.

During financial year 2018 IREN S.p.A.'s Control, Risk and Sustainability Committee held 11 meetings (of which one jointly with the Remuneration and Appointments Committee).
As per the indications of the Code, all the meetings of the Committee were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him.

COMMITTEE FOR TRANSACTIONS WITH RELATED PARTIES

In accordance with what was established by the then current Internal Regulation on Transactions with Related Parties (incorporated into the current Procedure on Transactions with Related Parties), the Board of Directors set up a specific Committee for Transactions with Related Parties ("CTRP").
The CTRP is made up of three Directors in possession of the requisites of independence provided for in Arts 147-ter paragraph 4 and 148, paragraph 3 of the CLF and of the further requisites provided for in art. 3 of the current Code. In order to guarantee the double requisite of independence and non-relatedness in each transaction to be examined, in the context of the current Procedure on Transactions with Related Parties mechanisms were put in place to identify any subjects responsible, as an alternative, for the enquiry.
Specifically, without prejudice to the competence of the RAC in the case of transactions related to the remuneration of the Company's Directors and the Group's Key Management Personnel, it is envisaged that:

- if possibile, the CTRP is expanded to include other independent Directors, "*unrelated to the transaction under review*" who are members of the Company's Board of Directors, attributing to same administrative body the task of identifying a Sub-Committee composed of three Independent Directors unrelated to the individual transaction with Related Party under review;

- if there is not even one member of the CTRP or of the Board of Directors in possession of the aforementioned requisites of independence and non-relatedness, the task of the enquiry will be given, as Alternative Overseers to (a) the Company's Board of Statutory Auditors or (b) an Independent Expert appointed by the Company's Board of Directors.

On 12 May 2016, IREN's Board of Directors appointed the following directors as members of the Committee for Transactions with Related Parties:

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

all in possession of the requisites of independence under the terms of the provisions of the CFA, and under the terms of art. 3 of the Code.
On 24 May 2016 the Committee appointed Barbara Zanardi as its Chairperson.

In financial year 2018 the CTRP met 11 times, preparing, among other things, opinions which are recorded in the minutes of the Committee meetings.
The meetings of the Committee were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him.

MEMBERSHIP OF THE COMMITTEES

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

BOARD OF STATUTORY AUDITORS

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

On 19 April 2018 the Shareholders' Meeting appointed the members of the auditing body, which will remain in office for the years 2018/2019/2020 (until approval of the separate financial statements related to financial year 2020).
The membership of the Board of Statutory Auditors appointed by the Shareholders' Meeting of 28 April 2015 and in office until 19 April 2018 is as follows:

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

The membership of the Board of Statutory Auditors appointed, for a 3-year term of office, by the Shareholders' Meeting of 19 April 2018 is as follows:

Office	Name and Surname	Place of birth	Date of birth
Chairperson	Michele Rutigliano	Milan	06 October 1953
Standing Auditor	Cristina Chiantia	Turin	07 May 1975
Standing Auditor	Simone Caprari	Reggio Emilia	10 January 1975
Supplementary Auditor	Donatella Busso	Savigliano (CN)	30 June 1973
Supplementary Auditor	Marco Rossi	Piacenza	05 January 1978

Arts 27 et seq. of the Articles of Association, to which reference should be made, establish list voting as the method for appointing the Board of Statutory Auditors.
The members of the Board of Statutory Auditors attend the shareholders' meetings and meetings of the Board of Directors. The presence of at least one member of the Board of Statutory Auditors at Board of Directors' meetings ensures that the Board of Statutory Auditors remains informed of activities conducted by the company and on the transactions of greatest economic, financial and equity significance performed by the company and its subsidiaries, particularly transactions in which the directors have an interest.
As specified above, in accordance with the indications of the Code, the meetings of the Committees set up within the Board of Directors held during financial year 2018, were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him in office at the date of the meeting.
The Board of Statutory Auditors supervised the independence of the independent auditors and, in conducting its own activities liaised with the Internal Audit Unit and the Control, Risk and Sustainability Committee, attending their respective meetings.

In 2018 the Board of Statutory Auditors held 14 meetings.

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

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

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

Maximum number of positions held in other companies

According to the Corporate Governance Code of Listed Companies - which Iren has endorsed - the directors accept the position when they believe they can devote the necessary time to diligent performance of their tasks, also taking into account the commitment associated with their working and professional activities, the number of positions of director or statutory auditor held by them in other companies listed in regulated markets (including abroad), in financial, banking and insurance companies or in large companies .
In addition, on the basis of the commitment required from the directors to perform their duties in Iren, the Board of Directors may express its orientation as regards the maximum number of positions of director or statutory auditor in the companies pursuant to the previous paragraph that can be considered compatible with fulfilment of this commitment, taking into account the participation of Directors in the Committees set up within the Board. To this end it may propose to the Shareholders to introduce into the Articles of Association particular rules aimed at regulating consistently the appointment of directors.
In the current context, the Remuneration and Appointments Committee and the Company's Board of Directors decided not to implement the provision, judging that the number of appointments currently held

by the board members in other companies is compatible with performance of the duties of Director of Iren S.p.A..

Director responsible for the internal control and risk management system

Under the terms of Principle 7.P.3. of the Code, the Board of Directors identified within it a Director responsible for the internal control and risk management system (hereinafter the "ICRMS Director").
Starting from 4 June 2015, in relation to his appointment as Deputy Chairperson of Iren (appointment confirmed after renewal of the administrative body by the Shareholders' Meeting of 9 May 2016), the Board of Directors chose Prof. Ettore Rocchi as ICRMS Director, having considered also the delegated powers attributed to him.
As well as formulating proposals to the Control, Risk and Sustainability Committee and to the Board of Directors on certain matters (for example, on the subject of appointment / revocation and remuneration of the Manager of the Internal Audit Unit), Director responsible for the internal control and risk management system has been given the duties listed below, in accordance with Application Criterion 7.C.4 of the Code:

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

Requisites of directors

All members of the Company's Board of Directors possess the requisites of integrity, pursuant to Article 147-*quinquies* of the CFA. At 31 December 2018 the Directors Moris Ferretti, Lorenza Franca Franzino, Alessandro Ghibellini, Fabiola Mascardi, Marco Mezzalama, Paolo Pietrogrande, Marta Rocco, Licia Soncini and Barbara Zanardi also possess the requisites of independence provided for in both the provisions of the CLF (cf. arts 147-*ter*, paragraph 4, and 148, paragraph 3, CLF) and art. 3 of the current Corporate Governance Code of Listed Companies according to the Corporate Governance solutions adopted by IREN S.p.A..

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

Iren and the main Group companies have adopted organisation, management and control models under the terms of Italian Legislative Decree No. 231/2001 with the objective of creating a structured and organic system of procedures and control activities aimed at preventing, as far as possible, conduct that can entail committing the crimes contemplated by Italian Legislative Decree 231/2001.
Alongside the Organisation, Management and Control Model, Iren S.p.A. has adopted, with a resolution of the Board of Directors of 10 December 2010, also the Code of Ethics. This document has been updated several times over the years and was approved in its current version by the Board of Directors on 20 December 2017.
During 2018 the Holding and the main Group Companies continued the Project for substantial revision and updating of the Organisation, Management and Control Models in order to guarantee their constant consistency with the organisational changes that had occurred and with the introduction by parliament of new crimes, so that they maintain over time their effective ability to prevent 231 crimes from being committed. The updated 231 Models were then submitted to the Oversight Committees, presented to the

Boards of Directors of each Company for their approval and published in a full version on the Companies' Intranet sites.
Iren and the main Group companies set up, with resolutions of the Boards of Directors, an Oversight Committee under the terms of art. 6 of Italian Legislative Decree 231/2001, with the task of overseeing the operation and observance of the model and updating it. In 2016 the Board of Directors of Iren S.p.A. confirmed the collegial composition of its Oversight Committee appointing three external professionals with legal, corporate governance, organisational, economic and financial skills, with the objective of meeting the requisites of autonomy, independence and professionalism required by the law. The Board of Directors also appointed a Contact Person within the OC in order to ensure the coordination and continuity of action of the Committee itself and the constant identification of a reference in the Company. IREN S.p.A.'s Oversight Committee, availing itself of the competent corporate units, performs checks on areas of activity considered at risk under the terms of Italian Legislative Decree 231/2001 and reports twice a year to the Board of Directors on the activities carried out and the results that have emerged. If it is considered necessary, the Oversight Committee expresses suggestions aimed at improving the system for controlling the activities and monitors its implementation.
Both the general part of the Model and the Code of Ethics are available on the Company's website.

PROPOSALS OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS' MEETING

PROPOSALS RELATING TO THE AGENDA ITEM "Financial Statements at 31 December 2018, Directors' Report and proposal for allocation of the profit: related and consequent resolutions".

Dear Shareholders,

in relation to the above, we propose that you:

- to approve the Financial statements of Iren S.p.A. at 31 December 2018 and the Director's Report prepared by the Board of Directors;

- to approve the proposed allocation of the profit for the year, Euro 125,927,825.42, as follows:
  - Euro 6,296,391.27, 5% of the profit for the year, to the legal reserve;
  - a maximum of Euro 109,278,235.67 as dividend to Shareholders, corresponding to Euro 0.084 for each of the maximum no. of 1,300,931,377 ordinary shares constituting the Company's share capital, specifying that treasury shares will not benefit from the dividend; the dividend will be paid starting from 26 June 2019, ex-dividend date 24 June 2019 and record date 25 June 2019;
  - in a specific retained earnings reserve, the remaining amount of at least Euro 10,353,198.48.

Reggio Emilia, 12 April 2019

On behalf of the Board of Directors
The Chairperson
Paolo Peveraro

Consolidated Financial Statements and Notes to the Financial Statements

at 31 December 2018

STATEMENT OF FINANCIAL POSITION

thousands of euro

	Notes	31.12.2018	of which related parties	31.12.2017	of which related parties
ASSETS					
Property, plant and equipment	(1)	3,471,958		3,449,344	
Investment property	(2)	12,820		13,137	
Intangible assets with a finite useful life	(3)	2,009,986		1,653,977	
Goodwill	(4)	149,713		127,320	
Investments accounted for using the equity method	(5)	134,594		161,255	
Other equity investments	(6)	7,223		7,126	
Non-current trade receivables	(7)	69,068	10,286	69,801	3,436
Non-current financial assets	(8)	147,867	137,329	165,767	148,247
Other non-current assets	(9)	43,130	6,944	44,614	7,896
Deferred tax assets	(10)	360,298		277,771	
Total non-current assets		**6,406,657**	**154,559**	**5,970,112**	**159,579**
Inventories	(11)	73,799		61,984	
Trade receivables	(12)	983,836	112,518	895,788	144,376
Current tax assets	(13)	11,445		7,365	
Other receivables and other current assets	(14)	241,879	537	276,347	177
Current financial assets	(15)	78,775	26,889	506,382	461,592
Cash and cash equivalents	(16)	369,318		169,086	
Total current assets		**1,759,052**	**139,944**	**1,916,952**	**606,145**
Assets held for sale	(17)	402,424	401,900	8,724	
TOTAL ASSETS		**8,568,133**	**696,403**	**7,895,788**	**765,724**

thousands of euro

	Notes	31.12.2018	of which related parties	31.12.2017	of which related parties
EQUITY					
Equity attributable to shareholders					
Share capital		1,300,931		1,276,226	
Reserves and retained earnings (losses)		642,396		608,184	
Net profit (loss) for the period		242,116		237,720	
Total equity attributable to shareholders		**2,185,443**		**2,122,130**	
Equity attributable to minorities		376,928		376,673	
TOTAL EQUITY	**(18)**	**2,562,371**		**2,498,803**	
LIABILITIES					
Non-current financial liabilities	(19)	3,013,303		3,023,888	
Employee benefits	(20)	108,109		116,483	
Provisions for risks and charges	(21)	439,497		430,133	
Deferred tax liabilities	(22)	211,553		213,760	
Other payables and other non-current liabilities	(23)	474,778	111	222,595	583
Total non-current liabilities		**4,247,240**	**111**	**4,006,859**	**583**
Current financial liabilities	(24)	437,363	6,042	189,132	5,166
Trade payables	(25)	914,938	32,073	827,477	32,790
Other payables and other current liabilities	(26)	284,285	98	269,720	5
Current tax liabilities	(27)	32,049		15,295	
Provisions for risks and charges - current portion	(28)	89,887		88,502	
Total current liabilities		**1,758,522**	**38,213**	**1,390,126**	**37,961**
Liabilities related to assets held for sale	(29)	-		-	
TOTAL LIABILITIES		**6,005,762**	**38,324**	**5,396,985**	**38,544**
TOTAL EQUITY AND LIABILITIES		**8,568,133**	**38,324**	**7,895,788**	**38,544**

INCOME STATEMENT

thousands of euro

	Notes	Financial year 2018	of which related parties	Financial year 2017	of which related parties
Revenue					
Revenue from goods and services	(30)	3,764,386	324,000	3,448,664	347,030
- of which non-recurring		*41,238*			
Change in work in progress	(31)	(84)		(22,792)	
Other income	(32)	276,387	5,133	271,263	4,888
Total revenue		**4,040,689**	**329,133**	**3,697,135**	**351,918**
Operating expenses					
Raw materials, consumables, supplies and goods	(33)	(1,377,066)	(76,684)	(1,248,639)	(66,231)
Services and use of third-party assets	(34)	(1,271,959)	(30,136)	(1,166,638)	(29,281)
Other operating expenses	(35)	(64,653)	(9,975)	(99,814)	(8,539)
Capitalised expenses for internal work	(36)	33,198		27,724	
Personnel expense	(37)	(393,618)		(389,552)	
Total operating expenses		**(3,074,098)**	**(116,795)**	**(2,876,919)**	**(104,051)**
GROSS OPERATING PROFIT (EBITDA)		**966,591**	**212,338**	**820,216**	**247,867**
Depreciation, amortisation, provisions and impairment losses					
Depreciation and amortisation	(38)	(354,947)		(321,865)	
Provisions for impairment of receivables	(39)	(52,217)		(46,660)	
Other provisions and impairment losses	(39)	(28,933)		(31,342)	
Total depreciation, amortisation, provisions and impairment losses		**(436,097)**		**(399,867)**	
OPERATING PROFIT (EBIT)		**530,494**	**212,338**	**420,349**	**247,867**
Financial income and expense	**(40)**				
Financial income		42,844	18,117	46,246	22,064
Financial expense		(148,976)	(14)	(128,678)	(80)
Total financial income and expense		**(106,132)**	**18,103**	**(82,432)**	**21,984**
Share of profit (loss) of associates accounted for using the equity method	(41)	776		22,532	
Value adjustments on equity investments	(42)	(35,614)		8,670	
Profit (loss) before tax		**389,524**	**230,441**	**369,119**	**269,851**
Income tax expense	(43)	(116,287)		(104,359)	
Net profit (loss) from continuing operations		**273,237**		**264,760**	
Net profit (loss) from discontinued operations	(44)	-		-	
Net profit (loss) for the period		**273,237**		**264,760**	
attributable to:					
- Profit (loss) for the period attributable to shareholders		242,116		237,720	
- Profit (loss) for the period attributable to minorities	(45)	31,121		27,040	
Earnings per ordinary and savings share	**(46)**				
- basic (euro)		0.19		0.19	
- diluted (euro)		0.19		0.19	

STATEMENT OF OTHER COMPREHENSIVE INCOME

thousands of euro

		Financial year 2018	Financial year 2017
Profit/(loss) for the period – Shareholders and minorities (A)		**273,237**	**264,760**
Other comprehensive income that will subsequently be reclassified to the Income Statement			
- effective portion of changes in fair value of cash flow hedges		(22,342)	8,043
- changes in fair value of financial assets		-	-
- share of other profits/(losses) of companies accounted for using the equity method		222	753
Tax effect of other comprehensive income		6,198	(1,508)
Total other comprehensive income that will subsequently be reclassified to the Income Statement, net of tax effect (B1)	**(47)**	**(15,922)**	**7,288**
Other comprehensive income that will subsequently not be reclassified to the Income Statement			
- actuarial gains/(losses) on employee defined benefit plans (IAS 19)		2,403	2,963
- portion of other profits/(losses) of companies accounted for using the equity method related to employee defined benefit plans (IAS 19)		(115)	(196)
Tax effect of other comprehensive income		(1,248)	(481)
Total other comprehensive income that will subsequently not be reclassified to the Income Statement, net of tax effect (B2)	**(47)**	**1,040**	**2,286**
Total comprehensive income/(expense) (A)+(B1)+(B2)		**258,355**	**274,334**
attributable to:			
- Profit (loss) for the period attributable to shareholders		227,373	246,643
- Profit (loss) for the period attributable to minorities		30,982	27,691

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Legal reserve
31/12/2016 Restated (*)	**1,276,226**	**105,102**	**45,585**
Legal reserve			4,413
Dividends to shareholders			
Retained earnings			
Changes in consolidation scope			
Change in equity interests			
Other changes			
Comprehensive income for the period			
of which:			
- Net profit for the period			
- Other comprehensive income			
31/12/2017	**1,276,226**	**105,102**	**49,998**
First application of IFRS 9 and IFRS 15			
Retained earnings			
01/01/2018	**1,276,226**	**105,102**	**49,998**
Capital increase	24,705	27,917	
Legal reserve			8,348
Dividends to shareholders			
Changes in consolidation scope			
Change in equity interests			
Other changes			
Comprehensive income for the period			
of which:			
- Net profit for the period			
- Other comprehensive income			
31/12/2018	**1,300,931**	**133,019**	**58,346**

thousands of euro

Cash flow hedging reserve	Other reserves and retained earnings (losses)	Total reserves and retained earnings (losses)	Profit (loss) for the period	Total equity attributable to shareholders	Equity attributable to minorities	Total equity
(8,421)	**365,048**	**507,314**	**179,844**	**1,963,384**	**333,892**	**2,297,276**
		4,413	(4,413)	-		-
		-	(79,764)	(79,764)	(10,201)	(89,965)
	95,667	95,667	(95,667)	-		-
	4,669	4,669		4,669	17,413	22,082
	(2,708)	(2,708)		(2,708)		(2,708)
	(10,096)	(10,096)		(10,096)	7,880	(2,216)
6,692	2,233	8,925	237,720	246,645	27,689	274,334
			237,720	237,720	27,040	264,760
6,692	2,233	8,925		8,925	649	9,574
(1,729)	**454,813**	**608,184**	**237,720**	**2,122,130**	**376,673**	**2,498,803**
	(133,719)	(133,719)		(133,719)	(4,273)	(137,992)
	237,720	237,720	(237,720)	-		-
(1,729)	**558,814**	**712,185**	**-**	**1,988,411**	**372,400**	**2,360,811**
		27,917		52,622		52,622
	(8,348)	-		-		-
	(91,065)	(91,065)		(91,065)	(21,908)	(112,973)
	-	-		-	2,943	2,943
	(445)	(445)		(445)	415	(30)
	8,551	8,551		8,551	(7,908)	643
(15,624)	877	(14,747)	242,116	227,369	30,986	258,355
			242,116	242,116	31,121	273,237
(15,624)	877	(14,747)		(14,747)	(135)	(14,882)
(17,353)	**468,384**	**642,396**	**242,116**	**2,185,443**	**376,928**	**2,562,371**

STATEMENT OF CASH FLOWS

thousands of euro

	Financial year 2018	Financial year 2017
A. Opening cash and cash equivalents	**169,086**	**253,684**
Cash flows from operating activities		
Profit (loss) for the period	273,237	264,760
Adjustments:		
Income tax expense for the period	116,287	104,359
Share of profit (loss) of associates and joint ventures	(776)	(22,532)
Net financial expense (income)	106,132	82,432
Amortisation of intangible assets and depreciation of property, plant and equipment	354,947	321,865
Net impairment losses (reversals of impairment losses) on assets	40,252	(3,379)
Net provisions for risks and other charges	124,052	130,527
Capital (gains) losses	(2,070)	(1,930)
Utilisations of employee benefits	(16,764)	(5,675)
Utilisations of provisions for risks and other charges	(40,272)	(26,625)
Change in other non-current assets and liabilities	13,450	22,721
Other changes in capital	(58,329)	(17,586)
Taxes paid	(128,947)	(123,338)
B. Cash flows from operating activities before changes in NWC	**781,199**	**725,599**
Change in inventories	(10,280)	22,926
Change in trade receivables	(65,436)	49,938
Change in tax assets and other current assets	53,302	(59,044)
Change in trade payables	35,121	(66,906)
Change in tax liabilities and other current liabilities	(16,009)	(12,619)
C. Cash flows from changes in NWC	**(3,302)**	**(65,705)**
D. Cash flows from/(used in) operating activities (B+C)	**777,897**	**659,894**
Cash flows from /(used in) investing activities		
Investments in property, plant and equipment and intangible assets	(446,984)	(357,299)
Investments in financial assets	(800)	(17,486)
Proceeds from the sale of investments and changes in assets held for sale	22,780	7,164
Changes in consolidation scope	(202,098)	(66,575)
Dividends received	3,339	4,143
E. Total cash flows from /(used in) investing activities	**(623,763)**	**(430,053)**
F. Free cash flow (D+E)	**154,134**	**229,841**
Cash flows from /(used in) financing activities		
Capital increase	52,622	-
Dividends paid	(113,080)	(89,965)
New non-current loans	581,000	550,000
Repayment of non-current loans	(393,940)	(721,190)
Change in financial liabilities	(23,598)	66,452
Change in financial assets	42,038	22,541
Interest paid	(113,539)	(157,866)
Interest received	14,595	15,589
G. Total cash flows from /(used in) financing activities	**46,098**	**(314,439)**
H. Cash flows for the period (F+G)	**200,232**	**(84,598)**
I. Closing cash and cash equivalents (A+H)	**369,318**	**169,086**

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

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

The Group is structured according to a model which provides for an industrial holding company, with registered office in Reggio Emilia, Italy, and four companies responsible for the single business lines operating in the main Italian operating bases of Genoa, Parma, Piacenza, Reggio Emilia, Turin, Vercelli and since this past April also La Spezia.

The business segments in which the Group operates are:

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

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

The company’s consolidated financial statements for the year to 31 December 2018 include those of the Company and its subsidiaries, (collectively referred to as the “Group” and individually as “Group entities”) and the Group’s equity interest in jointly-controlled companies and in associates measured using the equity method.

I. CONTENT AND STRUCTURE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Iren Group at 31 December 2018 have been prepared in accordance with the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the provisions set forth in implementation of Art. 9 of Italian Legislative Decree No. 38/2005. The "IFRSs" also include all the revised international accounting standards ("IASs/IFRSs") and all interpretations issued by the International Financial Reporting Interpretations Committee ("IFRC"), previously known as the Standing Interpretations Committee ("SIC").

In drawing up these consolidated financial statements, the same accounting principles were applied as those adopted for the previous year's statements, with the exception of certain amendments to the IFRSs, presented in the section "Accounting standards, amendments and interpretations applied from 1 January 2018".

The financial statement formats adopted by the Iren Group in preparing these financial statements are the same as those applied in preparing the financial statements at 31 December 2017, with the exception of the income statement to which has been added the item "Provisions set aside for impairment of receivables".
In line with what was previously published, in the statement of financial position, assets and liabilities are classified as "current/non-current". Assets and liabilities classified as discontinued or held for sale are shown separately. Current assets, which include cash and cash equivalents, are those that will be realised, transferred or consumed during the Group's ordinary operating cycle or during the twelve months following year end. Current liabilities are those for which settlement is envisaged during the Group's ordinary operating cycle or during the twelve months following year end. The Income Statement is classified on the basis of the nature of the costs. In addition to the Operating Profit (EBIT), the Income Statement also shows the Gross Operating Profit (EBITDA) obtained by deducting total operating expense from total revenue. The indirect method is used in the cash flow statement. The cash configuration analysed in the cash flow statement includes cash on hand and cash in current accounts.

In the present dossier a number of alternative performance indicators (APIs) have been used; these are different from the financial indicators explicitly required by the IAS/IFRS international accounting standards adopted by the Group. For details of these indicators please see the specific paragraph "Alternative Performance Indicators".

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

These consolidated financial statements are stated in euro, the company's functional currency. All amounts expressed in euro are rounded to the nearest thousand.

ALTERNATIVE PERFORMANCE INDICATORS

The Iren Group uses alternative performance indicators (APIs) in order to convey more effectively the information on the profitability performance of the businesses in which it operates, and on its financial and capital situation. These indicators are different from the financial indicators explicitly required by the IAS/IFRS international accounting standards adopted by the Group.

On the subject of these measures, CONSOB issued Communication no. 92543/15 which makes applicable the Guidelines issued by the European Securities and Markets Authority (ESMA) on their presentation in the regulated information distributed or in prospectuses published. These Guidelines are aimed at promoting the usefulness and transparency of the alternative performance indicators included in regulated information or prospectuses that fall within the scope of application of Directive 2003/71/EC, in order to improve their comparability, reliability and comprehensibility.

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

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

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

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

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

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

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

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

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

Net financial debt over equity: determined as the ratio between net financial debt and equity including non-controlling interests.
This API is used by the Group in the context of documents both internal to the Group and external and is a useful instrument for assessing the financial structure in terms of relative proportion of financing sources between third-party funds and own funds.

II. CONSOLIDATION POLICIES

The consolidation scope includes subsidiaries, joint ventures and associates.

Subsidiaries
Entities controlled by the Group are considered subsidiaries, as defined by IFRS 10 - *Consolidated Financial Statements.* Control exists when the Parent Company has at the same time:
- decision-making power over the investee, that is the power to direct the relevant activities of the investee, that is activities that have a significant influence on the results of the said investee;
- the right to variable (positive or negative) returns from its involvement with the entity;
- the ability to use its decision-making power to determine the amount of the returns coming from its involvement with the entity.

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

Joint ventures
These are companies over whose activity the Group has joint control, in virtue of contractual agreements. Joint control, as defined by IFRS 11 – *Joint Arrangements, is the "contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control".*
With reference to entities jointly owned by mixed public and private ventures, given the objective possibility for the public shareholder to influence the company not only by means of *governance* agreements, but also because of its nature of public entity, the existence of joint control is judged on the basis of contractual agreements, assessing the actual possibility for the private partner to jointly control strategic decisions regarding the joint venture.
Joint arrangements are divided into 2 types:
- a Joint Venture (JV) is an arrangement whereby the parties have rights to the net assets of the arrangement. Joint Ventures are measured using the equity method;
- a Joint Operation (JO) is an arrangement whereby the parties are not limited exclusively to participating in the company's net profit or loss, but have rights to its assets and obligations for its liabilities. In this

case the assets/revenues on which the joint operator exercises such rights and the liabilities/costs of which the joint operator assumes the obligations are fully consolidated.

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

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

III. CONSOLIDATION SCOPE

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

<u>*Parent Company:*</u>
Iren S.p.A.

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

1) Iren Ambiente and its subsidiaries:
   - ACAM Ambiente
   - Amiat V and the subsidiary:
     - AMIAT
   - Bonifica Autocisterne
   - Montequerce
   - ReCos
   - Ricupero Ecologici Industriali
   - TRM

2) Iren Energia and its subsidiary:
   - Iren Rinnovabili and its subsidiary:
     - Studio Alfa and the subsidiary
       - Coin Consultech
   - Greensource and the subsidiaries:
     - Enia Solaris
     - Varsi Fotovoltaico
   - Maira and its subsidiary:
     - Formaira

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

4) IRETI and its subsidiaries:
   - ACAM Acque
   - ASM Vercelli and the subsidiary:
     - ATENA Trading
   - Consorzio GPO
   - Iren Laboratori
   - Iren Acqua and the subsidiaries:
     - Immobiliare delle Fabbriche
     - Iren Acqua Tigullio

During 2018 the incorporation into Iren Ambiente S.p.A. of the subsidiaries TRM V. S.p.A. and TRM Holding S.p.A. came into effect as did the transfer of Iren Rinnovabili and its subsidiaries from Iren Ambiente S.p.A. to Iren Energia S.p.A.. Although it had an effect on the structure of the Group, these operations did not entail a change in consolidation scope. These operations occurred as part of the Group's "overall" Corporate Rationalisation and Organisational Project, aimed at simplifying the equity investment structure and reducing the number of business Companies wholly held, directly or indirectly, by the Parent Company and at integrating/optimising the business processes/activities with uniform operating characteristics.

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

CHANGES IN FULL CONSOLIDATION SCOPE

The full consolidation scope changed during 2018 following the acquisition of control over the ACAM Group and over ReCos S.p.A., which both occurred in April, and over Spezia Energy Trading and Maira which both occurred in September.
In addition in the period a change in the scope of the Group's assets and liabilities occurred following the acquisition from SMC S.p.A. of a business unit made up of the 48.85% equity interest in the share capital of Società Ecologica Territorio Ambiente (SETA) S.p.A. and of the activities of closure and post-closure management of the Chivasso 0 landfill site.

Control over ACAM S.p.A. and its 100% subsidiaries ACAM Acque, ACAM Ambiente, InTeGra and Centrogas Energia (this last transferred to Iren Rinnovabili on 1 October) was acquired by Iren S.p.A. purchasing all the company's shares for a price of 59,000 thousand euro. We can specify that the assets of ACAM S.p.A. included 49% of the company ReCos S.p.A..
Under the terms of IFRS 3 - Business Combinations the cost of the business combination indicated above was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed.
The positive difference between the fair value of the price paid and the carrying amount of the shareholders' equity acquired, of 25,375 thousand euro, was allocated to the fair value of the assets in concession of the Integrated Water Service and to the 49% of the equity interest in ReCos S.p.A.; residually goodwill of 18,209 thousand euro was recognised.
We can specify that during the last quarter of the year the companies ACAM S.p.A. and InTeGra were incorporated into Iren S.p.A. and Centrogas Energia into Iren Rinnovabili S.p.A..

The acquisition of control over ReCos S.p.A., a company operating in waste processing and recovery, in virtue of existing shareholders' agreements, occurred instead through acquisition of 20.5% of the share capital from the other shareholder Ladurner s.r.l. for a price of 1,000 thousand euro. Following the operation described above, together with the equity interest held previously (25.5% by Iren Ambiente and 49% obtained by acquisition of the ACAM Group), the Iren Group holds 95% of the company's capital.
Recos S.p.A. measured at equity up to 31 March 2018, consequently came into the full consolidation scope starting from April. In line with the provisions of IFRS 3, the acquisition of control over ReCos S.p.A. entailed the redetermination at fair value of the previous interest held (74.5% which amounted to 5,340 thousand euro), with the consequent recognition of expenses of 1,706 thousand euro booked to the item "Value adjustments on equity investments" (Note 42).
Under the terms of IFRS 3 - Business Combinations the cost of the business combination was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed.
The fair value of the price paid in the business combination, inclusive of the fair value, at the acquisition date, of the interest in the company acquired previously owned by the Iren Group, was 4,634 thousand euro.
After allocating the positive difference between the fair value of the price paid (as defined above) and the corresponding portion of the carrying amount of the shareholders' equity acquired, of 8,353 thousand euro, to the fair value of the concession that the company holds, residually goodwill of 597 thousand euro was recognised.

At the beginning of September Iren Mercato acquired all the shares of Spezia Energy Trading S.r.l., a company operating in the sector of the sale of electricity and gas, for a price of 4,500 thousand euro.
Under the terms of IFRS 3 - Business Combinations the cost of the business combination indicated above was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed.
The positive difference between the fair value of the price paid and the carrying amount of the shareholders' equity acquired, of 4,793 thousand euro, was allocated to the fair value of the company's customer list; residually goodwill of 2,694 thousand euro was recognised.

At the end of September the acquisition of control, by Iren Energia, over Maira S.p.A. - and, consequently, of its full subsidiary Formaira S.r.l. - was completed. Maira is a company operating in the construction and management of small hydroelectric plants located in Piedmont. The operation was carried out by purchase of shares from the other shareholders and subscription of a share capital increase for a total price of 5,355 thousand euro.

Under the terms of IFRS 3 - Business Combinations the cost of the business combination indicated above was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed.
The positive difference between the price paid and the corresponding portion of the carrying amount of the shareholders' equity acquired, of 13 thousand euro, was entirely allocated to the value of the hydroelectric plants.
Therefore, given that the fair value, at the acquisition date, of the identifiable assets acquired and the identifiable liabilities assumed was in line with the fair value of the price paid, in the accounting for the business combination no goodwill or gain deriving from purchase at a favourable price was recognised.

Finally in October Iren Ambiente completed the purchase from SMC S.p.A. of a business unit made up of the 48.85% equity interest in the share capital of Società Ecologica Territorio Ambiente (SETA) S.p.A. and of the activities of closure and post-closure management of the Chivasso 0 landfill site.
The fair value of the price paid in the business combination was to 2,812 thousand euro.
Under the terms of IFRS 3 - Business Combinations the cost of the business combination indicated above was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed.
The fair value, at the acquisition date, of the identifiable assets acquired and the identifiable liabilities assumed was less than the fair value of the price paid and, therefore, in the accounting for the business combination goodwill of 894 thousand euro was recognised.

The table below summarises, for the five business combinations described above, the fair value of the price paid at the acquisition date, the pro-rata book value of the assets acquired (net of goodwill) and the liabilities assumed and the adjustments made following measurement at fair value of the assets acquired and the liabilities assumed.

thousands of euro

	ACAM Group	**ReCos**	**Spezia Energy Trading**	**Maira Group**	**"Waste Manage-ment" unit**
Fair value of the price paid at the acquisition date (A)	59,000	4,634	4,500	5,355	2,812
Pro-rata book value of the assets acquired (net of goodwill) and the liabilities assumed (B)	33,625	(3,719)	(293)	5,342	1,918
Difference (A-B)	25,375	8,353	4,793	13	894
Adjustments made following the measurement at fair value of the assets acquired and the liabilities assumed:					
Property, plant and equipment	-	-	-	26	-
Intangible assets	6,290	11,372	2,923	-	-
Investments accounted for using the equity method	2,390	-	-	-	-
Deferred taxation	(1,514)	(3,208)	(824)	(7)	-
Equity attributable to non-controlling interests	-	(408)		(6)	-
Goodwill	18,209	597	2,694	-	894

IV. ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The criteria adopted in drawing up these Consolidated Financial Statements at 31 December 2018 of the Iren Group are indicated below; the accounting standards described were applied consistently by all the Group entities and have not changed with respect to those adopted at 31 December 2017, with the exception of the changes introduced by IFRS 9 and IFRS 15 respectively on the subject of financial instruments and recognition of revenue, as indicated in the section " Accounting standards, amendments and interpretations applied from 1 January 2018".

Property, plant and equipment

- Property, plant and equipment owned

Property, plant and equipment are recognised at contribution, purchase or internal construction cost. This cost includes all directly attributable costs necessary to make the asset available for use (including, when relevant and where a real obligation exists, the present value of the estimated costs of dismantling and removing the asset and reclaiming the site on which it is located), net of trade discounts and rebates.

Financial expense related to the purchase or internal construction of items of property, plant and equipment is capitalised for the part of the cost of the asset until it becomes operative.

When significant components of property, plant and equipment have different useful lives, they are accounted for separately.

In particular, under this policy, land and buildings located on the land are to be recognised separately; only the buildings are depreciated, while the carrying amount of land is impaired, as described in the following section "Impairment losses".

Ordinary maintenance expenditure is expensed in full in the income statement. Expenditure that increases the carrying amount of the asset is charged to the asset to which it relates and depreciated over its estimated useful life, in compliance with IAS 16. Such expenditure includes expenditure that reasonably leads to an increase in future economic benefits, such as the lengthening of useful life, increase in production capacity, improvement in product quality and adoption of production processes that entail a significant reduction in production costs.

Assets under construction include expenditure related to the construction of plants incurred until the reporting date. These investments are depreciated once the asset becomes operative.

Property, plant and equipment are depreciated systematically on a straight-line basis annually using economic-technical rates determined in line with their residual useful lives. Landfills are depreciated based on the filling percentage.

Transferable assets are depreciated according to the expiry term of the related concession decrees. Continuing the action of 2017, once again in 2018 depreciation was suspended for transferable assets of the hydroelectric plants in Valle Orco (except San Lorenzo) and San Mauro, following the entry into force of Italian Law No. 134 of 7 August 2012 and the related implementing decree of 28 March 2013. These measures change the current regulations regarding the large shunt concessions for hydroelectric purposes ("hydroelectric concessions"). The regulations currently in force establish that the outgoing operator is entitled to an amount for "wet assets" (collection, regulation works, penstocks, drain pipes included in the business unit of the outgoing operator, the "transferable assets"), calculated on the basis of the revalued historical cost, net of public capital grants, also revalued, received by the operator for the construction of these works, less normal wear. As a result of these measures, starting from 2012, for transferable assets related to expired hydroelectric concessions with a residual carrying amount lower than the estimated value to be granted to the outgoing operator (calculated on the basis of the above provisions), their depreciation has been suspended.

The rates applied are set out in the following table:

	Min. rate	Max. rate
Buildings	1.25%	20.00%
Lightweight constructions	1.75%	10.00%
Vehicles	10.00%	25.00%
Sundry equipment	5.00%	25.00%
Furniture and office machines	5.30%	20.00%
Hardware	5.00%	50.00%
Facilities	1.25%	50.00%

The marginal changes in rates compared to 2017 are due to the new companies that came into the full consolidation scope, the updating of the economic and technical useful lives of individual assets and the result of verification performed on these by technicians responsible for the plants.

Grants related to assets are recognised as deferred revenue and taken to the income statement over the depreciation period of the related item of property, plant and equipment.

- Leased assets
Assets held under finance leases are recognised as property, plant and equipment using the financial method with a balancing entry under payables of the same amount, as provided for by IAS 17 which, while reflecting the economic substance of operations, assimilates these operations to purchase and financing agreements. Based on the above-mentioned method, property, plant and equipment are recognised at the capital value upon subscription of the finance lease. The amounts due to the lessor are also recognised under financial payables. This liability is decreased over time in line with repayment of the lease principal. Interest on payables is recognised in the income statement based on the repayment plan, in addition to depreciation of the asset based on the expected useful life.
Conversely, under the financial method, leased out assets are not included in property, plant and equipment. The related financial asset is recognised in the Statement of financial position. It decreases over time in line with collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the repayment plan.

Investment property

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

Intangible assets

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

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

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

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

	Years	
	from	to
Industrial patents and intellectual property use rights	1	50
Concessions, licences, trademarks and similar rights	1	99
Software	1	33
Other intangible assets with finite useful life	1	57

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

Assets under development and payments on account relate to internal and external costs referring to intangible assets for which the company has not yet acquired the right and has not started to use in production. These investments are amortised from the date they begin to be used in production.
Under IAS 36, assets under development are tested for impairment annually, or whenever there is any indication of impairment, so as to check that the carrying amount matches the recoverable amount.

Goodwill

Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the fair value of the identifiable assets, liabilities and contingent liabilities related to the complex acquired. If, after this restatement, the value of current and contingent assets and liabilities exceeds the acquisition cost, the difference is recognised immediately in the income statement.
Any goodwill deriving from the acquisition of an associate or joint venture is included in the carrying amount of the investment.
Goodwill is allocated to one or more cash-generating units and is not amortised, but is annually tested for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on "Impairment losses on non-financial assets").

Non-current assets held for sale - Discontinued operations

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

Discontinued operations represent a part of the group that has been discontinued or classified as held for sale, and:

a. represents an important business unit or geographical area of operations;
b. forms part of a single coordinated disposal plan or an important autonomous business unit or geographical area of operations;
c. is a subsidiary acquired solely with a view to resale.

If a single non-current asset is involved (e.g. a property or an investment in an associate), the recognition of profit or loss from the disposal or valuation depends on the nature of the asset.
If it is a discontinued operation and is a material component of the item "Net profit/loss from discontinued operations", a single amount is recorded represented by the total of:

i) profit or loss on the discontinued operation, net of tax effects; and
ii) the capital gain or loss, net of tax effects, recognised after the fair value measurement, net of costs to sell or actual disposal of the asset.

The income statement of the comparative period is restated in order to guarantee consistent comparison.
If the asset is immaterial, revenue and costs from the discontinued operation continue to be recognised on a line-by-line basis under the related income statement items, whilst the profit/loss from discontinued operations includes only the capital gain or loss referred to under point ii) above.

Service concession arrangements

The IREN Group is subject to application of IFRIC 12, which defines the recognition and measurement criteria to be adopted in agreements between public and private sectors related to development, financing, management and maintenance of infrastructures under licence agreement. In particular, should the grantor control the infrastructure by regulating and controlling the characteristics of the services supplied and the applicable prices, as well as by maintaining a residual interest in the activity, the operator will purchase either the right to use said infrastructure, or the financial asset, or both, based on the agreements made. Therefore, the operators that are included in the above cases cannot recognise the assets dedicated to the supply of the service as property, plant and equipment in the statement of financial position under assets, regardless of the acknowledgement of ownership in favour of the same operators included in the service concession arrangements.
In particular, the operator purchases a financial asset to the extent that it has an unconditioned contractual right to payment or another financial asset from, or upon instruction of, the grantor with reference to the building services. The financial asset recognised is subject to the provisions of IAS 32, IAS 9 and IFRS 7.
The operator purchases an intangible asset to the extent that it has a right (licence) to receive payment from users of the public utility. The right to receive payments from users is not an unconditional right to receive payments as the amounts depend on how much the utility is used. The intangible asset recognised is subject to the provisions of IAS 38.
If the operator is paid for the building services partly with a financial asset and partly with an intangible asset, the two amounts composing the payment to the operator shall be recognised separately. The payment received or to be received for both items is initially recognised at the fair value of the amount received or to be received and disclosed in the relevant revenue item.

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

Impairment losses on non-financial assets

The IASs/IFRSs require a company to assess whether there are any specific indications of impairment. The company performs an impairment test, which consists of estimating the recoverable amount of the asset and comparing it to its net carrying amount.
The recoverable amount is the higher of fair value less costs to sell (if an active market exists) and the value in use of the asset. Value in use is the present value of the future cash flows expected to be derived from an asset or Cash-Generating Unit, inclusive of taxes, by applying a discount rate, before taxes, which reflects the current market assessments of the time value of money and risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. If the impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased, with a counter-item in the income statement, up to the estimated new recoverable amount. The latter amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised. The reversal of an impairment loss is not applicable to goodwill.
The value in use is generally defined by discounting the cash flows expected from use of the asset or Cash Generating Units and from the value expected from its disposal at the end of its useful life.
The Cash Generating Units were identified in keeping with the Group’s organisational and business structure, as assets that generate independent incoming cash flows deriving from continuous use of the same.
Assets that are not subject to amortisation (goodwill and other intangible assets with an indefinite useful life) and intangible assets that are not yet available for use are tested for impairment annually, even if no indication of impairment exists.

Investments measured using the equity method

These are equity investments in associates or joint ventures, measured using the equity method, that is by recognising an amount equal to the investor’s share of equity as per the most recent financial statements available, adjusted to account for the difference between the price paid and equity at the acquisition date and any intra-group transactions, if relevant.
The investor’s share of profit or loss arising from application of the equity method is recognised as a “Share of profit or loss of associates and joint ventures measured using the equity method”, while the share of other comprehensive income is recognised in the statement of comprehensive income.
The difference between the purchase cost and the value, pertaining to owners of the Parent, of the identifiable current and potential assets and liabilities of the associate or joint venture at the acquisition date, is recognised as goodwill, included in the carrying amount of the investment, and tested for impairment using the same procedures described in the section above.
The risk deriving from losses which exceed the investor’s share of equity is provided for in provisions for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

Financial instruments

All financial instruments, including derivatives, are recognised in the statement of financial position when the company becomes a party to the agreement and therefore acquires a right to receive cash flows or an obligation to pay.
For the accounting treatment of financial instruments reference is made to the new standard IFRS 9, endorsed on 22 November 2016 with Regulation (EU) 2067/2016, which introduced a number of significant changes on the subject of classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

- Financial assets and liabilities

At the moment of initial recognition the financial asset or liability is measured at fair value plus or minus, in the case of a financial asset or liability not measured at fair value recognised in the income statement, the transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition the financial asset or liability is measured as described below.

As regards financial assets, IFRS 9 uses a single approach based on management models of financial instruments and characteristics of contractual cash flows of financial assets, with the aim of determining the measurement criteria, replacing the various rules set forth in IAS 39. In particular, the standard provides for the following three categories for the classification of financial assets: a) financial assets carried at amortised cost; b) financial assets carried at fair value through other comprehensive income (FVOCI); c) financial assets carried at fair value through profit or loss (FVTPL).
The classification within the categories indicated above is made on the basis of the entity's business model and in relation to the characteristics of the cash flows generated by the said assets:

a) a financial asset is measured at amortised cost if the entity's business model envisages that the financial asset is held to collect the related cash flows (therefore, substantially, not to make a profit also from sale of the instrument) and the characteristics of the cash flows of the asset correspond only to payment of principal and interest;
b) a financial asset is measured at Fair Value with a counter-item in Other comprehensive income if it is held with the objective both of collecting the contractual cash flows, and of being sold (Hold to Collect and Sell model);
c) finally if it is a financial asset held for trading and in any case does not come within the cases indicated in points a) and b) above it must be measured at fair value through profit or loss.

IFRS 9 does not permit reclassification between categories of financial assets except in the rare cases in which the company's business model changes. In this case, the effects of the reclassification are applied on a prospective basis.
At each reporting date all financial assets, with the exception of those measured at fair value recognised in profit (loss) for the period, are subjected to an impairment test to determine whether there is objective evidence that can lead to the belief that the value of the asset is not fully recoverable. On this point IFRS 9 introduced a new impairment model based on expected losses, where "loss" means the present value of all future lost revenue, opportunely integrated to take into account future expectations ("forward-looking information"). In accordance with the general approach applicable to all financial assets, the expected loss is a function of the probability of default (**PD**), of the loss given default (**LGD**) and of the exposure at default (**EAD**): the PD represents the probability that an asset will not be repaid and will go into default; the LGD represents the amount expected to be non-recoverable if the default event occurs; the EAD represents the receivable exposure claimed against the counterparty, including any guarantees, collateral, etc.. The estimate must be made initially on the expected losses in the next 12 months; in consideration of any gradual deterioration of the receivable the estimate must be adequate to cover the expected losses along the whole life of the receivable.

<u>Financial liabilities</u> are generally classified as measured at amortised cost, with the exception of derivatives which are measured at fair value recognised in profit (loss) for the period. The main change introduced by IFRS9 regards the accounting treatment of changes in the fair value of a financial liability designated as measured at fair value through profit or loss, if these are due to a change in the creditworthiness of the liability itself: according to the new standard, these changes must be recognised under other comprehensive income.

- Other equity investments

All equity instruments that fall within the scope of application of IFRS 9 - both listed and unlisted - must be measured at fair value through profit or loss (FVTPL). The entity has the option of presenting in Equity (FVOCI – fair value through other comprehensive income) changes to the fair value of equity instruments that are not held for trading, for which instead that option is prohibited. This designation is admitted at the time of the initial recognition, it can be adopted per individual security, and is irrevocable. If this option is used, changes in the fair value of these instruments should never be booked to the Income Statement.
The Iren Group decided not to avail itself of the aforementioned option. Therefore Other equity investments, made up of non-controlling interests in unlisted companies that the Group intends to keep in its portfolio in the near future, starting from 1 January 2018 are measured at fair value through profit or loss (FVTPL).

- Hedging instruments

The Group holds hedging instruments, acquired for non-speculative purposes, solely to hedge its exposure to currency, interest rate and commodity risks.

In keeping with what was already established by IAS 39, a hedging relationship qualifies for hedge accounting, if all of the following conditions are met:

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

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

At each reporting date, hedging instruments are tested for effectiveness to check whether the hedge still meets the requirements for designation as effective and can be recognised using hedge accounting. IFRS 9 abolished the threshold of 80-125% provided for in IAS 39 and introduced a new concept of hedge effectiveness that requires a check on the economic relationship existing between the hedged instrument and hedging instrument. A hedging relationship is effective if:

- there is an economic relationship between the hedged instrument and hedging instrument;
- the credit risk effect does not dominate the change in value that results from the economic relationship;
- the ratio between the quantity of the hedging instrument and the quantity of the hedged instrument in terms of relative weight does not determine an imbalance in terms of the hedge ratio.

If the requirements for the application of hedge accounting are met:

- for a cash flow hedge, changes in the fair value of the hedging instrument are recognised in shareholders' equity for the effective portion of the hedge (intrinsic value), and in the income statement for the time-value portion and any ineffective portion (over-hedging);
- for fair value hedges, changes in the fair value of both the hedging instrument and the hedged item are recognised in the income statement.

If the hedge does not meet the criteria for hedge accounting, the gains or losses deriving from measurement at fair value of only the hedging instrument are fully recognised in the income statement.

Taking into account the provisions of IFRS 7 on the fair value hierarchy, as extended by IFRS 13, for each category of financial instrument measured at fair value the fair value hierarchy is as follows:

- Level 1: Prices listed (not adjusted) on active markets for identical assets or liabilities;
- Level 2: Input data other than Level 1 listed prices which are observable for assets or liabilities, either directly (as in the case of prices), or indirectly (i.e. derived from prices);
- Level 3: Input data related to assets or liabilities which are not based on observable market data (unobservable data).

- Trade receivables and payables

Trade receivables and payables, with repayment dates that are in line with normal commercial practices, are not discounted as the time value of money is not material for their measurement, and are recognised at fair value (equal to their nominal amount). After initial recognition they are measured at amortised cost. Trade receivables are shown net of provisions for impairment of receivables determined, in accordance with IFRS 9, applying, instead of the general approach, valid for all financial assets with the exception of those measured at fair value through profit (loss) for the period, the simplified approach and, more specifically, the provision matrix model, which is based on identifying the default rates by maturity bands observed on a historical basis, applied for the entire expected life of the receivable and updated on the basis of significant future scenario elements.

- Cash and cash equivalents

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

Inventories

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

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

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

Shareholders' equity

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

Employee benefits

Post-employment benefits are defined according to plans which, based on their characteristics, are separated into "defined contribution" and "defined benefit" plans.
In defined contribution plans, the company obligation, limited to the payment of State contributions or to a separate fund, is calculated on the basis of contributions due. For the Group these are included under post-employment benefits accrued since 1 January 2007, payable to the INPS (the Italian Social Security Institution) fund and the share paid to the additional pension funds.

The liability relating to defined benefit plans, net of any plan assets, is calculated according to actuarial assumptions. For the Group, included in this category are post-employment benefits accrued until 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the tariff discounts for employees and former employees, additional monthly salaries (Art. 47, national labour agreement for the sector), the loyalty bonus paid to employees and contributions paid to the Premungas fund.
The present value of the liability is calculated for each employee using the projected unit credit method. The total liability is calculated by estimating the amount payable on termination of the employment relations, taking into account economic, financial and demographic factors. This amount is recognised on a proportional basis over the period of service matured. For post-employment benefits accrued at 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the proportional basis is not applied because at the reporting date the benefits can be considered accrued in full.
The demographic, economic and financial variables are validated annually by an independent actuary.

As regards presentation in the financial statements, the changes in liabilities connected with the obligation related to a defined benefit plan are broken down into three components:
1) operating (service cost), personnel expenses;
2) financial (finance cost), net interest income/expense;
3) measuring (remeasurement cost), actuarial gains/losses.
Gains and losses deriving from actuarial calculations regarding post-employment benefits are immediately recognised in Other comprehensive income, except for the loyalty bonus which is entirely recognised in the Income Statement.

As regards disclosures, information is given on the characteristics of the plans and related amounts entered in the financial statements, as well as on the risk resulting from the plans and including a sensitivity analysis of oscillations in demographic risk.

Provisions for risks and charges

Provisions for risks and charges are set aside to cover liabilities of uncertain amount or due date that are recognised when, and only when, the following conditions are met:
- the company has a present obligation (legal or constructive) as a result of a past event at the reporting date;
- it is likely that an outflow of resources embodying economic benefits will be required to settle the obligation;
- a reliable estimate can be made of the amount of the obligation.

Risks for which the related liability is only potential are disclosed in the notes to the financial statements, and no provision is made.
No additional information is provided for events that are remote, i.e. where it is very unlikely they will arise, and no provision is made.
The provisions are recognised at the amount representing the best estimate of the total that the company would pay to settle the obligation, or transfer it to third parties at year end. If the discounting effect on the value of money is significant, the provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money.
On discounting, the time-related increase in the provision is recognised as financial expense.
Provisions for landfill post-closure are discounted to the present on the basis of the cash flows indicated in the report drawn up by an independent expert.
The provisions for the renewal of transferable assets was set up so as not to recognise costs for maintenance, replacements and similar work, which do not increase the carrying amount of the asset, only in the periods in which they were incurred but to distribute them among the different periods of use of those assets.

Revenue from goods and services

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

For correct recognition of revenue from contracts with customers, reference is made to what is provided for in IFRS 15. The new standard, adopted by the European Union on 22 September 2016 and subsequently amended with Regulation (EU) 1987/2017 of 31 October 2017, applies to all contracts with customers, with the exception of the following.

- Leasing contracts (IAS 17)
- Insurance contracts (IFRS 4)
- Financial contracts (IAS 39)
- Non-monetary exchanges between entities operating in the same sector.

The new standard defines a model for recognising revenue based on 5 steps:

1. identify the contract with the customer. By contract is meant a commercial agreement approved by two or more parties that creates enforceable rights and obligations. A contract is identified when all of the following conditions are met: a) the parties have approved the contract (in writing or according to usual commercial practices); b) it is possible to identify the customer’s rights as regards the goods or services that must be transferred; c) the payment terms are identifiable; d) the contract has commercial substance; e) it is probable that the price will be collected (only the customer’s ability and intention to pay are considered);
2. identify the “Performance Obligations” contained in the contract. Activities carried out to execute the contract, such as administrative formalities for preparing the contract itself, do not transfer separate goods and services to the customer, and therefore do not represent performance obligations. Non-refundable initial expenses charged to the customer are not revenue unless they refer to separate goods and services.
   If in a contract an entity gives the customer an option to purchase future goods and services, this option constitutes a separate performance obligation only if it gives the customer a benefit that the customer would not have been able to obtain in another way, for example a discount higher than those typically given for those particular goods or services. An option to purchase goods or services at a price that reflects its stand-alone selling price, is not a separate performance obligation even if it can be obtained only by signing the contract in question;
3. determine the “Transaction Price”. In order to determine the transaction price it is necessary to consider, among other things, the following elements: a) any amounts collected on behalf of third parties, which must be excluded from the price; b) variable components of the price (such as performance bonuses, penalties, discounts, refunds, incentives, etc.); c) financial component, if the payment terms grant the customer a significant extension;
4. allocate the price to the Performance Obligations on the basis of the “Relative Stand Alone Selling Price”;
5. recognise revenue when the Performance Obligation is satisfied. The asset or service is transferred when the customer obtains control over the asset or service and that is when it has the ability to decide and/or direct its use and obtain substantially all its benefits. The transfer of control, and consequently the recognition of revenue may occur at a certain point in time or over time.

In the event of contractual amendment, that is a change in the subject and/or the price of the contract approved by the parties, if the amendment introduces new separate goods and/or services and the increase in the contractual price is equal to the stand-alone selling price of the new goods and/or services, the contractual amendment must be accounted for as a new contract. If the two aforementioned conditions are not met and the goods and/or services still to be delivered are separate with respect to what has already been transferred to the customer before the amendment, the change must be treated as cancellation of the old contract and introduction of a new contract with prospective effect on revenue; otherwise the amendment must be treated as continuation of the original contract with retrospective effect on revenue.

Grants related to assets and grants related to income

Grants related to assets are recognised, when they become payable, as deferred revenue and systematically taken as income to the income statement over the useful life of the asset to which they refer. The deferred revenue related to the grants is recognised in the Statement of Financial Position, under Other liabilities, with suitably separated current and non-current amounts.

Grants related to income are recognised in the income statement when the recognition criteria are met, i.e. when their recognition as a balancing entry of supply costs related to the grants is certain.

Other income

Other income includes all kinds of revenue not included in the previous types and not of a financial nature. Income is measured at the fair value of the price received or due and is recognised when:
- the amount of revenue can be estimated reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company.

Costs for the purchase of goods and services

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

Financial income and expense

Financial income and expenses are recognised when they accrue on the basis of the interest earned on the net amount of the related financial assets and liabilities using the effective interest rate.
Financial expenses directly attributable to the acquisition, construction or production of a plant are capitalised when:
- it is likely that it will result in future economic benefits for the company;
- it can be reliably measured.

Dividends on equity investments are recognised when the right to receive payment is established. This usually coincides with the resolution passed by the shareholder's meeting.

Income tax expense

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

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

Deferred tax assets are recognised only when their recovery is probable. The amendments to IAS 12 approved by the European Commission with Regulation (EU) 2017/1989 of 6 November 2017 provide some clarifications on the criteria to be adopted to determine whether there are sufficient future taxable incomes against which to use the deductible temporary differences.
Deferred tax liabilities are calculated at the tax rates that are expected to apply for the year in which the differences are reversed.

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

In return for the taxable income earned and transferred to the parent, the consolidated company commits to paying “tax settlements” to the parent equal to the amount of taxes owed on the income transferred, net of the transferred IRES receivables.

Translation criteria

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

Emission Trading Scheme

The Emission Trading Scheme, which came into force in the European Union on 1 January 2005, is one of the ’flexible mechanisms’ permitted under the Kyoto Protocol in order to reach greenhouse gas emission targets. The target for Italy was a 6.5% reduction in CO_2 emissions by 2012 compared with 1990.
Italian Legislative Decree No. 30 of 13 March 2013 transposed Directive 2009/29/EC into Italian law. This directive introduced new rules for trading greenhouse gas emissions and new activities subject to application of the regulations in the period 2013-2020.
The Group actively participates in the emissions trading scheme to reduce greenhouse gas emissions and contribute to reaching the targets with respect to the national reduction plan.
Emission quotas acquired in the context of activities associated with achieving these targets are accounted for as intangible assets. The quotas are measured initially at fair value, represented by the effective purchase price, and are not amortised. Quotas received free of charge are not recognised.
As regards obligations related to the period, the CO2 emissions made are measured at fair value, represented by the market price at the end of the period and/or by the effective price of quotas already purchased, and are set aside as provisions for charges, used at the moment in which the rights are cancelled.
In the event of sale of emission quotas, together with the decrease in intangible assets, any capital gain/loss deriving from the selling price is recognised.
Any emission quotas held for trading which are still unsold at year end are recognised in the statement of financial position under the item Inventories. These quotas are measured at the lower of cost and market value.

Other energy certificates

Some types of incentives or energy certificates closely related to the activities performed were assigned to the Group. These are strictly connected with the performance of specific activities aimed at energy-saving and at injection into the electricity system of energy produced by renewable sources. In particular, the Group received:

- from the Energy Services Operator (GSE) an ex-green certificate incentivising tariff, as established by the Ministerial Decree of 6 July 2012, valid for the production of plants that already benefited from green certificates;
- from the Energy Services Operator (GSE), tradeable certificates that certify that energy-saving work has been performed (Energy Efficiency Certificates – “EECs”- the so-called “white certificates”).

For accounting purposes, these cases are treated as follows:

- the incentivising tariff (ex-green certificates) deriving from the annual production of electricity from renewable sources is recognised on the basis of the accruals concept when the right matures;
- White Certificates are accounted for in a slightly different way according to whether the entity is obliged or not obliged to return the EECs.
  In fact, entities that are obliged to return EECs recognise among other income the grant related to the obligation for the year and among cost for raw materials the cost of EECs purchased to meet this obligation in the year of accrual. If the EECs purchased exceed the compulsory amount, the cost of the exceeding purchased certificates is discounted; conversely, if the certificates purchased are not enough to meet obligations, the cost of certificates to be purchased will be allocated to meet the compulsory amount for the year.

Entities not obliged to return the EECs:

- if they operate in trading activities, recognise revenue and costs of the certificates bought and sold and suspend among Inventories any unsold certificates, measured at the weighted average cost and at the lower between cost and market;
- if white certificates mature in the context of energy efficiency and energy saving activities, the related revenue is recognised as it accrues.

Earnings per share

- Basic earnings per share

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

- Diluted earnings per share

Diluted earnings per share are calculated based on the profit or loss attributable to ordinary shareholders of the parent.

For the purposes of calculating diluted earnings per share, the number of ordinary shares is the weighted average number of ordinary shares plus the weighted average number of ordinary shares that could be issued on conversion to shares of all potential ordinary shares with dilutive effects. This conversion takes place at the beginning of the year or at the date of issue of the potential ordinary shares.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2018

As of 1 January 2018, the following accounting standards and amendments to accounting standards, issued by the IASB and endorsed, when provided for, by the European Union, are obligatorily applicable:

IFRS 15 – Revenue from Contracts with Customers. This standard, adopted by the European Union on 22 September 2016 and subsequently amended with EU Regulation 1987/2017 of 31 October 2017, applies to all contracts with customers, with the exception of leasing contracts, insurance contracts and financial instruments.

As better illustrated in the paragraph on the accounting standards applicable to Revenue, IFRS 15 defines a model for recognising revenue based on 5 steps:

i. identify the contract with the customer.
ii. identify the “Performance Obligations” contained in the contract;
iii. determine the “Transaction Price”;
iv. allocate the price to the Performance Obligations on the basis of the “Relative Stand Alone Selling Price”;
v. recognise revenue when the Performance Obligation is satisfied.

The standard obligatorily requires retroactive application, but the transition can take place using two different methods: retroactively at each previous financial year presented according to IAS 8 (full retrospective approach) or retroactively by recognising the cumulative effect from the date of initial application (modified retrospective approach) in the opening Shareholders' Equity at 1 January 2018 (IFRS 15, para. C3 b). If the second approach is chosen, IFRS 15 is only applied retrospectively to contracts that have not been concluded at the initial application date (1 January 2018). The Iren group has chosen to apply IFRS 15 using the second approach.

In application of the aforementioned principle, it has emerged that there is a need to implement a different accounting treatment for connection contributions invoiced by companies performing the distribution service, by way of reimbursement of the costs incurred for the connection/installation of the meter. The relative revenue cannot be considered part of the fee for the distribution service, since control of the asset is not transferred, pursuant to IFRS 15, and so they must be deferred and released along the life of the relevant asset in line with what is envisaged for tariff purposes.

The cumulative effect as at 1 January 2018 represented an increase in the Other payables and other non-current/current liabilities item for 186,571 thousand euro related to Deferrals for connection contributions which, net of the corresponding deferred tax Assets equal to 52,613 thousand euro, brought about a reduction of the opening balance of Retained earnings for 133,958 thousand euro.
The new accounting treatment brought about a reduction in the Other income item, at the economic level, of 2,056 thousand euro which, net of the related tax effect, generated lower Profit for the period, equal to 1,476 thousand euro.
As regards the application of the standard to other types of contract/contractual circumstances in place with customers, the checks carried out have not shown impacts; in relation to relationships with customers, specific procedures have been implemented in order to correctly report revenue from contracts starting from 1 January 2018 and identify any critical aspects in future commercial bids in good time.

IFRS 9 – Financial Instruments. The new standard, endorsed on 22 November 2016 with Regulation (EU) 2067/2016, introduced some significant changes regarding the following aspects:

I. criteria for classification and measurement of financial assets and liabilities. As regards financial assets, the new standard uses a single approach based on management models of financial instruments and characteristics of contractual cash flows of financial assets, with the aim of determining the measurement criteria, replacing the various rules set forth in IAS 39. In particular, the standard provides for the following three categories for the classification of financial assets: a) financial assets carried at amortised cost; b) financial assets carried at fair value through other comprehensive income (FVOCI); c) financial assets carried at fair value through profit or loss (FVTPL). Therefore, the categories of "loans and receivables", financial assets held for sale and financial assets "held to maturity" disappear. As regards financial liabilities, the main amendment relates to accounting for fair value changes of a financial liability designated as carried at fair value through profit or loss, if these are due to a change in the creditworthiness of the liability itself. According to the new standard, these changes must be recognised under other comprehensive income;
II. impairment of financial assets. The standard introduces a new impairment model based on expected losses, where "loss" means the present value of all future lost revenue, opportunely integrated to take into account future expectations ("forward-looking information");
III. hedging operations (hedge accounting). The changes introduced refer in particular to the effectiveness test, with reference to abolition of the threshold of 80-125% provided for in IAS 39, to the accounting for the cost of hedging, to expansion of the hedged items and of the disclosure required.

With reference to point I), there are no significant impacts on the balance deriving from the application of the requirements for the classification and measurement of financial assets provided for by IFRS 9. The Group has analysed the characteristics of the contractual cash flows from loans and receivables, considering them to meet the requirements for valuation at amortised cost. As regards Other equity investments, these are minority shareholdings in unlisted companies, up to 2017 classified as Available for sale and measured at fair value with a counter-entry in Other comprehensive income pursuant to IAS 39, which the Group intends to keep in the portfolio for the near future: as of 1 January 2018, in accordance with IFRS 9, these equity investments are measured at fair value through profit or loss (FVTPL).

As regards point II), provisions for impairment of receivables in relation to trade receivables have been recalculated by applying the simplified method provided for in IFRS 9. The application of the new standard is retroactive, so the Group has restated provisions for impairment of receivables at 31 December 2017 using the new methodology. Due to the new estimation, the Trade Receivables item decreased by 5,308 thousand euro which, net of the corresponding Deferred tax assets equal to 1,274 thousand euro, brought about a reduction of the opening balance of Retained earnings for 4,034 thousand euro at 1 January 2018. In addition financial receivables from associates, joint ventures and others were analysed in order to identify any impairment problems. The studies carried out, with particular reference to creditworthiness and to the probability of default, did not show, at 1 January 2018, the need to recognise any further impairment.

Finally, in relation to point III) the Group chose to apply IFRS 9 starting from 1 January 2018, although the standard allows for the possibility of continuing to apply the Hedge Accounting rules provided for in IAS 39 until the standard IFRS 9 is updated with the rules on Macro Hedging. Existing hedging relationships that meet the definition of effective hedges in accordance with IAS 39 are not impacted by the new hedge accounting criteria of IFRS 9.

Amendment to IAS 40 - Investment Property. The amendment, endorsed with Regulation (EU) 400/2018, entails a clarification on the application of paragraph 57 of IAS 40 providing guidelines on changes that can lead to classifying an asset which was not an investment property as such or vice versa. The amendment clarifies that a change in the management's intentions for the use of a property by itself does not constitute evidence of a change in use. No impacts are foreseen for the Group deriving from the amendment in question.

Finally we can note that on 29 March 2018 the IASB published the revised version of *Conceptual Framework for Financial Reporting*. The main changes with respect to the 2010 version regard:
- better definitions and guidance, in particular with reference to the definition of assets and liabilities;
- revision of the criteria for recognising assets and liabilities, and the related costs and revenues, that is the significance of the information and the faithful representation in the financial statements of the underlying transaction. The concepts of "probability" and "reliability in measurement" are eliminated;
- the reintroduction of important concepts, such as stewardship, that is to say the management's ability to manage the company's resources effectively and efficiently, prevalence of substance over form and prudence, above all when there is uncertainty in measurements. The new Framework states that estimates are part of financial statements and that high uncertainty in measurements does not imply that estimates cannot provide significant information;
- a new chapter on the subject of measurement which describes the possible measurement criteria, that is historical cost or present value: the present value can be determined as fair value, value in use or replacement cost. For each asset and liability the company must choose the measurement criterion that makes it possible to provide significant information capable of representing faithfully the substance of the operation. In addition the information provided must be comparable, verifiable, precise and understandable.

Since it is a conceptual framework of reference, but not a directly applicable document, the Framework is not subject to the process of endorsement by the European Union and is effective starting from the date of issue.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BUT NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE GROUP

As of 1 January 2019, the following accounting standards and amendments to account standards will be applicable, as they have completed the EU endorsement process:

IFRS 16 – Leases. Standard published by the IASB on 13 January 2016, intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard provides a new definition of lease, irrespective of the contractual form adopted (leasing, rental or hire) and in practice marks the end of the distinction between operating leasing and financial leasing.
IFRS 16 introduces a criterion based on the right of use for an asset to distinguish leasing contracts from services contracts, identifying as discriminating factors: identification of the asset, the right to replace the same, the right to obtain substantially all economic benefits deriving from use of the asset and the right to control use of the asset underlying the contract. On the lessee's part, the new standard provides for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value; in the income statement depreciation and interest expense must be recognised separately. On the lessor's part the impact on the financial statements consists only of greater disclosure.
Its application in the Iren Group is planned starting from 1 January 2019 although early adoption is permitted for entities that adopt IFRS 15. On the basis of the analyses carried out the contracts in which

Iren plays the role of lessee refer mainly to property leasing and long-term hires of cars and other motor vehicles.
In accordance with the provisions of IFRS 16.C3 the Iren Group decided to apply the standard to contracts previously classified as leases in accordance with IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, instead of redetermining whether or not a contract is or contains a lease.
With reference to leases previously classified as operating leases, as practical expedients provided for in the transitory provisions of IFRS 16, the Iren Group opted to:

- apply the standard retroactively accounting for the cumulative effect of initial application of IFRS16 at the date of initial application, without redetermining the comparative information, but instead recognising any cumulative effect as an adjustment of the opening balance of retained earnings (IFRS 16.C5 b and C7);
- measure the leasing liability at the date of initial application at the present value of the remaining payments owed undiscounted using the Iren's marginal loan rate at the date of initial application (IFRS 16.C8 a);
- measure the asset consisting of the right of use at an amount equal to the initial leasing liability, net of any prepaid expenses recognized in the statement of financial position , immediately before the date of initial application (IFRS 16.C8 b (ii))
- not recognize assets and liabilities related to leases the term of which ends within 12 months from the date of initial application. These leases are treated as short-term leases in accordance with IFRS 16.C10 c.

The effects of first application of IFRS 16, taking into account the aforementioned practical expedients, will entail an increase in financial liabilities of approximately 100 million euro and an equivalent increase in assets for property, plant and equipment. The impact on shareholders' equity is therefore zero.

Amendment to IFRS9 - Prepayment Features with Negative Compensation. The amendments, endorsed with Reg. (EU) 2018/498 of 22 March 2018, introduces an exception for particular financial assets that would feature contractual cash flows that are solely payments of principal and interest (IFRS 9, para. 4.1.2), but do not fulfil this condition owing only to the presence of a contractual clause providing for prepayment. In particular, the amendments state that financial assets with a contractual clause that allows (or imposes on) the issuer to repay a debt instrument or permits (or imposes on) the holder to repay a debt instrument to the issuer before maturity can be measured at amortised cost or at fair value through other comprehensive income, subordinately to assessment of the business model in which they are held, if the following conditions are met:

- the company acquires or issues the financial asset with a premium or a discount with respect to the nominal amount of the contract;
- the prepayment amount is substantially the nominal contractual amount and the contractual interest accrued (but not paid), which can include reasonable additional compensation for early termination of the contract; and
- when the entity initially recognises the financial asset, the fair value of the prepayment feature is insignificant.

The amendments are applicable starting from 1 January 2019.

IFRIC 23 – Uncertainty over Income Tax Treatment. The interpretation, issued in June 2017 and endorsed with Reg. (EU) 2018/1595 of 23 October 2018, clarifies how to apply the recognition and measurement requirements of IAS 12 in the case of uncertainty over tax treatments related to income taxes. If there are uncertainties ion the application of the tax laws to a specific transaction or group of transactions, IFRIC 23 requires the company to assess whether it is probable that the tax authority will accept the choice made by the company on the tax treatment of the transaction: on the basis of this probability, the company must recognise in its financial statements an amount of taxes that it may pay or defer with respect to what is included in its income tax filings. The interpretation is applicable for annual reporting periods beginning on or after 1 January 2019.

Amendments to IAS 28 – Long-term interests in associates and joint ventures. The amendment, issued in October 2017 and endorsed with Reg. (EU) 2019/1595 of 8 February 2019, clarifies that an entity must apply the provisions of IFRS 9 to any other long-term interest that substantially represents a further component of the equity investment in the associate or joint venture, to which the equity method is not applied (e.g. privileged shares, loans and non-trade receivables). Any losses recognised on the basis of the equity method, in excess with respect to the equity investment of the entity in ordinary shares of the associate or joint venture, are attributed to the other components of the equity investment in inverse order with respect to their degree of subordination (that is, liquidation priority) after applying IFRS 9. The amendment is applicable starting from 1 January 2016.

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

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

Annual improvements to IFRSs 2015-2017 cycle. Issued in December 2017, the document contains formal amendments and clarifications to already existing standards. Each of the amendments will be applicable, after endorsement, for annual reporting periods beginning on or after 1 January 2019. We can note in particular the following amendments:

- *IFRS 3 - Business Combinations*. The amendment specifies that a joint operator, which acquires control over a jointly-controlled activity that represents a business, must remeasure previously held interests in the jointly-controlled business at fair value at the acquisition date.
- *IFRS 11 – Joint Arrangements*. The amendment clarifies that when an entity that has an interest in a jointly-controlled activity that represents a business (under the terms of IFRS 3) without exercising joint control, acquires joint control, the entity does not have to remeasure previously held interests in that business.
- *IAS 23 – Borrowing Costs*. The amendment establishes that the capitalisation rate applied in order to determine the amount of borrowing costs capitalised must correspond to the weighted average of interest rates related to *all* loans outstanding during the period, other than those obtained specifically for the purpose of acquiring an asset. Therefore the part of specific borrowing remains outstanding, after the related "qualifying asset" is ready for its intended use or sale, must be included in the amount of funds that an entity borrows generally.

Amendments to IFRS 3 - Business Combinations. The amendment involved the definition of business, to be understood as an integrated set of activities that it is possible to conduct and manage for the purpose of providing goods and services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. This clarification makes it possible to distinguish whether an acquisition refers to a business or a group of assets: only in the first case goodwill can be recognised. The new definition of business must be applied to acquisitions made starting from 1 January 2020.

Definition of Material - Amendments to IAS 1 and IAS 8. The amendment, issued on 31 October 2018, has the purpose of clarifying better the definition of "material", providing indications useful for identifying all the relevant information to be included in the financial statements and making uniform the application of the concept of materiality in the body of the International Accounting Standards. The amendment will be applicable, after endorsement, for annual reporting periods beginning on or after 1 January 2020.

As regards the new standards applicable starting from financial year 2019 or subsequent years, assessments for their correct application and analyses of the presumable impacts on future financial statements are in progress.

V. GROUP FINANCIAL RISK MANAGEMENT

The management of business risks is an essential component of the Internal Control System of corporate governance in a listed company, and the Code of Conduct set forth by Borsa Italiana assigns specific responsibilities as regards this aspect.
A summary of the risk management and control methods is shown below with respect to financial instruments (liquidity risk, exchange rate risk, interest rate risk, credit risk) and commodity price risk related to fluctuations in the prices of energy commodities.

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

a) Liquidity risk
Liquidity risk is the risk that financial resources available to the company will be insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines. The procurement of financial resources was centralised in order to optimise their use. In particular, centralised management of cash flows in Iren makes it possible to allocate the funds available at the Group level according to the needs that from time to time arise among the individual Companies. Cash movements are recognised in intra-group accounts along with intra-group interest income and expense. A number of investees have an independent financial management structure in compliance with the guidelines provided by the Parent Company.
The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored, and no critical points have emerged regarding the coverage of short-term financial commitments. At the end of the period short-term bank credit facilities used by the Parent Company totalled zero.

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

Financial liabilities at 31 December 2018:

thousands of euro

	Carrying amount	Contractual cash flows	within one year	1-5 years	Over 5 years
Mortgage loan and bond payables (*)	3,293,125	(3,638,739)	(451,320)	(1,210,974)	(1,976,445)
Hedging of interest rate risk (**)	74,965	(74,965)	(17,210)	(44,181)	(13,574)

(*) The carrying amount of "Mortgage loan and bond payables" includes both current and non-current portions.
(**) The carrying amount of "Hedging of interest rate risk" includes the positive and negative fair value of the hedging contracts.

Financial liabilities at 31 December 2017:

thousands of euro

	Carrying amount	Contractual cash flows	within one year	1-5 years	Over 5 years
Mortgage loan and bond payables (*)	3,063,470	(3,435,703)	(199,847)	(1,557,720)	(1,678,136)
Hedging of interest rate risk (**)	82,537	(82,537)	(19,127)	(46,812)	(16,598)

(*) The carrying amount of "Mortgage loan and bond payables" includes both current and non-current portions.
(**) The carrying amount of "Hedging of interest rate risk" includes the positive and negative fair value of the hedging contracts.

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

Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suited to its needs, and the best market conditions.
Details of the activities performed in this area and of the individual transactions are shown in the chapter Financial Income and Expenses of the Directors' Report.

Financial debt at the end of the period is made up 33% of loans and 67% of bonds.
At 31 December 2018, 80% of the residual amount payable for loans was contractualised at a fixed interest rate and 20% at a floating rate.
With regard to the liquidity risk potentially deriving from contractual clauses allowing counterparties to withdraw financing should certain events occur (default and covenant risk), we can note that the clauses in Iren's loan agreements are being observed. In particular, for certain medium/long-term loan agreements Iren is committed to observing financial covenants (such as Debt/EBITDA, EBITDA/Financial expense ratios) with annual verification. Moreover, other covenants have been provided for. One is the Change of Control clause, which states that the Iren Group should be kept under direct and indirect control by Local Authorities. In addition, there are Negative Pledge clauses, under which the company undertakes not to give collateral beyond a specific limit, and the *Pari Passu* clause, which reserves an equal treatment to lending banks with respect to the treatment for other unsecured creditors. The medium/long-term loan agreements of certain companies which contribute to the Group's Net Financial Position, in particular the Project Finance contract with TRM, also envisage the observance of financial indices which have been satisfied.

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

c) Interest rate risk
The Iren Group is exposed to interest rate fluctuations especially with regard to the measurement of financial expenses related to indebtedness. The Iren Group's strategy is to limit exposure to the risk of interest rate volatility, maintaining at the same time a low cost of funding.
In a non-speculative view, the risks associated with the increase in interest rates are monitored and, if necessary, reduced or eliminated by swap and collar contracts with financial counterparties of high credit standing, for the sole purpose of hedging. At the end of the period, all the contracts entered into meet the requisite of limiting the exposure to the risk of oscillation of interest rates and, except for a few positions with insignificant impacts, they also meet the formal requirements for the application of hedge accounting.
The total fair value of the aforementioned interest rate hedges was a negative 74,965 thousand euro at 31 December 2018.
The hedging contracts entered into, together with fixed-rate loans, hedge approximately 94% of gross financial debt against interest rate risk, in line with the Iren Group's target of maintaining adequate protection against significant increases in the interest rate.

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

- a theoretical increase and decrease of 100 basis points in the Euribor interest rates over the year was applied to net financial debt;
- in any existing hedge, interest rate shock was applied to both the debt position and related hedging derivative with an extremely limited net effect on the income statement;
- the change in interest rates is also applied to any portion of interest expenses capitalised in the year.

With regard to hedging derivatives existing at year end, a 100 basis points theoretical upward and downward change was applied to the forward curve of interest rates used to measure the fair value of the hedges.
The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2018.

thousands of euro

	increase of 100 bps	100 bps decrease
Increase (decrease) in net financial charges	(291)	314
Increase (decrease) in derivative fair value charges	3,142	(3,337)
Increase (decrease) in hedging reserve	28,438	(31,212)

2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables deriving from the sale of electricity, district heating, gas and the provision of energy, water and environmental services. The receivables are spread across a large number of counterparties, belonging to non-uniform customer categories (retail and business customers and public bodies); some exposures are of a high amount and are constantly monitored and, if necessary, covered by repayment plans. The Iren Group's Credit Management units devoted to credit recovery are responsible for this activity.
In carrying on its business, the Group is exposed to the risk that the receivables may not be honoured on maturity with a consequent increase in their age and in insolvency up to an increase in receivables subject to arrangement procedures or unenforceable. This risk reflects, among other factors, also the current economic and financial situation.
To limit exposure to credit risk, a number of tools have been activated. These include analysing the solvency of customers at the acquisition stage through careful assessment of their creditworthiness, transferring the receivables of discontinued and/or active customers to external credit recovery companies and introducing new recovery methods for managing legal disputes. In addition, methods of payment through digital channels are offered to Customers.
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 reflect, carefully and in accordance with the current legislation, the effective credit risks and are determined on the basis of the extraction from databases of the amounts making up the receivable and, in general, assessing any changes in the said risk compared to the initial measurement and, in particular for trade receivables, estimating the related expected losses determined on a prospective basis, taking into due consideration the historical series.
The control of credit risks is also strengthened by the monitoring and reporting procedures, in order to identify promptly possible countermeasures.
In addition, on a quarterly basis, the Risk Management Department collects and integrates the main data regarding the evolution of the Group companies' trade receivables, in terms of type of customers, status of the contract, business chain and ageing band. Credit risk is assessed at the consolidated, Business Unit and company levels.
Some of the above assessments are carried out at intervals of less than three months or when there is a specific need.

With reference to credit concentration we can note the relations between the subsidiaries Iren Energia and AMIAT and the Municipality of Turin. For further details, see in particular Note 8 "Non-current financial assets" of the Notes to the statement of financial position.

3. ENERGY RISK

The Iren Group is exposed to price risk, on the energy commodities traded, these being electricity, natural gas, environmental emission certificates, etc., as both purchases and sales are impacted by fluctuations in the price of such commodities directly or through indexing formulae. Exposure to exchange rate risk, typical of oil-based commodities, is present, but is attenuated thanks to the development of the European organised markets that trade the gas commodity in the euro currency and no longer indexed to oil products. The Group's policy is oriented to a strategy of active management of the positions to stabilise the margin taking the opportunities offered by the markets; it is implemented by aligning the indexing of commodities purchased and sold, through vertical and horizontal use of the various business chains, and operating on the financial markets.
For this purpose, the Group carries out planning of the production of its plants and purchases and energy and natural gas sales, in relation to both volumes and price formulae.
The objective is to obtain a sufficient stability in the margins through:

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

Besides the normal activity with physical contracts, Over the Counter (OTC) commodity derivative contracts (Commodity swaps on TTF, PSV and SNP indices) were entered into to hedge the 2018 energy portfolio, for a total of 2.5 TWh. A further 9.4 TWh is contractualised to hedge the 2019 and 2020 energy portfolio. As regards activity on the EEX regulated platform, starting from May 2018, derivative contracts on the SNP were entered into for a total notional amount of 0.5 TWh for 2018 and 3 TWh for 2019 and 2020.

The Fair Value of these instruments at 31 December 2018 totalled a negative 18,016 thousand euro.

RECOGNITION OF DERIVATIVES

Derivatives are measured at fair value, determined on the basis of market values or, if unavailable, according to an internal measurement technique.
In order to recognise derivatives, it is necessary to distinguish between transactions that meet all of the IFRS 9 requirements in order to account for them in compliance with the hedge accounting rules and transactions that do not fulfil all of the aforesaid requirements.

Transactions recognised in compliance with hedge accounting rules

These transactions may include:

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

Classification in the income statement of the ineffective component and the deferred amount transferred from equity is based on the nature of the underlying instrument; in the case of commodity derivatives, this amount is accounted for in the gross operating profit (EBITDA), while in the case of interest rate risk hedges in financial income and expenses.

Transactions not recognised in compliance with hedge accounting rules

The derivative is recognised at fair value in the statement of financial position.
The change in the fair value of the derivative is recognised in the income statement and is classified based on the type of underlying instrument:

- in the case of commodity derivatives, in the gross operating profit (EBITDA); specifically, the realised component is recognised to adjust the income or expense to which it refers, while the portion determined from measuring the derivative at the end of the period is classified under other expense or other income;
- in the case of interest rate risk hedges, in financial income or expenses.

As regards the measurement of the derivative in the statement of financial position items, the fair value of the derivative is recognised in long term financial assets and liabilities if the related underlying item is a medium/long term item. Conversely, the derivative is recognised in current financial assets and liabilities if the underlying item is settled within the reference period.

FAIR VALUE

In addition to the carrying amount, the fair value, along with the methods and major assumptions used to determine it, must be disclosed for every asset and liability class shown in the financial statements.
Fair value is determined as the sum of estimated future cash flows in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the curve of forward interest rates at the reporting date.
In order to provide a disclosure as complete as possible, the corresponding figure from the previous year is also indicated.

thousands of euro

	31.12.2018		31.12.2017	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair Value**
Assets for hedging derivatives	311	311	1,812	1,812
Bonds due at more than 12 months	(2,185,550)	(2,174,032)	(1,777,885)	(1,879,082)
Bonds due within 12 months	(89,069)	(91,779)	-	-
Loans - non-current portion	(743,902)	(709,996)	(1,148,105)	(1,232,820)
Loans - current portion	(274,604)	(285,723)	(137,480)	(164,114)
Liabilities for hedging derivatives	(75,276)	(75,276)	(84,349)	(84,349)
Total	**(3,368,090)**	**(3,336,494)**	**(3,146,007)**	**(3,358,553)**

The amounts related to assets and liabilities for hedging derivatives in the table refer exclusively to derivatives hedging interest rate risk.

As regards financial asset and liability classes which are not included in the table above, the carrying amount is equal to fair value.

FAIR VALUE HIERARCHY

The following table shows financial instruments recognised at fair value, based on the measurement technique used and the method of accounting for them. The various levels were defined as shown below:

- Level 1: Prices listed (not adjusted) on active markets for identical assets or liabilities;
- Level 2: Input data other than Level 1 listed prices which are observable for assets or liabilities, either directly (as in the case of prices), or indirectly (i.e. derived from prices);
- Level 3: Input data related to assets or liabilities which are not based on observable market data (unobservable data).

thousands of euro

31.12.2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income				
Financial assets measured at fair value through profit or loss			7,223	7,223
Derivative financial assets in Cash Flow Hedges		636		636
Derivative financial assets in Fair Value Hedges		1,156		1,156
Derivative financial assets outside hedge accounting				
Total assets		**1,792**	**7,223**	**9,015**
Derivative financial liabilities in Cash Flow Hedges		(91,477)		(91,477)
Derivative financial liabilities in Fair Value Hedges		(108)		(108)
Derivative financial liabilities outside hedge accounting		(3,188)		(3,188)
Total liabilities		**(94,773)**		**(94,773)**
Grand total		**(92,981)**	**7,223**	**(85,758)**

thousands of euro

31.12.2017	Level 1	Level 2	Level 3	Total
Financial assets available for sale				
Financial assets measured at fair value through profit or loss				
Financial investments held for trading				
Derivative financial assets		4,117		4,117
Total assets		**4,117**		**4,117**
Derivative financial liabilities		(84,370)		(84,370)
Grand total		**(80,253)**		**(80,253)**

The comparative data at 31 December 2017 are presented according to the old classification provided for in IAS 39 since the application of the new IFRS 9 provides for the possibility of not restating the comparative data.

All the Group's hedging instruments have a fair value which can be classified at level 2. This level is measured through valuation techniques, that take, as a reference, parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different from the price of the financial instrument, or in any case that do not require a significant adjustment based on data which cannot be observed on the market. We can also note that no transfers occurred amongst the various Levels of the fair value hierarchy.

CAPITAL MANAGEMENT

The capital management policies of the Board of Directors involves maintaining a high level of capital to uphold relations of trust with investors, creditors and the market, and also allowing future business development.

The Board of Directors monitors the return on capital and the level of dividends for distribution to shareholders, and aims to maintain a balance between achieving extra yield by recourse to indebtedness and the benefits and security offered by a solid equity position.

VI. INFORMATION TRANSACTIONS WITH RELATED PARTIES

As indicated in the Directors' Report the information on financial and economic transactions with related parties is provided below.

Transactions with related-party shareholder Municipalities

Iren S.p.A. provides Finanziaria Sviluppo Utilities S.r.l., a special purpose company through which the Municipality of Genoa holds its equity investment in Iren S.p.A., with a series of corporate services, in accordance with a specific agreement that provides for consideration for these services.

We can note, for the Group's subsidiaries, the main transactions carried out directly with related-party shareholder Municipalities in the territories of which Iren operates through the said Companies.

The Group, from 1 October 2018 through Iren Rinnovabili S.p.A., and up to that date through Iren Energia S.p.A., manages services awarded by the Municipality of Turin, namely public street lighting and traffic light services, management of heating and electrical systems of buildings used as administrative offices or to provide services to the community. The services rendered by Iren Rinnovabili are governed by specific long-term agreements.

In this regard we can note that an onerous current account contract is in place between the City of Turin and Iren Rinnovabili (which took over from Iren Energia) for management of the past-due receivables related to the above activities.

Over the last three years some important work on plant regeneration and energy efficiency has been carried out. This has involved municipal street lighting systems and heating plants in numerous publicly-owned buildings.

Through AMIAT S.p.A. the Group also provides the Municipality of Turin with environmental hygiene and snow clearing services, and performs post-operative management of the "Basse di Stura" landfill site in accordance with the Service Contract in being. In this regard we can note that an onerous current account contract is in place between the City of Turin and AMIAT S.p.A. for management of the past-due receivables related to the above activities.

The Iren Group, through Iren Mercato S.p.A. supplies the Municipalities of Genoa, Reggio Emilia, Parma and Piacenza with electricity and the Municipality of Turin with heat, at the conditions normally applied to all other customers.

Iren Acqua S.p.A. and IRETI S.p.A. provide water services respectively to the Municipality of Genoa and to the Municipalities of Reggio Emilia, Parma and Piacenza, based on supply contracts similar to those signed with all other customers.

Iren Ambiente S.p.A. provides the Municipalities of Reggio Emilia, Parma and Piacenza with urban waste collection and disposal services on the basis of the conditions provided for in the existing agreements.

It is worth recalling, finally, that a settlement agreement between the Iren Group and the Municipality of Parma is in force to settle the credit/debit position with a number of Group companies.

Please see in addition the "*Disclosure pursuant to Art. 5.8 lett. a) and 5.9 CONSOB Regulation - Transactions of major significance*", below, as regards the agreement reached on transactions between the Group Companies and the Municipality of Turin.

Transactions with joint ventures and associates

Among the main transactions carried out by the Iren Group with joint ventures and associates, we can note:
- the supply to Asti Energia e Calore of goods and services for work on regenerating and increasing the energy efficiency of public lighting plants in the City of Asti;
- the loan granted to OLT Offshore LNG Toscana in relation to the Livorno regasification plant;
- the commercial supplies of electricity, natural gas and district heating to the company Global Service Parma;
- the sales of water and the work related to the integrated water service provided to AMTER;
- the procurement of natural gas from Sinergie Italiane;
- the services, including back office, call centre, reading, printing, postal and shipment services, provided by So.Sel to the Group.

Related-party transactions

On the basis of the Internal Regulations on Transactions with Related Parties, the companies controlled, directly or indirectly, by one of the following Municipalities have been identified as related parties: Parma, Piacenza, Reggio Emilia, Turin and Genoa.
In particular we can note that in order to supply the integrated water service in the provinces of Parma, Piacenza and Reggio Emilia, the company IRETI, with the payment of an annual lease, uses the assets of the companies Parma Infrastrutture, Piacenza Infrastrutture and AGAC Infrastrutture, controlled by the Municipalities involved.

The remaining relations with the companies controlled by the above Municipalities are mainly of a commercial nature and regard services provided to all other customers.

Quantitative information on financial transactions with related parties is provided in paragraph "XII. Annexes to the Consolidated Financial Statements", considered an integral part of these notes.

Lastly, with regard to IREN's directors and statutory auditors, we can note that other than regarding their offices held within the Group companies there have been no transactions with them.
If the related conditions are fulfilled, transactions that consist of assigning remunerations and economic benefits, in any form, to members of the administration and control bodies and to key management personnel are also subject to the provisions of the Internal Regulation on transactions with related parties.

Disclosure pursuant to Art. 5.8 lett. a) and 5.9 CONSOB Regulation - Transactions of major significance

At the meeting of 19 February 2018 (which continued the work on 20 February 2018) the CTRP, under the terms of article 9, paragraph 1, lett. (c), of the TRP Internal Regulation current at the time, expressed, unanimously, its favourable opinion with reference to the transaction, classified as "of major significance", involving the signing of a Preliminary Agreement between the City of Turin, as one party, and IREN, as the agent for its subsidiaries AMIAT, Iren Energia and Iren Mercato, as the other party, in relation to the existing relationships.
The proposed Preliminary Agreement was approved by the competent administrative bodies of Iren, AMIAT, Iren Energia and Iren Mercato and submitted to the Municipality which, with a resolution of the Municipal Executive Committee on 27 March 2018, approved its contents, with minimum specifications and amendments, and authorised the Mayor to sign the related contract.

In relation to the above, the Committee updated its analyses and assessments and, on 28 March 2018, confirmed, unanimously, its favourable opinion on signing the Preliminary Agreement with the text approved by the Municipal Executive Committee.
The above transaction was communicated to the market on 29 March 2018, with publication of the disclosure document prepared under the terms of article 5 of the CONSOB Regulation.
The Preliminary Agreement was concluded with an exchange of correspondence on 3 April 2018, providing for the commitment of the parties to sign the final contract by 30 June 2018.

Following the conclusion of the Preliminary Agreement, the parties began discussions to arrive at the signing of the Final Agreement and, to this end, set up a joint workgroup for preparation of the text of the agreement which would define in a complete and definitive manner the terms and conditions of the Transaction, according to the contents and structure already defined in the Preliminary Agreement, together with the related annexes.

The methods of approving the Final Agreement and the checks that became necessary in the enquiry stage, led the parties to agree an extension of the deadline for signing the final agreement to 15 July 2018, with related communication to the market made on 29 June 2018.

Under the terms of article 9, paragraph 1, lett. (c), of the TRP Internal Regulation current at the time, the CTRP was again tasked with the enquiry related to the signing of the Final Agreement, a transaction classified as “of major significance”.
On 29 June 2018, after an in-depth examination, carried out also with the support of a legal consultant, the CTRP confirmed the assessment already expressed with its opinion of 19-20 February 2018 and with the related update of 28 March 2018, formulating the its opinion favourable to the signing of the Final Agreement and the related annexes, after verifying their substantial conformity with the principles laid down in the Preliminary Agreement and, consequently, reconfirming the existence of the interest in the transaction as well as the requisites of convenience and substantial correctness prescribed by the legislation on the subject of transactions with related parties.
The signing of the Final Agreement was approved, after the issuing of the favourable opinion of the Committee, by the Board of Directors of IREN on 2 July 2018 and subsequently, on the basis of the resolutions passed by the parent company, by the respective administrative bodies of AMIAT, Iren Energia and Iren Mercato, each of which granted a specific mandate to IREN to sign the contract. The Municipality also approved the signing of the Final Agreement with a resolution of the Municipal Executive Committee on 3 July 2018. These approvals were communicated to the market in a notice issued on 3 July 2018.
In addition, under the terms of the current disclosure, on 9 July 2018 the additional disclosure document prepared under the terms of article 5 of the CONSOB Regulation was made available to the public.
The Final Agreement was signed on 12 July 2018.

Under the terms of art. 5, paragraphs 8 and 9, of the CONSOB Regulation, you are referred to the information contained in the Disclosure Documents prepared and made available to the public on 29 March 2018 and on 9 July 2018 under the terms and for the purposes of the said Regulation (available on the website www.gruppoiren.it, in the section “Corporate Governance - Transactions with Related Parties”).

VII. OTHER INFORMATION

CONSOB COMMUNICATION NO. DEM/6064293 of 28 July 2006

Significant non-recurring events and transactions
During financial year 2018 the Iren Group was not affected by "non-recurring" events and did not carry out significant transactions identified as such on the basis of the definitions contained in the Communication. In particular, it was not affected by events which do not reoccur frequently during the normal performance of the business.
However, we can note that in the year the Group's economic results were affected by the recognition of significant income consequent to the revision of the estimate of receivables for invoices to be issued related to the sale of electricity, gas and heat (of 41,238 thousand euro).
In order to permit a better analysis of the results of the Group and of the sectors in which it operates, this element of discontinuity was in any case highlighted in the Income Statement as a "non-recurring" item.

Positions or transactions deriving from atypical and/or unusual operations
We can specify that during financial year 2018 the Group did not engage in any atypical and/or unusual operations, as defined in the Communication. Atypical and/or unusual operations are operations which owing to their significance/relevance, nature of the counterparties, subject of the transaction, the method by which the sales price is calculated and the timescale of the event (nearness to reporting date) may give rise to doubts with regard to the correctness/completeness of the information given in the financial statements, conflict of interest and safeguarding of the company's equity or protection of minority shareholders.

DISCLOSURE PURSUANT TO ITALIAN LAW 124/2017 ART. 1 PARAGRAPHS 125-129

With reference to what is provided for on the subject of transparency in the system of public disbursements pursuant to art. 1, paragraphs 125-129 of Italian Law 124 of 2017 we can specify what follows:

- the National Register of State Aid includes aid, in favour of Iren Group companies, which must be disclosed. For the related details please see the aforementioned Register, under the terms of article 1, paragraph 125, second sentence;
- the disclosure does not include amounts deriving from the former green certificates, white certificates, all-inclusive tariff, energy account and in general all incentives connected with consideration for supplies and services rendered;
- during 2018 grants were received that come under the relevant legislation; these are listed in the table presented in paragraph "XII. Annexes to the Consolidated Financial Statements", with the exclusion of those less than 10 thousand euro per disbursing Body.

We can note that, as this was the first year of application of the rules provided for in art. 1, paragraphs 125-129 of Italian Law 124 of 2017, orientations and guidelines have not yet been consolidated by the competent authorities on the subject and that therefore what is presented above is at the moment the best possible interpretation of the law.

PUBLICATION OF THE FINANCIAL STATEMENTS

The Financial Statements were approved for publication by Iren S.p.A.'s Board of Directors at its meeting of 12 April 2019. The Board of Directors authorised the Chairperson, and the Chief Executive Officer to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders.
The shareholders' meeting to be called to approve the separate financial statements of the Parent has the right to request amendments to the aforementioned consolidated financial statements.

VIII. NOTES TO THE STATEMENT OF FINANCIAL POSITION

Unless otherwise stated, the following tables are in thousands of euro.

ASSETS

NON-CURRENT ASSETS

NOTE 1_PROPERTY, PLANT AND EQUIPMENT

The breakdown of property, plant and equipment, divided between historical cost, accumulated depreciation and carrying amount, is shown in the following table:

thousands of euro

	Cost at 31/12/2018	Accumulated depreciation at 31/12/2018	Carrying amount at 31/12/2018	Cost at 31/12/2017	Accumulated depreciation at 31/12/2017	Carrying amount at 31/12/2017
Land	110,732	(2,648)	108,084	104,498	(1,817)	102,681
Buildings	584,467	(214,588)	369,879	551,039	(184,900)	366,139
Plant and machinery	5,184,277	(2,365,057)	2,819,220	5,007,061	(2,165,936)	2,841,125
Industrial and commercial equipment	122,471	(94,856)	27,615	115,126	(89,035)	26,091
Other assets	184,383	(128,292)	56,091	166,274	(125,138)	41,136
Assets under construction and payments on account	91,069	-	91,069	72,172	-	72,172
Total	**6,277,399**	**(2,805,441)**	**3,471,958**	**6,016,170**	**(2,566,826)**	**3,449,344**

The variation in the historical cost of property, plant and equipment is shown in the following table:

thousands of euro

	Opening balance	Increases	Decreases	Changes in consolidation scope	Reclassifica-tions	Closing balance
Land	104,498	2,786	(618)	3,866	200	110,732
Buildings	551,039	7,861	(1,974)	25,407	2,134	584,467
Plant and machinery	5,007,061	104,336	(10,074)	46,622	36,332	5,184,277
Industrial and commercial equipment	115,126	6,863	(3,869)	4,099	252	122,471
Other assets	166,274	20,946	(17,899)	12,181	2,881	184,383
Assets under construction and payments on account	72,172	49,392	(262)	6,351	(36,584)	91,069
Total	**6,016,170**	**192,184**	**(34,696)**	**98,526**	**5,215**	**6,277,399**

The variation in accumulated depreciation is shown in the following table:

thousands of euro

	Opening balance	Amortisation for the period	Decreases	Changes in consolidation scope	Reclassifica-tions	Closing balance
Accumulated depreciation, land	(1,817)	(831)	-	-	-	(2,648)
Accumulated depreciation, buildings	(184,900)	(20,673)	1,355	(10,335)	(35)	(214,588)
Accumulated depreciation, plant and machinery	(2,165,936)	(192,501)	9,627	(16,311)	64	(2,365,057)
Accumulated depreciation, industrial and commercial equipment	(89,035)	(6,976)	3,740	(2,512)	(73)	(94,856)
Accumulated depreciation of other assets	(125,138)	(12,539)	17,855	(8,490)	20	(128,292)
Total	**(2,566,826)**	**(233,520)**	**32,577**	**(37,648)**	**(24)**	**(2,805,441)**

The column “Changes in consolidation scope” refers to the balances acquired during the year relating to the ACAM Group companies and to the companies ReCos, Maira, Formaira and Spezia Energy Trading.
The balance of the reclassification column refers mainly to net transfers from intangible assets to property, plant and equipment of items that do not come within the scope of application of IFRIC 12.

Land and buildings
This item includes mainly land and industrial buildings connected with the group’s plants.

Plant and machinery
This item refers to costs for electricity production plants, heat production plants, electricity distribution networks, gas distribution networks, heat distribution networks and plants related to waste disposal services not operated under concessions as per IFRIC 12. Transferable assets are included in the assets of electricity production plants.

Industrial and commercial equipment
This item includes costs related to the purchase of supplementary or auxiliary assets for plants and machinery, such as rubbish bins, laboratory and other equipment.

Other assets
This item refers to costs for the purchase of office furniture and machines and vehicles.

Investments in progress and payments on account
The item assets under construction includes all expenses incurred for investments in progress and not yet in operation.

Increases
The increases in the period, of 192,184 thousand euro, mainly refer to:
- development of the district heating network, including the related heat exchange substations, meters and remote reading appliances, for 30,246 thousand euro;
- investments in the electricity distribution grids, including primary substations, of 41,588 thousand euro;
- investments in the gas networks not in a concession arrangement in accordance with the provisions of IFRIC 12 of 23,349 thousand euro;
- investments in thermoelectric and hydroelectric plants of 46,555 thousand euro;
- investments for collection and disposal in the waste management segment of 24,249 thousand euro.

Depreciation and amortisation

Ordinary depreciation for 2018, totalling 233,520 thousand euro, was calculated on the basis of the rates previously indicated in paragraph "IV. Accounting standards and measurement criteria" and considered representative of the residual useful life of the assets.

It is worth noting that as regards large shunt concessions for hydroelectric purposes ("hydroelectric concessions"), the outgoing operator is paid an amount, calculated as follows:

- as regards "wet assets" (collection, regulation works, penstocks, drain pipes included in the business branch of the outgoing operator, the "transferable assets"), based on the revalued historical cost, net of public capital grants, revalued, received by the operator for the construction of these assets, less normal wear;
- as regards "dry assets" (property, plant and equipment included in the business unit of the outgoing operator and not included in the "wet assets" category, the so-called non-transferable assets), based on the reconstruction value, less normal wear.

As a result of this legislation, starting from 2012, for transferable assets related to expired hydroelectric concessions with a residual carrying amount lower than the estimated amount payable to the outgoing operator (calculated based on the above provisions), the related depreciation has been suspended.

Lastly, no assets are pledged against liabilities.

NOTE 2_INVESTMENT PROPERTY

The following table highlights the breakdown of the item:

thousands of euro

	Cost at 31/12/2018	Accumulated depreciation at 31/12/2018	Carrying amount at 31/12/2018	Cost at 31/12/2017	Accumulated depreciation at 31/12/2017	Carrying amount at 31/12/2017
Land	2,859	-	2,859	2,859	-	2,859
Buildings	13,133	(3,172)	9,961	13,103	(2,825)	10,278
Total	**15,992**	**(3,172)**	**12,820**	**15,962**	**(2,825)**	**13,137**

This item is primarily made up of properties whose fair value is not less than the carrying amount.

NOTE 3_ INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

The breakdown of intangible assets, divided between historical cost, accumulated amortisation and net amount is shown in the following table:

thousands of euro

	Cost at 31/12/2018	Accumulated depreciation at 31/12/2018	Carrying amount at 31/12/2018	Cost at 31/12/2017	Accumulated depreciation at 31/12/2017	Carrying amount at 31/12/2017
Development costs	3,755	(1,176)	2,579	1,433	(562)	871
Industrial patents and intellectual property use rights	106,274	(60,678)	45,596	86,991	(38,808)	48,183
Concessions, licences, trademarks and similar rights	2,692,758	(1,057,536)	1,635,222	2,242,143	(911,529)	1,330,614
Other intangible assets	285,801	(112,249)	173,552	196,972	(83,418)	113,554
Investments in progress and payments on account	153,037	-	153,037	160,755	-	160,755
Total	**3,241,625**	**(1,231,639)**	**2,009,986**	**2,688,294**	**(1,034,317)**	**1,653,977**

The variation in the historical cost of intangible assets is shown in the following table:

thousands of euro

	Opening balance	Increases	Decreases	Changes in consolidation scope	Reclassifica-tions	Closing balance
Development costs	1,433	1,391	-	291	640	3,755
Industrial patents and intellectual property use rights	86,991	10,713	(102)	6,509	2,163	106,274
Concessions, licences, trademarks and similar rights	2,242,143	128,803	(38,212)	274,067	85,957	2,692,758
Other intangible assets	196,972	93,807	(16,025)	11,435	(388)	285,801
Investments in progress and payments on account	160,755	82,246	(745)	4,368	(93,587)	153,037
Total	**2,688,294**	**316,960**	**(55,084)**	**296,670**	**(5,215)**	**3,241,625**

Changes in accumulated amortisation of intangible assets are shown in the following table:

thousands of euro

	Opening balance	Amortisation for the period	Decreases	Changes in consolidation scope	Reclassifica-tions	Closing balance
Accumulated amortisation of development costs	(562)	(323)	-	(291)	-	(1,176)
Accumulated amortisation of ind. patents and intellectual property use rights	(38,808)	(15,482)	95	(6,480)	(3)	(60,678)
Accumulated amortisation of licences, trademarks and similar rights	(911,529)	(84,014)	24,609	(86,614)	12	(1,057,536)
Accumulated amortisation of other intangible assets	(83,418)	(21,261)	907	(8,492)	15	(112,249)
Total	**(1,034,317)**	**(121,080)**	**25,611**	**(101,877)**	**24**	**(1,231,639)**

The column "Changes in consolidation scope" refers to the balances acquired during the year relating to the ACAM Group companies and to the companies ReCos, Maira, Formaira and Spezia Energy Trading.
The balance of the reclassification column refers mainly to net transfers from intangible assets to property, plant and equipment of items that do not come within the scope of application of IFRIC 12.

Industrial patents and intellectual property use rights
This item mainly relates to the total costs borne for the purchase and internal production of corporate software and the acquisition of rights for the exclusive use of technical studies on the statistical trend of network losses, amortised over between three and five years.

Concessions, licences, trademarks and similar rights
This item is primarily composed of:
- assets recognised in application of IFRIC 12, related to the operating business segments of natural gas distribution, the Integrated Water Service and, marginally, district heating;
- the right of use of pipeline networks by virtue of the concessions granted by the Municipality of Genoa and other neighbouring municipalities;
- concessions for the use of the IT network of third party operators.

Other intangible assets
This item is primarily composed of:
- rights to use telecommunication infrastructure owned by third parties;
- emission trading quotas held for internal needs;
- costs for the commercial development of customers;
- measurement of the customer lists made on allocation of the price for acquiring control over Atena Trading, Salerno Energia Vendite, Studio Alfa and Spezia Energy Trading.

Investments in progress and payments on account
This item mainly consists of investments in progress for concession services governed by IFRIC 12, in addition to software licences and related implementation costs.

NOTE 4_GOODWILL

Goodwill, of 149,713 thousand euro (127,320 thousand euro at 31 December 2017*),* during 2018 showed an increase of 22,393 thousand euro following acquisitions (business combinations) carried out by the Group during the year, in which under the terms of IFRS 3 - Business Combinations, the positive difference between the purchase price and the fair value, at the acquisition date, of the identifiable assets acquired and the identifiable liabilities assumed, was allocated to goodwill. In particular this refers to acquisition of control over the ACAM Group (18,209 thousand euro), over ReCos S.p.A. (597 thousand euro), over Spezia Energy Trading S.r.l. (2,694 thousand euro) and over a business unit consisting of a 48.85% stake in the share capital of Società Ecologica Territorio Ambiente (SETA) S.p.A. and the activities of closure and post-closure management of the Chivasso 0 landfill site (893 thousand euro).

Goodwill is considered an intangible asset with an indefinite useful life. Therefore, it is not amortised, but annually tested for impairment to check whether the carrying amount is still recoverable. Since goodwill does not generate independent cash flows and cannot be sold on its own, the impairment test on the goodwill recognised in the financial statements is carried out making reference to the Cash Generating Unit to which the same can be allocated. The Cash Generating Units are identified with the single Business Units and correspond to the business segments presented in the foreword to these notes. They are based on the Group's management structure and internal reporting system.
This method allows for a more effective disclosure of goodwill and future investment plans and supplies a homogeneous analysis of information communicated to the market.

The table below shows the allocation of the item goodwill to the Cash Generating Units.

thousands of euro

	31/12/2018
Waste Management	4,069
Energy	4,686
Market	32,460
Networks	108,498
Total	**149,713**

The impairment test procedure at 31 December 2018 was carried out in methodological continuity with that adopted at 31 December 2017.
The impairment test consists of verifying that the carrying amount of an asset recognised in the financial statements is not more than the recoverable amount of the said asset.
The recoverable amount of an asset is the higher between fair value, less costs to sell, and the value in use. The fair value is defined as the amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, less costs to sell.
The value in use is the present value of the estimate of future outgoing and incoming cash flows that will derive from continuous use of the asset and from its final disposal. To measure the value in use, assessments were made by using pre-tax operating cash flows, which derive from the economic and financial projections based on the medium-term Business Plan approved by the Iren Board of Directors on 26 September 2018, with an explicit horizon up to 2023, as well as the pre-tax terminal value, calculated using the perpetual yield method, if applicable, based on going concern assumptions for all businesses. It can be noted that the investments contained in the economic flows of the plan include investments for maintaining the plants and infrastructures, in keeping with the going concern assumption. The average of the perpetual yield and net invested capital was used as the control method. This is based on the reasonable assumption that, if the business is discontinued, the recovery value will be at least equal to the value of the net invested capital.
The discount rate, defined starting from the pre-tax weighted average cost of capital (WACC), is calculated specifically for each CGU and is included in the 5%-8.10% range, according to the related business line.

The table below shows the goodwill attributed to the single Cash Generating Units, specifying for each of them the discount rate (WACC) used.

	Amount at 31/12/2018	WACC 2018
Waste Management	4,069	5.00%
Energy	4,686	6.50%
Market	32,460	8.10%
Networks	108,498	5.00%-5.50% (1)
Total	**149,713**	

(1) Range between 5% and 5.50% according to whether they are Electricity Networks, Gas Networks or Water Networks

The recoverable value of the goodwill attributed to the Cash Generating Units was determined making reference to the value in use of the same.
In general, and prudentially, the “g” growth rate was used to calculate the terminal value equal to zero at real values. In the event of standalone plans used at nominal values, the “g” growth rate used was equal to programmed inflation (1.5%).

Waste Management Cash Generating Unit
The value of goodwill, of 4,069 thousand euro, refers mainly:
- to acquisition of control over ACAM Ambiente (ACAM group) in April 2018 (2,572 thousand euro);
- to acquisition of control over a business unit from SMC S.p.A. consisting of a 48.85% stake in the share capital of Società Ecologica Territorio Ambiente (SETA) S.p.A. and the activities of closure and post-closure management of the Chivasso 0 landfill site in October 2018 (894 thousand euro)
- to acquisition of control over ReCos S.p.A. in April 2018 (597 thousand euro);

No loss of value was detected when the impairment test was performed, because the recoverable value of the Waste Management Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

Energy Cash Generating Unit
The value of goodwill, of 4,686 thousand euro, refers to:
- acquisition of control over Iren Rinnovabili in 2017 following the expiry of the governance agreements entered into with the other shareholder CCPL S.p.A. which made Iren Rinnovabili a joint venture. The goodwill of 3,544 thousand euro was recognised as the surplus between the fair value of the price paid for acquisition of control and the fair value of the identifiable assets acquired and the identifiable liabilities assumed at the acquisition date.
- the Heat Service Management business unit transferred in 2017 from the Market Cash Generating Unit to the Energy Cash Generating Unit (948 thousand euro).

No loss of value was detected when the impairment test was performed, because the recoverable value of the Energia Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

Market Cash Generating Unit
The value of goodwill, 32,460 thousand euro, derives mainly from:
- the equity interest in Enìa Energia (now merged into Iren Mercato), acquired from Sat Finanziaria S.p.A. and Edison in 2008, for an amount of 16,761 thousand euro;
- the business unit acquired from ENEL in 2000 and referred to electricity users of the city of Parma, for an amount of 7,421 thousand euro;
- acquisition in 2012 of the business unit from ERG Power & Gas related to the marketing and sale of electricity for an amount of 3,401 thousand euro;
- acquisition of control over Spezia Energy Trading s.r.l. in September 2018 (2,694 thousand euro).

No loss of value was detected when the impairment test was performed, because the recoverable value of the Mercato Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

Networks Cash Generating Unit
The value of goodwill, 108,498 thousand euro, derives mainly from:

- acquisition in 2002 from ENEL of the business unit related to the distribution and sale of electrical energy to non-eligible customers in the Municipality of Turin, in which the positive difference between the purchase cost and the fair value of acquired and identifiable assets and liabilities was recognised as goodwill for 64,608 thousand euro;
- acquisition in 2005 of control over Acqua Italia S.p.A. (now Mediterranea delle Acque S.p.A.), where the positive difference between the purchase cost and the fair value of acquired and identifiable assets and liabilities was recognised as goodwill of 23,202 thousand euro;
- to acquisition of control over ACAM Acque (ACAM group) in April 2018 (15,442 thousand euro);
- the business unit acquired from ENEL in 2000 and referred to electricity users of the city of Parma, for an amount of 3,023 thousand euro;

No loss of value was detected when the impairment test was performed, because the recoverable value of the Reti Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

In the light of the considerations presented above the recoverable value is higher than the carrying amount of the net invested capital for all the Cash Generating Units. This difference is particularly sensitive to changes in the pre-tax weighted average cost of capital (WACC) and the definition of the Terminal Value. The definition of these two variables follows a prudential approach in terms of construction logic and absolute value. Appropriate stress tests were therefore performed on the sensitivity of the recoverable value as the two variables deteriorate, without any significant problems emerging.
In the light of the current volatility of markets and the uncertain economic prospects for the future, the company considers it opportune to point out that the regulated businesses are subject to a specific sectoral legislation which governs margins. These businesses, therefore, have more stable and more easily foreseeable margins also in turbulent market periods.

We can note that the results of the aforementioned procedures were the subject of specific approval by the Board of Directors of Iren S.p.A., in a meeting prior to that in which the draft financial statements were approved, as recommended in the rules issued by CONSOB, the Bank of Italy and IVASS.

NOTE 5_INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Equity investments accounted for using the equity method are shareholdings in companies in which the Group has joint control or exercises a significant influence. We must specify that measurement at equity is carried out on the basis of the latest available financial statements (consolidated if prepared) of the investees.
The Group companies measured using the equity method at 31 December 2018 are shown in an annex.
Changes for the year are shown in the following tables:

Equity investments in joint ventures

thousand of euro

	31/12/2017	Write-backs/ write-downs in equity	Changes with effect on equity	Reclassifica-tions	Write-back (write-down) in the period	31/12/2018
Acque Potabili	17,474	(1,762)	2	-	(5,000)	10,714
OLT Offshore LNG	29,078	(1,404)	-	(27,674)	-	-
TOTAL	**46,552**	**(3,166)**	**2**	**(27,674)**	**(5,000)**	**10,714**

The company Acque Potabili, during the year, discontinued the last water service management concession that it held and, at 31 December 2018, had no direct operating activities. In addition, during the year a significant risk emerged in relation to a dispute between the company and the Consortium of Municipalities for Acquedotto del Monferrato (the Monferrato Water Company) and, as it is considered highly probable that the result of the dispute will be negative, the value of the equity investment was written down by 5,000 thousand euro.

The equity investment in OLT Offshore LNG was reclassified among assets held for sale. For more details see Note 17.

Equity investments in associates

thousands of euro

	31/12/2017	Acquisitions	Changes in consolidation scope	Write-backs - write-downs in equity	Dividend distribution	Changes with effect on equity	Write-back (write-down) in the period	31/12/2018
A2A Alfa	-	-	-	-	-	-	-	-
Acos	10,014	-	-	1,079	(164)	(1)	-	10,928
Acos Energia	1,314	-	-	368	(725)	-	-	957
Acquaenna	-	-	-	1,839	-	-	1,380	3,219
Aguas de San Pedro	9,595	-	-	1,323	(275)	(82)	-	10,561
Aiga	-	-	-	-	-	-	-	-
Amat	2,409	-	-	(263)	-	(35)	(2,111)	-
Amter	1,014	-	-	19	(120)	-	-	913
Asa	33,904	-	-	30	-	250	-	34,184
Astea	22,964	-	-	762	(319)	17	-	23,424
Asti Energia Calore	39	-	-	88	-	-	-	127
BI Energia	1,045	-	-	(36)	-	-	-	1,009
Campo Base	-	-	9	-	-	-	-	9
CSP Innovazione nelle ICT	149	-	-	(40)	-	-	-	109
Domus Acqua	55	-	-	-	-	-	-	55
Fingas	-	500	-	-	-	-	(500)	-
Fratello Sole Energie Solidali	-	300	-	-	-	-	-	300
G.A.I.A.	15,144	-	-	142	(581)	-	-	14,705
Global Service Parma	6	-	-	-	-	-	-	6
Iniziative Ambientali	457	-	-	2	-	-	-	459
Mondo Acqua	649	-	-	-	-	-	-	649
Nord Ovest Servizi	4,375	-	-	-	-	-	-	4,375
Recos S.p.A.	3,545	-	(1,244)	(595)	-	-	(1,706)	-
Rio Riazzone	146	-	-	-	-	-	-	146
SETA	-	-	10,800	-	-	-	-	10,800
Sinergie Italiane	-	-	-	-	-	-	-	-
Sosel	1,101	-	-	-	(45)	-	-	1,056
STU Reggiane	5,500	-	-	(1,610)	-	-	-	3,890
Tirana Acque	-	-	-	-	-	-	-	-
Valle Dora Energia Srl	1,278	-	-	834	(113)	-	-	1,999
TOTAL	**114,703**	**800**	**9,565**	**3,942**	**(2,342)**	**149**	**(2,937)**	**123,880**

For the investee ReCos the change in the consolidation scope refers to the acquisition of control over and consequent full consolidation of the company. The write-down of the equity investment refers to the restatement at fair value, at the date the controlling stake was acquired, of the non-controlling interest held at 31 March 2018.

Società Ecologica Territorio Ambiente (SETA) S.p.A. came into the consolidation scope with the equity method following acquisition of a business unit from SMC S.p.A. consisting of a 48.85% stake and the activities of closure and post-closure management of the Chivasso 0 landfill site.

The company Campo Base came into the consolidation scope with the equity method following the full consolidation of Maira which holds a 49% stake in the company.

During financial year 2018 40% of the company Fratello Sole Energie Solidali was acquired through subscription of 140,000 shares.

The writeback of the investee Acquaenna (1,380 thousand euro) refers to the cessation of the conditions which had led to a write-down of the same in previous years.

The value of the equity investment in AMAT was written off in view of the unfavourable regulatory context in which the company operates and the economic and financial imbalance that derives from this.

As regards the equity investment in Sinergie Italiane, the carrying amount of which is zero, the provisions for risks set aside to cover the risk of losses related to this investee amounted to 10,000 thousand euro.

The other changes were due mainly to the exchange-rate difference (Aguas de San Pedro) and to changes in the cash flow hedging reserves and in those related to actuarial gains/(losses) for employee benefits.

NOTE 6_OTHER EQUITY INVESTMENTS

This item relates to equity investments in companies over which the Group has neither control, nor joint control, nor significant influence. These equity investments are measured at fair value but, as the most recent information available for measuring the fair value is insufficient and the cost represents the best estimate of the fair value, they are carried at cost.
The list of other Group equity investments at 31 December 2018 is shown in an annex.
Changes for the year are shown in the following table:

thousands of euro

	31/12/2017	Changes in consolidation scope	Write-back (write-down) for the period	31/12/2018
A2A Scarl	7	-	-	7
Acque Potabili Siciliane	-	-	-	-
Aeroporto di Reggio Emilia	2	-	-	2
Alpen 2.0	-	100		100
ASQ Network	6	-	-	6
Aurora srl	3	-	-	3
Autostrade Centro Padane	1,248	-	-	1,248
BT Enia	2,110	-	-	2,110
C.R.P.A.	52	-	-	52
CIDIU	2,294	-	11	2,305
Consorzio Italiano Compostatori	3	-	(3)	-
Consorzio Leap	10	-	-	10
Consorzio Topix	5	-	-	5
Credito cooperativo reggiano	5	-	-	5
Emilbanca BCC	1	-	-	1
Environment Park	1,243	-	-	1,243
Fondo Core MultiUtilities	100	-	-	100
Italeko AD.	11	-	(11)	-
RE Innovazione	12	-	-	12
SDB Società di biotecnologie	10	-	-	10
Stadio di Albaro	-	-	-	-
T.I.C.A.S.S.	4	-	-	4
TOTAL	**7,126**	**100**	**(3)**	**7,223**

The interest in the company Alpen 2.0 was acquired following the full consolidation of Maira, which holds the company's shares.

NOTE 7_NON-CURRENT TRADE RECEIVABLES

The item amounted to 69,068 thousand euro (69,801 thousand euro at 31 December 2017) and refers mainly to:

- receivables of the integrated water service for tariff adjustments and for lower volumes supplied with respect to the constraint of revenue due to the operator; the current tariff method provides generally (unless the fee growth limit is reached) for their recovery through fees after two years (43,323 thousand euro at 31 December 2018, 52,242 thousand euro at 31 December 2017);
- receivables of the electricity transmission, distribution, and metering services deriving from the rules issued in AEEGSI Resolution no. 654/2015 on the subject of tariff regulation for the period 2016-2023 which entailed the recognition of revenue from electricity distribution and of the related receivables (13,801 thousand euro at 31 December 2018, 12,958 thousand euro at 31 December 2017);
- receivables for invoices to be issued to the Municipality of Turin for technological renewal and increased efficiency of heating systems in a number of municipal buildings (10,286 thousand euro at 31 December 2018, 3,436 thousand euro at 31 December 2017). For more information on the overall receivable position of the Iren Group in relation to the Municipality of Turin please see Note 8 "Non-current financial assets" below.

NOTE 8_NON-CURRENT FINANCIAL ASSETS

The item of 147,867 thousand euro (165,767 thousand euro at 31 December 2017) is made up of financial receivables, the measurement of derivatives with positive fair value and securities other than equity investments. These are detailed in the following table:

thousands of euro

	31/12/2018	31/12/2017
Non-current financial receivables from associates	9,882	3,239
Non-current financial receivables from related-party shareholders	127,447	145,008
Non-current financial receivables from others	10,187	15,672
Fair value of derivatives – non-current share	315	1,812
Securities other than equity investments	36	36
Total	**147,867**	**165,767**

Non-current financial receivables from associates

These refer to receivables from the companies Acos (5,166 thousand euro), Acquaenna (3,776 thousand euro) and Asti Energia Calore (880 thousand euro) and Campo Base (60 thousand euro). Also present is a receivable of 487 thousand euro from the associate AIGA which was completely written off. We can note that at 31 December 2017 there was a financial receivable from the company Re.Cos (2,083 thousand euro) which starting from 1 April 2018 is in the full consolidation scope.

Non-current financial receivables from related-party shareholders

Receivables from related-party shareholders, of 127,447 thousand euro (145,088 thousand euro at 31 December 2017), regard receivables from the Municipality of Turin and relate to:

- the medium/long-term portion of receivables related to the current account which governs transactions between the subsidiaries AMIAT S.p.A., Iren Rinnovabili S.p.A. and the Municipality of Turin (109,384 thousand euro);
- application of the financial asset model provided for in IFRIC 12 to the efficiency project ("Turin LED") associated with the Public Lighting service performed under concession by Iren Rinnovabili S.p.A. in the city of Turin, for the long-term portion (18,063 thousand euro). Recognition of the financial asset is a result of maturation of the current unconditional right to receive the cash flows contractually recognised, which occurred with completion of the installation of the related LED devices.

The accounting treatment of the aforementioned current account agreement determines a reduction of trade receivables presented in the statement of cash flows as a generation of operating cash flows, and a corresponding increase in financial receivables, presented as a cash absorption in cash flows from financing activities.

These receivables form part of an overall position, totalling 229,292 thousand euro, and are divided among various accounting items according to their classification by type and maturity: Non-current trade receivables (Note 7), Non-current financial assets (Note 8), Trade receivables (Note 12) and Current financial assets (Note 15), as shown in the table presented below.
Receivables were divided by the directors between current portion and non-current portion on the basis of a forecast of their collection times determined also following the results of the agreement signed by the Municipality of Turin and the Iren Group. For further details, please see the disclosures in "Significant events of the period" in the Director's Report.

thousands of euro

	31/12/2018	31/12/2017
Non-current trade receivables	**10,286**	**3,436**
Trade receivables for services on invoices issued	59,841	72,637
Trade receivables for services on invoices to be issued	6,938	6,411
Trade receivables for electricity and other supplies	2,086	8,093
Provisions for impairment of trade receivables	(62)	(2,622)
Total current trade receivables	**68,803**	**84,519**
Non-current portion of financial receivables in current account	108,726	132,925
Non-current portion of financial receivables for interest	658	1,223
Non-current portion of financial receivables for services in concession	18,063	13,807
Provisions for impairment of financial receivables	-	(2,947)
Total non-current financial receivables	**127,447**	**145,008**
Current portion of financial receivables in current account	18,353	1,889
Current portion of financial receivables for interest	4,403	10,988
Current portion of financial receivables for services in concession	-	3,191
Total current financial receivables	**22,756**	**16,068**
Total	**229,292**	**249,031**

Non-current financial receivables from others
Non-current financial receivables from others include the long-term portion of the receivable deriving from the sale of the business unit comprising the telecommunications (TLC) network in Emilia Romagna which took place during 2016.

Fair value of derivatives – non-current share
The fair value of derivatives refers to instruments in the portfolio for hedging the risk of changes in interest rates and in commodity prices.

Securities other than equity investments
These amounted to 36 thousand euro (unchanged compared to 31 December 2017) and refer to securities given as collateral which are measured at amortised cost because the business model provides for the financial asset being held to collect the related cash flows which correspond to solely payment of principal and interest.

NOTE 9_OTHER NON-CURRENT ASSETS

These are detailed in the following table:

thousands of euro

	31/12/2018	31/12/2017
Guarantee deposits	9,580	9,456
Tax assets after 12 months	12,995	25,366
Other non-current assets	15,770	3,281
Non-current accrued income and prepaid expenses	4,785	6,511
Total	**43,130**	**44,614**

Receivables for guarantee deposits refer mainly to amounts paid by Iren Mercato to the investee Sinergie Italiane in relation to the natural gas supply contract signed by the parties.

Tax assets after 12 months present at 31 December 2018 are related mainly to credits accrued following the application for deduction of IRAP from the IRES taxable base (art. 2 paragraph 1 quater of Italian Law Decree no. 201 of 6 December 2011). The significant reduction in the item compared to 31 December 2017 was due to the settlement agreement between the Revenues Agency and the subsidiary Iren Acqua which led in part to the reversal (6,259 thousand euro) and in part to the reclassification to short term (7,234 thousand euro) of the company's receivables for payment of the demands served following entry in the list concerning 2/3 of the tax ascertained relating to the dispute over the contribution of two business units, made at the end of 1999 in favour of the Company Genova Acque S.p.A. (today incorporated into Iren Acqua S.p.A.), by the then parent company AMGA S.p.A.. For more details see Note 43 "Income tax expense".

The increase in the item "other non-current assets" was due to the payment made to acquire a business unit related to management of waste treatment plants which came into effect on 1 January 2019.

Prepayments mainly include the long-term prepaid portion, relating to energy service contracts signed by the subsidiary Iren Rinnovabili S.p.A..

NOTE 10_DEFERRED TAX ASSETS

These amounted to 360,298 thousand euro (277,771 thousand euro at 31 December 2017) and refer to deferred tax assets deriving from earnings deductible in future years. They also include the tax effect on adjustments made on IFRS first-time adoption.
The increase compared with 31 December 2017 is mainly due to recognition of the tax effect related to the cumulative recognition of deferred income at 1 January 2018 as a consequence of the change in the accounting treatment of connection contributions, adopted as of that date following the entry into force of IFRS 15 - *Revenue from Contracts with Customers*.
For further details please see the income statement, "Income tax expense" (Note 43) and the statement in the annex.

CURRENT ASSETS

NOTE 11_INVENTORIES

Inventories, measured at weighted average cost, primarily comprise natural gas and consumables intended for maintenance and construction of the Group plants.
Construction Contracts refers mainly to activities performed for the Municipality of Turin.

The table below summarises the amounts of the item in the periods in question:

thousands of euro

	31/12/2018	31/12/2017
Raw materials	78,397	70,267
Inventory write-down provision	(5,390)	(8,978)
Net	**73,007**	**61,289**
Construction Contracts	792	695
Total	**73,799**	**61,984**

The change in inventories of raw materials in the period was essentially due to an increase in gas storage. The inventory write-down provision was set aside and is used to take into consideration inventories that are technically obsolete and slow-moving.
At 31 December 2018 no inventories were pledged against liabilities.

NOTE 12_TRADE RECEIVABLES

These are detailed in the following table:

thousands of euro

	31/12/2018	31/12/2017
Receivables from customers	1,061,471	917,956
Provisions for impairment of receivables	(190,152)	(166,545)
Net receivables from customers	**871,319**	**751,411**
Trade receivables from joint ventures	932	783
Trade receivables from associates	12,810	23,641
Trade receivables from related-party shareholders	90,452	113,705
Trade receivables from other related parties	8,385	12,399
Provisions for impairment of receivables from related-party shareholders	(62)	(6,151)
Total	**983,836**	**895,788**

We can note that at 31 December 2018 factoring transactions had been completed with derecognition of the receivables for a total of 19,683 thousand euro (44,313 thousand euro at 31 December 2017).

Trade receivables, gross of provisions for impairment of receivables, are broken down by maturity as follows:

thousands of euro

	31/12/2018	31/12/2017
Not past due	877,269	755,179
Past due from 0 to 3 months	90,415	74,845
Past due from 3 to 12 months	68,708	75,972
Past due for more than one year	137,658	162,488
Total	**1,174,050**	**1,068,484**

Receivables not past due include receivables for invoices to be issued of 481,081 thousand euro (445,878 thousand euro at 31 December 2017) which include the estimate of revenue earned for services supplied between the date of the last reading of effective consumption and the year-end date.

Receivables from customers

These mainly relate to receivables due for electricity, gas, water and heat supplies, environmental services and sundry services. The net balance takes into account provisions for impairment of receivables, illustrated below, of 190,152 thousand euro (166,545 thousand euro at 31 December 2017).

Receivables from joint ventures

This item includes receivables from the Group joint ventures, consolidated with the equity method. These relate to normal trade transactions performed at arm's length. For further details, please see the table of related-party transactions shown in the annex.

Receivables from associates

These relate to normal trade transactions performed at arm's length. For further details, please see the table of related-party transactions shown in the annex.

Receivables from related-party shareholders

Receivables from related-party shareholders refer to trading transactions performed at arm's length with territorial authorities classified as related parties (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and, marginally, with the company FSU. The balance takes into account provisions for impairment of receivables of 62 thousand euro (6,151 thousand euro at 31 December 2017). For further details, please see the table of related-party transactions shown in the annex.

Receivables from other related parties

These regard receivables from the companies controlled by the territorial body owners (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and refer to normal commercial transactions carried out at arm's length.

Provisions for impairment of receivables

The provisions for impairment feature the movements shown in the following table:

thousands of euro

	31/12/2017	Changes in consolida-tion scope	Provisions in the period	Decreases	Other changes	31/12/2018
Provisions for impairment of receivables	166,545	16,245	42,617	(40,022)	4,767	190,152
Provisions for impairment of receivables from related-party shareholders	6,151	-	-	(5,707)	(382)	62
Total	**172,696**	**16,245**	**42,617**	**(45,729)**	**4,385**	**190,214**

The column Changes in consolidation scope refers to the balances acquired during the period relating to the ACAM Group companies.

The provisions in the period were set aside to adjust the amount of provisions for impairment of receivables to the amount of expected losses on the basis of the simplified model provided for in the new standard IFRS 9, where "loss" means the present value of all future lost revenue, opportunely integrated to take into account future expectations ("forward looking information").

The item ""decreases" refers to utilisations for losses on receivables of 43,743 thousand euro and to releases of 1,986 thousand euro.

The other changes column refers for 5,307 thousand euro to the restatement, higher, of provisions for impairment of receivables at 1 January 2018 due the application of the aforesaid simplified approach provided for on first adoption of IFRS 9 and, for 922 thousand euro, lower, of long-term reclassifications of amounts related to receivables previously stated as short-term.

NOTE 13_CURRENT TAX ASSETS

These amounted to 11,445 thousand euro (7,365 thousand euro at 31 December 2017) and include receivables from the tax authority for IRES and IRAP.

NOTE 14_OTHER RECEIVABLES AND OTHER CURRENT ASSETS

These are detailed in the following table:

thousands of euro

	31/12/2018	31/12/2017
Receivables for revenue tax/UTIF	3,640	4,624
VAT credit	73,546	56,440
Other tax assets	17,977	12,023
Tax assets due within one year	**95,163**	**73,087**
Receivables from Cassa Servizi Energetici e Ambientali (CSEA)	49,965	119,961
Green certificate receivables	46,558	45,660
Advances to suppliers	19,797	10,056
Other current assets	21,917	21,275
Other current assets	**138,237**	**196,952**
Accruals and deferrals	8,479	6,308
Total	**241,879**	**276,347**

We can note that at 31 December 2018 factoring transactions had been completed with derecognition of receivables for green certificates and energy efficiency certificates for a total of 46,077 thousand euro (1,958 thousand euro at 31 December 2017).
In terms of procedures, for financial year 2018, the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding VAT settlements and periodic payments. The companies that take part in the Group settlement procedure, besides the Parent Company Iren S.p.A., are the following: Iren Energia, IRETI, Iren Mercato, Iren Ambiente, AMIAT, Iren Rinnovabili, Enìa Solaris, Iren Acqua Tigullio, Iren Acqua, Greensource, Varsi Fotovoltaico, Immobiliare delle Fabbriche, Iren Laboratori, Bonifica Autocisterne, REI, ASM Vercelli and Atena Trading.
In relation to receivables from the Cassa Servizi Energetici e Ambientali (CSEA) a portion of the amounts shown may not be collectable within the next 12 months.

NOTE 15_CURRENT FINANCIAL ASSETS

These are detailed in the following table:

thousands of euro

	31/12/2018	31/12/2017
Financial receivables from joint ventures	-	439,000
Financial receivables from associates	4,130	6,488
Financial receivables from related-party shareholder Municipalities	22,756	16,068
Other financial receivables	50,411	42,521
Derivative receivables - current	1,478	2,305
Total	**78,775**	**506,382**

All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.

Financial receivables from joint ventures

The financial receivable from the joint venture OLT Offshore LNG Toscana, up to 31 December 2017 presented among current financial assets, was reclassified to the item assets held for sale. For more details see Note 17.

Financial receivables from associates

The item refers mainly to loans to Acquaenna (1,452 thousand euro), BI Energia (731 thousand euro) and STU Reggiane (480 thousand euro). The remainder regards essentially receivables for dividends to be received. We can note that at 31 December 2017 there was a financial receivable from the company Re.Cos (2,316 thousand euro) which starting from 1 April 2018 is in the full consolidation scope.
For further details please see the schedule of related-party transactions shown in the annex.

Financial receivables from related-party shareholders

These regard receivables from the Municipality of Turin, on which interest accrues for the Group, and they amounted to 22,756 thousand euro (16,068 thousand euro at 31 December 2017). At 31 December 2017 there were also receivables of 3,191 thousand euro related to application of the financial asset model provided for in IFRIC 12 to the efficiency project ("Turin LED") associated with the Public Lighting service performed under concession. At 31 December 2018 financial receivables related to the "Turin LED" project were classified among non-current financial receivables.

Other financial receivables

These refer for 40,985 thousand euro to tied bank deposits of the subsidiary TRM S.p.A. deriving from the loan contract which specifies that amounts serving the instalment due, the costs regarding environmental offsets and extraordinary maintenance of the waste-to-energy plant are tied. The remainder refers to guarantee deposits paid to operate on the commodity futures markets, accrued income and prepaid expenses of a financial nature and sundry financial receivables.

Derivative receivables - current

These relate to the positive fair value of derivative contracts on commodities entered into by Iren Mercato and Spezia Energy Trading.

NOTE 16_CASH AND CASH EQUIVALENTS

The item "Cash and cash equivalents" is made up as follows:

thousands of euro

	31/12/2018	31/12/2017
Bank and postal deposits	369,153	168,872
Cash and valuables in hand	165	214
Total	**369,318**	**169,086**

Cash and cash equivalents are represented by existing liquidity on bank and postal deposits. The Group does not hold cash equivalents, intended as short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

NOTE 17_ASSETS HELD FOR SALE

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They amounted to 402,424 thousand euro (8,724 thousand euro at 31 December 2017). This item relates to:

- for 401,900 thousand euro (439,000 thousand euro at 31 December 2017, when it was stated among current financial assets) to the loan granted to the joint venture OLT Offshore LNG Toscana. At 31 December 2018 the equity investment in OLT Offshore LNG Toscana and the related shareholder's loan were classified among assets held for sale, as an asset disposal group, because their carrying amount will be recovered mainly with a sale transaction instead of with their continuing use. During the year the

Board of Directors began work on a programme, still in progress, for the disposal of the assets, working to identify a buyer, and considers the sale highly probable within the next twelve months. The value of the equity investment was written off because, on the basis of a fairness opinion prepared by independent experts, the fair value of the interest is believed to be zero. This measurement is also in line with what emerged from the recent transaction related to the sale of the shares of the company held by the other major shareholder.
As specifically indicated in IFRS 5, the financial receivable, although it is classified among assets held for sale, continues to be measured according to the rules of IFRS 9 and in particular at amortised cost since the company's business model provides for the financial asset being held to collect the cash flows exclusively related to principal and interest. The amount of the shareholder's loan decreased compared to 31 December 2017 following the repayments made by the investee and the estimate of the expected credit losses measured, as provided for in IFRS 9 – Financial Instruments, weighting the results deriving from possible future scenarios. The analysis of these scenarios also took into consideration the values deriving from the aforementioned transaction.

- for 226 thousand euro (unchanged compared to 31 December 2017) to the net assets related to the concession, which expired on 31 March 2017, of the integrated water service of the Municipality of Saint Vincent (AO) for which the takeover by the new operator is being defined;
- for 140 thousand euro (unchanged compared to 31 December 2017), to the equity investment in Plurigas in liquidation. The equity investment was classified among assets held for sale because during 2014 the company ceased to operate;
- for 158 thousand euro (unchanged from 31 December 2017) to the associate Piana Ambiente.

In addition, assets held for sale include the equity investment in Fata Morgana, already completely written down in previous periods.
We can remind you that at 31 December 2017 this item included the equity investment in Mestni Plinovodi, sold during the first half of 2018.

LIABILITIES

NOTE 18_EQUITY

Equity may be analysed as follows:

thousands of euro

	31/12/2018	31/12/2017
Share capital	1,300,931	1,276,226
Reserves and retained earnings (losses)	642,396	608,184
Net profit (loss) for the period	242,116	237,720
Total equity attributable to shareholders	**2,185,443**	**2,122,130**
Capital and reserves attributable to non-controlling interests	345,807	349,633
Profit/(loss) attributable to non-controlling interests	31,121	27,040
Total consolidated equity	**2,562,371**	**2,498,803**

Share capital

Share capital amounts to 1,300,931,377, which is fully paid-up and comprises 1,300,931,377 ordinary shares with a face value of 1 euro each. At 31 December 2017 it amounted to 1,276,225,677, fully paid-up, and comprised 1,213,920,212 ordinary shares and 62,305,465 savings shares without voting rights.

In January 2018 Finanziaria Città di Torino sold the 62,305,465 Iren savings shares that it held and therefore, as provided for in the Articles of Association, these shares were converted automatically, at par, into ordinary shares.

In April 2018, as part of the business combination involving the Iren Group and the ACAM Group, 27 ACAM shareholders subscribed a total of 24,705,700 new ordinary shares of Iren S.p.A.. The subscription price of each newly-issued ordinary share is 2.13, of which 1.00 allocated to share capital and 1.13 as a premium.

Reserves

The breakdown of this item is provided in the following table:

thousands of euro

	31/12/2018	31/12/2017
Share premium reserve	133,019	105,102
Legal reserve	58,346	49,998
Cash flow hedging reserve	(17,353)	(1,729)
Other reserves and retained earnings (losses)	468,384	454,813
Total reserves	**642,396**	**608,184**

Hedging reserve

Changes in the fair value of effective hedging derivatives are recognised with a contra-entry directly in equity under the cash-flow hedging reserve. These contracts were entered in to hedge exposure to the risk of interest rate fluctuations on floating rate loans and to the risk of price changes in electricity and gas purchase contracts.

Other reserves and retained earnings (losses)

These mainly comprise the surplus generated from the merger of AMGA into AEM Torino and the later merger of Enìa into Iride, retained earnings and losses and the reserve including actuarial gains and losses resulting from the measurement of post-employment benefits to employees.

During financial year 2018 they changed owing mainly to the cumulative negative effect at 1 January 2018 deriving from the application of IFRS 9 and 15 (-137,992 thousand euro) and to the undistributed profits of financial year 2017 carried forward (+138,307 thousand euro).

For further details, reference should be made to the statement of changes in equity.

NON-CURRENT LIABILITIES

NOTE 19_NON-CURRENT FINANCIAL LIABILITIES

These amounted to a total of 3,013,303 thousand euro (3,023,888 thousand euro at 31 December 2017):

Bonds

These amounted to 2,185,550 thousand euro (1,777,885 thousand euro at 31 December 2017). The item consisted entirely of positions of the Parent Company referred to Private Placement and Public Bond issues, accounted for at amortised cost, against a total nominal amount in issue at 31.12.2018, for the part of bonds with maturity at more than 12 months, of 2,209,340 thousand euro (1,798,440 thousand euro at 31 December 2017).

- Private Placement: Notes maturity 2020, coupon 4.37%, issue amount 260 million euro, in issue at 31.12.2018 for 167.870 million euro following repurchases (Tender Offers) carried out in 2015, 2016 and 2017 (amount at amortised cost 167,783 thousand euro).
- Public Bond: a) Notes maturity 2021, coupon 3%, issue amount 300 million euro, in issue at 31.12.2018 for 181,836 thousand euro following the repurchase operations described above (amount at amortised cost 180,871 thousand euro); b) Notes maturity 2022, coupon 2.75%, issue amount 500 million euro, in issue at 31.12.2018 for 359,634 thousand euro following the tender offers of 2016 and 2017 (amount at amortised cost 357,414 thousand euro); c) Notes maturity 2024, coupon 0.875%, amount 500 million euro, in issue for the same amount (amount at amortised cost 494,738 thousand euro); d) Green Bond maturity 2027, coupon 1.5%, amount 500 million euro, in issue for the same amount (amount at amortised cost 490,996 thousand euro); e) Green Bond maturity 2025, coupon 1.95%, amount 500 million euro, issued in September 2018 (amount at amortised cost 493,748 thousand euro).

The bond loans were subscribed by Italian and foreign institutional investors and are listed on the Irish Stock Exchange; the Public Bonds were given a Fitch rating.
The change in the total carrying amount at 31 December 2017 was due, for the increase, to the issue of the new Green Bond in September 2018 and, for the decrease, to the reclassification within 12 months of a Private Placement with maturity 2019, and the allocation of the financial expenses accruing calculated on the basis of the amortised cost method according to the IAS/IFRS standards.

Non-current bank loans

Medium/long term loans relate exclusively to the non-current portion of loans/credit lines due at more than 12 months, granted by banks and amounted to 743,902 thousand euro (1,148,105 thousand euro at 31 December 2017).

Medium/long term loans can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and maturity date, as shown in the following table:

thousands of euro

	fixed rate	floating rate	TOTAL
min/max interest rate	2.79% - 5.151%	0.00% - 0.603%	
maturity	2020-2027	2020-2032	
1.1.2020 – 31.12.2020	20,125	67,234	87,359
1.1.2021 – 31.12.2021	19,804	45,370	65,174
1.1.2022 – 31.12.2022	19,632	59,458	79,090
1.1.2023 – 31.12.2023	20,083	77,114	97,196
subsequent	77,449	337,634	415,083
Total payables beyond 12 months at 31/12/2018	**157,093**	**586,809**	**743,902**
Total payables beyond 12 months at 31/12/2017	**489,474**	**658,630**	**1,148,105**

All loans are denominated in euro.

The changes in medium/long term loans during the year are summarised below:

thousands of euro

	31/12/2017 **Total payables beyond 12 months**	**Increases**	**Changes in consolidation scope**	**Repayments**	**Change to amortised cost**	**31/12/2018** **Total payables beyond 12 months**
- fixed rate	**489,474**	3,258	12,117	(348,185)	429	**157,093**
- floating-rate	**658,630**	80,000	1,399	(154,113)	893	**586,809**
TOTAL	**1,148,105**	**83,258**	**13,515**	**(502,298)**	**1,322**	**743,902**

Total medium/long term loans at 31 December 2018 decreased overall compared to 31 December 2017. The main changes, increases and decreases, that determined the overall reduction of the amount at the end of 2018 are presented below:

- disbursement of two EIB loans to the parent company for a total of 80 million euro in December 2018, covered by the loan contract related to the programme of investments in infrastructures for the production of drinking water and the treatment of waste water for the cities of Genoa and Parma;
- disbursement of a loan to the consolidated company Studio Alfa of 1 million euro in September 2018;
- inclusion in the consolidation scope of the Companies Acam S.p.A., ReCos S.p.A. and Maira S.p.A., holders of medium/long-term loans, for a total of 13.515 thousand euro at the respective consolidation dates;
- a total reduction of 502,298 thousand euro, owing both to liability management activities with early full repayment of loans for 295 million euro, which regarded positions of the Parent Company for 261.8 million euro and of other consolidated Companies for 33.2 million euro (Iren Rinnovabili, Varsi, Greensource, ASM Vercelli, Acam, Ireti, Maira), and to classification as short term of the portions of loans maturing within the next 12 months;
- a total increase of 1,322 thousand euro due to recognition of the loans at amortised cost.

Other financial liabilities

These amounted to 83,851 thousand euro (31 December 2017: 97,898 thousand euro), and refer:

- for 75,500 thousand euro (84,319 thousand euro at 31 December 2017) to the fair value of derivative contracts entered into as hedges against the interest rate risk on floating rate loans and commodity prices (please see the paragraph “Group Financial Risk Management” for comments);

- for 6,228 thousand euro (10,952 thousand euro at 31 December 2017) to the long-term portion of the debt resulting from the operation to acquire the right to use 25% of the total capacity of the TLC network sold to BT Enia;
- for 1,867 thousand euro (zero at 31 December 2017) to payables for leasing contracts;
- for 256 thousand euro (31 December 2017: 2,627 thousand euro) to sundry financial payables.

NOTE 20_EMPLOYEE BENEFITS

Changes in this item in 2018 were as follows:

	thousands of euro
Amount at 31/12/2017	**116,483**
Current service costs	634
Financial expense	1,570
Disbursements of the period	(16,764)
Actuarial (gains)/losses	(2,680)
Changes in consolidation scope	8,866
Amount at 31/12/2018	**108,109**

The line “Changes in consolidation scope” refers to the balances acquired during the year relating to the ACAM Group companies and to the companies Maira and Spezia Energy Trading.

Liabilities for employee benefits consist of:

Post-employment benefits

Post-employment benefits underwent the following movements during 2018:

	thousands of euro
Amount at 31/12/2017	**93,961**
Current service costs	488
Financial expense	1,379
Disbursements of the period	(11,428)
Actuarial (gains)/losses	(1,732)
Changes in consolidation scope	8,866
Amount at 31/12/2018	**91,534**

Other benefits

The composition and changes over the year of defined benefit plans, other than the post-employment benefits described above, are shown hereunder.

Additional months' salaries (long-service bonus)

	thousands of euro
Amount at 31/12/2017	**2,670**
Current service costs	93
Financial expense	38
Disbursements of the period	(37)
Actuarial (gains)/losses	(220)
Amount at 31/12/2018	**2,544**

Loyalty bonus

	thousands of euro
Amount at 31/12/2017	**3,882**
Current service costs	53
Financial expense	38
Disbursements of the period	(415)
Actuarial (gains)/losses	(288)
Amount at 31/12/2018	**3,270**

Tariff discounts

	thousands of euro
Amount at 31/12/2017	**5,415**
Financial expense	73
Disbursements of the period	(288)
Actuarial (gains)/losses	(372)
Amount at 31/12/2018	**4,828**

The tariff discounts include benefits related to the supply of natural gas for domestic use. Following the signing of specific agreements with the trade unions, the "Energy discount" awarded up to 30 September 2017 to employees in service was converted into other forms of employee benefits. The "Energy discount" awarded up to 30 September 2017 to retired employees was revoked unilaterally and replaced with lump sums included in provisions for former employee benefits.

Premungas Provisions

	thousands of euro
Amount at 31/12/2017	**3,220**
Financial expense	42
Disbursements of the period	(551)
Actuarial (gains)/losses	(68)
Amount at 31/12/2018	**2,643**

Provisions for ex-employee benefits

The provisions amounted to 3,290 thousand euro (7,335 thousand euro at 31 December 2017) and contain the lump-sum amounts that will be paid to retired employees to replace the energy discount no longer paid starting from 1 October 2017.

Actuarial assumptions

The above-mentioned liabilities are measured by independent actuaries. The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.

For the purpose of defining the present value of the obligations, the future service is estimated based on assumptions related to changes in both the total number of employees and employee remuneration. Future service represents the amount that would be liquidated to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.

The following factors were considered in deciding which discount rate to adopt in the measurement approach provided by IAS 19:

- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the weighted average residual term of liabilities related to all benefits and all Group companies.

The economic and financial assumptions adopted in the calculations are the following:

Annual discount rate	1.20% - 1.60%
Annual inflation rate	1.50%
Annual increase rate of post-employment benefits	2.50%

Pursuant to IAS 19, the following additional information is supplied:

- sensitivity analysis for each material actuarial assumption at year end, showing the effects that would have resulted from changes in the actuarial assumptions reasonably possible at that date, in absolute terms;
- contributions for the following year;
- indication of the average maturity of the obligation for defined benefit plans.

This information is shown in the following table.

	Change in liabilities according to changes in discount rate		Service cost 2019	Duration of the plan
	+0.25%	**-0.25%**		
Post-employment benefits	(2,130)	2,206	494	9.5
Additional monthly salaries	(67)	69	90	11.0
Loyalty bonus	(50)	51	136	6.2
Tariff discounts	(122)	127	-	10.0
Premungas	(41)	42	-	6.0

The method used to estimate sensitivity was unchanged compared to the previous financial year.

NOTE 21_PROVISIONS FOR RISKS AND CHARGES

These are detailed in the following table, and refer both to the current and non-current portions:

thousands of euro

	Opening balance	Changes in consolida-tion scope	Increases	Decreases	(Income) expense from discounting	Closing balance	Current portion
Provisions for restoration of third-party assets	156,126	-	11,691	(1,988)	(300)	165,529	1,292
"Post mortem" provisions	33,017	12,753	3,374	(3,269)	(723)	45,152	8,303
Provisions for dismantling and reclaiming sites	31,084	-	350	(792)	(710)	29,932	241
Provisions for early retirement expenses	53,705	-	9,161	(20,264)	-	42,602	1,925
Provisions for risks on equity investments	10,065	-	-	-	-	10,065	10,065
Other provisions for risks and charges	234,638	6,361	73,874	(78,769)	-	236,104	68,061
Total	**518,635**	**19,114**	**98,450**	**(105,082)**	**(1,733)**	**529,384**	**89,887**

If the effect of discounting the value of money is significant, the provisions are discounted using a pre-tax discount rate which, on the basis of the time period envisaged for the future cash flows, does not exceed 3.71%.
The column Changes in consolidation scope refers to the balances acquired during the period relating to the ACAM Group companies, to the company Maira and to the business unit that includes the activities of closure and post-closure management of the Chivasso 0 landfill site.

Provisions for restoration of third-party assets

These provisions refer to liabilities which, if the water service concessions for the Parma, Piacenza and Reggio Emilia ATOs are reassigned to third parties, will be deducted from the fee to be paid to the Group by the incoming operator. These liabilities are estimated according to the depreciation of the pool of assets and equipment relating to the aforementioned integrated water cycle which, as a result of the spin-offs completed in 2005 by the three companies AGAC, Tesa and AMPS (later merged into Enìa), were transferred to the financial statements of three full publicly-held companies as envisaged in Art. 113, paragraph 13 of the Consolidated Law on Local Entities. This pool of assets is used to perform the water service against the payment of a rental fee and with a contractual commitment to set aside the aforementioned provisions.
The provisions for the restoration of transferable works represent an estimate of the expense necessary to return assets in concession in the hydroelectric sector in perfect working order.

"Post mortem" provisions

These are mainly provisions for future expense for environmental recovery of controlled landfill plants which also include costs for post-operating management until the sites involved have been completely converted to green areas. These provisions are supported by specific appraisals periodically updated in order to adjust the existing provisions to the estimate of the future costs to be incurred. The decreases refer in particular to the utilisation of the provision to cover costs incurred in the post-operating phase until the mineralisation of waste and the conversion of landfills into green areas are completed.

Provisions for dismantling and reclaiming sites

The "Provision for dismantling and reclaiming sites" represents the estimate of expense associated with the future dismantling of the Group's waste-to-energy plants and the estimate of charges to be incurred in relation to the future reclamation of former AMNU land on which an incinerator was located.

Provisions for early retirement expenses

The provisions refer to expenses associated with early retirement of some employees and arises from the results of agreements between the Iren Group and the Trade Unions that provide for retirement incentives for some employees, on a voluntary basis among the Group's personnel who are potentially involved. The

operation must be seen in the wider context of professional and demographic rebalancing of the Iren Group's personnel, in view of a plan to recruit young people.
The incentive, completely chargeable to the Iren Group (in application of Art. 4 of Italian Law 92/2012), will enable the personnel in possession of the legal requisites to retire in advance with respect to the date of eligibility, making up in part for the delay in terminating the employment determined after the reform of the pensions system.
The provisions represent the estimated payment to the employees involved in the Plan, through the Pensions Agency, of a benefit of an amount equal to the pension that would be payable on the basis of the current rules (isopension), with payment to the Pensions Agency of the contribution until the minimum requirements for retirement are reached (in accordance with the aforementioned Law 92/2012), and a sum, for each of the employees involved, as a one-off payment as an incentive.

Provisions for risks on equity investments

This item mainly refers to risks relating of future charges deriving from management of the investee Sinergie Italiane.

Other provisions for risks and charges

The amount of the provisions mainly refers to the probable risk of higher charges for the construction of plants which are completed or yet to be finished, the estimated IMU/ICI tax to be paid based on the value of plant systems as envisaged in Art. 1-*quinquies* of Italian Law Decree no. 44 of 31 March 2005, the estimate of charges related to the return of emissions quotas, charges for environmental offsets, risks of a regulatory nature and probable charges for various disputes.

The current portion referring to the provisions described above was presented under "provisions, current portion" (Note 28).

NOTE 22_DEFERRED TAX LIABILITIES

Deferred tax liabilities of 211,553 thousand euro (213,760 thousand euro at 31 December 2017) are due to the temporary difference between the carrying amount and tax value of assets and liabilities recognised in the financial statements.
Deferred taxation is calculated with reference to the expected tax rates applicable at the time the differences will reverse.
For further details reference should be made to the income statement, Note 43 "Income tax expense" and to the statement in the annex.

NOTE 23_OTHER PAYABLES AND OTHER NON-CURRENT LIABILITIES

This item can be broken down as follows:

thousands of euro

	31/12/2018	31/12/2017
Payables after one year	49,872	36,567
Deferred income for grants related to plants – non current	421,090	182,075
Non-current accrued expenses and deferred income	3,816	3,953
Total	**474,778**	**222,595**

The item "Payables after 12 months" refers to advances paid by users to guarantee water supply, to amounts related to previous years to be paid for the redundancy fund (CIG), for the extraordinary redundancy fund (CIGS) and for mobility and to tax payables for substitutive taxes to be paid at more than 12 months from the reporting date.

The increase in deferred income for grants for plant facilities was due for 178,233 thousand euro to recognition of new deferred income for connection contributions following retrospective application of the

accounting standard IFRS 15, having made use of the simplification, provided for in the said standard, recognising cumulative application impacts on the opening of 1 January 2018. Deferred income for grants for plant facilities also increased by 54,080 thousand euro following the consolidation of the ACAM Group companies and of ReCos S.p.A..
The deferred income for grants for plant facilities includes the amounts related to the Fo.N.I. (Fondo Nuovi Investimenti - New Investment Fund) component, for an amount of 47,371 thousand euro, provided for in the tariff method of the Integrated Water Service which will be booked to the income statement beyond 12 months from the reporting date. The portion that will be booked to the income statement in the 12 months following the reporting date amounts to 2,504 thousand euro and is included in the item "Other payables and other current liabilities among deferred income" for grants related to plants.

CURRENT LIABILITIES

NOTE 24_CURRENT FINANCIAL LIABILITIES

All financial liabilities recognised in this item are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.
Short-term financial liabilities can be analysed as follows:

thousands of euro

	31/12/2018	31/12/2017
Bonds	89,069	-
Bank loans	288,556	150,573
Financial payables to associates	2,734	2,023
Financial payables to related-party shareholders	3,308	148
Financial payables to other related parties	-	2,995
Financial payables to others	34,423	33,341
Current liabilities for derivatives	19,273	52
Total	**437,363**	**189,132**

Bonds
These relate to a Private Placement with maturity 2019, coupon 3%, issue amount 100 million euro, currently in issue for 89.1 million euro following repurchases (Tender Offers) carried out in 2015 and 2016. The amount is accounted for at amortised cost, in accordance with the IASs/IFRSs.

Bank loans
Short-term bank loans may be broken down as follows:

thousands of euro

	31/12/2018	31/12/2017
Loans - current portion	274,604	137,480
Other current payables to banks	44	142
Accrued financial expenses and deferred financial income	13,908	12,951
Total	**288,556**	**150,573**

Financial payables to associates
This item relates to amounts due to the company Valle Dora Energia for the centralised treasury relationship with Iren S.p.A.

Financial payables to related-party shareholders
This item relates to dividends of the company TRM still to be paid to the shareholder Municipality of Turin.

Financial payables to other related parties
At 31 December 2017 this item consisted of dividends of the company AMIAT still to be paid to the shareholder FCT Holding, controlled by the Municipality of Turin.

Financial payables to others
These regard payables to factoring companies for the portions collected from customers and to be paid to the factor (28,931 thousand euro), payables for dividends to shareholders (1,041 thousand euro) and amounts that are individually less significant.

Current liabilities for derivatives
These relate to the negative fair value of derivative contracts on commodities entered into by Iren Mercato.

NOTE 25_TRADE PAYABLES

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2018	31/12/2017
Trade payables	860,574	767,645
Trade payables to joint ventures	349	247
Trade payables to associates	14,237	10,227
Trade payables to related-party shareholders	13,054	19,635
Trade payables to other related parties	4,426	2,624
Advances due within one year	5,506	5,158
Guarantee deposits due within one year	16,782	21,931
Charges to be reimbursed within one year	10	10
Total	**914,938**	**827,477**

NOTE 26_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

All payables recognised in this item are due within one year. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2018	31/12/2017
VAT payable	4,242	4,189
Revenue tax/UTIF payable	6,355	21,085
IRPEF payable	1,230	399
Other tax liabilities	28,945	19,228
Tax liabilities due within one year	**40,772**	**44,901**
Payables to employees	42,620	41,762
Payables to Cassa Servizi Energetici e Ambientali (CSEA)	51,964	38,544
Accounts payable to social security institutions within one year	22,072	22,343
Other current liabilities	105,985	110,955
Other payables due within one year	**222,641**	**213,604**
Accrued expenses and deferred income	20,872	11,215
Total	**284,285**	**269,720**

The reduction in payables for income taxes is due to pre-payments and settlement payments which are influenced by invoicing volumes for the current year and the previous year.
The increase in payables to Cassa per i Servizi Energetici e Ambientali (the Energy and Environmental Services Fund) of the period is related to the estimates of negative equalisation of electricity and gas.
Other current liabilities refer mainly to cost estimates for the obligations related to energy efficiency certificates, to payables for purification fees and to payables for the TV licence fee collected in bills.

NOTE 27_CURRENT TAX LIABILITIES

The item "Current tax liabilities" amounting to 32,049 thousand euro (15,295 thousand euro at 31 December 2017) is made up of IRES and IRAP payables, and was determined on the basis of the estimate of taxes for the year.

NOTE 28_PROVISIONS FOR RISKS AND CHARGES - CURRENT PORTION

This item amounted to 89,887 thousand euro (88,502 thousand euro at 31 December 2017) and refers to the short-term portion of the provisions expected to be used in the next 12 months, divided as follows:

- provisions for risks of 11,640 thousand euro;
- provisions for environmental offset charges of 16,430 thousand euro;
- provisions for charges related to the obligation to return emission quotas of 40,056 thousand euro;
- provisions for equity investment risks of 10,000 thousand euro, related to the associate Sinergie Italiane;
- provisions for charges related to voluntary retirement of personnel of 1,925 thousand euro;
- provisions for restoration of transferable works of 1,292 thousand euro;
- provisions for dismantling and reclaiming sites and "post mortem" provisions of 8,544 thousand euro.

For further details on the breakdown of and changes in provisions for risks and charges see Note 21.

NOTE 29_LIABILITIES RELATED TO ASSETS HELD FOR SALE

There are not liabilities related to assets held for sale at 31 December 2018.

FINANCIAL POSITION

The net financial debt, calculated as the difference between short/medium/long-term financial liabilities and short/medium/long-term financial assets, can be broken down as indicated in the following table:

thousands of euro

	31/12/2018	**31/12/2017**
Non-current financial assets	(147,867)	(165,767)
Non-current financial debt	3,013,303	3,023,888
Non-current net financial debt	**2,865,436**	**2,858,121**
Current financial assets	(849,993)	(675,468)
Current financial debt	437,363	189,132
Current net financial debt	**(412,630)**	**(486,336)**
Net financial debt	**2,452,806**	**2,371,785**

Detail of Net Financial Position regarding related parties
Non-current financial assets relate for 127,446 thousand euro to receivables from the Municipality of Turin and for 9,882 thousand euro to receivables from associates.
Current financial assets relate for 22,755 thousand euro to receivables from the Municipality of Turin, for 401,900 thousand euro to receivables from the joint venture OLT Offshore and for 4,130 thousand euro to receivables from associates.
Non-current financial liabilities relate for 3,308 thousand euro to payables to the Municipality of Turin and for 2,734 thousand euro to payables to the associate Valle Dora Energia.

Below is the net financial position in the format proposed by the ESMA recommendation of 10 February 2005 transposed with CONSOB Communication of 28 July 2006, which does not include non-current financial assets.

thousands of euro

	31/12/2018	31/12/2017
A. Cash in hand	(369,318)	(169,086)
B. Other cash and cash equivalents (details)	-	
C. Securities held for trading	-	
D. Cash and cash equivalents (A) + (B) + (C)	**(369,318)**	**(169,086)**
E. Current financial receivables	**(480,675)**	**(506,382)**
F. Current bank debt	13,952	13,093
G. Current portion of non-current debt	363,673	137,480
H. Other current financial debt	59,738	38,559
I. Current financial debt (F)+(G)+(H)	**437,363**	**189,132**
J. Net current financial debt (I) – (E) – (D)	**(412,630)**	**(486,336)**
K. Non-current bank debt	743,902	1,148,105
L. Bonds issued	2,185,550	1,777,885
M. Other non-current debt	83,851	97,898
N. Non-current financial debt (K) + (L) + (M)	**3,013,303**	**3,023,888**
O. Net financial debt (J) + (N)	**2,600,673**	**2,537,552**

The table below shows the changes in current and non-current financial liabilities.

thousands of euro

Current and non-current financial liabilities 31.12.2017	**3,213,020**
Opening of medium/long-term loans	581,000
Repayment of medium/long-term loans	(393,940)
Liabilities acquired following change in consolidation scope	34,044
Fair value changes on derivatives	10,403
Other changes	6,139
Current and non-current financial liabilities 31.12.2018	**3,450,666**

IX. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousand euros of euro.

Starting from 1 January 2018, the Group's consolidated income statement contains the economic figures of the Iren Rinnovabili Group companies and, starting from 1 April 2018, those of the ACAM Group companies and of ReCos S.p.A. and starting from September 2018 those of the companies Maira, Formaira and Spezia Energia Trading; the economic results of 2018 are therefore affected by the inclusion of these figures in the consolidation scope.
We can also note that the income statement items include, along the entire time period in question, the results of the subsidiary Salerno Energia Vendite, while in 2017 they were included starting from 1 May.

REVENUE

NOTE 30_REVENUE FROM GOODS AND SERVICES

This item amounted to 3,764,386 thousand euro (3,448,664 thousand euro in financial year 2017). For further details on the trend in revenues by business segments see the tables in paragraph XI "Segment Reporting". We can note that for financial year 2018 the item includes non-recurring income of 41,238 thousand euro attributable to the revision of the estimate of receivables for invoices to be issued on the sale of electricity, gas and heat, carried out following the introduction of a new method for calculating revenue accruing, which completed the analysis of invoices issued and the estimate of end-of-year assessments.

NOTE 31_CHANGE IN WORK IN PROGRESS

This item amounted to a negative 84 thousand euro (-22,792 thousand euro in financial year 2017) and refers mainly to the accounting for the progress of work done for the Municipality of Turin. In 2017 it referred mainly to accounting for the completion of work on the Turin LED Project (18,785 thousand euro) and for the project to make the municipal heating plants of the City of Turin more energy efficient (6,112 thousand euro), and to progress on other activities performed for the Municipality of Turin.

NOTE 32_OTHER INCOME

Other income totalled 276,387 thousand euro (271,263 thousand euro in financial year 2017) and refers to contributions, revenue for energy certificates and sundry income. The tables below show the details of the single items.

Contributions

thousands of euro

	Financial year 2018	Financial year 2017
Grants related to plant	10,834	8,987
Connection contributions	9,541	8,980
Other grants	1,061	4,064
Total	**21,436**	**22,031**

The grants for plant facilities and connection contributions represent the pertaining portion of grants calculated in proportion to the depreciation rates of the plants to which they refer. The connection contributions include amounts received for connection to the Group's electricity, water, gas and heat distribution networks. Starting from 1 January 2018, with the introduction of IFRS 15 - *Revenue from Contracts with Customers,* these contributions can no longer be considered part of the fee for the distribution service, since control of the asset is not transferred and so they must be deferred and released

along the life of the relevant asset in line with what is envisaged for tariff purposes. Having made use of the simplification, provided for in the said standard, recognising cumulative application impacts on the opening of 1 January 2018 the comparative data of financial year 2017 were not restated.
In financial year 2018 the new accounting treatment brought about a reduction in the item Connection contributions of 2,056 thousand euro due to:

- lower revenue for contributions collected in financial year 2018 and deferred, of 11,597 thousand euro;
- higher revenue for reversal to the income statement of deferrals of contributions of previous years of 9,541 thousand euro.

Revenue from energy efficiency certificates

thousands of euro

	Financial year 2018	Financial year 2017
Revenue from Emission Trading	350	1,217
Revenue from ex-Green Certificates incentive	97,947	89,435
Revenue from Energy Efficiency Certificates (White Certificates)	110,979	74,070
Total	**209,276**	**164,722**

The significant increase in the revenue from White Certificates derived mainly from the recognition of energy efficiency certificates for earlier periods and from sale on the exchange of surplus certificates in the portfolio with respect to the quantities necessary to fulfil the cancellation obligations set by the Authority.

Other income

thousands of euro

	Financial year 2018	Financial year 2017
Revenue from service contracts	4,551	3,580
Revenue from rental income and leases	1,582	1,308
Capital gains on goods disposal	1,163	722
Insurance reimbursement	396	2,282
Sundry repayments	6,775	6,238
Other revenue and income	31,208	70,380
Total	**45,675**	**84,510**

COSTS

NOTE 33_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

This item is broken down as follows:

thousands of euro

	Financial year 2018	Financial year 2017
Purchase of electricity	446,192	418,788
Purchase of gas	781,277	671,776
Purchase of heat	169	265
Purchase of other fuels	50	67
Purchase of water	3,372	2,949
Other raw materials and inventory materials	83,148	66,029
Emission Trading	39,969	15,721
White certificates	33,160	62,918
Change in inventories	(10,271)	10,126
Total	**1,377,066**	**1,248,639**

Costs for raw materials, consumables, supplies and goods increased by approximately 128 million euro. The increase was mainly related to the electricity and gas purchase price trends recorded over the year, higher above all in relation to those recorded in the early months of the previous financial year. The change in costs for Emission Trading and White Certificates compared to the previous year was the result of the trend in the prices of these securities. The change in inventories was partly due to an increase in gas storage.

NOTE 34_SERVICES AND USE OF THIRD-PARTY ASSETS

Costs for services amounted to 1,227,435 thousand euro (1,124,239 thousand euro in 2017) and are detailed in the table below:

thousands of euro

	Financial year 2018	Financial year 2017
Electricity transport and electricity system expenses	627,506	608,304
Gas carriage	45,737	49,480
Heat carriage	-	-
Third-party works, maintenance and industrial services	199,970	165,382
Collection and disposal, snow clearing, public parks	172,157	145,168
Expenses related to personnel (canteen, training, travel)	10,459	9,091
Technical, administrative and commercial consulting and advertising expenses	63,073	43,845
Legal and notary fees	2,543	3,597
Insurance	13,035	16,085
Banking costs	7,872	6,729
Telephone costs	6,950	7,208
IT expenses	35,539	21,221
Reading and invoicing services	13,748	17,224
Fees of the Board of Statutory Auditors	860	748
Other costs for services	27,986	30,157
Total costs for services	**1,227,435**	**1,124,239**

Costs for third-party works mainly relate to operating and maintenance costs of plants and networks. "Other costs for services" consist of the remaining costs for internal consumption, customer back office, call centres, transport and other services.

Costs for the use of third-party assets amounted to 44,524 thousand euro (42,399 thousand euro in 2017). These include instalments paid to the market operator of the Genoa district, instalments paid to the companies which own the assets of the integrated water service in the municipalities of Parma, Piacenza and Reggio Emilia, land-crossing easements, operating lease rentals (including rents paid for the buildings in the Core MultiUtilities fund), hiring, IT fees and sundry rentals.

NOTE 35_OTHER OPERATING EXPENSE

Other operating expenses amounted to 64,653 thousand euro (99,814 thousand euro in 2017) and are detailed in the table below:

thousands of euro

	Financial year 2018	Financial year 2017
General expenses	14,630	14,586
Instalments and higher instalments for water shunting	16,492	16,087
Taxes and duties	23,037	20,186
Contingent liabilities	1,343	19,551
Capital losses on goods disposal	936	238
Other sundry operating expenses	8,215	29,166
Total	**64,653**	**99,814**

General expenses include among other things contributions to the running costs of various entities and penalties from service providers. The item "taxes and duties" relates mainly to expenses for IMU (Council Tax) on the Group's plants and buildings and expenses for occupying and reclaiming public land.
The significant change in other sundry operating expenses derived mainly from the cessation of costs for energy certificates related to previous years recognised in financial year 2017.

NOTE 36_CAPITALISED EXPENSES FOR INTERNAL WORK

"Capitalised expenses for internal work" amounted to 33,198 thousand euro (27,724 thousand euro in 2017), and represent increases in capital assets made with internal resources and production factors.

thousands of euro

	Financial year 2018	Financial year 2017
Capitalised labour costs	(22,852)	(22,193)
Capitalised inventory materials	(10,346)	(5,531)
Total	**(33,198)**	**(27,724)**

NOTE 37_PERSONNEL EXPENSE

Personnel expenses amounted to 393,618 thousand euro (389,552 thousand euro in 2017) and are detailed in the table below:

thousands of euro

	Financial year 2018	Financial year 2017
Gross remuneration	275,058	250,498
Social security contributions	88,504	81,608
Post-employment benefits	434	186
Other long-term employee benefits	210	1,084
Other personnel expense	28,081	54,995
Directors' fees	1,331	1,181
Total	**393,618**	**389,552**

As described in Note 36, 22,852 thousand euro of costs related to employees were capitalised.

Other personnel expenses include provisions set aside for the charges associated with the new agreements for early retirements incentivised according to art. 4 of Italian Law no. 92/2012, the social security and recreational contributions, the contribution paid to the Supplementary Health Care Fund, insurance for accidents occurring outside working hours, the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds.
In financial year 2017 they also included:

- the release of electricity discount provisions related to employees and former employees, in virtue of trade union agreements and the unilateral revocation of the benefit in the fourth quarter of 2017;
- the provisions set aside for the estimate of future charges associated with the new regulations and replacement of these tariff discounts for employees and former employees.

The personnel composition is shown in the following table.

	31/12/2018	31/12/2017	Average for the period
Senior managers	93	89	91
Junior managers	296	265	292
White collar	3,304	2,918	3,259
Blue collar	3,349	3,013	3,279
Total	**7,042**	**6,285**	**6,921**

The increase in the number of employees was mainly due to the consolidation of the ACAM Group companies and of Spezia Energy Trading and to the fact that at 31 December 2017 it did not include employees of the Iren Rinnovabili Group companies because they were acquired at the end of the financial year and therefore did not contribute to determining the Group's personnel expenses in 2017.

NOTE 38_AMORTISATION/DEPRECIATION

Depreciation/amortisation of the period amounted to 354,947 thousand euro (321,865 thousand euro in 2017).

thousands of euro

	Financial year 2018	Financial year 2017
Property, plant and equipment and investment property	233,867	219,557
Intangible assets	121,080	102,308
Total	**354,947**	**321,865**

For further details on depreciation/amortisation, reference should be made to the tables of changes in property, plant and equipment and intangible assets.

NOTE 39_PROVISIONS AND IMPAIRMENT LOSSES

This item amounted to a total of 81,150 thousand euro (78,002 thousand euro in financial year 2017) and is detailed in the table below.

thousands of euro

	Financial year 2018	Financial year 2017
Provisions for impairment of receivables	**52,217**	**46,660**
Provisions set aside for risks and restoration of third-party assets	40,323	45,432
Provision releases	(16,028)	(19,383)
Write-downs	4,638	5,293
Total net other provisions and impairment losses	**28,933**	**31,342**
Total	**81,150**	**78,002**

As illustrated in the paragraph Accounting standards, amendments and interpretations applied from 1 January 2018 and as indicated in Note 12_Trade receivables, provisions set aside for impairment of receivables in the period reflect the new method provided for in the accounting standard IFRS 9.

The trend of provisions set aside for risks and restoration of third-party assets is referable to the assessment of risks of liabilities in the electrical and water fields, as well as to emerging costs in the waste management segment, while releases of provisions in the period refer to the revision of estimates of expenses set aside in previous years.
Details of changes in provisions are given in the comment on the Balance Sheet item “Provisions for risks and charges”.

NOTE 40_FINANCIAL INCOME AND EXPENSES

Financial income

Financial income amounted to 42,844 thousand euro (46,246 thousand euro in 2017). The details are shown in the following table:

thousands of euro

	Financial year 2018	Financial year 2017
Dividends	693	726
Bank interest income	581	340
Interest income from receivables/loans	18,757	21,824
Interest income from customers	5,253	4,270
Fair value gains on derivatives	10,956	15,868
Gains made on derivatives	743	-
Gains on financial assets disposal	-	1,445
Exchange rate gains	45	24
Other financial income	5,816	1,749
Total	**42,844**	**46,246**

Interest income from receivables/loans refers mainly to interest receivable from the joint venture OLT Offshore (13,445 thousand euro) and interest accrued on current accounts between the Group and the Municipality of Turin (4,409 thousand euro).
Income from fair value on derivative contracts refers to the non-effective portion of hedging instruments and to the fair value changes of hedging instruments that do not meet the formal requirements for the application of hedge accounting.
Other financial income consists mainly of income for the discounting of provisions and for adjustments to estimates of previous years.

Financial expense

This item amounted to 148,976 thousand euro (128,753 thousand euro in financial year 2017). The breakdown of financial expenses is provided in the following table:

thousands of euro

	Financial year 2018	Financial year 2017
Interest expense on loans	79,057	34,078
Interest expense on bonds	43,232	55,507
Interest expense on bank current accounts	47	32
Other interest expense	997	1,026
Derivative fair value charges	714	723
Expenses paid on derivatives	17,645	34,348
Capital loss on disposal of financial assets	219	-
Interest cost – Employee benefits	1,570	1,183
Other financial expenses	5,495	1,781
Total	**148,976**	**128,678**

Interest expense on loans of the period includes expenses for liability management operations regarding loans and committed lines of 51.8 million euro (in financial year 2017, for liability management operations regarding bonds issued, there were expenses of 12.7 million euro).
Interest on loans and bonds includes the expenses relating to the measurement at amortised cost.

Derivative fair value expenses consist of the reversal of a portion of the cash flow hedging reserve to the income statement, relating to certain hedging positions that do not meet the formal requirements for the application of hedge accounting. The item “expenses paid on derivatives” in financial year 2017 included 7.8 million euro of expenses related to early repayment of certain instruments hedging the risk of interest rate changes.
Reference should be made to the note to the statement of financial position on the item “Employee benefits” for details of financial expenses on employee benefits.

NOTE 41_SHARE OF PROFIT OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The profit of associates accounted for using the equity method amounted to 776 thousand euro (22,532 thousand euro in 2017).
The change between the periods in question (-21,756 thousand euro) is essentially attributable to the results recorded in 2017 for the companies OLT Offshore LNG Toscana and ASTEA. For the former they were affected by the definition of the regasification tariffs, in particular as regards the additional remuneration of the invested capital in relation to previous years, while for ASTEA they were affected by the capital gain made following sale of control over the commercial company.

For more details please see Note 5 “Investments accounted for using the equity method”.

NOTE 42_VALUE ADJUSTMENTS ON EQUITY INVESTMENTS

The item was a negative 35,614 thousand euro (a positive 8,670 thousand euro in financial year 2017) and refers mainly to:

- the write-down of the equity investment in OLT Offshore LNG Toscana (-27,674 thousand euro) made for alignment to the fair value provided for as a consequence of the probable sale, in the light of the results that emerged in the programme of activities launched for this purpose;
- the write-downs related to the investees Acque Potabili (-5,000 thousand euro) and AMAT (-2,111 thousand euro, writing it off), made respectively owing to the prospects of uncertain income and the adverse regulatory context;
- to the write-back of Acquaenna in the light of cessation of the conditions for a write-down made in previous years (+1,380 thousand euro);
- to the restatement at fair value, at the date the controlling stake was acquired, of the minority interest held at 31 March 2018, in ReCos. (Euro -1,706 thousand euro).

In financial year 2017 the item was a positive 8,670 thousand euro and referred to:

- the effects of redetermining at fair value, at the control acquisition date, the previous interests in Salerno Energia Vendite (8,635 thousand euro) and in the Rinnovabili Group (2,837 thousand euro);
- the write-back of Mestni Plinovodi in the light of cessation of the conditions for a write-down made in previous years (3,341 thousand euro);
- the complete write-off of Fingas (5,729 thousand euro), made following the change in prospects for the growth of new regasification capacity in Italy.

NOTE 43_INCOME TAX EXPENSE

Income taxes for 2018 are estimated at 116,287 thousand euro (104,359 thousand euro in 2017).
The breakdown of taxes is provided in the following table:

thousands of euro

	Financial year 2018	Financial year 2017
Current taxes (IRES)	116,505	99,728
Current taxes (IRAP)	30,188	26,135
Current taxes (IRES and IRAP) previous years	(14,711)	(1,698)
Deferred tax assets	(12,897)	(11,401)
Deferred tax liabilities	(2,798)	(8,405)
Total	**116,287**	**104,359**

We can note that, starting from 2010, Iren S.p.A. adopted the domestic tax consolidation scheme pursuant to Arts 117 et seq. of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.
The tax consolidation scope for 2018 includes the following companies, in addition to the consolidating company Iren S.p.A.: Ireti, Iren Mercato, Iren Energia, Iren Acqua, Immobiliare delle Fabbriche, Iren Ambiente (incorporating TRM V and TRM Holding), Iren Rinnovabili, Greensource, Enìa Solaris, Varsi Fotovoltaico, AMIAT and AMIAT V.
All financial and legal transactions between the parties are governed by the specific intra-group agreement between the companies involved and the parent, Iren S.p.A.

Closure of the dispute with the Revenues Agency, Liguria Regional Department

With reference to recovery of taxes for Mediterranea delle Acque (now IREN Acqua) and to the dispute with the Revenues Agency related to the deduction of the depreciation related to contribution of the business unit of 23 December 1999 made by AMGA S.p.A. we can specify the following.

The assessment notices received for the tax periods from 2003 to 2012 originate from the same allegation, related to the operation for contribution of a business carried out, on 23 December 1999, by AMGA S.p.A. and the subsidiary Genova Acque S.p.A., incorporated later by Mediterranea delle Acque (now IREN Acqua S.p.A.), on 7 June 2006).
The Revenues Agency's attention was focused, in particular, on the circumstance that, in relation to the contribution, AMGA S.p.A. had made a capital gain, excluded from taxation, in application of the "tax moratorium" regimen, possible up to 31 December 1999 (pursuant to art. 66, paragraph 4, of Italian Law Decree no. 331 of 30 August 1993). The receiving company (that is Genova Acque S.p.A.) had, instead, recognised assets and liabilities received on the basis of the present value resulting from an independent estimate.
The Revenues Agency, therefore, considered that the sequence of transactions described above represented an "elusive" case under the terms of the then-current art. 37-*bis* of Italian Presidential Decree no. 600 of 1973 (that is of art. 10-*bis* of Italian Law no. 212 of 2000 currently in force), which would have entailed an "undue" tax advantage consisting of the higher tax-deductible depreciation (related to the higher value of the business) for the receiving company Genova Acque S.p.A. and the non-relevance for tax purposes of the capital gain made by the contributing company AMGA S.p.A..

In relation to the operation described above, the Revenues Agency issued, to IREN Acqua S.p.A. and IREN S.p.A. (in its capacity as consolidating company), a series of assessment notices, relating to the tax years from 2003 to 2012, which were appealed and are pending at the three levels of judgement.
The companies obtained however positive results only in relation to the sanctions.
The Tax Commissions appealed to, in fact, decided that they had to proceed to revoke the sanctions imposed, in consideration of the conditions of objective uncertainty on the range and scope of the rules

applied to the case examined. However, on the merits (although with debatable grounds), the said Commissions confirmed the recovery of taxation made by the Revenues Agency.
In the light of these circumstances some reflections were made on the opportunity of seeking an alternative solution for the purpose of settling the entire legal action.
After discussions with the Revenues Agency, therefore, a redetermination was agreed of the amounts originally assessed in relation to the companies, and – on 29 November 2018 – an agreement was signed covering all the years subject to assessment.
Therefore, with reference to the entire time horizon involved which goes from 2003 to 2038, the year in which the depreciation of the assets contributed will come to an end, the total amount of the higher taxes and interest, payable following the agreement, is 13,333 thousand euro. In previous years the company had set aside provisions for risks for a maximum amount estimated for the years up to 2017 of 18,060 thousand euro for higher taxes connected with the dispute, and of 4,237 thousand euro for interest and collection expenses.
In financial year 2018 therefore:

- the surplus provisions for risks, with respect to what had been redetermined up to 2017 in agreement with the Agency, were released to the income statement, for an amount of 13,118 thousand euro, of which 10,439 thousand euro for lower taxes and 2,679 thousand euro for lower interest and collection expenses;
- the current taxes accruing were calculated in accordance with the aforementioned agreement (293 thousand euro);
- deferred tax liabilities of 3,862 thousand euro were set aside in relation to the years 2019-2038.

The table below shows the breakdown of the tax rate for financial year 2018 and for financial year 2017.

in thousands of euro

	Financial year 2018		Financial year 2017	
Profit (loss) before tax	389,524		369,119	
IRES tax	93,486	24.0%	88,588	24.0%
Permanent differences	12,397	3.2%	1,917	0.5%
IRAP (regional business tax)	30,188	7.7%	26,135	7.1%
Previous years' taxes and other differences	(19,785)	-5.1%	(12,281)	-3.3%
Total taxes in the income statement	**116,287**	**29.9%**	**104,359**	**28.3%**

The adjusted tax rate, net of the extraordinary events of 2018 indicated above, is approximately 29.9%.

The following table shows deferred tax assets and liabilities and their impact.

thousands of euro

	Financial year 2018	Financial year 2017
Deferred tax assets		
Non-taxable provisions	125,549	114,250
Differences in value of fixed assets	125,543	119,617
Connection contributions	48,793	
Derivatives	23,728	19,623
Tax losses carried forward + ACE	5,462	
Other	31,222	24,281
Total	**360,298**	**277,771**
Deferred tax liabilities		
Differences in value of fixed assets	201,410	198,945
Provisions for impairment of receivables	3,814	3,814
Other provisions	583	1,754
Other	5,746	9,247
Total	**211,553**	**213,760**
Total net deferred tax assets (liabilities)	**148,745**	**64,011**
Total change	**84,734**	
of which:		
Equity	58,837	
to the Income statement	19,562	
owing to changes in the consolidation scope	6,336	

NOTE 44_NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS

Not present in financial year 2018 and in financial year 2017.

NOTE 45_ PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO MINORITIES

Profit attributable to non-controlling interests, which amounted to 31,121 thousand euro (27,040 thousand euro in 2017), relates to the share of profit of non-controlling interests in companies fully consolidated but not wholly owned by the Group.

NOTE 46_EARNINGS PER SHARE

In order to calculate the basic and diluted earnings per share, the number of shares of financial year 2018 is the weighted average of shares outstanding over the reference period based on the provisions of paragraph 20, IAS 33. The company has not issued financial instruments that have the potential to dilute ordinary and savings shares, therefore diluted earnings per share is equal to basic earnings per share.

	Financial year 2018	Financial year 2017
Net profit (loss) for the period (thousands of euro)	242,116	237,720
Weighted average number of shares outstanding over the year (thousand euro)	1,292,132	1,276,226
Basic earnings/(loss) per share (euro)	**0.19**	**0.19**

NOTE 47_OTHER COMPREHENSIVE INCOME

Other comprehensive income amounted to a negative 14,882 thousand euro (+9,574 thousand euro in 2017) and included other comprehensive income that will be subsequently reclassified to the Income Statement and other comprehensive income that will not be subsequently reclassified to the Income Statement.

Other comprehensive income that will not be subsequently reclassified to the Income Statement relates to:

- the effective portion of changes in the fair value of cash flow hedging instruments, a negative 22,342 thousand euro, which refers to derivatives hedging changes in interest rates and derivatives hedging changes in commodity prices (for the Group this is gas).
- the share of other profits/(losses) of companies accounted for using the equity method, a positive 222 thousand euro, which refers to changes in the fair value of cash flow hedging instruments of associates.
- the tax effect of other comprehensive income for 6,198 thousand euro.

Other comprehensive income that will not be subsequently reclassified to the Income Statement relates to:

- Net actuarial gains, related to defined benefit plans, for 2,403 thousand euro.
- the portion of other profits/(losses) of companies accounted for using the equity method related to employee defined benefit plans, for -115 thousand euro.
- the tax effect of other comprehensive income, for -1,248 thousand euro.

X. GUARANTEES AND CONTINGENT LIABILITIES

Guarantees relate to:

a) Sureties for own commitments of 403,780 thousand euro (369,791 thousand euro at 31 December 2017); the most significant items refer to sureties issued in favour of:
   - ARPAE for 75,632 thousand euro for waste conferment and operating and post-closure management of plants subject to Integrated Environmental Authorisation (hereinafter I.E.A.);
   - the Turin Provincial/Metropolitan City Governments, for 60,971 thousand euro for waste conferment and post-closure management of plants subject to I.E.A.;
   - ATO-R, for41,000 thousand euro, as definitive guarantees in the Amiat/TRM tender procedure;
   - CONSIP for 33,785 thousand euro for electricity supply contracts;
   - the City of Turin for 27,478 thousand euro as definitive guarantees in the AMIAT/TRM tender procedure;
   - the Electricity Market Operator (GME) for 27,400 thousand euro to guarantee the market participation contract;
   - INPS for 27,074 thousand euro for the planned redundancy procedure for group employees;
   - the Customs Authority, for 20,592 thousand euro to guarantee the regular payment of revenue tax and additional local and provincial duties on electricity consumption and gas excise;
   - SNAM Rete Gas for 18,442 thousand euro, of which 942 thousand euro in the interest of OLT Offshore LNG Toscana in relation to the construction of a delivery point;
   - ATERSIR for 14,306 thousand euro for S.I.I. and S.G.R.U. agreements and tenders in progress;
   - the Ministry of the Environment, for 14,025 thousand euro;
   - SETA SpA for 5,850 thousand euro to guarantee regular execution of post-closure activities at the Chivasso 0 landfill site;
   - Terna, for 5,088 thousand euro to guarantee injection and withdrawal dispatching contracts and to guarantee the electricity transport service contract;
   - the Municipality of Parma for 2,501 thousand euro to guarantee the Cornocchio plant and for maintenance contracts;
   - FCT Holding, for 2,000 thousand euro, as definitive guarantee in the AMIAT/TRM tender procedure;
   - REAM Sgr SpA, for 1,931 thousand euro, to guarantee lease payments of properties transferred to the real estate fund called Fondo Core MultiUtilities;

b) Guarantees provided on behalf of subsidiaries and associates for 372,450 thousand euro, primarily to guarantee credit facilities and sales/Parent Company Guarantee contracts on behalf of Iren Mercato SpA;

The most significant amounts, regarding the guarantees given on behalf of associates, refer to the associate Sinergie Italiane in liquidation and in particular guarantees for credit facilities and letters of patronage for 25,332 thousand euro (26,666 thousand euro at 31 December 2017). The liquidators concluded the main procurement contracts and since 1 October 2012 the Company’s operating activity therefore includes only the purchase of gas from the Russian Gazprom supplier and the sale of gas to shareholders or their subsidiaries, including Iren Mercato.

COMMITMENTS

In relation to the subsidiary Iren Acqua (formerly Mediterranea delle Acque), we can note the existence of a commitment within the framework Agreement with the Shareholder F2i rete idrica S.p.A.. Article 15 of this agreement envisages that Ireti is bound to pay damages in the event of liabilities, losses or damage suffered by F2i or Iren Acqua or its investees, resulting from incorrect or unfair statements included in the agreement.

XI. SEGMENT REPORTING

Segment reporting, based on the Group's management and internal reporting structure, is given below in accordance with IFRS 8.
Given the nature of the activity performed by Group companies, a geographical segment analysis is not relevant.

OPERATING BUSINESS SEGMENTS

The Iren Group operates in the following business segments:

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

These operating segments are disclosed pursuant to IFRS 8. Under this standard, the disclosure about operating segments should be based on the elements which management uses in making operational and strategic decisions.

For a proper interpretation of the economic results relating to individual businesses, revenue and expense referring to joint activities were fully allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers.

Given the fact that the Group mainly operates in one area, the following segment information does not include a breakdown by geographical area.

Net invested capital by business segment compared to the figures at 31 December 2017 and income statements (up to the operating profit/(loss)) by business segment are presented below, and include a comparison with the figures for financial year 2017.

Statement of financial position by business segment at 31 December 2018

millions of euro

	Networks	Waste Manage-ment	Energy	Market	Other services	Non-allocable	Total
Non-current assets	2,609	946	1,882	146	61	142	5,786
Net Working Capital	(21)	70	47	41	(5)	-	132
Other non-current assets and liabilities	(610)	(156)	(122)	(7)	(8)	-	(903)
Net invested capital (NIC)	**1,978**	**860**	**1,807**	**180**	**49**	**142**	**5,015**
Shareholders' equity							2,562
Net financial position							2,453
Own funds and net financial debt							**5,015**

Statement of financial position by business segment at 31 December 2017

millions of euro

	Networks	Waste Manage-ment	Energy	Market	Other services	Non-allocable	Total
Non-current assets	2,272	933	1,876	131	32	168	5,412
Net Working Capital	59	50	50	10	14	-	182
Other non-current assets and liabilities	(435)	(166)	(101)	(25)	4	-	(723)
Net invested capital (NIC)	**1,896**	**817**	**1,825**	**116**	**49**	**168**	**4,871**
Shareholders' equity							2,499
Net financial position							2,372
Own funds and net financial debt							**4,871**

Income Statement by business segment of financial year 2018

millions of euro

	Networks	Waste Manage-ment	Energy	Market	Other services	Netting and adjust-ments	Total
Total revenue and income	947	610	1,345	2,602	83	(1,546)	4,041
Total operating expenses	(605)	(455)	(1,020)	(2,463)	(77)	1,546	(3,074)
Gross Operating Profit (EBITDA)	**342**	**155**	**325**	**139**	**6**	**-**	**967**
Net am./depr., provisions and impairment losses	(166)	(80)	(137)	(53)	(1)	-	(437)
Operating profit (EBIT)	**176**	**75**	**188**	**86**	**5**	**-**	**530**

Income Statement by business segment of financial year 2017

millions of euro

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

XII. ANNEXES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FULLY CONSOLIDATED COMPANIES

LIST OF JOINT VENTURES

LIST OF ASSOCIATES

EQUITY INVESTMENTS IN OTHER COMPANIES

ACCOUNTING DATA OF THE MAIN COMPANIES CONSOLIDATED LINE-BY-LINE, JOINT VENTURES AND ASSOCIATES

RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB Communication no. 6064293 dated 26 July 2006)

DEFERRED TAX ASSETS AND LIABILITIES

RELATED-PARTY TRANSACTIONS

LIST OF CONTRIBUTIONS PURSUANT TO ITALIAN LAW 124/2017 ART. 1 PARAGRAPHS 125-129

INDEPENDENT AUDITORS’ FEES

FULLY CONSOLIDATED COMPANIES

Company	Registered office	Currency	Share capital	% interest	Shareholder company
Iren Ambiente S.p.A.	Piacenza	Euro	63,622,002	100.00	Iren
Iren Energia S.p.A.	Turin	Euro	918,767,148	100.00	Iren
Iren Mercato S.p.A.	Genoa	Euro	61,356,220	100.00	Iren
Ireti S.p.A.	Genoa	Euro	196,832,103	100.00	Iren
Acam Acque S.p.A.	La Spezia	Euro	24,260,050	100.00	IRETI
Acam Ambiente S.p.A.	La Spezia	Euro	6,313,620	100.00	Iren Ambiente
AMIAT S.p.A.	Turin	Euro	46,326,462	80.00	AMIAT V
AMIAT V. S.p.A.	Turin	Euro	1,000,000	93.06	Iren Ambiente
ASM Vercelli S.p.A.	Vercelli	Euro	120,812,720	59.97	IRETI
Atena Trading S.r.l.	Vercelli	Euro	556,000	100.00	ASM Vercelli
Bonifica Autocisterne S.r.l.	Piacenza	Euro	595,000	51.00	Iren Ambiente
Coin Consultech S.r.l.	Reggio Emilia	Euro	10,000	72.87	Studio Alfa
Consorzio GPO	Reggio Emilia	Euro	20,197,260	62.35	IRETI
Enia Solaris S.r.l.	Reggio Emilia	Euro	100,000	100.00	Greensource
Formaira S.r.l.	San Damiano Macra (CN)	Euro	10,000	100.00	Maira
Greensource S.p.A.	Reggio Emilia	Euro	1,000,000	100.00	Iren Energia
Immobiliare delle Fabbriche S.r.l.	Genoa	Euro	90,000	100.00	Iren Acqua
Iren Acqua S.p.A.	Genoa	Euro	19,203,420	60.00	IRETI
Iren Acqua Tigullio S.p.A.	Chiavari (Genoa)	Euro	979,000	66.55	Iren Acqua
Iren Laboratori S.p.A.	Genoa	Euro	2,000,000	90.89	IRETI
Iren Rinnovabili S.p.A.	Reggio Emilia	Euro	2,596,721	60.00	Iren Energia
				20.00	Iren Ambiente
				20.00	Iren Mercato
Maira S.p.A.	San Damiano Macra (CN)	Euro	596,442	66.23	Iren Energia
Monte Querce S.c.a.r.l.	Reggio Emilia	Euro	100,000	60.00	Iren Ambiente
ReCos S.p.A.	La Spezia	Euro	3,516,000	95.00	Iren Ambiente
R.E.I. S.r.l.	Pianezza (Turin)	Euro	50,000	100.00	Iren Ambiente
Salerno Energia Vendite S.p.A.	Salerno	Euro	3,312,060	50.00	Iren Mercato
Spezia Energy Trading S.r.l.	La Spezia	Euro	60,000	100.00	Iren Mercato
Studio Alfa S.p.A.	Reggio Emilia	Euro	100,000	86.00	Iren Rinnovabili
TRM S.p.A.	Turin	Euro	86,794,220	80.00	Iren Ambiente
Varsi Fotovoltaico S.r.l.	Reggio Emilia	Euro	100,000	100.00	Greensource

LIST OF JOINT VENTURES

Company	Registered office	Currency	Share capital	% interest	Shareholder company
Acque Potabili S.p.A.	Turin	Euro	7,633,096	44.92	IRETI
Olt Offshore Toscana LNG S.p.A. (1)	Milan	Euro	40,489,544	46.79	Iren Mercato

(1) Company classified among assets held for sale

LIST OF ASSOCIATES

Company	Registered office	Currency	Share capital	% interest	Shareholder company
A2A Alfa S.r.l.	Milan	Euro	100,000	30.00	Iren Mercato
Acos Energia S.p.A.	Novi Ligure	Euro	150,000	25.00	Iren Mercato
Acos S.p.A.	Novi Ligure	Euro	17,075,864	25.00	IRETI
Acquaenna S.c.p.a.	Enna	Euro	3,000,000	46.00	IRETI
Aguas de San Pedro	S.Pedro Sula (Honduras)	Lempiras	159,900	39.34	IRETI
Aiga S.p.A.	Ventimiglia	Euro	104,000	49.00	IRETI
Amat S.p.A.	Imperia	Euro	5,435,372	48.00	IRETI
Amter S.p.A.	Cogoleto (Genoa)	Euro	404,263	49.00	Iren Acqua
ASA S.p.A.	Livorno	Euro	28,613,406	40.00	IRETI
ASTEA S.p.A.	Recanati	Euro	76,115,676	21.32	Consorzio GPO
Asti Energia e Calore S.p.A.	Asti	Euro	120,000	34.00	Iren Energia
BI Energia S.r.l.	Reggio Emilia	Euro	100,000	47.50	Iren Energia
Campo Base S.r.l.	Cuneo	Euro	20,000	49.00	Maira
CSP Innovazione nelle ICT S.c.r.l.	Turin	Euro	600,000	25.00	Iren Energia
Domus Acqua S.r.l.	Domusnovas	Euro	96,000	29.00	IRETI
Fata Morgana S.p.A. (2)	Reggio Calabria	Euro	2,225,694	25.00	IRETI
Fin Gas S.r.l.	Milan	Euro	10,000	50.00	Iren Mercato
Fratello Sole Energie Solidali Impresa Sociale S.r.l.	Genoa	Euro	350,000	40.00	Iren Energia
G.A.I.A. S.p.A.	Asti	Euro	5,539,700	45.00	Iren Ambiente
Global Service Parma S.c.a r.l.	Parma	Euro	20,000	30.00	IRETI
Iniziative Ambientali S.r.l.	Novellara (Reggio Emilia)	Euro	100,000	40.00	Iren Ambiente
Mondo Acqua S.p.A.	Mondovì (Cuneo)	Euro	1,100,000	38.50	IRETI
Nord Ovest Servizi S.p.A.	Turin	Euro	7,800,000	10.00	IRETI
				15.00	AMIAT
Piana Ambiente S.p.A. (2)	Gioia Tauro	Euro	1,719,322	25.00	IRETI
Plurigas S.p.A. (2)	Milan	Euro	800,000	30.00	Iren
Rio Riazzone S.p.A. (1)	Castellarano (Reggio Emilia)	Euro	103,292	44.00	Iren Ambiente
Seta SpA	Turin	Euro	12,378,237	48.85	Iren Ambiente
Sinergie Italiane S.r.l. (1)	Milan	Euro	1,000,000	30.94	Iren Mercato
So. Sel. S.p.A.	Modena	Euro	240,240	24.00	IRETI
STU Reggiane S.p.A.	Reggio Emilia	Euro	6,587,558	30.00	Iren Rinnovabili
Tirana Acque S.c. a r.l. (1)	Genoa	Euro	95,000	50.00	IRETI
Valle Dora Energia S.r.l.	Turin	Euro	537,582	49.00	Iren Energia

(1) Company in liquidation

(2) Company in liquidation classified among discontinuing operations

OTHER EQUITY INVESTMENTS

Company	Registered office	Currency	Share capital	% interest	Shareholder company
Acque Potabili Siciliane in bankruptcy (1)	Palermo	Euro	5,000,000	9.83	Iren Acqua
Aeroporto di Reggio Emilia	Reggio Emilia	Euro	2,177,871	0.11	Studio Alfa
Alpen 2.0	Turin	Euro	70,000	14.29	Maira
ASQ Network	Rome	Euro	75,000	6.00	Studio Alfa
ATO2ACQUE S.c.a.r.l.	Biella	Euro	48,000	16.67	ASM Vercelli
Aurora S.r.l.	S. Martino in Rio (RE)	Euro	514,176	0.10	Studio Alfa
Autostrade Centro Padane	Cremona	Euro	30,000,000	1.46	IRETI
BT ENIA Telecomunicazioni	Parma	Euro	4,226,000	12.01	IRETI
C.R.P.A.	Reggio Emilia	Euro	2,201,350	2.27	IRETI
CIDIU SPA	Collegno (TO)	Euro	4,335,314	4.82	AMIAT
CNA Servizi Scrl	Reggio Emilia	Euro			Studio Alfa
Consorzio L.E.A.P.	Piacenza	Euro	150,000	8.57	Iren Ambiente
Consorzio Topix	Turin	Euro	1,600,000	0.30	Iren Energia
Credito Cooperativo Reggiano	S.Giovanni di Querciola (RE)	Euro			Studio Alfa
Emilbanca BCC	Bologna	Euro			Studio Alfa
Environment Park S.p.A.	Turin	Euro	11,406,780	3.39	Iren Energia
				7.41	AMIAT
Reggio Emilia Innovazione (2)	Reggio Emilia	Euro	871,956	0.99	Iren Ambiente
Società di Biotecnologie S.p.A.	Turin	Euro	536,000	1.00	Iren Rinnovabili
Stadio Albaro (2)	Genoa	Euro	1,230,000	2.00	Iren Mercato
T.I.C.A.S.S.	Genoa	Euro	176,000	3.23	IRETI

(1) in bankruptcy from 29.10.2013
(2) Company in liquidation

ACCOUNTING DATA OF THE MAIN COMPANIES CONSOLIDATED LINE-BY-LINE, JOINT VENTURES AND ASSOCIATES

Fully consolidated companies

Company	Currency	Total Assets	Shareholders' equity	Total revenue	Profit/loss
Iren Ambiente S.p.A.	Euro	672,963,688	279,864,614	297,293,162	48,198,131
Iren Energia S.p.A.	Euro	2,232,529,688	1,304,149,735	1,327,988,564	130,908,348
Iren Mercato S.p.A.	Euro	793,015,738	162,139,097	2,475,642,583	19,083,077
Ireti S.p.A.	Euro	2,524,775,278	1,150,111,850	564,664,890	82,696,816
Acam Acque S.p.A.	Euro	257,979,714	33,631,343	64,064,690	3,496,788
Acam Ambiente S.p.A.	Euro	58,828,983	4,626,508	46,707,397	(1,197,280)
AMIAT S.p.A.	Euro	265,793,665	95,147,356	196,508,962	11,834,570
AMIAT V. S.p.A.	Euro	-	39,454,326	-	9,280,422
ASM Vercelli S.p.A.	Euro	166,205,031	132,827,287	36,811,732	4,841,301
Atena Trading s.r.l	Euro	24,092,907	9,163,134	46,720,952	2,329,623
Bonifica Autocisterne S.r.l.	Euro	1,264,068	852,755	1,254,310	103,133
Coin Consultech S.r.l.	Euro	370,869	225,937	873,962	119,324
Consorzio GPO	Euro	22,886,222	22,856,196	-	277,391
Enia Solaris S.r.l.	Euro	20,889,170	5,508,704	2,496,289	289,338
Formaira S.r.l.	Euro	202,988	10,110	104,106	(1,356)
Greensource S.p.A.	Euro	27,702,400	18,105,662	1,865,088	84,345
Immobiliare delle Fabbriche S.r.l.	Euro	10,131,755	10,100,876	-	(41,728)
Iren Acqua S.p.A.	Euro	679,145,040	492,485,464	204,403,444	46,049,126
Iren Acqua Tigullio S.p.A.	Euro	45,093,645	16,750,644	22,203,385	1,669,128
Iren Laboratori S.p.A.	Euro	14,125,868	6,723,146	12,059,440	1,099,286
Iren Rinnovabili	Euro	127,282,421	28,106,295	19,796,484	92,884
Maira S.p.A.	Euro	10,989,357	8,693,866	2,954,916	876,627
Monte Querce S.c.a.r.l.	Euro	736,738	100,000	32,937	-
ReCos S.p.A.	Euro	52,421,454	5,919,473	14,079,670	(2,256,167)
R.E.I. S.r.l.	Euro	16,191,881	1,819,183	12,398,452	664,365
Salerno Energia Vendite S.p.A.	Euro	32,103,179	10,567,840	51,650,738	4,395,109
Spezia Energia Trading S.r.l.	Euro	53,542,224	355,651	88,469,136	294,867
Studio Alfa S.p.A.	Euro	14,328,974	4,136,257	17,274,804	1,296,408
TRM S.p.A.	Euro	458,389,919	59,283,079	101,595,642	22,176,549
Varsi Fotovoltaico S.r.l.	Euro	24,858,188	7,872,514	3,451,400	(33,894)

Joint ventures

Company	Currency	Total Assets	Shareholders' equity	Total revenue	Profit/loss
Acque Potabili S.p.A. (1)	Euro	58,368,000	34,980,000	1,481,000	(3,923,000)
Olt Offshore Toscana LNG S.p.A.	Euro	964,410,700	61,145,128	112,481,034	(2,934,763)

(1) data at 31.12.2017

Associates

Company	Currency	Total Assets	Shareholders' equity	Total revenue	Profit/loss
A2A Alfa S.r.l. (1)	Euro	268,448	134,599		(1,294,069)
Acos Energia S.p.A. (1)	Euro	12,758,967	5,226,384	19,117,567	1,468,896
Acos S.p.A. (1)	Euro	133,623,702	51,899,391	69,890,329	4,269,844
Acquaenna S.c.p.a. (1)	Euro	86,806,991	6,997,673	24,906,045	1,334,345
Aguas de San Pedro (1)	Lempiras	1,523,728,823	767,948,865	910,441,916	77,761,850
Aiga S.p.A. (in arrangement with creditors)(3)	Euro	4,424,895	(120,283)	2,477,886	(445,451)
Amat S.p.A. (1)	Euro	32,962,628	4,397,727	8,809,702	(2,346,231)
Amter S.p.A. (1)	Euro	11,330,184	2,108,140	5,432,444	326,318
ASA S.p.A. (1)	Euro	280,467,075	75,351,966	104,434,370	2,130,534
ASTEA S.p.A. (1)	Euro	160,960,874	101,804,539	47,846,205	4,429,389
Asti Energia e Calore S.p.A. (1)	Euro	6,668,782	373,045	1,202,416	258,789
BI Energia S.r.l. (1)	Euro	9,609,269	1,808,342	-	(230,817)
Campo Base S.r.l. (1)	Euro	506,622	21,889	358,493	5,423
CSP Innovazione nelle ICT S.c.r.l. (1)	Euro	2,218,220	436,315	1,816,231	(161,473)
Domus Acqua S.r.l. (1)	Euro	758,348	170,558	368,184	(18,002)
Fin Gas S.r.l. (1)	Euro	11,965,652	11,833,892	-	(44,745)
G.A.I.A. S.p.A. (1)	Euro	37,403,289	20,025,145	17,978,962	1,358,046
Global Service Parma (1)	Euro	7,527,701	20,000	5,963,591	-
Iniziative Ambientali S.r.l. (1)	Euro	5,711,724	1,146,904	337	15,657
Mondo Acqua (1)	Euro	10,193,321	1,725,114	5,071,449	37,943
Nord Ovest Servizi (1)	Euro	18,532,208	18,286,872	119,867	542,812
Plurigas S.p.A. (in liquidation) (1)	Euro	4,256,773	2,229,552	5,226	19,698
Rio Riazzone S.p.A. (in liquidation) (1)	Euro	432,605	261,468	151,571	(9,538)
Seta S.p.A (1)	Euro	33,635,428	11,436,931	36,336,296	407,161
Sinergie Italiane S.r.l. (in liquidation)(2)	Euro	42,334,216	(6,520,402)	221,766,836	4,005,334
So. Sel. S.p.A. (1)	Euro	14,282,036	4,214,505	17,797,038	663,348
STU Reggiane S.p.A. (1)	Euro	12,828,979	4,734,132	110,248	(5,351,274)
Valle Dora Energia S.r.l.	Euro	5,236,509	3,607,599	3,594,078	1,703,470

(1) data at 31.12.2017

(2) data at 30.09.2018

(3) data at 31.12.2016

RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB Communication no. 6064293 dated 26 July 2006)

thousands of euro

IAS/IFRS STATEMENT OF FINANCIAL POSITION		RECLASSIFIED STATEMENT OF FINANCIAL POSITION	
Property, plant and equipment	3,471,958	Property, plant and equipment	3,471,958
Investment property	12,820	Investment property	12,820
Intangible assets	2,009,986	Intangible assets	2,009,986
Goodwill	149,713	Goodwill	149,713
Investments accounted for using the equity method	134,594	Investments accounted for using the equity method	134,594
Other equity investments	7,223	Other equity investments	7,223
Total (A)	**5,786,294**	**Non-Current Assets (A)**	**5,786,294**
Other non-current assets	43,130	Other non-current assets	43,130
Other payables and other non-current liabilities	(474,778)	Other payables and other non-current liabilities	(474,778)
Total (B)	**(431,648)**	**Other non-current assets (liabilities) (B)**	**(431,648)**
Inventories	73,799	Inventories	73,799
Non-current trade receivables	69,068	Non-current trade receivables	69,068
Trade receivables	983,836	Trade receivables	983,836
Current tax assets	11,445	Current tax assets	11,445
Other receivables and other current assets	241,879	Other receivables and other current assets	241,879
Trade payables	(914,938)	Trade payables	(914,938)
Other payables and other current liabilities	(284,285)	Other payables and other current liabilities	(300,715)
Current tax liabilities	(32,049)	Current tax liabilities	(32,049)
Total (C)	**148,755**	**Net working capital (C)**	**132,325**
Deferred tax assets	360,298	Deferred tax assets	360,298
Deferred tax liabilities	(211,553)	Deferred tax liabilities	(211,553)
Total (D)	**148,745**	**Deferred tax assets (liabilities) (D)**	**148,745**
Employee benefits	(108,109)	Employee benefits	(108,109)
Provisions for risks and charges	(439,497)	Provisions for risks and charges	(439,497)
Provisions for risks and charges - current portion	(89,887)	Provisions for risks and charges - current portion	(73,457)
Total (E)	**(637,493)**	**Provisions and employee benefits (E)**	**(621,063)**
Assets held for sale	402,424	Assets held for sale	524
- of which financial receivables from OLT Offshore LNG	*401,900*		
Liabilities related to assets held for sale	-	Liabilities related to assets held for sale	-
Total (F)	**402,424**	**Assets (Liabilities) held for sale (F)**	**524**
		Net invested capital (G=A+B+C+D+E+F)	**5,015,177**
Equity (H)	**2,562,371**	**Equity (H)**	**2,562,371**
Non-current financial assets	(147,867)	Non-current financial assets	(147,867)
Non-current financial liabilities	3,013,303	Non-current financial liabilities	3,013,303
Total (I)	**2,865,436**	**Medium/long term financial debt (I)**	**2,865,436**
Current financial assets	(78,775)	Current financial assets	(480,675)
		- of which financial receivables from OLT Offshore LNG	*(401,900)*
Cash and cash equivalents	(369,318)	Cash and cash equivalents	(369,318)
Current financial liabilities	437,363	Current financial liabilities	437,363
Total (L)	**(10,730)**	**Short-term financial debt (L)**	**(412,630)**
		Net financial debt (M=I+L)	**2,452,806**
		Own funds and net financial debt (H+M)	**5,015,177**

DEFERRED TAX ASSETS AND LIABILITIES FOR 2018

	initial	formation	differences Change consolid. scope	payment	remainder
Deferred tax assets					
Non-taxable provisions	464,645	147,716	5,451	95,450	522,362
Differences in value of fixed assets	629,203	28,133	2,885	10,070	650,151
Connection contributions	-	186,570	12,190	1,700	197,060
Derivatives	77,760	30,124	6,452	14,833	99,503
Tax losses carried forward + ACE	-	22,725	1,660	4,768	19,617
Other	88,206	67,530	9,376	44,327	120,785
Total taxable base/deferred tax assets	**1,259,814**	**482,798**	**38,014**	**171,148**	**1,609,478**
Deferred tax liabilities					
Differences in value of fixed assets	700,319	87,641	24,639	50,798	761,801
Provisions for impairment of receivables	20,625	-	-	1	20,624
Other provisions	6,170	1,964	8	5,406	2,736
Other	34,559	27,777	2,971	6,084	59,223
Total taxable base/deferred tax liabilities	**761,673**	**117,382**	**27,618**	**62,289**	**844,384**
Net deferred tax assets (liabilities)	**498,141**	**365,416**	**10,396**	**108,859**	**765,094**

DEFERRED TAX ASSETS AND LIABILITIES FOR 2017

	initial	formation	differences Change consolid. scope	payment	remainder
Deferred tax assets					
Non-taxable provisions	444,850	162,138	-	142,343	464,645
Differences in value of fixed assets	622,891	57,690	410	51,788	629,203
Derivatives	106,079	11,046	-	39,365	77,760
Other	68,084	48,609	4,232	32,719	88,206
Total taxable base/deferred tax assets	**1,241,904**	**279,483**	**4,642**	**266,215**	**1,259,814**
Deferred tax liabilities					
Differences in value of fixed assets	711,016	41,184	-	51,881	700,319
Provisions for impairment of receivables	18,610	-	2,015	-	20,625
Other provisions	18,104	-	-	11,934	6,170
Other	8,688	5,224	35,335	14,688	34,559
Total taxable base/deferred tax liabilities	**756,418**	**46,408**	**37,350**	**78,503**	**761,673**
Net deferred tax assets (liabilities)	**485,486**	**233,075**	**(32,708)**	**187,712**	**498,141**

thousands of euro

Change consolid. scope	taxes to inc/stat	taxes to equity	taxes IRES (corporate income tax)	taxes IRAP (regional business tax)	total
1,537	8,487	1,274	116,367	9,182	125,549
814	5,114	-	119,938	5,605	125,543
3,438	(7,257)	52,613	47,294	1,499	48,793
1,819	(3,912)	6,198	23,728	-	23,728
398	5,064	-	5,462	-	5,462
1,540	5,402	-	26,884	4,338	31,222
9,546	**12,897**	**60,085**	**339,674**	**20,624**	**360,298**
2,370	95	-	175,505	25,905	201,410
-	-	-	3,814	-	3,814
2	(2,422)	1,248	512	71	583
838	(4,338)	-	5,354	392	5,746
3,210	**(6,665)**	**1,248**	**185,185**	**26,368**	**211,553**
6,336	**19,562**	**58,837**	**154,489**	**(5,744)**	**148,745**

thousands of euro

Change consolid. scope	taxes to inc/stat	taxes to equity	taxes IRES (corporate income tax)	taxes IRAP (regional business tax)	total
-	6,958	(345)	103,435	10,815	114,250
116	1,899	-	112,677	6,940	119,617
-	(2,550)	(4,246)	19,623	-	19,623
600	6,339	-	22,166	2,115	24,281
716	**12,646**	**(4,591)**	**257,901**	**19,870**	**277,771**
-	(4,600)	-	172,455	26,490	198,945
568	-	-	3,588	226	3,814
-	(49)	(2,602)	1,754	-	1,754
9,647	(2,512)	-	7,977	1,269	9,247
10,216	**(7,161)**	**(2,602)**	**185,774**	**27,985**	**213,760**
(9,500)	**19,807**	**(1,989)**	**72,127**	**(8,115)**	**64,011**

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Trade Receivables	Financial Receivables	Other receivables	Trade Payables	Financial payables
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	1,345	-	-	5,619	-
Municipality of Parma	14,854	-	-	867	-
Municipality of Piacenza	1,944	-	-	1,712	-
Municipality of Reggio Emilia	3,408	-	-	1,244	-
Municipality of Turin	79,089	150,202	-	3,612	3,308
Finanziaria Sviluppo Utilities	16	-	41	-	-
JOINT VENTURES					
OLT Offshore LNG	139	401,900	-	-	-
Acque Potabili	793	-	-	349	-
ASSOCIATES					
A2A Alfa	3	-	-	-	-
ACOS	68	5,495	-	-	-
ACOS Energia	261	-	-	3	-
Acquaenna	383	5,227	-	384	-
Aguas de San Pedro	2	423	-	-	-
AIGA	292	-	-	17	-
AMAT	29	-	-	-	-
AMTER	3,934	-	-	289	-
ASA	1,354	-	-	4	-
ASTEA	7	640	-	-	-
Asti Energia e Calore	615	956	-	-	-
BI Energia	31	735	-	-	-
Campo Base	-	60	-	-	-
CSP - Innovazione nelle ICT	-	-	-	313	-
Domus Acqua	79	-	-	-	-
Fratello Sole Energie Solidali	119	-	-	-	-
GAIA	1,024	-	-	267	-
Global Service Parma	2,517	-	-	2,404	-
Iniziative Ambientali	4	-	-	-	-
Mondo Acqua	574	-	-	-	-
Nord Ovest Servizi	-	-	-	-	-
Piana Ambiente in liquidation	70	-	-	-	-
Plurigas in liquidation	6	-	-	(259)	-
Rio Riazzone in liquidation	-	-	-	2	-
SETA	915	-	-	127	-
Sinergie Italiane in liquidation	21	-	6,902	6,743	-
So. Sel.	84	-	-	3,710	-
STU Reggiane	44	480	525	-	-
Valle Dora Energia Srl	394	-	-	240	2,734
OTHER RELATED PARTIES					
Subsidiaries of Municipality of Turin	1,759	-	12	1,520	-
Subsidiaries of Municipality of Genoa	3,479	-	-	47	-
Subsidiaries of Municipality of Parma	2,767	-	1	1,501	-
Subsidiaries of Municipality of Piacenza	19	-	-	571	-
Subsidiaries of Municipality of Reggio Emilia	354	-	-	787	-
Others	8	-	-	-	-
TOTAL	**122,804**	**566,118**	**7,481**	**32,073**	**6,042**

thousands of euro

	Other payables	Revenue and income	Costs and other charges	Financial income	Financial expense
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	-	4,845	7,256	-	-
Municipality of Parma	-	36,617	1,248	12	-
Municipality of Piacenza	-	18,996	2,462	-	-
Municipality of Reggio Emilia	-	36,025	696	-	-
Municipality of Turin	-	202,999	2,403	4,370	6
Finanziaria Sviluppo Utilities	-	31	-	-	-
JOINT VENTURES					
OLT Offshore LNG	-	5	-	13,445	-
Acque Potabili	-	865	484	-	-
ASSOCIATES					
A2A Alfa	-	3	-	-	-
ACOS	-	94	-	-	-
ACOS Energia	-	259	33	-	-
Acquaenna	-	70	-	63	-
Aguas de San Pedro	-	2	-	-	-
AIGA	-	10	-	16	-
AMAT	-	28	-	-	-
AMTER	-	3,716	316	2	-
ASA	-	456	79	22	-
ASTEA	-	7	-	-	-
Asti Energia e Calore	-	86	-	26	-
BI Energia	-	2	-	16	-
Campo Base	-	-	-	-	-
CSP - Innovazione nelle ICT	-	1	547	-	-
Domus Acqua	-	1	-	-	-
Fratello Sole Energie Solidali	39	59	-	-	-
GAIA	-	1,978	301	-	-
Global Service Parma	-	1,092	1,837	-	-
Iniziative Ambientali	-	4	-	-	-
Mondo Acqua	-	284	-	3	-
Nord Ovest Servizi	-	-	-	129	-
Piana Ambiente in liquidation	-	-	-	-	-
Plurigas in liquidation	-	-	-	-	-
Rio Riazzone in liquidation	-	-	-	-	-
SETA	-	967	-	-	-
Sinergie Italiane in liquidation	-	85	72,747	-	-
So. Sel.	5	147	8,065	-	-
STU Reggiane	25	75	-	12	-
Valle Dora Energia Srl	-	896	3,596	-	-
OTHER RELATED PARTIES					
Subsidiaries of Municipality of Turin	-	3,422	3,081	1	8
Subsidiaries of Municipality of Genoa	-	9,837	271	-	-
Subsidiaries of Municipality of Parma	111	3,638	3,259	-	-
Subsidiaries of Municipality of Piacenza	1	238	1,142	-	-
Subsidiaries of Municipality of Reggio Emilia	-	1,259	6,930	-	-
Others	28	34	42	-	-
TOTAL	**209**	**329,133**	**116,795**	**18,117**	**14**

LIST OF CONTRIBUTIONS PURSUANT TO ITALIAN LAW 124/2017 ART. 1 PARAGRAPHS 125-129

ACAM AMBIENTE

Disbursing body	Type of contribution	Amount in euro
Liguria Region	Grants for plant facilities	57,975
Liguria Region	Grants for plant facilities	4,161
Liguria Region	Grants for plant facilities	1,606
Liguria Region	Grants for plant facilities	2,602
Liguria Region	Grants for plant facilities	7,284
Liguria Region	Grants for plant facilities	11,790
Province of La Spezia	Grants for development of door-to-door waste collection project	1,724
Province of La Spezia	Grants for development of door-to-door waste collection project	1,404
Province of La Spezia	Grants for development of door-to-door waste collection project	4,457
Province of La Spezia	Grants for development of door-to-door waste collection project	60,000
Comune di La Spezia	Grants for development of separate waste collection project	18,000
Liguria Region	Grants for plant facilities	62,197

AMIAT

Disbursing body	Type of contribution	Amount in euro
Ministry of the Environment	Grants for plant facilities	21,448

IREN ACQUA TIGULLIO

Disbursing body	Type of contribution	Amount in euro
Municipality of Rapallo	Grants for plant facilities- Networks	133,768

IREN AMBIENTE

Disbursing body	Type of contribution	Amount in euro
Atesir	Grants for development of separate waste collection project	45,095
Emilia Romagna Region	Grants for plant facilities	112,668
Mun. of the Province of Piacenza	Grants for plant facilities	14,928
Province of Piacenza	Grants for plant facilities	77,247
Province of Reggio Emilia	Grants for plant facilities	235,193
Emilia Romagna Region	Grants for plant facilities	186,573

IRETI

Disbursing body	Type of contribution	Amount in euro
Port System Authority	Grants for plant facilities- Networks	104,400
Autostrade per l'Italia	Grants for plant facilities- Networks	91,346
Municipality of Collecchio	Grants for plant facilities- Networks	118,182
Municipality of Felino	Grants for plant facilities- Networks	107,534
Municipality of Piacenza	Grants for plant facilities- Networks	383,298
Municipality of Vado Ligure	Grants for plant facilities- Networks	23,712
Fontanazzo Water Consortium	Grants for plant facilities- Networks	551,070
Province of Mantua	Grants for plant facilities- Networks	940,076
Province of Parma	Grants for plant facilities- Networks	291,017
Province of Piacenza	Grants for plant facilities- Networks	132,154
Unione Bassa Est Parmense	Grants for plant facilities- Networks	48,172

RECOS

Disbursing body	Type of contribution	Amount in euro
Liguria Region	Grants for plant facilities	126,916
Liguria Region	Grants for plant facilities	40,717

INDEPENDENT AUDITORS' FEES

Under the terms of Art. 149-*duodecies* of the Regulations implementing Italian Legislative Decree 58/1998, fees for the year due to PricewaterhouseCoopers S.p.A. can be summarised as follows:

thousands of euro

	Auditing services	**Services related to auditing**	**Other services**	**Total**
Iren S.p.A.	255	84	19	358
Direct and indirect subsidiaries of Iren S.p.A.	1,148	59	-	1,207
Total Iren Group	**1,403**	**143**	**19**	**1,565**

STATEMENT REGARDING THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-*TER* OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Massimiliano Bianco, Chief Executive Officer, and Massimo Levrino, Administration, Finance and Control Manager and Corporate Financial Reporting Manager of Iren S.p.A., hereby certify, also in view of the provisions of Art. 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree No. 58 of 24 February 1998:

   - the adequacy in respect of the company's characteristics and

   - the effective application during 2018 of the administrative and accounting procedures in preparing the consolidated financial statements.

2. It is also certified that:

   2.1 the consolidated financial statements:

      a) are prepared in compliance with the applicable international accounting standards endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council, of 19 July 2002;

      b) correspond to the results of the books and account records;

      c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

   2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the situation of the issuer and of all companies included in the consolidation, together with a description of the major risks and uncertainties to which they are exposed.

12 April 2019

The Chief Executive Officer

Massimiliano Bianco

Administration, Finance and Control Manager
Financial Reporting Manager appointed under Law 262/05

Massimo Levrino

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
Iren SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Iren SpA and its subsidiaries (the "Iren Group" or the "Group"), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of other comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Iren Group as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Iren SpA (the "Company") pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Audit procedures in response to key audit matters*
Assessment of recoverability of goodwill	
Notes to the consolidated financial statements at 31 December 2018: Note 4 "Goodwill" Goodwill recognised in the consolidated financial statements of the Iren Group at 31 December 2018 amounts to Euro 149.7 million. At least once a year the management of the Company performs an impairment test to assess the recoverability of goodwill, based upon the higher between fair value less cost to sell and value in use of each Cash Generating Unit (CGU) to which goodwill has been allocated. The value in use was determined by discounting future cash flows expected from each CGU in the 2019-2023 period, as well as their respective terminal values. These flows were extracted from economic and financial projections based on the Business Plan approved by the Board of Directors on 26 September 2018. Goodwill is considered as a key audit matter due to its size and to the inherent estimate elements influencing the valuations made by the Directors on its recoverability. The main estimate elements are linked to the correct definition and identification of the CGUs, of future cash flows for each CGU and their discounting rates.	We carried out a preliminary understanding and evaluating of the impairment test procedures prepared by management and approved by the Board of Directors of Iren SpA on 28 January 2019, to assess compliance with the requirements of the international accounting standard IAS 36. We analysed the reasonableness of the considerations made by management regarding the CGUs identified and the allocation of goodwill thereto, verifying the consistency with the structure of the Group and with the operating sectors in which it operates. Our procedures then focused on a critical examination of the main assumptions behind the drawing up of the 2019-2023 Business Plan and of the discounting rates used; furthermore, specific sensitivity analyses were performed, aimed at evaluating the impact on the results of the tests of changes in the main parameters adopted. Moreover, we also verified the overall mathematical correctness of the plan and of the impairment test model prepared by management, reviewing the method followed to obtain the discounting rate and the constant growth rate of cash flows beyond the plan's time frame. We also verified the correct determination of the carrying values of assets and liabilities attributed to each CGUs, including the goodwill values allocated to them, used for the comparison with the related value in use.

These activities were performed also involving experts belonging to the PwC network.

Finally, we verified the completeness and accuracy of the information provided in the notes, which included the change in goodwill, occurred during 2018.

Receivables from the Municipality of Turin

Notes to the consolidated financial statements at 31 December 2018: Note 8 "Non-current financial assets – Non-current financial receivables from related-party shareholders" and Note 15 "Current financial assets - financial receivables from related-party shareholders"

Receivables owed by the Municipality of Turin to the Iren Group amount to Euro 229.3 million at 31 December 2018 and their breakdown is as follows:

1. Euro 22.8 million of current financial receivables;
2. Euro 68.8 million of current trade receivables;
3. Euro 127.4 million of non-current financial receivables;
4. Euro 10.3 million of non-current trade receivables.

The Iren Group periodically assesses the recoverability of such receivables by formulating a forecast on collection times determined also further to the outcome of the arrangement signed between the Municipality of Turin and the Iren Group on 12 July 2018. The Group also checks the correct recognition and classification of the above mentioned receivables. In particular, financial receivables mainly refer to the part of invoices issued by Amiat SpA and Iren Rinnovabili SpA, which is therefore classified on the basis of a current account contract with the Municipality of Turin, which envisages that the

We carried out a preliminary understanding and evaluating of the procedure followed by management to determine the accounting estimates behind the valuation of receivables from the Municipality of Turin, also considering the arrangement signed on 12 July 2018.

In addition, we also:

- Performed an analysis of the contracts in force between the parties, with the aim of assessing their consistency with the accounting treatment of receivables at 31 December 2018, included the relevant classification of trade and financial items;
- Requested the Municipality of Turin to confirm in writing the amounts of year-end balances, to validate their existence and obtain useful information for the assessment of their recoverability;
- Verified that the maximum amount provided for by the arrangement between the parties was not exceeded;
- Verified the accuracy of calculations of interest income recognised in the income statement.

Finally, we verified the completeness and accuracy of the information provided in the notes, which included the change in receivables from the Municipality of Turin during 2018.

receivables will become interest yielding after a given amount of time from receipt of the invoice by the Council.

This was deemed as a key audit matter considering both the size of these receivables at 31 December 2018 and the inherent estimate elements influencing the valuations made by the Directors on their recoverability.

Determination of revenues and of receivables for invoices to be issued

Notes to the consolidated financial statements at 31 December 2018: Note 12 to the consolidated financial statements "Trade receivables" and Note 30 to the consolidated financial statements "Revenue from goods and services"

The consolidated financial statements of the Iren Group at 31 December 2018 show revenue from goods and services amounting to Euro 3,764.4 million, which include accruals for invoices to be issued which were recognised among the assets for an amount of Euro 481.1 million.

Revenues from goods and services are recognised when the control over the good is actually transferred or when the service is rendered. They are valued at the fair value of the amounts received or due, considering any trade discounts or quantity reductions.

The above mentioned amounts include the estimate of revenues accruing for services provided between the date of the latest meter readings and the closure of the accounting period.

Revenue from goods and services related to 2018 also included non-recurring revenue items related to prior years, for Euro 41.2 million, attributable to the review of the estimate of receivables for invoices to be issued on the sale of electricity, gas and heat, occurred following the application of a new method to calculate revenues for the year,

We conducted our audit procedures in order to obtain an adequate understanding and evaluating of both manual and automatic key controls behind the billing procedure, focusing - in particular, but not only - on customers list, meter readings, consumption estimates, determination of tariffs and the valuation of invoices.

Our audit activities focused also on the analysis of the impacts deriving from the introduction of the new IFRS 15 "*Revenue from contract with customers*".

With the support of the PwC network experts, we carried out an analysis of the new method to estimate accrued income by performing the following procedures:

- observation, understanding and analysis of the new IT application TCR, which enables the availability and the analysis of the consumption data (invoiced and to be invoiced) according to the relevant period and by each withdrawal and/or redelivery point;
- analysis and validation, on a sample basis, of the correct accrual period of sales revenue from electricity, gas and heat as determined by the TCR, by reviewing the consumption periods inferable from the billing data and comparing them with data

which improved the analysis of the bills issued and the estimate of the year-end assessments thanks to the introduction of a new dedicated IT application (*Tool Calcolo Ricavi* or "*TCR*").

The recognition of these revenue items and of the related invoices to be issued was deemed as a key audit matter, in particular for what concerns the sale of electricity and gas, the distribution of electricity and gas as well as the supply of the integrated water service, as the ways of determining the allocations are based on complex algorithms and entail a significant estimation element.

produced by the TCR;

- analysis and validation of the effects that the new estimate model had on the financial statements at 31 December 2018.

With reference to the single type of revenue, we verified:

1. *For revenue from the sale of electricity, gas and heat*

- The correspondence, on a sample basis, between the consumption calculated by the TCR and the consumption periods inferred from bills towards end-customers and the estimated and/or actual meter readings from the billing systems;
- The consistency of the unit price with the tariffs in effect at the time;
- The reconciliation of the quantities of heat sold by the Group with the data contained in the printouts on heat production of each plant of the Energia business unit;
- The correct valuation of electricity, gas and heat quantities delivered based on the tariffs in line with the market trends and the tariffs set by the Regulatory Authority for Energy, Networks and the Environment ("ARERA").

2. *For revenue from gas distribution*

- The reconciliation of the gas quantities used by the company to determine receivables for invoices to be issued, with the data communicated by the party in charge of the transport and dispatching;
- The correct valuation of gas amounts yet to be invoiced, based upon the tariffs in force in the period under analysis;
- The correct calculation of the balances related to the gas equalisation, through the comparison of the actual revenues with the admissible revenues for the year

based on the ARERA resolutions.

3. *Revenue from electricity distribution*
- The reconciliation of the electricity amounts used by the company to determine the receivables for invoices to be issued with the data communicated by the dispatchers adjusted to reflect grid losses;
- The correct valuation of electricity amounts yet to be invoiced, based upon the tariffs in force in the period under analysis;
- The correct determination of the balances related to the electricity equalisation through the comparison of actual revenues with the regulatory revenues for the year, based on the ARERA resolutions.

4. *Revenue from the provision of the integrated water service*
- The reconciliation of sales revenue with the guaranteed revenues restriction limit ("VRG") envisaged in the tariff plan concerning the second regulatory period 2016-19 approved by the relevant authorities;
- The correct determination of receivables for invoices to be issued, by comparing the invoices issued and the *VRG*;
- The correct determination of invoices issued through the validation of the operating effectiveness of the invoicing system, on the basis of sample inspections carried out to check the correct apportionment of tariffs.

Verification of the investments and disinvestments in fixed assets

Notes to the consolidated financial statements at 31 December 2018: Note 1 to the consolidated financial statements "Tangible assets" and Note 3 *to the consolidated financial statements "Intangible assets with a finite useful life"*

The consolidated financial statements at 31 December 2018 include tangible fixed assets amounting to Euro 3,472.0 million and intangible fixed assets with a finite useful life amounting to Euro 2,010.0 million; investments for a total of Euro 509.1 million were recorded during the accounting period.

We point out that, with reference to regulated business activities (in particular the integrated water service, the distribution of electricity and gas), the tariffs and - consequently - the revenues of the Group, are directly influenced by the amount of the capital invested, in particular by the net investments in fixed assets recorded in the period.

Consequently, the change in fixed assets was deemed as a key audit matter, as overestimating or underestimating fixed assets may lead to incremental and decremental effects on the tariffs applied to final users in the provision of the integrated water service and in the electricity and gas transport service.

Our audit procedures were directed towards adequately understanding and evaluating the internal control system referred to corporate processes concerning the management of fixed assets.

In addition, our audit activities involved sample inspections of the changes in tangible and intangible fixed assets concerning the water service and electricity and gas distribution sectors.

In particular, we performed a reconciliation of the fixed asset register with the change in fixed assets during the year and, based upon the size of the amounts involved, we carried out sample inspections on selected ledger entries, with particular attention to the increases recorded.

With reference to the latter, we have assessed compliance with the requirements for the capitalisation of internal and external costs, in accordance with the provisions set forth in the international accounting standards IAS 16 and IAS 38, as well as the accuracy of the amounts recognised.

Finally, we verified the completeness and accuracy of the information provided in the notes, which included the changes in tangible and intangible assets with defined useful life occurred during 2018.

Determination of the Provision for impairment of trade receivables

Notes to the consolidated financial statements at 31 December 2018: Note 12 to the consolidated financial statements "Trade receivables - Provision for impairment of receivables"

Our audit procedures were directed towards adequately understanding and evaluating the internal control system referred to corporate processes concerning the management of

In the consolidated financial statements at 31 December 2018 the Group recognised a provision for impairment of receivables amounting to Euro 190.2 million.

Management periodically estimates the value of uncollectable trade receivables using calculation models that consider many variables like, for example, the type of customer, the age of receivables, historical data on collection performances modified in order to take into account the forward looking information on the customers being evaluated, in accordance with the provisions of the new IFRS 9 "Financial instruments".

The determination of the provision for impairment of receivables was deemed as a key audit matter, considering the specific complexity presented by an estimate on the recoverability of trade receivables, due to the large number of customers and to the fragmentation of the amounts to be collected; in addition, this estimate is based upon valuation assumptions influenced by socio-economic variables which are difficult to foresee or attribute to the various classes of customers.

trade receivables as well as the correctness and completeness of the reports generated by the IT systems used to determine the provision for impairment of receivables (in particular with reference to clusters of customers and to segmentation of their balances by due date).

Subsequently, by interviewing the credit managers of the Group and of its companies and through an analysis of the replies received from lawyers as well as of any other information collected after the reporting date, we validated the information and the assumptions behind the calculation model and we analysed the impacts deriving from the first-time application of the new IFRS 9.

Finally, to evaluate the reasonableness of the provision for impairment of receivables we validated the consistency of the method adopted by the company with the provisions set forth in the aforesaid international accounting standard, on the basis of the expected credit losses model and the accuracy of the related mathematical calculation to determine the credit risk.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Iren SpA or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.
As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;

- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 14 May 2012, the Shareholders of Iren SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation (EU) No 537/2014.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Iren SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Iren Group as of 31 December 2018, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Iren Group as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Iren Group as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Iren Group and its environment obtained in the course of the audit, we have nothing to report.

Declaration pursuant to Article 4 of the Consob Regulation implementing Legislative Decree 30 December 2016, No. 254

The directors of Iren SpA are responsible for the preparation of the consolidated non-financial statement pursuant to Legislative Decree 30 December 2016, No. 254. We verified the approval of the consolidated non-financial statement by the directors.

Pursuant to Article 3, paragraph 10 of Legislative Decree 30 December 2016, No. 254, this consolidated non-financial statement is the subject of a separate attestation of conformity by ourselves.

Turin, 30 April 2019

PricewaterhouseCoopers SpA

Signed by

Piero De Lorenzi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

Iren S.p.A.
Via Nubi di Magellano, 30 - 42123 Reggio Emilia - Italy
Capitale Sociale i.v. Euro 1.300.931.377,00
Registro Imprese di Reggio Emilia
Codice Fiscale e Partita IVA n. 07129470014

Separate Financial Statements and Notes to the Financial Statements

at 31 December 2018

STATEMENT OF FINANCIAL POSITION

Amounts in euro

	Notes	31.12.2018	of which related parties	31.12.2017	of which related parties
ASSETS					
Property, plant and equipment	(1)	23,085,900		12,488,911	
Intangible assets with a finite useful life	(2)	50,371,646		41,664,058	
Equity investments in subsidiaries, associates and joint ventures	(3)	2,564,031,856		2,544,321,672	
Other equity investments	(4)	100,000		100,000	
Non-current financial assets	(5)	1,620,371,397	1,620,020,383	1,551,272,411	1,549,419,914
Other non-current assets	(6)	10,660,177	41,520	10,548,143	41,470
Deferred tax assets	(7)	13,761,404		9,172,563	
Total non-current assets		**4,282,382,380**		**4,169,567,758**	
Inventories	(8)	1,751,240		13,791	
Trade receivables	(9)	109,603,041	108,277,050	75,408,848	75,058,787
Current tax assets	(10)	2,334,425		-	
Other receivables and other current assets	(11)	122,274,731	55,051,339	70,027,645	15,235,830
Current financial assets	(12)	418,642,544	418,394,950	453,797,275	453,718,713
Cash and cash equivalents	(13)	256,778,289		69,462,069	
Total current assets		**911,384,270**		**668,709,628**	
Assets held for sale	(14)	240,000		240,000	
TOTAL ASSETS		**5,194,006,650**		**4,838,517,386**	

Amounts in euro

	Notes	31.12.2018	of which related parties	31.12.2017	of which related parties
SHAREHOLDERS' EQUITY					
Share capital		1,300,931,377		1,276,225,677	
Reserves and retained earnings (losses)		362,928,049		259,903,771	
Net profit (loss) for the period		125,927,825		166,957,057	
TOTAL EQUITY	**(15)**	**1,789,787,251**		**1,703,086,505**	
LIABILITIES					
Non-current financial liabilities	(16)	2,676,601,623		2,644,419,533	
Employee benefits	(17)	18,283,912		19,597,297	
Provisions for risks and charges	(18)	36,750,095		30,702,338	
Deferred tax liabilities	(19)	1,005,162		337,462	
Other payables and other non-current liabilities	(20)	10,595,368	5,872,835	11,096,661	8,498,580
Total non-current liabilities		**2,743,236,160**		**2,706,153,291**	
Current financial liabilities	(21)	486,257,662	142,489,632	302,849,152	204,739,930
Trade payables	(22)	67,782,253	10,163,199	55,899,901	11,447,941
Other payables and other current liabilities	(23)	81,210,678	56,430,154	62,633,775	32,323,714
Current tax liabilities	(24)	23,720,674		7,608,213	
Provisions for risks and charges - current portion	(25)	2,011,972		286,549	
Total current liabilities		**660,983,239**		**429,277,590**	
Liabilities related to assets held for sale					
TOTAL LIABILITIES		**3,404,219,399**		**3,135,430,881**	
TOTAL EQUITY AND LIABILITIES		**5,194,006,650**		**4,838,517,386**	

INCOME STATEMENT

Amounts in euro

	Notes	Financial Year 2018	of which related parties	Financial Year 2017	of which related parties
Revenue					
Revenue from goods and services	(26)	179,288,358	176,646,615	154,607,677	153,925,708
Other income	(27)	11,849,870	7,311,143	6,130,848	3,697,232
Total revenue		**191,138,228**		**160,738,525**	
Operating expenses					
Raw materials, consumables, supplies and goods	(28)	(17,790,361)	(116,581)	(10,635,903)	(32,009)
Services and use of third-party assets	(29)	(106,372,309)	(17,380,496)	(92,734,530)	(12,649,801)
Other operating expenses	(30)	(7,202,430)	(1,094,977)	(5,384,280)	(466,953)
Capitalised expenses for internal work	(31)	10,368,710		9,745,871	
Personnel expense	(32)	(78,239,126)	(99,490)	(72,518,927)	(68,931)
Total operating expenses		**(199,235,516)**		**(171,527,769)**	
GROSS OPERATING PROFIT (EBITDA)		**(8,097,288)**		**(10,789,244)**	
Depreciation, amortisation, provisions and impairment losses					
Depreciation and amortisation	(33)	(14,945,095)		(11,246,592)	
Provisions for impairment of receivables	(34)	(9,600,000)		(213,767)	
Other provisions and impairment losses	(34)	(55,261)		(2,857,102)	
Total amortisation, depreciation, provisions and impairment losses		**(24,600,356)**		**(8,175,723)**	
OPERATING PROFIT (EBIT)		**(32,697,644)**		**(18,964,967)**	
Financial income and expense	(35)				
Financial income		265,479,861	263,735,314	285,312,494	280,083,704
Financial expense		(126,830,493)	(86,800)	(108,039,066)	(47,590)
Total financial income and expense		**138,649,368**		**177,273,428**	
Value adjustments on equity investments	(36)	-		-	
Profit (loss) before tax		**105,951,724**		**158,308,461**	
Income tax expense	(37)	19,976,101		8,648,596	
Net profit (loss) from continuing operations		**125,927,825**		**166,957,057**	
Net profit (loss) from discontinued operations					
Net profit (loss) for the period		**125,927,825**		**166,957,057**	

STATEMENT OF OTHER COMPREHENSIVE INCOME

Amounts in euro

	Notes	Financial Year 2018	Financial Year 2017
Profit/(loss) for the period - Owners of the parent and non-controlling interests (A)		**125,927,825**	**166,957,057**
Other comprehensive income to be subsequently reclassified to the Income Statement	**(38)**		
- effective portion of changes in fair value of cash flow hedges		(1,168,489)	13,679,096
- changes in fair value of available-for-sale financial assets			
Tax effect of other comprehensive income		280,437	(3,282,983)
Total other comprehensive income, net of tax effect (B1)		**(888,052)**	**10,396,113**
Other comprehensive income which will not be subsequently reclassified to the Income Statement			
- actuarial gains/(losses) on employee defined benefit plans (IAS 19)		301,581	704,609
Tax effect of other comprehensive income		(198,553)	(142,652)
Total other comprehensive income, net of tax effect (B2)		**103,028**	**561,957**
Total comprehensive income/(expense) (A)+(B1)+(B2)		**125,142,801**	**177,915,127**

STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

	Share capital	Share premium reserve	Legal reserve
31/12/2015	**1,276,226**	**105,102**	**39,360**
Legal reserve			6,225
Dividends to shareholders			
Retained earnings			
Other changes			
Total profit (loss) for the period			
of which:			
- Net profit/(loss) for the period			
- Other comprehensive income			
31/12/2016	**1,276,226**	**105,102**	**45,585**
Legal reserve			4,413
Dividends to shareholders			
Retained earnings			
Other changes			
Total profit (loss) for the period			
of which:			
- Net profit/(loss) for the period			
- Other comprehensive income			
31/12/2017	**1,276,226**	**105,102**	**49,998**
Legal reserve			8,348
Dividends to shareholders			
Retained earnings			
Other changes	24,706	27,917	
Total profit (loss) for the period			
of which:			
- Net profit/(loss) for the period			
- Other comprehensive income			
31/12/2018	**1,300,932**	**133,019**	**58,346**

thousands of euro

Cash flow hedging reserve	Available for Sale reserve	Other reserves and retained earnings (losses)	Total reserves and retained earnings (losses)	Profit (loss) for the period	Shareholders' equity
(20,064)	**-**	**57,594**	**181,992**	**124,501**	**1,582,719**
			6,225	(6,225)	-
			-	(70,193)	(70,193)
		48,083	-	(48,083)	
			-		-
5,406		(1,254)	4,152	88,257	92,409
					-
				88,257	88,257
5,406	-	(1,254)	4,152		4,152
(14,658)	**-**	**104,423**	**240,452**	**88,257**	**1,604,935**
			4,413	(4,413)	-
			-	(79,764)	(79,764)
		4,080	-	(4,080)	
			-		-
10,396		562	10,958	166,957	177,915
					-
				166,957	166,957
10,396	-	562	10,958		10,958
(4,262)	**-**	**109,065**	**259,903**	**166,957**	**1,703,086**
			8,348	(8,348)	-
			-	(91,065)	(91,065)
		67,544	-	(67,544)	
			-		52,623
(888)		103	(785)	125,928	125,143
					-
				125,928	125,928
(888)	-	103	(785)		(785)
(5,150)	**-**	**176,712**	**362,927**	**125,928**	**1,789,787**

STATEMENT OF CASH FLOWS

thousands of euro

	Financial Year 2018	Financial Year 2017	Change %
A. Opening balance of cash and cash equivalents and centralised treasury management	**1,386,013**	**1,436,206**	**(3.5)**
Cash flows from operating activities			
Profit (loss) for the period	125,928	166,957	(24.6)
Adjustments:			
Income tax expense for the period	(19,976)	(8,649)	(*)
Net financial expense (income)	(138,650)	(177,273)	(21.8)
Amortisation of intangible assets and depreciation of property, plant and equipment	14,945	11,247	32.9
Net impairment losses (reversals of impairment losses) on assets	-	5,561	(100.0)
Net provisions for risks and other charges	17,424	6,985	(*)
Capital (gains) losses	5	1,480	(99.6)
Utilisations of employee benefits	(2,653)	(927)	(*)
Utilisations of provisions for risks and other charges	(2,968)	(2,501)	18.7
Change in other non-current assets and liabilities	(699)	15,477	(*)
Other changes in capital	52	696	100.0
Taxes received/paid	8,862	24,073	(63.2)
B. Cash flows from operating activities before changes in NWC	**2,270**	**43,126**	**(94.7)**
Change in inventories	(915)	-	-
Change in trade receivables	14,322	(24,452)	(*)
Change in tax assets and other current assets	(9,199)	(29,247)	(68.5)
Change in trade payables	(4,225)	(1,076)	(*)
Change in tax liabilities and other current liabilities	(6,232)	34,022	(*)
C. Cash flows from changes in NWC	**(6,249)**	**(20,753)**	**(69.9)**
D. Cash flows from/(used in) operating activities (B+C)	**(3,979)**	**22,373**	**(*)**
Cash flows from /(used in) investing activities			
Investments in property, plant and equipment and intangible assets	(27,156)	(25,953)	4.6
Investments in financial assets	-	-	-
Proceeds from the sale of investments and changes in assets held for sale	-	-	-
Dividends received	200,560	210,470	(4.7)
Changes consequent to mergers by company incorporations	(53,794)	-	-
E. Total cash flows from /(used in) investing activities	**119,610**	**184,517**	**(35.2)**
F. Free cash flow (D+E)	**115,631**	**206,890**	**(44.1)**
Cash flows from /(used in) financing activities			
Capital increase	52,623	-	-
Dividends paid	(91,065)	(79,764)	14.2
Other changes in equity	-	-	-
New long-term loans	580,000	550,000	5.5
Repayment of non-current loans	(301,968)	(696,425)	(56.6)
Change in financial assets	57,236	1,374	(*)
Change in financial liabilities	(35,313)	30,927	(*)
Interest paid	(94,220)	(140,897)	(33.1)
Interest received	64,514	77,702	(17.0)
G. Total cash flows from /(used in) financing activities	**231,807**	**(257,083)**	**(*)**
H. Cash flows for the period (F+G)	**347,438**	**(50,193)**	**(*)**
I. Closing balance of cash and cash equivalents and centralised treasury management (A+H)	**1,733,451**	**1,386,013**	**25.1**
L. Current balance of centralised treasury management - subsidiaries (*)	**(1,476,673)**	**(1,316,551)**	**12.2**
M. Closing cash and cash equivalents (I+L)	**256,778**	**69,462**	**(*)**

(*) Change of more than 100%

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

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

Iren S.p.A. is structured after the model of an industrial holding, with headquarters in Reggio Emilia, Via Nubi di Magellano 30, and operating offices in Genoa, Parma, Piacenza and Turin, as well as companies responsible for the single business lines.

Through its subsidiaries, Iren S.p.A. operates in the following business segments:

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

Merger by incorporation of Acam S.p.A. and Integra S.r.l.

During the financial year the merger by incorporation of the companies Acam S.p.A. and Integra S.r.l. was completed, with legal effectiveness from 1 November 2018. As shown in the table above, the accounting effects of this operation start from 1 April 2018, therefore in the financial statements of Iren S.p.A. include the economic effects of the period running between 1 April 2018 and 31 October 2018. In the annexes to the financial statements the statements of financial position, prepared according to the IAS/IFRS international standards, at 1 April 2018 are presented; these already include the effects deriving from the merger deeds. Also presented are the draft financial statements at 31 March 2018 of Acam S.p.A. and Integra S.r.l, drawn up on the basis of the Italian accounting standards (OIC).

I. CONTENT AND STRUCTURE OF THE FINANCIAL STATEMENTS

These financial statements are the separate financial statements of the Parent Company Iren S.p.A. and have been prepared in accordance with the International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board ("IASB") and endorsed by the European Union, as well as with the provisions set forth in implementation of Art. 9 of Italian Legislative Decree No. 38/2005. The "IFRSs" also include all the revised international accounting standards ("IASs"/"IFRSs") and all interpretations issued by the International Financial Reporting Interpretations Committee ("IFRC"), previously known as the Standing Interpretations Committee ("SIC").

In drawing up these financial statements, the same accounting standards were applied as those adopted for the Financial Statements at 31 December 2017, with the exceptions highlighted in the section "Accounting standards, amendments and interpretations effective from 1 January 2018".

The separate financial statements at 31 December 2018 consist of a statement of financial position, an income statement, a statement of other comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

The financial statement formats adopted in preparing these financial statements are the same as those applied in preparing the financial statements at 31 December 2017, with the exception of the income statement to which has been added the item "Provisions set aside for impairment of receivables".
In line with what was previously published, in the statement of financial position, assets and liabilities are classified as "current/non-current". Assets and liabilities classified as discontinued or held for sale are

shown separately. Current assets, which include cash and cash equivalents, are those that will be realised, transferred or consumed during the company's ordinary operating cycle or during the twelve months following year end. Current liabilities are those for which settlement is envisaged during the company's ordinary operating cycle or during the twelve months following year end.
The Income Statement is classified on the basis of the nature of the costs. In addition to the Operating Profit (EBIT), the Income Statement also shows the Gross Operating Profit (EBITDA) obtained by deducting total operating expense from total revenue.
The indirect method is used in the cash flow statement. The cash configuration analysed in the cash flow statement includes cash on hand and cash in current accounts.

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

These separate financial statements are stated in euro, the company's functional currency. Data included in the notes, unless otherwise specified, are expressed in thousands of euro.

Lastly, in accordance with CONSOB Resolution No. 15519 of 27 July 2006 regarding the format of financial statements, specific additional columns have been added to the Income Statement and the Statement of Financial Position to highlight significant transactions with related parties.

II. ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The criteria adopted in drawing up the annual financial statements at 31 December 2018 of Iren S.p.A. are indicated below; the aforesaid accounting standards have not changed with respect to those adopted at 31 December 2017, except for those indicated in the section "Accounting standards, amendments and interpretations effective from 1 January 2018".

Property, plant and equipment

- Property, plant and equipment owned

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

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

Property, plant and equipment are depreciated systematically on a straight-line basis annually using economic-technical rates determined in line with their residual useful lives.

The rates applied are set out in the following table:

Item	**Rate**
Generic systems	10%
Equipment	10%
Goods vehicles and operator machines	20%
Cars, motorcycles and similar vehicles	25%
Electrom. and electronic office machines and non-plant HW	20%
Furniture and fittings	12%

We must specify that owing to their heterogeneity the table does not include:

- the rates related to business combinations of the current and previous years, because they relate to assets depreciated on the basis of the residual useful life present in the companies of origin;
- the rates consequent to updating of the economic/technical useful lives of the single assets after the outcome of the tests performed on the same by the technicians responsible for the plants;
- the rates related to particular types of investments with depreciation over their useful lives related to subsequent extraordinary maintenance work.

The corporate Information Technology system conserves all details needed to identify the aforesaid rates.

Grants related to assets are recognised as deferred revenue and taken to the income statement over the depreciation period of the related item of property, plant and equipment.

- *Leased assets*

Assets held under finance leases are recognised as property, plant and equipment using the financial method with a balancing entry under payables of the same amount, as provided for by IAS 17 which, while reflecting the economic substance of operations, assimilates these operations to purchase and financing agreements. Based on the above-mentioned method, property, plant and equipment are recognised at the capital value upon subscription of the finance lease. The amounts due to the lessor are also recognised under financial payables. This liability is decreased over time in line with repayment of the lease principal. Interest on payables is recognised in the income statement based on the repayment plan, in addition to depreciation of the asset based on the expected useful life.
Conversely, under the financial method, leased out assets are not included in property, plant and equipment. The related financial asset is recognised in the Statement of financial position. It decreases over time in line with collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the repayment plan.

Investment property

Investment property is initially measured at purchase or construction cost. Such cost includes the purchase price and any directly attributable expenditure. The related transaction costs are recognised among the property costs, when purchase is recognised. Real estate investments are measured at cost in the following evaluation.

Expenses incurred after the purchase or completion of a property intended as an investment property increase the initial cost of the asset, if the company is likely to obtain higher future benefits than those previously estimated, thanks to these expenses. Otherwise, such costs are charged to the income statement.

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

Intangible assets

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

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

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

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

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

If even one of these requirements is not met, the costs in question are fully recognised in the income statement in the period in which they are incurred.

Industrial patents and similar rights are amortised, as are other intangible assets, on a straight-line basis over five years.

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

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

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

Goodwill
Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the fair value of the identifiable assets, liabilities and contingent liabilities related to the complex acquired. If, after this restatement, the value of current and contingent assets and liabilities exceeds the acquisition cost, the difference is recognised immediately in the income statement.
Any goodwill deriving from the acquisition of an associate is included in the carrying amount of the investment.
On first adoption of the IFRSs, the Group chose not to apply IFRS 3 – Business Combinations retroactively to acquisitions of companies that occurred before 1 January 2004; as a consequence, the goodwill generated on acquisitions prior to the date of transition to the IFRSs was kept at the previous figure determined according to the Italian accounting standards, after verification and recognition of any impairment losses.
Goodwill is allocated to one or more cash-generating units and is not amortised, but is annually tested for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on "Impairment losses").

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

Discontinued operations represent a part of the company that has been discontinued or classified as held for sale, and:
a. represents an important business unit or geographical area of operations;
b. forms part of a single coordinated disposal plan or an important autonomous business unit or geographical area of operations;
c. is a subsidiary acquired solely with a view to resale.

If a single non-current asset is involved (e.g. a property or an investment in an associate), the recognition of profit or loss from the disposal or valuation depends on the nature of the asset.
If it is a discontinued operation and is a material component of the item "Net profit/loss from discontinued operations", a single amount is recorded represented by the total of:
i) profit or loss on the discontinued operation, net of tax effects; and
ii) the capital gain or loss, net of tax effects, recognised after the fair value measurement, net of costs to sell or actual disposal of the asset.

The income statement of the comparative period is restated in order to guarantee consistent comparison.
If the asset is immaterial, revenue and costs from the discontinued operation continue to be recognised on a line-by-line basis under the related income statement items, whilst the profit/loss from discontinued operations includes only the capital gain or loss referred to under point ii) above.

Impairment losses on non-financial assets
The IASs/IFRSs require a company to assess whether there are any specific indications of impairment. The company performs an impairment test, which consists of estimating the recoverable amount of the asset and comparing it to its net carrying amount.

The recoverable amount is the higher of fair value less costs to sell (if an active market exists) and the value in use of the asset. Value in use is the present value of the future cash flows expected to be derived from an asset or Cash-Generating Unit, inclusive of taxes, by applying a discount rate, before taxes, which reflects the current market assessments of the time value of money and risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. If the impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased, with a counter-item in the income statement, up to the estimated new recoverable amount. The latter amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised. The reversal of an impairment loss is not applicable to goodwill.
Assets that are not subject to amortisation (goodwill and other intangible assets with an indefinite useful life) and intangible assets that are not yet available for use are tested for impairment annually, even if no indication of impairment exists.

Financial instruments
All financial instruments, including derivatives, are recognised in the statement of financial position when the company becomes a party to the agreement and therefore acquires a right to receive cash flows or an obligation to pay.
For the accounting treatment of financial instruments reference is made to the new standard IFRS 9, endorsed on 22 November 2016 with Regulation (EU) 2067/2016, which introduced a number of significant changes on the subject of classification and measurement of financial assets and liabilities, impairment of financial assets and hedge accounting.

- *Financial assets and liabilities*

At the moment of initial recognition the financial asset or liability is measured at fair value plus or minus, in the case of a financial asset or liability not measured at fair value recognised in the income statement, the transaction costs directly attributable to the acquisition or issue of the financial asset or liability. After initial recognition the financial asset or liability is measured as described below.

As regards <u>financial assets</u>, IFRS 9 uses a single approach based on management models of financial instruments and characteristics of contractual cash flows of financial assets, with the aim of determining the measurement criteria, replacing the various rules set forth in IAS 39. In particular, the standard provides for the following three categories for the classification of financial assets: a) financial assets carried at amortised cost; b) financial assets carried at fair value through other comprehensive income (FVOCI); c) financial assets carried at fair value through profit or loss (FVTPL).
The classification within the categories indicated above is made on the basis of the entity’s business model and in relation to the characteristics of the cash flows generated by the said assets:

a) a financial asset is measured at amortised cost if the entity’s business model envisages that the financial asset is held to collect the related cash flows (therefore, substantially, not to make a profit also from sale of the instrument) and the characteristics of the cash flows of the asset correspond only to payment of principal and interest;
b) a financial asset is measured at Fair Value with a counter-item in Other Comprehensive Income if it is held with the objective both of collecting the contractual cash flows, and of being sold (Hold to Collect and Sell model);
c) finally if it is a financial asset held for trading and in any case does not come within the cases indicated in points a) and b) above it must be measured at fair value through profit or loss.

IFRS 9 does not permit reclassification between categories of financial assets except in the rare cases in which the company’s business model changes. In this case, the effects of the reclassification are applied on a prospective basis.
At each reporting date all financial assets, with the exception of those measured at fair value recognised in profit (loss) for the period, are subjected to an impairment test to determine whether there is objective evidence that can lead to the belief that the value of the asset is not fully recoverable. On this point IFRS 9 introduced a new impairment model based on expected losses, where “loss” means the present value of all future lost revenue, opportunely integrated to take into account future expectations (“forward-looking information”). In accordance with the general approach applicable to all financial assets, the expected loss is a function of the probability of default (PD), of the loss given default (LGD) and of the exposure at default (EAD): the PD represents the probability that an asset will not be repaid and will go into default;

the LGD represents the amount expected to be non-recoverable if the default event occurs; the EAD represents the receivable exposure claimed against the counterparty, including any guarantees, collateral, etc. The estimate must be made initially on the expected losses in the next 12 months; in consideration of any gradual deterioration of the receivable the estimate must be adequate to cover the expected losses along the whole life of the receivable.

Financial liabilities are generally classified as measured at amortised cost, with the exception of derivatives which are measured at fair value recognised in profit (loss) for the period. The main change introduced by IFRS9 regards the accounting treatment of changes in the fair value of a financial liability designated as measured at fair value through profit or loss, if these are due to a change in the creditworthiness of the liability itself: according to the new standard, these changes must be recognised under other comprehensive income.

- *Equity investments in subsidiaries and associates*

Investments in subsidiaries and associates are measured at cost. In the event of impairment, the carrying amount of the investment is written down. The impairment loss is recognised in the income statement.

- *Other equity investments*

All equity instruments that fall within the scope of application of IFRS 9 - both listed and unlisted - must be measured at fair value through profit or loss (FVTPL). The entity has the option of presenting in Equity (FVOCI – fair value through other comprehensive income) changes to the fair value of equity instruments that are not held for trading, for which instead that option is prohibited. This designation is permitted at the time of initial recognition, can be adopted for individual securities, and is irrevocable. If this option is used, changes in the fair value of these instruments should never be booked to the Income Statement.
The company decided not to avail itself of the aforementioned option. Therefore Other equity investments, made up of non-controlling interests in unlisted companies that the company intends to keep in its portfolio in the near future, starting from 1 January 2018 are measured at fair value through profit or loss (FVTPL).

- *Hedging instruments*

The Group holds hedging instruments, acquired for non-speculative purposes, solely to hedge its exposure to currency, interest rate and commodity risks.
In keeping with what was already established by IAS 39, a hedging relationship qualifies for hedge accounting, if all of the following conditions are met:

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

Hedging instruments are recognised at fair value, determined by using adequate measurement models for each type of financial instrument using, where available, the market forward curves, both regulated and not regulated (intrinsic value). For options fair value is supplemented with the time value, which is based on their residual life and the volatility of the underlying.
At each reporting date, hedging instruments are tested for effectiveness to check whether the hedge still meets the requirements for designation as effective and can be recognised using hedge accounting. IFRS 9 abolished the threshold of 80-125% provided for in IAS 39 and introduced a new concept of hedge effectiveness that requires a check on the economic relationship existing between the hedged instrument and hedging instrument. A hedging relationship is effective if:

- there is an economic relationship between the hedged instrument and hedging instrument;
- the credit risk effect does not dominate the change in value that results from the economic relationship;
- the ratio between the quantity of the hedging instrument and the quantity of the hedged instrument in terms of relative weight does not determine an imbalance in terms of the hedge ratio.

If the requirements for the application of hedge accounting are met:

- for a cash flow hedge, changes in the fair value of the hedging instrument are recognised in shareholders' equity for the effective portion of the hedge (intrinsic value), and in the income statement for the time-value portion and any ineffective portion (over-hedging);
- for fair value hedges, changes in the fair value of both the hedging instrument and the hedged item are recognised in the income statement.

If the hedge does not meet the criteria for hedge accounting, the gains or losses deriving from measurement at fair value of only the hedging instrument are fully recognised in the income statement.

Taking into account the provisions of IFRS 7 on the fair value hierarchy, as extended by IFRS 13, for each category of financial instrument measured at fair value the fair value hierarchy is as follows:

- Level 1: Prices listed (not adjusted) on active markets for identical assets or liabilities;
- Level 2: Input data other than Level 1 listed prices which are observable for assets or liabilities, either directly (as in the case of prices), or indirectly (i.e. derived from prices);
- Level 3: Input data related to assets or liabilities which are not based on observable market data (unobservable data).

- Trade Receivables and Payables
Trade receivables and payables, with repayment dates that are in line with normal commercial practices, are not discounted as the time value of money is not material for their measurement, and are recognised at fair value (equal to their nominal amount). After initial recognition they are measured at amortised cost.
Trade receivables are shown net of provisions for impairment of receivables determined, in accordance with IFRS 9, applying, instead of the general approach, valid for all financial assets with the exception of those measured at fair value through profit (loss) for the period, the simplified approach and, more specifically, the provision matrix model, which is based on identifying the default rates by maturity bands observed on a historical basis, applied for the entire expected life of the receivable and updated on the basis of significant future scenario elements.

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

Inventories

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

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

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

Shareholders' equity

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

Employee benefits

Post-employment benefits are defined according to plans which, based on their characteristics, are separated into "defined contribution" and "defined benefit" plans.
In defined contribution plans, the company obligation, limited to the payment of State contributions or to a separate fund, is calculated on the basis of contributions due. For the company these are included under post-employment benefits accrued since 1 January 2007, payable to the INPS (the Italian Social Security Institution) fund and the share paid to the additional pension funds.
The liability relating to defined benefit plans, net of any plan assets, is calculated according to actuarial assumptions. For the company, included in this category are post-employment benefits accrued until 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the tariff discounts for employees and former employees, additional monthly salaries (Art. 47, national labour agreement for the sector), the loyalty bonus paid to employees and contributions paid to the Premungas fund.
The present value of the liability is calculated for each employee using the projected unit credit method. The total liability is calculated by estimating the amount payable on termination of the employment relations, taking into account economic, financial and demographic factors. This amount is recognised on a proportional basis over the period of service matured. For post-employment benefits accrued at 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the proportional basis is not applied because at the reporting date the benefits can be considered accrued in full.
The demographic, economic and financial variables are validated annually by an independent actuary.

As regards presentation in the financial statements, the changes in liabilities connected with the obligation related to a defined benefit plan are broken down into three components:
1) operating (service cost), personnel expenses;
2) financial (finance cost), net interest income/expense;
3) measuring (remeasurement cost), actuarial gains/losses.

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

As regards disclosures, information is given on the characteristics of the plans and related amounts entered in the financial statements, as well as on the risk resulting from the plans and including a sensitivity analysis of oscillations in demographic risk.

Provisions for risks and charges

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

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

Risks for which the related liability is only potential are disclosed in the notes to the financial statements, and no provision is made.

No additional information is provided for events that are remote, i.e. where it is very unlikely they will arise, and no provision is made.

The provisions are recognised at the amount representing the best estimate of the total that the company would pay to settle the obligation, or transfer it to third parties at year end. If the discounting effect on the value of money is significant, the provisions are calculated by discounting expected future cash flows at a pre-tax discount rate that reflects the current market assessment of the time value of money.

On discounting, the time-related increase in the provision is recognised as financial expense.

Provisions for landfill post-closure are discounted based on the government curve of interest rates at the balance sheet date. Cash flows, indicated in the report drawn up by an independent expert, are discounted on a YoY basis.

Revenue

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

For correct recognition of revenue from contracts with customers, reference is made to what is provided for in IFRS 15. The new standard, adopted by the European Union on 22 September 2016 and subsequently amended with Regulation (EU) 1987/2017 of 31 October 2017, applies to all contracts with customers, with the exception of the following.

- Leasing contracts (IAS 17)
- Insurance contracts (IFRS 4)
- Financial contracts (IAS 39)
- Non-monetary exchanges between entities operating in the same sector.

The new standard defines a model for recognising revenue based on 5 steps:

1. identify the contract with the customer. By contract is meant a commercial agreement approved by two or more parties that creates enforceable rights and obligations. A contract is identified when all of the following conditions are met: a) the parties have approved the contract (in writing or according to usual commercial practices); b) it is possible to identify the customer’s rights as regards the goods or services that must be transferred; c) the payment terms are identifiable; d) the contract has commercial substance; e) it is probable that the price will be collected (only the customer’s ability and intention to pay are considered);
2. identify the “Performance Obligations” contained in the contract. Activities carried out to execute the contract, such as administrative formalities for preparing the contract itself, do not transfer separate goods and services to the customer, and therefore do not represent performance obligations. Non-refundable initial expenses charged to the customer are not revenue unless they refer to separate goods and services.

   If in a contract an entity gives the customer an option to purchase future goods and services, this option constitutes a separate performance obligation only if it gives the customer a benefit that the customer would not have been able to obtain in another way, for example a discount higher than those typically given for those particular goods or services. An option to purchase goods or services at a price that reflects its stand-alone selling price, is not a separate performance obligation even if it can be obtained only by signing the contract in question;

3. determine the “Transaction Price”. In order to determine the transaction price it is necessary to consider, among other things, the following elements: a) any amounts collected on behalf of third parties, which must be excluded from the price; b) variable components of the price (such as performance bonuses, penalties, discounts, refunds, incentives, etc.); c) financial component, if the payment terms grant the customer a significant extension;
4. allocate the price to the Performance Obligations on the basis of the “Relative Stand Alone Selling Price”;
5. recognise revenue when the Performance Obligation is satisfied. The asset or service is transferred when the customer obtains control over the asset or service and that is when it has the ability to decide and/or direct its use and obtain substantially all its benefits. The transfer of control, and consequently the recognition of revenue may occur at a certain point in time or over time.

In the event of contractual amendment, that is a change in the subject and/or the price of the contract approved by the parties, if the amendment introduces new separate goods and/or services and the increase in the contractual price is equal to the stand-alone selling price of the new goods and/or services, the contractual amendment must be accounted for as a new contract. If the two aforementioned conditions are not met and the goods and/or services still to be delivered are separate with respect to what has already been transferred to the customer before the amendment, the change must be treated as cancellation of the old contract and introduction of a new contract with prospective effect on revenue; otherwise the amendment must be treated as continuation of the original contract with retrospective effect on revenue.

Grants related to assets and grants related to income

Grants related to assets are recognised, when they become payable, as deferred revenue and systematically taken as income to the income statement over the useful life of the asset to which they refer. The deferred revenue related to the grants is recognised in the statement of financial position, under Other liabilities, with suitably separated current and non-current amounts.

Grants related to income are recognised in the income statement when the recognition criteria are met, i.e. when their recognition as a balancing entry of supply costs related to the grants is certain.

Other income

Other income includes all kinds of revenue not included in the previous types and not of a financial nature.

Income is measured at the fair value of the price received or due and is recognised when:

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

Costs for the purchase of goods and services

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

Financial income and expenses

Financial income and expenses are recognised when they accrue on the basis of the interest earned on the net amount of the related financial assets and liabilities using the effective interest rate.

Financial expenses directly attributable to the acquisition, construction or production of a plant are capitalised when:

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

Dividends on equity investments are recognised when the right to receive payment is established. This usually coincides with the resolution passed by the shareholder’s meeting.

Income tax expense
Income taxes comprise all the taxes calculated on the company's taxable income.
Current and deferred taxes are recognised as income or expense and included in the profit or loss for the year, except to the extent that the tax arises from a transaction or event that is recognised, in the same or a different year, directly in equity.
Current tax is the expected tax payable on the taxable income for the year, applying the tax legislation enacted or substantially enacted at the reporting date. Deferred tax liabilities are calculated based on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the amounts used for taxation purposes.
Deferred tax assets are recognised only when their recovery is probable.
Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply for the year in which the differences will be paid.

The option for the Group tax consolidation scheme was exercised pursuant to Art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A. The latter then calculates IRES on the algebraic sum of taxable profits/losses of each company taking part in the tax consolidation scheme.
In return for the taxable income earned and transferred to the parent, the consolidated company commits to paying "tax settlements" to the parent equal to the amount of taxes owed on the income transferred, net of the transferred IRES receivables.

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

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2018

As of 1 January 2018, the following accounting standards and amendments to accounting standards, issued by the IASB and endorsed, when provided for, by the European Union, are obligatorily applicable:

IFRS 15 – Revenue from Contracts with Customers. This standard, adopted by the European Union on 22 September 2016 and subsequently amended with EU Regulation 1987/2017 of 31 October 2017, applies to all contracts with customers, with the exception of leasing contracts, insurance contracts and financial instruments.
As better illustrated in the paragraph on the accounting standards applicable to Revenue, IFRS 15 defines a model for recognising revenue based on 5 steps:

i. identify the contract with the customer.
ii. identify the "Performance Obligations" contained in the contract;
iii. determine the "Transaction Price";
iv. allocate the price to the Performance Obligations on the basis of the "Relative Stand Alone Selling Price";
v. recognise revenue when the Performance Obligation is satisfied.

The standard obligatorily requires retroactive application, but the transition can take place using two different methods: retroactively at each previous financial year presented according to IAS 8 (full retrospective approach) or retroactively by recognising the cumulative effect from the date of initial application (modified retrospective approach) in the opening Shareholders' Equity at 1 January 2018 (IFRS 15, para. C3 b). If the second approach is chosen, IFRS 15 is only applied retrospectively to contracts that have not been concluded at the initial application date (1 January 2018). The company group has chosen to apply IFRS 15 using the second approach.

In application of the aforementioned principle, it has emerged that there is a need to implement a different accounting treatment for connection contributions invoiced by companies performing the distribution service, by way of reimbursement of the costs incurred for the connection/installation of the meter. The relative revenue cannot be considered part of the fee for the distribution service, since control of the asset is not transferred, pursuant to IFRS 15, and so they must be deferred and released along the life of the relevant asset in line with what is envisaged for tariff purposes.

As regards the application of the standard to other types of contract/contractual circumstances in place with customers, the checks carried out have not shown impacts; in relation to relationships with customers, specific procedures have been implemented in order to correctly report revenue from contracts starting from 1 January 2018 and identify any critical aspects in future commercial bids in good time.

IFRS 9 – Financial Instruments. The new standard, endorsed on 22 November 2016 with Regulation (EU) 2067/2016, introduced some significant changes regarding the following aspects:

I. <u>criteria for classification and measurement of financial assets and liabilities</u>. As regards financial assets, the new standard uses a single approach based on management models of financial instruments and characteristics of contractual cash flows of financial assets, with the aim of determining the measurement criteria, replacing the various rules set forth in IAS 39. In particular, the standard provides for the following three categories for the classification of financial assets: a) financial assets carried at amortised cost; b) financial assets carried at fair value through other comprehensive income (FVOCI); c) financial assets carried at fair value through profit or loss (FVTPL). Therefore, the categories of "loans and receivables", financial assets held for sale and financial assets "held to maturity" disappear. As regards financial liabilities, the main amendment relates to accounting for fair value changes of a financial liability designated as carried at fair value through profit or loss, if these are due to a change in the creditworthiness of the liability itself. According to the new standard, these changes must be recognised under other comprehensive income;

II. impairment of financial assets. The standard introduces a new impairment model based on expected losses, where "loss" means the present value of all future lost revenue, opportunely integrated to take into account future expectations ("forward-looking information");
III. hedging operations (hedge accounting). The changes introduced refer in particular to the effectiveness test, with reference to abolition of the threshold of 80-125% provided for in IAS 39, to the accounting for the cost of hedging, to expansion of the hedged items and of the disclosure required.

With reference to point I), there are no significant impacts on the balance deriving from the application of the requirements for the classification and valuation of financial assets provided for by IFRS 9. The Group has analysed the characteristics of the contractual cash flows from loans and receivables, considering them to meet the requirements for valuation at amortised cost. As regards Other equity investments, these are minority shareholdings in unlisted companies, up to 2017 classified as Available for sale and measured at fair value with a counter-entry in Other comprehensive income pursuant to IAS 39, which the company intends to keep in the portfolio for the near future: as of 1 January 2018, in accordance with IFRS 9, those equity investments will be measured at fair value through profit or loss (FVTPL).

As regards point II), provisions for impairment of receivables in relation to trade receivables have been recalculated by applying the simplified method provided for in IFRS 9. The application of the new standard is retroactive, so the company has restated provisions for impairment of receivables at 31 December 2017 using the new methodology.
In addition financial receivables from associates, joint ventures and others were analysed in order to identify any impairment problems. The studies carried out, with particular reference to creditworthiness and to the probability of default, did not show, at 1 January 2018, the need to recognise any further impairment.

Finally, in relation to point III) the company chose to apply IFRS 9 starting from 1 January 2018 although the standard allows for the possibility of continuing to apply the Hedge Accounting rules provided for in IAS 39 until the standard IFRS 9 is updated with the rules on Macro Hedging. Existing hedging relationships that meet the definition of effective hedges in accordance with IAS 39 are not impacted by the new hedge accounting criteria of IFRS9.

Amendment to IAS 40 - Investment Property. The amendment, endorsed with Regulation (EU) 400/2018, entails a clarification on the application of paragraph 57 of IAS 40 providing guidelines on changes that can lead to classifying an asset which was not an investment property as such or vice versa. The amendment clarifies that a change in the management's intentions for the use of a property by itself does not constitute evidence of a change in use. No impacts are foreseen for the Group deriving from the amendment in question.

Finally we can note that on 29 March 2018 the IASB published the revised version of *Conceptual Framework for Financial Reporting*. The main changes with respect to the 2010 version regard:
- better definitions and guidance, in particular with reference to the definition of assets and liabilities;
- revision of the criteria for recognising assets and liabilities, and the related costs and revenues, that is the significance of the information and the faithful representation in the financial statements of the underlying transaction. The concepts of "probability" and "reliability in measurement" are eliminated;
- the reintroduction of important concepts, such as stewardship, that is to say the management's ability to manage the company's resources effectively and efficiently, prevalence of substance over form and prudence, above all when there is uncertainty in measurements. The new Framework states that estimates are part of financial statements and that high uncertainty in measurements does not imply that estimates cannot provide significant information;
- a new chapter on the subject of measurement which describes the possible measurement criteria, that is historical cost or present value: the present value can be determined as fair value, value in use or replacement cost. For each asset and liability the company must choose the measurement criterion that makes it possible to provide significant information capable of representing faithfully the substance of the operation. In addition the information provided must be comparable, verifiable, precise and understandable.

Since it is a conceptual framework of reference, but not a directly applicable document, the Framework is not subject to the process of endorsement by the European Union and is effective starting from the date of issue.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BUT NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE

As of 1 January 2019, the following accounting standards and amendments to account standards will be applicable, as they have completed the EU endorsement process:

IFRS 16 – Leases. Standard published by the IASB on 13 January 2016, intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard provides a new definition of lease, irrespective of the contractual form adopted (leasing, rental or hire) and in practice marks the end of the distinction between operating leasing and financial leasing.
IFRS 16 introduces a criterion based on the right of use for an asset to distinguish leasing contracts from services contracts, identifying as discriminating factors: identification of the asset, the right to replace the same, the right to obtain substantially all economic benefits deriving from use of the asset and the right to control use of the asset underlying the contract. On the lessee's part, the new standard provides for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value; in the income statement depreciation and interest expense must be recognised separately. On the lessor's part the impact on the financial statements consists only of greater disclosure.
Its application in the Iren Group is planned starting from 1 January 2019 although early adoption is permitted for entities that adopt IFRS 15. On the basis of the analyses carried out the contracts in which Iren plays the role of lessee refer mainly to property leasing and long-term hires of cars and other motor vehicles.
In accordance with the provisions of IFRS16.C3 the Iren Group decided to apply the standard to contracts previously classified as leases in accordance with IAS 17 *Leases* and IFRIC 4 *Determining Whether an Arrangement Contains a Lease*, instead of redetermining whether or not a contract is or contains a lease.
With reference to leases previously classified as operating leases, as practical expedients provided for in the transitory provisions of IFRS 16, the Iren Group opted to:

- Apply the standard retroactively accounting for the cumulative effect of initial application of IFRS16 at the date of initial application, without redetermining the comparative information, but instead recognising any cumulative effect as an adjustment of the opening balance of retained earnings (IFRS 16.C5 b) and C7);
- measure the leasing liability at the date of initial application at the present value of the remaining payments owed undiscounted using the Iren's marginal loan rate at the date of initial application (IFRS16.C8 a);
- measure the asset consisting of the right of use at an amount equal to the initial leasing liability, net of any prepaid expenses recognized in the statement of financial position immediately before the date of initial application (IFRS16.C8 b (ii))
- not recognize assets and liabilities related to leases the term of which ends with 12 months from the date of initial application. These leases are treated as short-term leases in accordance with IFRS16.C10 c.

The effects of first application of IFRS 16, taking into account the aforementioned practical expedients, will entail for the company Iren S.p.A. an increase in financial liabilities of 90-95 million euro and an equivalent increase in assets for property, plant and equipment. The impact on shareholders' equity is therefore zero.

Amendment to IFRS9 - Prepayment Features with Negative Compensation. The amendments, endorsed with Reg. (EU) 2018/498 of 22 March 2018, introduces an exception for particular financial assets that would feature contractual cash flows that are solely payments of principal and interest (IFRS 9, para. 4.1.2), but do not fulfil this condition owing only to the presence of a contractual clause providing for prepayment. In particular, the amendments state that financial assets with a contractual clause that allows (or imposes on) the issuer to repay a debt instrument or permits (or imposes on) the holder to repay a debt instrument to the issuer before maturity can be measured at amortised cost or at fair value through other comprehensive income, subordinately to assessment of the business model in which they are held, if the following conditions are met:

- the company acquires or issues the financial asset with a premium or a discount with respect to the nominal amount of the contract;
- the prepayment amount is substantially the nominal contractual amount and the contractual interest accrued (but not paid), which can include reasonable additional compensation for early termination of the contract; and
- when the entity initially recognises the financial asset, the fair value of the prepayment feature is insignificant.

The amendments are applicable starting from 1 January 2019.

*IFRIC 23 – Uncertainty over Income Tax Treatment*s. The interpretation, issued in June 2017 and endorsed with Reg. (EU) 2018/1595 of 23 October 2018, clarifies how to apply the recognition and measurement requirements of IAS 12 in the case of uncertainty over tax treatments related to income taxes. If there are uncertainties ion the application of the tax laws to a specific transaction or group of transactions, IFRIC 23 requires the company to assess whether it is probable that the tax authority will accept the choice made by the company on the tax treatment of the transaction: on the basis of this probability, the company must recognise in its financial statements an amount of taxes that it may pay or defer with respect to what is included in its income tax filings. The interpretation is applicable for annual reporting periods beginning on or after 1 January 2019.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures. The amendment, issued in October 2017 and endorsed with Reg. (EU) 2019/1595 of 8 February 2019, clarifies that an entity must apply the provisions of IFRS9 to any other long-term interest that substantially represents a further component of the equity investment in the associate or joint venture, to which the equity method is not applied (e.g. privileged shares, loans and non-trade receivables). Any losses recognised on the basis of the equity method, in excess with respect to the equity investment of the entity in ordinary shares of the associate or joint venture, are attributed to the other components of the equity investment in inverse order with respect to their degree of subordination (that is, liquidation priority) after applying IFRS 9. The amendment is applicable starting from 1 January 2016.

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

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

Annual improvements to IFRSs 2015-2017 cycle. Issued in December 2017, the document contains formal amendments and clarifications to already existing standards. Each of the amendments will be applicable, after endorsement, for annual reporting periods beginning on or after 1 January 2019. We can note in particular the following amendments:

- *IFRS 3 - Business Combinations*. The amendment specifies that a joint operator, which acquires control over a jointly-controlled activity that represents a business, must remeasure previously held interests in the jointly-controlled business at fair value at the acquisition date.
- *IFRS 11 – Joint Arrangements*. The amendment clarifies that when an entity that has an interest in a jointly-controlled activity that represents a business (under the terms of IFRS 3) without exercising joint control, acquires joint control, the entity does not have to remeasure previously held interests in that business.
- *IAS 23 – Borrowing Costs*. The amendment establishes that the capitalisation rate applied in order to determine the amount of borrowing costs capitalised must correspond to the weighted average of interest rates related to *all* loans outstanding during the period, other than those obtained specifically for the purpose of acquiring an asset. Therefore the part of specific borrowing remains outstanding, after the related “qualifying asset” is ready for its intended use or sale, must be included in the amount of funds that an entity borrows generally.

Amendments to IFRS 3 - Business Combinations. The amendment involved the definition of business, to be understood as an integrated set of activities that it is possible to conduct and manage for the purpose of providing goods and services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. This clarification makes it possible to distinguish whether an acquisition refers to a business or a group of assets: only in the first case goodwill can be recognised. The new definition of business must be applied to acquisitions made starting from 1 January 2020.

Definition of Material - Amendments to IAS 1 and IAS 8. The amendment, issued on 31 October 2018, has the purpose of clarifying better the definition of "material", providing indications useful for identifying all the relevant information to be included in the financial statements and making uniform the application of the concept of materiality in the body of the International Accounting Standards. The amendment will be applicable, after endorsement, for annual reporting periods beginning on or after 1 January 2020.

As regards the new standards applicable starting from financial year 2019 or subsequent years, assessments for their correct application and analyses of the presumable impacts on future financial statements are in progress.

III. IREN S.p.A. FINANCIAL RISK MANAGEMENT

The management of business risks is an essential component of the Internal Control System of corporate governance in a listed company, and the Code of Conduct set forth by Borsa Italiana assigns specific responsibilities as regards this aspect.
A summary of the risk management methods is shown hereunder for the risk management and control with respect to the financial instruments (liquidity risk, exchange rate risk, interest rate risk, credit risk).

LIQUIDITY RISK

Liquidity risk is the risk that financial resources available to the company are insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.
The table below illustrates the expected outflows (within 12 months, in 1-5 years and over 5 years). The flows indicated are undiscounted future cash flows, calculated according to residual contractual expiry dates, on both principal and interest. Undiscounted cash flows relating to interest rate hedges are also included.

thousands of euro

Data at 31/12/2018	Carrying amount	Contractual cash flows	within one year	1-5 years	Over 5 years
Loan and bond payables (*)	2,996,119	(3,315,293)	(415,019)	(1,108,398)	(1,791,876)
Hedging of interest rate risk (**)	7,814	(7,814)	(4,230)	(6,479)	2,895

(*) The carrying amount of "Loan and bond payables" includes both current and non-current portions.
(**) The carrying amount of "Hedging of interest rate risk" includes the fair value of hedging contracts (both positive and negative).

Cash flows required to settle other financial liabilities, other than those to lenders, do not differ significantly from the recognised carrying amount.
For details of the liquidity risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

INTEREST RATE RISK

For a more complete understanding of the interest rate risks, sensitivity analysis was performed on net financial charges to changes in interest rates. This analysis was performed on the basis of reasonable assumptions as follows:

- an increase and reduction of 100 basis points in the Euribor interest rates over the year was applied to the net financial debt;
- in any existing hedge, interest rate shock was applied to both the debt position and related hedge with an extremely limited net effect on the income statement;
- with regard to existing hedges at year end, a 100 basis points translation increase and decrease were applied to the forward curve of interest rates used to measure the fair value of the hedges.

The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2018.

thousands of euro

	Financial expense		Cash Flow Hedge Reserve	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
Cash flow sensitivity (net)				
Net financial debt				
(including hedging contracts)	(359)	650	-	-
Change in fair value				
Hedging contracts				
(assessment components only)	901	(944)	13,738	(15,100)
Total impact from sensitivity analysis	**542**	**(294)**	**13,738**	**(15,100)**

FAIR VALUE

Fair value is determined as the sum of estimated future cash flows in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the curve of forward interest rates at the reporting date.
In order to provide a disclosure as complete as possible, the corresponding figure from the previous year is also indicated.
For each recognised asset and liability class, the following table provides both the carrying amount and related fair value.

thousands of euro

Asset/liability description	31/12/2018		31/12/2017	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Non-current loans to related parties	1,620,020	1,781,135	1,549,420	1,655,585
Hedges – long-term assets	311	311	1,812	1,812
Bonds due at more than 12 months	(2,185,550)	(2,174,032)	(1,777,885)	(1,879,082)
Bonds due within 12 months	(89,069)	(91,779)	-	-
Non-current bank loans	(481,059)	(460,538)	(857,762)	(931,099)
Hedges – long-term liabilities	(8,125)	(8,125)	(8,773)	(8,773)
Loans - current portion	(240,440)	(249,748)	(82,440)	(107,320)
Total	**(1,383,913)**	**(1,202,776)**	**(1,175,628)**	**(1,268,876)**

Fair value hierarchy

The following table shows financial instruments recognised at fair value, based on the measurement technique used. The various levels were defined as shown below:

- Level 1: Prices listed (not adjusted) on active markets for identical assets or liabilities;
- Level 2: Input data other than Level 1 listed prices which are observable for assets or liabilities, either directly (as in the case of prices), or indirectly (i.e. derived from prices);
- Level 3: Input data related to assets or liabilities which are not based on observable market data (unobservable data).

thousands of euro

31.12.2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income				
Financial assets measured at fair value through profit or loss			100	100
Derivative financial assets in Cash Flow Hedges		311		311
Derivative financial assets in Fair Value Hedges				
Derivative financial assets outside hedge accounting				
Total assets		**311**	**100**	**411**
Derivative financial liabilities in Cash Flow Hedges		(4,937)		(4,937)
Derivative financial liabilities in Fair Value Hedges				
Derivative financial liabilities outside hedge accounting		(3,188)		(3,188)
Total liabilities		**(8,125)**		**(8,125)**
Grand total		**(7,814)**	**100**	**(7,714)**

thousands of euro

31.12.2017	Level 1	Level 2	Level 3	Total
Financial assets available for sale				
Financial assets designated at fair value through profit or loss				
Financial investments held for trading				
Derivative financial assets		1,812		1,812
Total assets		**1,812**		**1,812**
Derivative financial liabilities		(8,773)		(8,773)
Total liabilities		**(8,773)**		**(8,773)**
Grand total		**(6,961)**		**(6,961)**

All Iren S.p.A. hedging financial instruments have a fair value which can be classified as level 2. This level is measured through valuation techniques, that take, as a reference, parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different from the prices of the financial instruments, or in any case that do not require a significant adjustment based on data which cannot be observed on the market.
We can also note that no transfers occurred amongst the various Levels of the fair value hierarchy.

CREDIT RISK

Iren S.p.A. is not particularly exposed to credit risk as it mainly provides professional services to the First-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.
For details of the credit risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

Capital management

The capital management policies of the Board of Directors involves maintaining a high level of capital to uphold relations of trust with investors, creditors and the market, and also allowing future business development.
The Board of Directors monitors the return on capital and the level of dividends for distribution to ordinary shareholders, and aims to maintain a balance between achieving extra yield by recourse to indebtedness and the benefits and security offered by a solid equity position.

IV. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

Up to 30 June 2018, the following remained in force: (i) the *"Internal Regulation on Transactions with Related Parties"* (hereinafter also "TRP Internal Regulation"), in the version most recently updated with a resolution of the Board of Directors of Iren passed on 13 March 2015, after the favourable opinion of the Company's Committee for Transactions with Related Parties (hereinafter also "CTRP", wholly made up of Independent Directors); (ii) the Operating Procedure for the Management of Transactions with Related Parties, which supplements and details the provisions of the aforesaid TRP Internal Regulation, approved by the Board of Directors of Iren on 15 March 2016, after a favourable opinion of the CTRP.

With the aim at arriving at unifying the aforementioned documents and consequently rationalising the related provisions, on 12 April 2018, after a favourable opinion of the Committee for Transactions with Related Parties, the Board of Directors of Iren approved the Procedure for Transactions with Related Parties (hereinafter also "TRP Procedure"), with entry into force deferred until 1 July 2018, the date on which it replaced the documentation previously in force on the subject, that is the TRP Internal Regulation and the Operating Procedure for the Management of Transactions with Related Parties, becoming the only document of reference in the Group. While awaiting entry into force of the above TRP Procedure, a number of amendments of a formal nature were made to the related text; these were submitted, after a favourable opinion of the CTRP, to the Board of Directors of Iren, which on 2 July 2018 approved an updated version of the TRP Procedure.

The current TRP Procedure is published on the Iren website (*www.gruppoiren.it*), in the Section *"Investors – Corporate Governance – Related Parties*".

The above corporate documentation, defined in coordination with the provisions of the administrative and accounting procedures pursuant to Art. 154-bis of the CLF, was prepared implementing:

- the provisions relating to transactions with related parties pursuant to Article 2391-*bis* of the Italian Civil Code;
- the Regulation containing provisions on Transactions with Related Parties (TRPs), adopted by CONSOB with its Resolution no. 17221 of 12 March 2010 and subsequently amended with Resolution no. 17389 of 23 June 2010 (the "CONSOB TRP Regulation") taking into account the indications of CONSOB Communication no. DEM/10078683 of 24 September 2010 (the "CONSOB Communication");
- of the provisions pursuant to Art. 114 of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Law on Finance or CLF) and the provisions of Regulation (EU) no. 596/2014 on market abuse.

More specifically, this corporate documentation has the following purposes: (i) regulating the performance of transactions with related parties by IREN, directly or through subsidiaries, identifying internal procedures and rules capable of ensuring the substantial and procedural transparency and correctness of such transactions; (ii) establishing the methods of fulfilling the related disclosure obligations, including those provided for in the legal and regulatory measures in force and applicable.
Very briefly, the profiles governed are the following: (i) identification of the perimeter of related parties; (ii) definition of a transaction with a related party; (iii) identification of cases of exclusion and of the so-called transactions "for small amounts"; (iv) the procedures applicable to transactions of minor significance; (v) the procedures applicable to transactions of major significance; (vi) the subjects responsible for enquiries on transactions with related parties; (vii) the transactions for which the Shareholders' Meeting is responsible; (viii) all the forms of disclosure.

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

Transactions with related-party shareholder Municipalities

Iren S.p.A. provides a series of corporate services to Finanziaria Sviluppo Utilities S.r.l., a special purpose company through which the Municipality of Genoa (following the asymmetric non-proportional demerger on the basis of which 50% of shareholders' equity was attributed to the beneficiary FCT) holds its equity investment in Iren S.p.A., in accordance with a specific agreement that provides for consideration for these services.

Transactions with other related parties

On the basis of the current TRP Procedure, companies controlled, directly or indirectly, by one of the following Provincial Capitals have been identified as related parties: Municipalities of Parma, Piacenza and Reggio Emilia, as signatory Municipalities of the current Voting and Block Shareholders' Agreement between FSU (controlled by the Municipality of Genoa), FCT (controlled by the Municipality of Turin) and the so-called "Emilian Parties", and the Municipalities of Turin and Genoa.

In particular we can note that in order to supply the integrated water service in the provinces of Parma, Piacenza and Reggio Emilia, the company IRETI, with the payment of an annual lease, uses the assets of the companies Parma Infrastrutture, Piacenza Infrastrutture and AGAC Infrastrutture, controlled by the Municipalities involved.

The remaining relations with related parties controlled by the above Municipalities are mainly of a commercial nature and regard services provided to all other customers.

Lastly, with regard to IREN's directors and statutory auditors, we can note that other than regarding their offices held within the Group companies there have been no transactions with them.

If the related conditions are fulfilled, transactions that consist of assigning remunerations and economic benefits, in any form, to members of the administration and control bodies and to key management personnel are also subject to the provisions of the Internal Regulation on transactions with related parties.

Transactions with subsidiaries

Intercompany Services - In order to make best use of the organisational synergies arising from the merger of IRIDE and Enìa, the Iren structure was designed in accordance with a holding model, with sufficient staff structures to support the coordination activity of the Group and to deal with the most challenging matters of general interest. Therefore, Iren can provide professional services to the first-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.

All these activities are governed by special supply contracts at arm's length terms.

Financial management - Organisational solutions were adopted with the aim of centralising financial management for the entire Group under the direct responsibility of Iren S.p.A., in order to optimise the structure and conditions of access to third party financing.

To this end, loans are taken out by Iren with financial institutions, whereby the funds are subsequently transferred to the Group's companies to support the investments made by these companies based on intercompany facility agreements.

The regulation of financial transactions between the Parent and the Group subsidiaries has been approved. The conditions of intercompany contracts were defined according to the conditions at which the Parent procures on the financial market.

Tax consolidation scheme - Starting from 2010, Iren S.p.A. adopted the tax consolidation scheme pursuant to arts. 117 *et seq* of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.

All financial and legal transactions between the parties are governed by the specific intra-group agreement between the companies involved and the parent, Iren S.p.A.

The tax consolidation scope for 2018 includes the following companies, in addition to the consolidating company Iren S.p.A.: IRETI, Iren Mercato, Iren Energia, Iren Acqua, Immobiliare delle Fabbriche, Iren Ambiente (incorporating TRM V and TRM Holding), Iren Rinnovabili, Green Source, Enìa Solaris, Varsi Fotovoltaico, AMIAT, AMIAT V.

In particular, this contract, recently updated to take account of the new scope, covers the way in which the IRES taxable amounts are transferred and the related remuneration, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.
After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay to the parent “tax settlements” equal to the amount of taxes owed on the income transferred, net of the transferred IRES receivables.
The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the Parent is able to determine the total Group Income for IRES purposes.
The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to Art. 127, paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.

Group VAT option - In terms of procedures, for 2018 the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding settlements and VAT periodic payments.
The companies that take part in the Group settlement procedure are the Parent Company Iren S.p.A. and the following companies: Iren Energia, IRETI, Iren Mercato, Iren Ambiente, AMIAT, Iren Rinnovabili, Enìa Solaris, Iren Acqua Tigullio, Iren Acqua, Greensource, Varsi Fotovoltaico, Immobiliare delle Fabbriche, Iren Laboratori, Bonifica Autocisterne, REI, ASM Vercelli and ATENA Trading.

Transactions with joint ventures and associates

Among the main transactions carried out by Iren S.p.A. with joint ventures and associates, we can note:

- the supply to Asti Energia e Calore of goods and services for work on regenerating and increasing the energy efficiency of public lighting plants in the City of Asti;
- the loan granted to OLT Offshore LNG Toscana in relation to the Livorno regasification plant.

Transactions with Directors

Lastly, with regard to directors, we can note that other than regarding their offices held within the Group companies there have been no transactions with the directors. Information on remuneration can be found in the Remuneration Report published under the terms of Art. 123-*ter* of the Consolidated Law on Finance.

V. EVENTS AFTER THE REPORTING PERIOD

Shareholders' agreement between IREN and First State Investments related to OLT Offshore LNG Toscana S.p.A.

On 22 March 2019 a shareholders' agreement was signed by, on the one hand, Iren Mercato and ASA - Azienda Servizi Ambientali S.p.A. (ASA), a company in which the Group has a 40% stake, and, on the other hand, First State SP S.à r.l. (“First State Investments” – FSI), related to the governance and to the circulation of the equity investments in OLT Offshore LNG Toscana (OLT), the company that has developed and manages the “FSRU Toscana” regasification plant with a capacity of 3.75 billion m3 a year, anchored off the Tuscan coast.
First State Investments, the international division of Colonial First State Global Asset Management, operates in the management of infrastructural investments and holds, among other things, a large portfolio of equity investments in utilities operating in various European countries.
The agreement was signed at the same time as the signing of a sale contract between FSI and Uniper Global Commodities SE (which holds, jointly with Iren Mercato, control over OLT), regarding the sale of all OLT shares owned by the said Uniper, and will take effect at the moment of closing of this sale.
Under the terms of the agreements currently in being between Uniper, Iren and ASA, Iren and ASA are given a right of co-sale regarding all or some of the OLT shares that they currently hold, at the same terms and conditions laid down for the sale of the shares owned by Uniper. This right may be exercised within 6 months after receiving – also on 22 March 2019 – the notice related to the sale by Uniper to FSI.
Following these developments and in the context of the agreements reached with Uniper and FSI, the Iren Group will assess all the viable options for making the most of its equity investment in OLT, considered no longer strategic in the context of the Group’s portfolio of assets, continuing at the same time to support the development of the company.

Shareholders' Meeting: approval of the proposed amendment of the Articles of Association and of the purchase of treasury shares

On 5 April 2019 the Shareholders’ Meeting of Iren S.p.A., in Extraordinary session, approved the amendment of articles 5.4; 18.1; 19.2; 19.3; 19.4; 19.6; 25.5; 27.1; 28.1; 28.2; 28.3 of the Articles of Association.
The main changes regard (i) the cessation of the delegated power given to the Board of Directors for capital increases reserved for Public Bodies; (ii) the increase in the number of directors, which goes up from 13 to 15 and pursues the objective of ensuring representation of both shareholders of the former ACAM that have become shareholders of Iren S.p.A., and the shareholder FCT following the demerger of FSU; (iii) the qualified majority for some resolutions of the Board of Directors; (iv) the increase in the number of directors taken from the majority list, which goes up from 11 to 13; (v) the increase in the number of regular members of the Board of Statutory Auditors, which goes up from 3 to 5.

The Shareholders’ Meeting, on the same date and in Ordinary session, also authorised the Board of Directors to purchase and dispose of Iren S.p.A. treasury shares, also fractions of the same, under the terms of articles 2357 and following of the Italian Civil Code, and of art. 132 of Italian Legislative Decree no. 58 of 24 February 1998.
The Shareholders’ Meeting defined, according to what was proposed by the Board of Directors, purposes, terms and conditions for exercising the aforesaid authorisation, and gave the same all the widest powers, to be exercised with the widest discretionality, so that it may proceed to implement the purchase deeds in full observance of the current legislation.
In this regard, the Board of Directors may carry out the transactions for purchase and disposal of treasury shares for a maximum of 65,000,000 of the Company’s shares, such however as not to exceed one twentieth of the share capital. The treasury share purchase programme is permitted for eighteen months starting from the present shareholders’ meeting resolution. The maximum counter-value of the shares purchasable in the context of this programme may not exceed the amount of the distributable profits and of the available reserves resulting from the latest financial statements approved.

The purpose of this operation id to give the Group a stock of shares available for external growth operations, also replacing the capital increase resolved in 2016 and revoked with approval of the amendments to the articles of association described above.
On the same date, the Board of Directors, acknowledging this shareholders' meeting resolution, in turn gave a mandate to the Chief Executive Officer to launch the treasury share purchase programme, for a maximum of 26,000,000 shares, so as however not to exceed 2% of the share capital. In addition, the Board authorised the CEO to determine the criteria and conditions related to the deeds of sale, disposal and/or use of the treasury shares, having regard to the methods of implementation actually used, to the trend in the prices of the shares in the period prior to the transaction and the best interests of the Company.

Acceptance of the recommendations of the Corporate Governance Code of Listed Companies (July 2018 edition) and approval of the Guidelines for Shareholders on the qualitative and quantitative composition of the Board of Directors

Again on 5 April 2019, the Board of Directors also resolved to accept the recommendations of the Corporate Governance Code of Listed Companies in the July 2018 edition, together with the update of the document in which evidence is provided of the governance solutions adopted by the Company with reference to the provisions of the said Code.
Implementing what is recommended by Application Criterion 1.C.1. lett. (h) of the Code, taking into account the mandate expiring with approval of the annual financial statements at 31 December 2018, the Board also approved the guidelines for Shareholders on the qualitative and quantitative composition of the administrative body which will be appointed for the three years 2019-2021.

VI. OTHER INFORMATION

CONSOB COMMUNICATION NO. DEM/6064293 of 28 July 2006

Significant non-recurring events and transactions

During financial year 2018 the company was not affected by “non-recurring” events and did not carry out significant transactions identified as such on the basis of the definitions contained in the Communication. In particular, it was not affected by events which do not reoccur frequently in the normal performance of the business.

Positions or transactions deriving from atypical and/or unusual operations

In 2018 the company was not involved in atypical and/or unusual transactions, as defined in the Communication, i.e. transactions that may, due to their significance/relevance, nature of the counterparties, subject of the transaction, methods for determining the transfer price and timing of the event (near year end), give rise to concerns about the correctness/completeness of the financial statements disclosures, conflict of interest, safeguard of the company’s assets or protection of minority shareholders.

Disclosure on treasury shares

We can note under the terms of art. 2428 of the Italian Civil Code that Iren S.p.A. does not possess, nor did it purchase or sell during the year, treasury shares and shares or units of subsidiaries, including through trust companies or intermediaries.

Disclosure pursuant to Italian Law no. 124/2017 and subsequent additions on the subject of transparency in the system of public disbursements

We declare, under the terms of article 1, paragraph 125, second sentence, of Italian Law no. 124 of 4 August 2017, that the National Register of State Aid includes aid that must be disclosed and that besides the information present in this register, there is nothing else to report.

PUBLICATION OF THE FINANCIAL STATEMENTS

The Financial Statements were approved for publication by Iren’s Board of Directors at its meeting of 12 April 2019. The Board of Directors authorised the Chairperson and the Chief Executive Officer to make such changes to the financial statements as necessary or opportune to improve them up to the date of approval by the Shareholders’ Meeting.
The shareholders’ meeting to be called to approve the separate financial statements of the Parent has the right to request amendments to the aforementioned separate financial statements.

VII. NOTES TO THE STATEMENT OF FINANCIAL POSITION

Unless otherwise stated, the following tables are in thousands of euro.

ASSETS

NON-CURRENT ASSETS

NOTE 1_PROPERTY, PLANT AND EQUIPMENT

The breakdown and change of property, plant and equipment may be analysed as follows:

thousands of euro

	31/12/2017	Increases owing to business combina-tions	Increases	Reclassifica-tions	Deprecia-tion and amortisa-tion	Decreases owing to business combina-tions	Disposals and other changes	31/12/2018
Land	278	934	-	-	-	-	-	1,212
Buildings	1,123	5,599	752	1,011	(253)	(30)		8,202
Plant and machinery	470	94	344	(16)	(98)	-	-	794
Industrial and commercial equipment	124	84	115	-	(32)	(5)	(1)	285
Other assets	9,155	411	4,971	261	(3,617)	(18)	(1)	11,162
Investments in progress and payments on account	1,339	-	1,348	(1,256)	-	-	-	1,431
Total	**12,489**	**7,122**	**7,530**	**-**	**(4,000)**	**(53)**	**(2)**	**23,086**

Tangible assets amounted to a total of 23,086 thousand euro (12,489 thousand euro at 31 December 2017).

We can note that the increases for business combinations are the result of the business combination of merger by incorporation of the companies Acam S.p.A and Integra S.r.l.

The main investments that came into operation regarded, in the item “Other assets”, the expansion of the hardware of the workstations and corporate servers for approximately 3,897 thousand euro and, in the item “Buildings”, the building work on the water analysis laboratory of the Piacenza facility for approximately 999 thousand euro and the work related to the first batch of renovation of the summer holiday centre of San Bartolomeo al Mare (IM) for approximately 324 thousand euro.

The investments in progress comprise mainly investments not yet completed for work on buildings and on general systems associated with operation of the same, although owned by the property fund Fondo Immobiliare.

NOTE 2_ INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

The breakdown and change of intangible assets may be analysed as follows:

thousands of euro

	31/12/2017	Increases owing to business combina-tions	Increases	Reclassifica-tions	Deprecia-tion and amortisa-tion	Disposals and other changes	31/12/2018
Industrial patents and intellectual property use rights	32,456	6	8,824	1,365	(10,507)	(6)	32,138
Concessions, licences and trademarks	-	31	-		-	-	31
Other fixed assets	1,899	-	444	-	(438)	-	1,905
Investments in progress	7,309	-	10,358	(1,365)	-	(4)	16,298
Total	**41,664**	**37**	**19,626**	**-**	**(10,945)**	**(10)**	**50,372**

Intangible assets amounted to a total of 50,372 thousand euro (41,664 thousand euro at 31 December 2017).

We can note that, with the Mergers by incorporation of Acam S.p.A. and Integra S.r.l. into Iren S.p.A., intangible assets increased by 37 thousand euro.

Industrial patents and intellectual property use rights

This item consists of software licences and costs incurred for in-house customisation of licensed software applications; these assets are amortised over a five-year period.

Other fixed assets

The item is made up mainly of investments for studies and defining the architecture of Group projects.

Intangible assets under development

This item mainly consists of software licences and related costs incurred for implementations (these refer mainly to the projects regarding information systems and applications in support of operating activities) and of costs for studies for projects in the IT field. Among the most significant investments we can note the "Market Transformation" Project for approximately 5,702 thousand euro.

NOTE 3_INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Equity investments in subsidiaries

The list of investments in subsidiaries at 31 December 2018 is annexed.

The total of this item is broken down as follows:

thousands of euro

	31/12/2017	Increases	Decreases	31/12/2018
Iren Ambiente S.p.A.	244,398		(961)	243,437
IRETI S.p.A.	1,018,747	20,671		1,039,418
Iren Energia S.p.A.	1,139,112			1,139,112
Iren Mercato S.p.A.	142,065			142,065
Total	**2,544,322**	**20,671**	**(961)**	**2,564,032**

The change in the value of the equity investments in the companies Iren Ambiente and Ireti related to the operation for the merger by incorporation into Iren SpA of the company Acam S.p.A. and to the consequent e attribution to the assets of the purchase price of the said company.

NOTE 4_OTHER EQUITY INVESTMENTS

This item relates to investments in companies over which Iren S.p.A. has neither control nor significant influence. Since their fair value could not be reliably determined, these investments were maintained at cost, adjusted for any impairment losses.
Following conferment by the subsidiary Iren Energia, the value of the investment in the Core MultiUtilities Fund amounted, at 31 December 2018 (unchanged compared to 31 December 2017), to 100 thousand euro.

NOTE 5_NON-CURRENT FINANCIAL ASSETS

Non-current financial receivables

The total of the item amounted to 1,620,371 thousand euro (1,551,272 thousand euro at 31 December 2017).

thousands of euro

	31/12/2018	31/12/2017
Receivables from subsidiaries, associates and joint ventures	880	30,186
For centralised treasury management and cash pooling	1,619,140	1,519,233
Other non-current financial assets	311	1,812
From others	40	40
Total	**1,620,371**	**1,551,272**

Financial receivables from subsidiaries and joint ventures relate to amounts due from Asti Energia e Calore (unchanged from 31/12/2017).
On 31 December 2017 there were also receivables from:
- Idrotigullio for 5,945 thousand euro;
- Iren Rinnovabili for 5,079 thousand euro;
- Enia Solaris for 18,282 thousand euro.

Other non-current financial assets amounted to 311 thousand euro (1,812 thousand euro at 31 December 2017) and regard the fair value of derivative instruments (for the comment please see the paragraph "IREN S.p.A. financial risk management").

Financial receivables from others refer to participation in a film production under a Tax credit regime for 40 thousand euro (unchanged from 31 December 2017).

NOTE 6_OTHER NON-CURRENT ASSETS

These amounted to 10,660 thousand euro (10,548 thousand euro at 31 December 2017) and are made up of tax credits for IRES rebate following the IRAP deduction referred to the years 2010/2011 for 10,321 thousand euro (unchanged compared to 31 December 2017), receivables from related-party shareholders for IRES rebate following the IRAP deduction referred to the years 2007/2009 for 41 thousand euro (unchanged compared to 31 December 2017) receivables from the personnel for the non-current portion of loans granted to employees for 161 thousand euro (181 thousand euro at 31 December 2017), receivables for guarantee deposits for 5 thousand euro (unchanged compared to 31 December 2017) and receivables for innovation project grants to be received for 132 thousand euro (zero at 31 December 2017).

NOTE 7_DEFERRED TAX ASSETS

This item amounts to 13,761 thousand euro (31 December 2017: 9,173 thousand euro) and refers to deferred tax assets arising from income components deductible in future years.

Reference should be made to the income statement, Note 37 “Income tax expense”, for further details.

CURRENT ASSETS

NOTE 8_INVENTORIES

The item amounted to 1,751 thousand euro (14 thousand euro at 31 December 2017). The increase is attributable to the centralisation in Iren S.p.A. of the stock and management of materials used in common by all the Group companies.

NOTE 9_TRADE RECEIVABLES

These are detailed in the following table:

thousands of euro

	31/12/2018	31/12/2017
Receivables from customers	1,315	339
Receivables from subsidiaries and joint ventures	107,179	74,337
Receivables from associates	714	437
Receivables from shareholders - related parties	337	288
Receivables from other Group companies	58	8
Total	**109,603**	**75,409**

Receivables from customers
These primarily relate to receivables for refunds of expenses, recharging of meals and leasing fees. These amounted to 1,315 thousand euro (339 thousand euro at 31 December 2017).

Receivables from subsidiaries and joint ventures
Receivables from subsidiaries and joint ventures refer to normal commercial transactions carried out at arm's length.
The increase during financial year 2018 is attributable to the operation for the merger by incorporation of the companies Acam S.p.A. and Integra S.r.l..
The total amount of trade receivables from subsidiaries and joint ventures is broken down under the section on transactions with related parties.

Receivables from associates
This item primarily refers to fees that may be charged back for offices held by Iren's employees in the associated companies, as well as to the repaid amount of insurance costs borne by the Parent.
The total amount of receivables from associates is broken down under the section on transactions with related parties.

Receivables from related-party shareholders
Receivables from related-party shareholders recorded a balance of 337 thousand euro (288 thousand euro at 31 December 2017) and refer to receivables for sponsorships from the Municipality of Turin for 314 thousand euro (268 thousand euro at 31 December 2017), work performed for FSU for 16 thousand euro (14 thousand euro at 31 December 2017) and for the Municipality of Reggio Emilia for 7 thousand euro (6 thousand euro at 31 December 2017).

Receivables from other Group companies
Receivables from other Group companies recorded a balance of 58 thousand euro (8 thousand euro at 31 December 2017) and refer to recharging of sponsorship costs to the 5T Consortium and to IT assistance

services performed for the Territorial Services Agency of Genoa of 8 thousand euro (8 thousand euro at 31 December 2017).

NOTE 10_CURRENT TAX ASSETS

The item amounted to 2,334 thousand euro (zero at 31 December 2017) and refers to receivables for IRES and IRAP advances.

NOTE 11_OTHER RECEIVABLES AND OTHER CURRENT ASSETS

These are detailed in the following table:

thousands of euro

	31/12/2018	31/12/2017
Receivables from personnel	69	22
Receivables from subsidiaries for Group VAT	7,867	123
Receivables from subsidiaries for tax consolidation scheme	46,810	15,066
VAT credit	59,817	50,734
Advances to suppliers	2,909	570
Other receivables	1,753	1,771
Tax assets	616	770
Prepaid expenses	2,434	972
Total	**122,275**	**70,028**

Receivables from personnel consist mainly of receivables for loans granted to employees.

The option for the Group tax consolidation scheme was exercised pursuant to Art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A.

NOTE 12_CURRENT FINANCIAL ASSETS

All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.
Current financial receivables relate to:

Financial receivables from subsidiaries, associated companies and joint ventures

The total of this item is broken down in the following table:

thousands of euro

	31/12/2018	31/12/2017
For invoices issued for interest	2,184	1,201
For invoices to be issued for interest	12,411	13,319
For loans granted	401,900	439,163
For conferments	1,901	-
Sundry	126	102
Total	**418,521**	**453,785**

Loans granted include 401,900 thousand euro (439,000 thousand euro at 31 December 2017) as the current portion of the loan granted to the joint venture OLT.
The amount of the loan decreased compared to 31 December 2017 following the repayments made by the investee and the estimate of the expected credit losses measured, as provided for in IFRS 9 – Financial Instruments, weighting the results deriving from possible future scenarios. We can note that during the year the Board of Directors began work on a programme, still in progress, for the disposal of the assets related to the joint venture OLT, working to identify a buyer, and considers the sale highly probable within the next twelve months.
Moreover, at 31 December 2017 receivables for loans to the subsidiary Idrotigullio amounted to 163 thousand euro.

The item related to conferments relates to receivables from the companies Ireti and Iren Ambiente. These receivables were generated by the partial demerger from Acam of the equity investments held in Acam Acque, Acam Ambiente and Recos. These receivables were transferred to Iren SpA following the operation for the merger by incorporation of the companies Acam S.p.A. and Integra S.r.l..

Other financial receivables

These amount to 122 thousand euro (12 thousand euro at 31 December 2017) and primarily relate to financial prepayments.

NOTE 13_CASH AND CASH EQUIVALENTS

Cash and cash equivalents may be analysed as follows:

thousands of euro

	31/12/2018	31/12/2017
Bank and postal deposits	256,660	69,354
Cash and valuables in hand	118	108
Total	**256,778**	**69,462**

Cash equivalents represent short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

NOTE 14_ASSETS HELD FOR SALE

These were 240 thousand euro (unchanged compared to 31 December 2017), and refer to the equity investment in Plurigas in liquidation. The investment was classified among assets held for sale because during 2014 the company ceased to do business.

LIABILITIES

NOTE 15_EQUITY

Equity may be analysed as follows:

thousands of euro

	31/12/2018	31/12/2017
Share capital	1,300,931	1,276,226
Reserves and retained earnings (losses)	362,928	259,904
Net profit (loss) for the period	125,928	166,957
Total	**1,789,787**	**1,703,087**

Share capital

Share capital amounts to 1,300,931,377 (1,276,225,677 at 31 December 2017), which is fully paid up and comprises 1,300,931,377 ordinary shares with a face value of 1 each.

On 11 April 2018 the business combination between Iren and the Acam Group was completed. This had been launched in May 2017, and involved:

- the acquisition by Iren of the ACAM shares held by 31 public entities, essentially equal to the entirety of its share capital;
- subscription at the same time by 27 Acam shareholders of a total of 24,705,700 new Iren ordinary shares, in the context of the capital increase reserved for them, with a face value of 1 each.

Reserves

The breakdown of this item is provided in the following table:

thousands of euro

	31/12/2018	31/12/2017
Share premium reserve	133,020	105,102
Legal reserve	58,345	49,998
Cash flow hedging reserve	(5,150)	(4,262)
Other reserves and retained earnings (losses)	176,713	109,066
Total	**362,928**	**259,904**

Share premium reserve

During 2018 the share premium reserve increased by 27,917,441. This increase is attributable to the business combination between Iren and the ACAM Group which led to the subscription by 27 ACAM shareholders of a total of 24,705,700 new Iren ordinary shares at the purchase price of 2.13 of which 1.13 as premium.

Hedging reserve

With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a contra-entry directly in equity under the hedging reserve. These contracts were entered in to hedge exposure to the risk of interest rate fluctuations on floating rate loans.

Other reserves and retained earnings (losses)
These mainly comprise the surplus generated by the merger of AMGA into AEM Torino and the later merger of Enìa into Iride, and retained earnings and losses. During 2012, they fell due to the retained loss of 2011. During financial year 2015 the extraordinary reserve fell as a result of the distribution of an extraordinary unit dividend of 0.0151 euro per share. During financial year 2018 as a result of the shareholders' meeting resolution approving the 2017 annual financial statements on 19 April 2018 the reserve increased by 67,544,008. For further details, reference should be made to the statement of changes in equity.

Dividends
At the ordinary shareholders' meeting of Iren S.p.A. held on 19 April 2018, the distribution of a 0.07 euro per share dividend was approved. The dividend amounting to 91,065,196 thousand euro was paid from 20 June 2018.

NON-CURRENT LIABILITIES

NOTE 16_NON-CURRENT FINANCIAL LIABILITIES

Non-current financial liabilities amounted to 2,676,602 thousand euro (2,644,420 thousand euro at 31 December 2017) and consist of:

Bonds
These amounted to 2,185,550 thousand euro (1,777,885 thousand euro at 31 December 2017). The item refers to Private Placement and Public Bond issues, accounted for at amortised cost, against a total nominal amount in issue at 31.12.2018, for the part of bonds with maturity at more than 12 months, of 2,209,340 thousand euro (1,798,440 thousand euro at 31 December 2017).
- Private Placement: Notes maturity 2020, coupon 4.37%, issue amount 260 million euro, in issue at 31.12.2018 for 167.870 million euro following repurchases (Tender Offers) carried out in 2015, 2016 and 2017 in (amount at amortised cost 167,783 thousand euro).
- Public Bond: a) Notes maturity 2021, coupon 3%, issue amount 300 million euro, in issue at 31.12.2018 for 181,836 thousand euro following the repurchase operations described above (amount at amortised cost 180,871 thousand euro); b) Notes maturity 2022, coupon 2.75%, issue amount 500 million euro, in issue at 31.12.2018 for 359,634 thousand euro following the tender offers of 2016 and 2017 (amount at amortised cost 357,414 thousand euro); c) Notes maturity 2024, coupon 0.875%, amount 500 million euro, in issue for the same amount (amount at amortised cost 494,738 thousand euro); d) Green Bond maturity 2027, coupon 1.5%, amount 500 million euro, in issue for the same amount (amount at amortised cost 490,996 thousand euro); e) Green Bond maturity 2025, coupon 1.95%, amount 500 million euro, issued in September 2018 (amount at amortised cost 493,748 thousand euro).

The bond loans were subscribed by Italian and foreign institutional investors and are listed on the Irish Stock Exchange; the Public Bonds were given a Fitch rating.
The change in the total book value at 31 December 2017 was due to the issue of the new Green Bond in September 2018, the reclassification within 12 months of a Private Placement with maturity 2019, and the allocation of the financial expenses accruing calculated on the basis of the amortised cost method according to the IAS/IFRS standards.

Non-current bank loans
Medium/long term loans relate exclusively to the non-current portion of loans/credit lines due at more than 12 months granted by banks and amounted to 481,059 thousand euro (857,762 thousand euro at 31 December 2017).
Medium/long term loans can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and maturity date, as shown in the following table:

thousands of euro

	fixed rate	floating rate	TOTAL
min/max interest rate	2.79% - 5.122%	0.00% - 0.441%	
maturity	2020-2027	2020-2032	
1.1.2020 – 31.12.2020	18,870	47,229	66,099
1.1.2021 – 31.12.2021	18,498	27,229	45,727
1.1.2022 – 31.12.2022	18,444	36,480	54,924
1.1.2023 – 31.12.2023	19,064	51,686	70,750
subsequent	71,430	172,130	243,559
Total payables beyond 12 months at 31/12/2018	**146,306**	**334,753**	**481,059**
Total payables beyond 12 months at 31/12/2017	**489,014**	**368,748**	**857,762**

All loans are denominated in euro.

The changes in medium/long term loans during the year are summarised below:

thousands of euro

	31/12/2017 Total payables beyond 12 months	Increases	Repayments	Amortised cost adjustments	31/12/2018 Total payables beyond 12 months
- fixed rate	489,014	2,258	(345,395)	429	146,306
- floating-rate	368,748	80,000	(114,407)	412	334,753
TOTAL	**857,762**	**82,258**	**(459,801)**	**841**	**481,059**

Total medium/long term loans at 31 December 2018 decreased overall compared to 31 December 2017. The main changes, increases and decreases, that determined the overall reduction of the amount at the end of 2018 are presented below:

- disbursement of two EIB loans for a total of 80 million euro in December 2018, covered by the loan contract related to the programme of investments in infrastructures for the production of drinking water and the treatment of waste water for the cities of Genoa and Parma; a total reduction of 459,801 thousand euro, owing both to advance repayment of loans (a total of 261.8 million euro to Cassa Depositi e Prestiti, Unicredit, Mediobanca, EIB), and to classification as short term of the portions of loans maturing within the next 12 months;
- changes in amortised cost for the purpose of IAS/IFRS accounting of loans.

Non-current financial payables for leases

Non-current financial payables for leases regard the portion of payables for leases due at more than 12 months, accounted for according to the method provided for in IAS 17. The item, related to the operation for the merger by incorporation of the company Acam S.p.A., amounted to 1,868 thousand euro (zero at 31 December 2017) and its value will gradually be reduced on the basis of the repayment schedule for the principal.

Other financial liabilities
These amounted to 8,125 thousand euro (8,773 thousand euro at 31 December 2017) and refer to the fair value of derivative contracts entered into by Iren as hedges against the interest rate risk on floating rate loans (please see the paragraph "IREN S.p.A. financial risk management" for comments).

NOTE 17_EMPLOYEE BENEFITS

Changes in this item in 2018 were as follows:

	thousands of euro
Amount at 31/12/2017	**19,597**
Current service costs	57
Financial expense	257
Disbursements for the year of releases and withdrawals	(2,320)
Actuarial (gains)/losses	(381)
Other changes	1,074
Amount at 31/12/2018	**18,284**

Liabilities for employee benefits consist of:

Post-employment benefits
Changes in this item in 2018 were as follows:

	thousands of euro
Amount at 31/12/2017	**14,604**
Current service costs	-
Financial expense	200
Disbursements for the year of releases and withdrawals	(1,949)
Actuarial (gains)/losses	(215)
Other changes	1,407
Amount at 31/12/2018	**14,047**

Other benefits
The composition and changes over the year of defined benefit plans, other than the post-employment benefits described above, are shown hereunder.

Additional months' salaries (long-service bonus)
The long-service bonus has been provided for to cover the additional amount due to employees in force at the end of the year in respect of the amount accrued at that date for those reaching the minimum pensionable service.

Movements of the year are shown in the following table:

	thousands of euro
Amount at 31/12/2017	**670**
Current service costs	25
Financial expense	10
Disbursements for the year of releases and withdrawals	-
Actuarial (gains)/losses	(41)
	-
Amount at 31/12/2018	**664**

Loyalty bonus
Employees reaching 25, 30 or 35 years of service are entitled to a loyalty bonus equal to one monthly salary amount as established by the national sector labour contract in force on reaching the required years of services.

Movements of the year are shown in the following table:

	thousands of euro
Amount at 31/12/2017	**784**
Current service costs	32
Financial expense	8
Disbursements for the year of releases and withdrawals	(97)
Actuarial (gains)/losses	(79)
Other changes	-
Amount at 31/12/2018	**648**

Provisions for tariff discounts
The tariff discounts provision was established in respect of the liability that the Company would have to meet to ensure that employees on terminating their employment and former employees receive the electricity discount as stipulated under art. 42 of the National Collective Employment Contract (CCNL) of 9 July 1996.
On 29 September 2017 Iren S.p.A., also in the name and on behalf of the companies controlled by it, and the national and territorial trade unions defined, with a specific agreement, different regulations to replace the tariff discounts. As a consequence of this agreement the provisions previously set aside for tariff discounts were all released.
Specific provisions were also set aside for the two amounts identified in application of the Agreement respectively for employees and retired former employees. These latter provisions were reconstructed by means of an actuarial calculation.
Movements of the year are shown in the following table:

	thousands of euro
Amount at 31/12/2017	**2,987**
Current service costs	-
Financial expense	32
Disbursements for the year of releases and withdrawals	(135)
Actuarial (gains)/losses	(41)
Other changes	(333)
Amount at 31/12/2018	**2,510**

Premungas Provisions
The Premungas fund is a supplementary pension plan which allows the employee to obtain the same amount of remuneration received upon retirement. The benefit is paid to employees hired with a Federgasacqua contract up to 28 February 1978.
Movements of the year are shown in the following table:

thousands of euro

Amount at 31/12/2017	552
Current service costs	-
Financial expense	7
Disbursements for the year of releases and withdrawals	(139)
Actuarial (gains)/losses	(5)
Other changes	-
Amount at 31/12/2018	**415**

Actuarial assumptions
The above-mentioned liabilities are measured by independent actuaries.
The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.

For the purpose of defining the present value of the obligations, the future service is estimated based on assumptions related to changes in both the total number of employees and employee remuneration. Future service represents the amount that would be liquidated to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.

The following factors were considered in deciding which discount rate to adopt in the measurements provided for in IAS 19:
- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the weighted average residual term of liabilities related to all benefits and all Group companies.
The economic and financial assumptions adopted in the calculations are the following:

Annual discount rate	1% - 1.60%
Annual inflation rate	1.50%
Annual increase rate of post-employment benefits	2.50%

In accordance with the provisions of IAS 19 the following additional information is supplied:

- sensitivity analysis for each material actuarial assumption at year end, showing the effects that would have resulted from changes in the actuarial assumptions reasonably possible at that date, in absolute terms;
- contributions for the following year;
- indication of the average maturity of the obligation for defined benefit plans.

This information is shown in the following table.

			Service cost 2019	Duration of the plan
	+0.25%	-0.25%		
Post-employment benefits	(296)	305	-	8.55
Additional monthly salaries	(18)	18	24	10.76
Loyalty bonus	(9)	9	26	5.46
Tariff discounts	(58)	60	-	10.56
Premungas	(7)	7	-	6.40

NOTE 18_PROVISIONS FOR RISKS AND CHARGES

Details and variations are shown in the table below:

thousands of euro

	31/12/2017	Increases	Utilisa-tions	Releases	Reclassifica-tions and contribu-tions	31/12/2018	Current portion
Provisions for early retirement expenses	12,874	6,345	(2,512)	-	-	16,707	1,746
Other provisions	18,115	1,479	(456)	-	2,918	22,056	266
Total	**30,989**	7,824	(2,968)	-	2,918	**38,763**	**2,012**

Following the merger by incorporation of the companies Acam S.p.A. and Integra S.r.l., provisions for risks and charges increased by 2,918 thousand euro, of which 1,415 thousand euro in relation to personnel expenses and 1,468 thousand euro in relation to disputes with third party suppliers.

In the framework of the multi-annual project for the demographic and professional rebalancing of the Group’s personnel an increase in provisions was recognised for the expenses associated with retirement of some of the employed staff.

Among other provisions, further increases regarded mainly lawsuits with suppliers and adjustment of provisions for Long-Term Incentive Plans.

NOTE 19_DEFERRED TAX LIABILITIES

Deferred tax liabilities of 1,005 thousand euro (337 thousand euro at 31 December 2017) are due to the temporary difference between the carrying amount and tax value of assets and liabilities recognised in the financial statements.
Deferred taxation is calculated with reference to the expected tax rates applicable at the time the differences will reverse.
Reference should be made to the income statement, note 37 “Income tax expense”, for further details.

NOTE 20_OTHER PAYABLES – OTHER NON-CURRENT LIABILITIES

This item amounted to 10,595 thousand euro (11,097 thousand euro at 31 December 2017) and refers for 8,499 thousand euro (unchanged compared to 31 December 2017) to payables to the companies that follow the tax consolidation procedure as IRES rebate for the IRAP claim for 2007 – 2011, for 1,705 thousand euro to the deferment on the portion of revenue accruing to subsequent years related to the transfer in usufruct to Ireti S.p.A. of some software assets (2,558 at 31 December 2017), for 40 thousand euro to payables for CIG, CIGS contributions: to INPS (unchanged compared to 31 December 2017) and for 351 thousand euro to portions of contributions related to future years (zero at 31 December 2017).

CURRENT LIABILITIES

NOTE 21_CURRENT FINANCIAL LIABILITIES

All financial liabilities recognised in this item are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.
Short-term financial liabilities can be analysed as follows:

thousands of euro

	31/12/2018	31/12/2017
Bonds	89,069	-
Bank loans	254,345	95,287
Payables for finance leases	345	-
Financial payables to subsidiaries	139,755	202,681
Financial payables to joint ventures	-	-
Financial payables to related-party shareholders	-	-
Financial payables to associates	2,734	2,023
Other financial liabilities	10	2,858
Total	**486,258**	**302,849**

Bonds

The item relates to the Private Placement issued in 2014. The nominal amount of the issue of 100 million euro, came down to 89,100 thousand euro owing to repurchases on the occasion of the Tender Offer operations of 2015 and 2016.
The amount of 89,069 thousand euro refers to the value at amortised cost according to the IAS/IFRS standards (88,804 thousand euro at 31.12.2017) and compared to the previous year it was reclassified to within 12 months as it matures in February 2019.

Current financial payables for leases
Current financial payables for leases regard the portion of payables for leases due within 12 months, accounted for according to the method provided for in IAS 17. The item, related to the operation for the merger by incorporation of the company Acam S.p.A., amounted to 345 thousand euro (zero at 31 December 2017) and its value will gradually be reduced on the basis of the repayment schedule for the principal.

Bank loans

thousands of euro

	31/12/2018	31/12/2017
Loans - current portion	240,440	82,440
Other current payables to banks	207	219
Accrued financial expenses and deferred financial income	13,697	12,628
Total	**254,345**	**95,287**

Financial payables to subsidiaries

Short-term payables to subsidiaries can be broken down as follows:

thousands of euro

	31/12/2018	31/12/2017
For invoices to be received	22	46
For cash-pooling	139,733	202,635
For conferments	-	-
Total	**139,755**	**202,681**

Financial payables to associates

These amounted to 2,734 thousand euro (2,023 thousand euro at 31 December 2017) and refer to payables related to centralised treasury management.

Financial payables to others

These amounted to 10 thousand euro (2,858 thousand euro at 31 December 2017) and refer mainly to payables to Monte Titoli.

NOTE 22_TRADE PAYABLES

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2018	31/12/2017
Trade payables	57,778	44,452
Trade payables to subsidiaries	9,153	10,789
Trade payables to associates	321	170
Payables to related-party shareholders	459	336
Trade payables to other Group companies	71	153
Total	**67,782**	**55,900**

NOTE 23_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

All payables recognised in this item are due within one year. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2018	31/12/2017
Social security charges payable	4,090	4,263
Amounts payable to subsidiaries for tax consolidation scheme	9,330	2,993
Payables to subsidiaries for Group VAT	46,811	37,830
IRPEF payables and tax payables	5,733	4,715
Payables to employees	8,652	8,524
Deferred income	976	878
Other payables	5,620	3,430
Total	**81,211**	**62,634**

Payables to social security agencies consist mainly of withholdings and contributions to be paid to INPS and INPDAP. The company opted for the Group tax consolidation scheme pursuant to Art. 118 of the new Consolidated Income Tax Act. This requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A.
Deferred income of 975 thousand euro (878 thousand euro at 31 December 2017) refers to the portion not accruing to the year of grants received for the purpose of financing research, development and innovation projects at the base of the strategic choices and the definition of products and services offered by the
Group and to the deferment on the multi-annual revenue related to transfer in usufruct of IT software to the company Ireti for the portion accruing to the year.

NOTE 24_CURRENT TAX LIABILITIES

The item amounted to 23,721 thousand euro (7,608 thousand euro at 31 December 2017) and refers to IRES tax liabilities.

NOTE 25_PROVISIONS FOR RISKS – CURRENT PORTION

The item amounted to 2,012 thousand euro (287 thousand euro at 31 December 2017). For more details see Note 18 Provisions for risks and charges.

FINANCIAL POSITION

The net financial debt, calculated as the difference between short/medium/long-term financial liabilities and short/medium/long-term financial assets, can be broken down as indicated in the following table:

thousands of euro

	31/12/2018	31/12/2017
Non-current financial assets	(1,620,371)	(1,551,272)
Non-current financial debt	2,676,602	2,644,420
Non-current net financial debt	**1,056,230**	**1,093,147**
Current financial assets	(675,421)	(523,259)
Current financial debt	486,258	302,849
Current net financial debt	**(189,163)**	**(220,410)**
Net financial debt	**867,067**	**872,737**

Detail of Net Financial Position regarding related parties

Non-current financial assets were 1,620,371 thousand euro and concern centralised treasury and cash-pooling transactions with subsidiaries for 1,619,140 thousand euro, the positive fair value on derivatives for 311 thousand euro, non-current receivables from third parties for 41 thousand euro and loans to associates for 880 thousand euro.

Short-term financial assets relate for 12,411 thousand euro to invoices to be issued to subsidiaries.

Short-term financial liabilities of 139,756 thousand euro refer to financial payables to subsidiaries for centralised treasury and cash-pooling transactions and for the related interest.

For additional information, see the annexed tables on transactions with related parties.

Below is the net financial position in the format proposed by the CESR recommendation of 10 July 2005, which does not include non-current financial assets.

thousands of euro

	31/12/2018	31/12/2017
A. Cash in hand	(256,778)	(69,462)
B. Other cash and cash equivalents (details)		
C. Securities held for trading		
D. Cash and cash equivalents (A) + (B) + (C)	**(256,778)**	**(69,462)**
E. Current financial receivables	**(418,643)**	**(453,797)**
F. Current bank debt	13,904	12,846
G. Current portion of non-current debt	329,510	82,440
H. Other current financial debt	142,844	207,562
I. Current financial debt (F) + (G) + (H)	**486,258**	**302,849**
J. Current net financial debt (I) + (E) + (D)	**(189,163)**	**(220,410)**
K. Non-current bank debt	481,059	857,762
L. Bonds issued	2,185,550	1,777,885
M. Other non-current debt	9,992	8,773
N. Non-current financial debt (K) + (L) + (M)	**2,676,602**	**2,644,420**
O. Net financial debt (J) + (N)	**2,487,438**	**2,424,009**

VIII. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousands of euro.

REVENUE

NOTE 26_REVENUE FROM GOODS AND SERVICES

Revenue from services provided can be broken down as in the table below:

thousands of euro

	Financial year 2018	Financial year 2017
Services provided to subsidiaries and associates	176,590	153,886
Services to related-party shareholders and other companies	2,698	722
Total	**179,288**	**154,608**

Revenue for services provided to related-party shareholders regards services in favour of FSU for 32 thousand euro (unchanged compared to 31 December 2017) and revenue from third companies for 2,666 thousand euro (152 thousand euro at 31 December 2017).

In financial year 2017 there was also revenue for services provided to related-party shareholders regarding Aster of 8 thousand euro and contingencies referred to revenue accruing to previous years of 530 thousand euro.

Revenue from services to subsidiaries and associates relate to administrative and technical services provided in accordance with a specific contract.

For additional information, see the annexed tables on transactions with related parties.

NOTE 27_OTHER INCOME

Other revenue includes:

thousands of euro

	Financial year 2018	Financial year 2017
Revenue from previous years	677	86
Operating grants	277	390
Capital gains on sales	93	-
Sundry repayments	10,803	5,655
Total	**11,850**	**6,131**

Prior year revenue mainly regards the settlement of prior items with reference to estimates made in previous years and adjustments to prior years' invoices.
Sundry repayments include fees which were paid to Iren Directors and employees reversible by Group companies and the chargeback of costs for personnel seconded to subsidiaries.

COSTS

NOTE 28_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

This amounted to 17,790 thousand euro (10,636 thousand euro in 2017) and mainly refers to purchases of various materials and fuel. The increase in value is attributable mainly to the centralisation in Iren S.p.A. of the stock and management of materials used in common by all the Group companies.

NOTE 29_SERVICES AND USE OF THIRD-PARTY ASSETS

Costs for services are broken down in the following table:

thousands of euro

	Financial year 2018	Financial year 2017
Professional services	16,405	12,929
Fees and refunds of expenses to statutory auditors	116	110
Services from subsidiaries and Group companies	10,355	7,679
Insurance	10,885	12,920
Travel by personnel, training, canteen	7,970	7,435
Bank and postal expenses	1,015	847
Advertising and public relations	6,148	5,628
Electricity supplies	1,356	1,164
IT services	32,021	27,255
Other costs for services	8,161	4,870
Total	**94,431**	**80,838**

Costs for the use of third-party assets amounted to 11,941 thousand euro (2017: 11,896 thousand euro) and resulted from the sales of business units which occurred during previous years by the companies Iren Emilia, Iren Energia and Iren Servizi which transferred to Iren S.p.A. management of the buildings sold to the property fund Ream and to the operation for the merger by incorporation of the companies Acam S.p.A. and Integra S.r.l..

NOTE 30_OTHER OPERATING EXPENSE

Other operating expense is broken down in the following table:

thousands of euro

	Financial year 2018	Financial year 2017
Membership fees	1,879	1,647
Taxes and duties	1,028	1,413
Donations	1,905	818
Prior year expense	644	136
Other sundry operating expenses	1,748	1,370
Total	**7,203**	**5,384**

Donations regarded contributions made mainly to municipalities in Emilia.

Membership fees include contributions paid to Consob of 422 thousand euro, to Utilitalia of 601 thousand euro, to Unione Industriali of 58 thousand euro, to Associazione Italiana Riscaldamento Urbano of 70 thousand euro and to Confservizi of 40 thousand euro.

Prior year expense mainly refers to differences on estimates.

NOTE 31_CAPITALISED EXPENSES FOR INTERNAL WORK AND FOR MATERIALS NOT IN STOCK

Capitalised expenses for internal work amounted to 10,368 thousand euro (9,746 thousand euro in 2017) and refer for 2,966 thousand euro (2,821 thousand euro in 2017) to personnel labour expenses and for 7,402 thousand euro (6,925 thousand euro in 2017) to capitalised expenses for materials not in stock.

NOTE 32_PERSONNEL EXPENSE

Personnel expense is broken down as follows:

thousands of euro

	Financial year 2018	Financial year 2017
Wages and salaries	49,884	45,303
Social security charges payable	15,340	14,411
Defined benefit plans - Other defined benefit plans	57	250
Other personnel expenses	12,308	11,954
Directors’ fees	649	601
Total	**78,239**	**72,519**

The following table shows the average number of employees and their number at the beginning and end of the year:

	31/12/2018	31/12/2017	Average of the year
Senior managers	49	47	48
Junior managers	120	104	118
White collar	790	712	802
Blue collar	77	82	80
Total	**1,036**	**945**	**1,048**

NOTE 33_DEPRECIATION/AMORTISATION

Depreciation of property, plant and equipment amounted to 4,000 thousand euro (3,080 thousand euro in 2017) and refers to the depreciation of buildings, industrial equipment, plant and machinery and other assets. Amortisation of intangible assets amounted to 10,945 thousand euro (8,167 thousand euro in 2017).

NOTE 34_PROVISIONS AND IMPAIRMENT LOSSES

The item amounted to 9,655 thousand euro (3,071 thousand euro in 2017) and refers to provisions set aside for the impairment of financial receivables for 9,600 thousand euro (zero in 2017) and provisions for risks of 209 thousand euro (240 thousand euro in 2017). In financial year 2017 there were also provisions for impairment of trade receivables of 294 thousand euro. As illustrated in the paragraph Accounting standards, amendments and interpretations applied from 1 January 2018 provisions set aside for impairment of receivables in the period reflect the new method provided for in the accounting standard IFRS 9.

This item also includes the release of provisions for risks of154 thousand euro (3,605 thousand euro in 2017).

NOTE 35_FINANCIAL INCOME AND EXPENSES

Financial income
The breakdown of financial income is provided in the following table:

thousands of euro

	Financial year 2018	**Financial year 2017**
Income from investments	200,560	210,469
Bank interest income	567	277
Interest income from Group companies	49,769	54,200
Fair value gains on derivatives	1,028	4,806
Actuarial gain on measuring employee benefits	79	58
Interest income on loans	13,445	15,423
Sundry interest income	22	72
Other financial income	9	8
Total	**265,480**	**285,313**

Financial expense
The breakdown of financial expenses is provided in the following table:

thousands of euro

	Financial year 2018	**Financial year 2017**
Bank interest expense on loans	75,954	31,651
Interest expense on bonds	43,220	55,507
Bank interest expense on credit facilities	19	15
Interest expense on interest rate hedging derivatives	3,503	19,374
Interest expense to subsidiaries	86	47
Employee benefits	257	224
Fair value charges on derivatives	714	723
Contingencies on financial expense	2,866	-
Other financial expenses	211	498
Total	**126,830**	**108,039**

The increase in bank interest expense on loans is attributable mainly to liability management operations.

For bond loans, although there was an increase in stock, interest recorded a decrease as a result of the repurchase of more costly issues.

The decrease in interest expense on interest rate hedging derivatives is attributable mainly to early redemption operations, carried out in the previous year.

Reference should be made to the note on “Employee benefits” in the Statement of Financial Position for details of financial expense on employee benefits.

Derivative fair value expenses consist of changes in fair value of certain hedging positions that do not meet the formal requirements for the application of hedge accounting.

Contingencies on financial expense refer to closure of the receivable relationship with the subsidiary Iren Ambiente related to disposal of the equity investment in the company Recos consequent to an “accounting” measurement of the probability of occurrence of the conditions precedent agreed by the parties.

NOTE 36_VALUE ADJUSTMENTS ON EQUITY INVESTMENTS

At 31 December 2018 this item was zero unlike at 31 December 2017.

NOTE 37_INCOME TAX EXPENSE

Income taxes amount to 19,976 thousand euro (8,649 thousand euro in 2017) and can be broken down as follows:

- current taxes of 16,120 thousand euro (2017: 8,377 thousand euro);
- positive net deferred tax assets and liabilities of 3,465 thousand euro (a positive 748 thousand euro in financial year 2017);
- taxes related to previous years a positive 391 thousand euro (476 thousand euro in financial year 2017).

The 2008 Budget Law modified the interest expense regulations under Art. 96 of the Consolidated Income Tax Act, providing for their deductibility up to a maximum of 30% of the Gross Operating Profit (GOP) with the possibility of carrying forward any surpluses of non-deductible interest expense to the following years and, if Group taxation is adopted, with the right to offset said surpluses with any GOP surpluses accrued from other group companies.
With reference to Iren S.p.A., the new regulations set forth under Art. 96 of the Consolidated Income Tax Act involved, for 2018, forming surpluses of net non-deductible interest expense totalling 60,161 thousand euro which, however, the company was able to fully offset with the GOP surpluses accrued within the Group thanks to Iren’s decision to use Group taxation and pursuant to existing consolidated taxation agreements. The ensuing benefit in terms of lower IRES tax in the year was 14,439 thousand euro.
Pursuant to the consolidated taxation agreements, no remuneration is owed by the companies with surpluses of non-deductible interest expense to the Group companies that transferred their GOP surpluses.
The following table shows the reconciliation between theoretical and effective IRES tax rates. The reconciliation between ordinary and effective IRAP rate was not significant.
The table shows current taxes only, thus excluding deferred taxes. Therefore, changes to the theoretical tax refer to both temporary and final changes.

IRES

		Financial year 2018	Financial year 2017
A)	Profit (loss) before tax	115,952	158,391
B)	Theoretical tax charge (24% rate)	25,428	38,013
C)	Temporary differences taxable in future years	-	-
	Alloc. Tax receivables write-down provision	-	-
D)	Temporary differences deductible in future years	21,965	14,069
	Fees to independent auditors and directors	*93*	*95*
	Plus minus amortisations	-	*368*
	Alloc. set aside and interest expense	*17,603*	*10,383*
	Other	*4,270*	*3,223*
E)	Transfer of previous year temporary differences	(7,045)	(9,366)
	Dividends not received over the year	-	-
	Utilisation of provisions and interest expense	(3,237)	(5,117)
	Fees to independent auditors and directors	(95)	(33)
	Other	(3,714)	(4,216)
F)	Differences not recoverable in future years	(186,169)	(197,998)
	Non-taxable share of dividends (95%) received at 31/12	(187,809)	(199,946)
	Others	1,640	1,948
G)	Taxable income (A)+C)+D)+E)+F))	(65,297)	(34,904)
H)	Current taxes for the year	(15,671)	(8,377)
I)	Rate	-15%	-5%

NOTE 38_OTHER COMPREHENSIVE INCOME

This item relates to:
- negative change in interest rate hedges of 1,168 thousand euro (a positive 13,679 thousand euro at 31 December 2017);
- actuarial gains related to post-employment benefit plans for employees of 302 thousand euro (705 thousand euro at 31 December 2017);
- the aggregate tax effect is a positive 81 thousand euro (31 December 2017: a negative 3,426 thousand euro).

IX. GUARANTEES AND CONTINGENT LIABILITIES

Personal guarantees given amounted to 416,547 thousand euro (31 December 2017: 357,955 thousand euro) to be divided as follows:

- 44,097 thousand euro of bank and insurance guarantees given to various Entities. Among the above, it is worth noting guarantees given in favour of:

· Municipality of Turin, for 27,476 thousand euro, as definitive guarantee in the Amiat/TRM tender procedure;
· INPS for 5,674 thousand euro as guarantees envisaged for planned retirement procedures;
· PETALO DUE Srl for 2,853 thousand euro as commitment to sign a notarial deed recognizing the sale of a business unit and to settle prices and FIO costs;
· FCT Holding, for 2,000 thousand euro, as definitive guarantee in the Amiat/TRM tender procedure;
· REAM Sgr SpA, for 1,931 thousand euro, to guarantee lease payments of properties transferred to the real estate fund Fondo Core MultiUtilities;
· the Tax Authority for 589 thousand euro guaranteeing annual VAT rebates;

- 343,673 thousand euro in guarantees given on behalf of subsidiaries, primarily to guarantee credit facilities and their transactions (mainly commercial contracts/Parent Company Guarantees on behalf of Iren Mercato S.p.A.).

- 28,777 thousand euro of guarantees given on behalf of associated companies, primarily related to the associate Sinergie Italiane.

The most significant amounts, regarding the guarantees given on behalf of associates, refer to the associate Sinergie Italiane in liquidation (in particular guarantees for credit facilities and letters of patronage for 25,332 thousand euro. The liquidators concluded the main procurement contracts and since 1 October 2012 the Company’s operating activity therefore has consisted only the purchase of gas from the Russian supplier Gazprom and the sale of gas to shareholders or their subsidiaries, including the company Iren Mercato.

X. ANNEXES TO THE SEPARATE FINANCIAL STATEMENTS

LIST OF INVESTMENTS

STATEMENTS OF FINANCIAL POSITION OF THE COMPANIES ACAM SPA AND INTEGRA SRL MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH EFFECT FROM 1.04.2018

DRAFT FINANCIAL STATEMENTS AT 31.03.2018 OF THE COMPANIES ACAM SPA AND INTEGRA SRL MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH EFFECT FROM 1.04.2018

INDEPENDENT AUDITORS' FEES

STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

DEFERRED TAX ASSETS AND LIABILITIES

TRANSACTIONS WITH RELATED PARTIES FOR 2018

RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS

LIST OF INVESTMENTS

Company	Registered office	Currency	Share capital	% stake
SUBSIDIARIES				
Iren Ambiente S.p.A.	Piacenza	Euro	63,622,002	100.00
Ireti S.p.A.	Reggio Emilia	Euro	196,832,103	100.00
Iren Energia S.p.A.	Turin	Euro	918,767,148	100.00
Iren Mercato S.p.A.	Genoa	Euro	61,356,220	100.00
ASSOCIATES				
Plurigas (**)	Milan	Euro	800,000	30.00

(**) company in liquidation classified among assets held for sale

STATEMENT OF FINANCIAL POSITION OF THE COMPANY ACAM SPA MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH ACCOUNTING EFFECT FROM 1 APRIL 2018

Amounts in euro

	Notes	31.03.2018
BUSINESS		
Property, plant and equipment	(1)	6,597,209
Intangible assets with a finite useful life	(2)	181,675
Investments in subsidiaries, associates and joint ventures	(3)	39,097,823
Other equity investments	(4)	-
Non-current financial assets	(5)	1,107,457
Other non-current assets	(6)	-
Deferred tax assets	(7)	1,591,154
Total non-current assets		**48,575,318**
Inventories	(8)	821,598
Trade receivables	(9)	41,456,886
Current tax assets	(10)	3,003,137
Other receivables and other current assets	(11)	12,775,516
Current financial assets	(12)	22,955
Cash and cash equivalents	(13)	583,062
Total current assets		**58,663,154**
Assets held for sale	(14)	-
TOTAL ASSETS		**107,238,472**

	Notes	31.03.2018
SHAREHOLDERS' EQUITY		
Share capital		27,819,860
Reserves and retained earnings (losses)		25,762,119
Net profit (loss) for the period		-
TOTAL EQUITY	**(15)**	**53,581,979**
LIABILITIES		
Non-current financial liabilities	(16)	2,470,243
Employee benefits	(17)	1,526,406
Provisions for risks and charges	(18)	2,757,267
Deferred tax liabilities	(19)	603,253
Other payables and other non-current liabilities	(20)	11,281
Total non-current liabilities		**7,368,450**
Current financial liabilities	(21)	13,492,176
Trade payables	(22)	14,791,893
Other payables and other current liabilities	(23)	17,878,827
Current tax liabilities	(24)	125,147
Provisions for risks and charges - current portion	(25)	-
Total current liabilities		**46,288,043**
Liabilities related to assets held for sale		-
TOTAL LIABILITIES		**53,656,493**
TOTAL EQUITY AND LIABILITIES		**107,238,472**

DRAFT FINANCIAL STATEMENTS OF THE COMPANY ACAM SPA AT 31.03.2018 MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH ACCOUNTING EFFECT FROM 1 APRIL 2018

Amounts in euro

	31.03.2018	31.12.2017
ASSETS		
B) Fixed assets		
I- Intangible assets		
3) industrial patents and intellectual property use rights	4,499	6,000
5) goodwill		
6) investments in progress and payments on account		
7) others	177,175	179,337
Total intangible assets	**181,675**	**185,337**
II – Property, plant and equipment		
1) land and buildings	2,086,914	2,094,332
2) plant and machinery	66,226	67,336
3) industrial and commercial equipment	49,546	51,032
4) other assets	208,444	224,017
5) investments in progress and payments on account		
Total property, plant and equipment	**2,411,130**	**2,436,717**
III – Financial assets		
1) equity investments in		
a) subsidiaries	34,271,949	34,271,949
b) associates	4,825,874	4,825,874
d-bis) other companies		
Total equity investments	39,097,823	39,097,823
2) receivables		
a) from subsidiaries	1,107,457	1,107,457
c) from parent companies		
d-bis) from others		
Total receivables	1,107,457	1,107,457
Total financial assets	**40,205,280**	**40,205,280**
Total fixed assets (B)	**42,798,085**	**42,827,334**
C) Current assets		
I - Inventories		
1) raw and ancillary materials and consumables	821,598	940,457
3) construction contracts in progress		
4) finished products and goods		
Total inventories	**821,598**	**940,457**
II - Receivables		
1) from customers	4,988,807	5,434,039
2) from subsidiaries	47,584,615	46,404,314
3) from associates	203,571	666,237
4) from parent companies	81,986	73,877
5) from companies subject to control of parent companies		
5-bis) tax credits	3,916,681	3,911,814
5-ter) deferred tax assets	1,591,154	1,591,154
5-quater) from others	364,969	602,055
Total receivables	**58,731,783**	**58,683,490**
IV - Cash and cash equivalents		
1) bank and postal deposits	556,540	557,446
3) cash and valuables in hand	26,645	26,862
Total cash and cash equivalents	583,185	584,308
Total current assets (C)	**60,136,566**	**60,208,255**
D) Accruals and deferrals	**362,893**	**339,012**
Total assets	**103,297,544**	**103,374,601**

DRAFT FINANCIAL STATEMENTS OF THE COMPANY ACAM SPA AT 31.03.2018 MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH ACCOUNTING EFFECT FROM 1 APRIL 2018

	31.03.2018	31.12.2017
LIABILITIES		
A) Shareholders' equity		
I - Share capital	27,819,860	27,819,860
IV - Legal reserve	1,045,892	1,045,892
V - Statutory reserves		
VI - Other reserves	19,872,041	19,872,041
VIII - Retained profits (losses)	3,406,742	
IX - Profit (loss) for the period	292,009	3,406,742
Total equity	**52,436,544**	**52,144,535**
B) Provisions for risks and charges		
2) for taxes, including deferred tax	277,105	277,105
4) others	2,721,697	2,744,341
Total provisions for risks and charges	**2,998,802**	**3,021,446**
C) Post-employment benefits	**1,526,406**	**1,572,016**
D) Payables		
4) payables to banks	9,906,200	9,905,629
7) trade payables	5,180,437	6,662,739
9) payables to subsidiaries	27,654,498	26,235,734
11) payables to parent companies	95,996	95,996
11-bis) payables to companies subject to the control of parent companies	20,233	15,665
12) tax payables	1,977,638	789,162
13) payables to pension and welfare agencies	418,735	487,329
14) other payables	1,070,774	1,210,293
Total payables	**46,324,511**	**45,402,547**
E) Accruals and deferrals	**11,281**	**1,234,057**
TOTAL LIABILITIES	**103,297,544**	**103,374,601**

DRAFT FINANCIAL STATEMENTS OF THE COMPANY ACAM SPA AT 31.03.2018 MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH ACCOUNTING EFFECT FROM 1 APRIL 2018

Amounts in euro

	Financial Year 2018 (Jan-Mar)	Financial Year 2017
INCOME STATEMENT		
A) Value of production		
1) revenue from sales and services	4,118,039	16,040,927
3) changes to construction contracts in progress		
5) other revenue and income	301,947	6,630,995
Total value of production	**4,419,986**	**22,671,922**
B) Costs of production		
6) for raw and ancillary materials, consumables and goods	269,505	2,749,625
7) for services	1,650,412	6,965,814
8) for use of third-party assets	290,885	1,233,061
9) for personnel		
a) wages and salaries	1,091,377	4,226,945
b) social security contributions	328,485	1,331,715
c) post-employment benefits	80,164	319,995
d) other expenses		87
Total personnel expenses	**1,500,028**	**5,878,742**
10) amortisation, depreciation and write-downs		
a) amortisation of intangible assets	3,662	29,101
b) depreciation of property, plant and equipment	26,769	110,305
c) other impairment of fixed assets		
d) impairment of receivables included in current assets and cash and cash equivalents	3,021	78,821
Total amortisation, depreciation, and write-downs	**33,452**	**218,227**
11) changes in inventories of raw and ancillary materials, consumables and goods	118,859	59,511
12) provisions for risks	23,500	91,223
14) other operating expenses	86,640	746,056
Total costs of production	**3,973,279**	**17,942,259**
Difference between value and costs of production (A - B)	**446,707**	**4,729,663**
C) Financial income and expenses		
15) income from equity investments - others		59,317
16) other financial income		
d) income other than the above	3,074	12,299
17) interest and other financial expenses	32,625	209,458
Total financial income and expenses (15 + 16 – 17 +/- 17-bis)	**(29,551)**	**(137,842)**
D) Value adjustments on financial assets and liabilities		
19) Write-downs		
a) of equity investments		3,492,000
Total Write-downs		3,492,000
Total value adjustments of financial assets and liabilities		(3,492,000)
Profit (loss) before tax	**417,156**	**1,099,821**
20) Income tax expenses for the period	**125,145**	**(2,306,921)**
21) Profit (loss) for the period	**292,010**	**3,406,742**

STATEMENT OF FINANCIAL POSITION OF THE COMPANY INTEGRA SRL MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH ACCOUNTING EFFECT FROM 01 APRIL 2018

Amounts in euro

	Notes	31.03.2018
BUSINESS		
Property, plant and equipment	(1)	254,087
Intangible assets with a finite useful life	(2)	126,599
Investments in subsidiaries, associates and joint ventures	(3)	-
Other equity investments	(4)	-
Non-current financial assets	(5)	1,944,576
Other non-current assets	(6)	-
Deferred tax assets	(7)	167,650
Total non-current assets		**2,492,912**
Inventories	(8)	-
Trade receivables	(9)	6,567,646
Current tax assets	(10)	21,270
Other receivables and other current assets	(11)	92,405
Current financial assets	(12)	-
Cash and cash equivalents	(13)	62,638
Total current assets		**6,743,959**
Assets held for sale	(14)	-
TOTAL ASSETS		**9,236,871**

	Notes	31.03.2018
SHAREHOLDERS' EQUITY		
Share capital		1,500,000
Reserves and retained earnings (losses)		4,959,313
Net profit (loss) for the period		-
TOTAL EQUITY	**(15)**	**6,459,313**
LIABILITIES		
Non-current financial liabilities	(16)	-
Employee benefits	(17)	246,136
Provisions for risks and charges	(18)	457,062
Deferred tax liabilities	(19)	1,782
Other payables and other non-current liabilities	(20)	74,700
Total non-current liabilities		**779,680**
Current financial liabilities	(21)	-
Trade payables	(22)	1,315,030
Other payables and other current liabilities	(23)	592,995
Current tax liabilities	(24)	89,853
Provisions for risks and charges - current portion	(25)	-
Total current liabilities		**1,997,878**
Liabilities related to assets held for sale		-
TOTAL LIABILITIES		**2,777,558**
TOTAL EQUITY AND LIABILITIES		**9,236,871**

DRAFT FINANCIAL STATEMENTS OF THE COMPANY INTEGRA SRL MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH ACCOUNTING EFFECT FROM 01 APRIL 2018

Amounts in euro

	31.03.2018	31.12.2017
ASSETS		
B) Fixed assets		
I- Intangible assets		
3) industrial patents and similar rights	1,689	2,202
4) concessions, licences and trademarks	1,108	1,150
5) goodwill		
6) investments in progress and payments on account		
7) others	123,802	130,318
Total intangible assets	126,599	133,670
II – Property, plant and equipment		
1) land and buildings		
2) plant and machinery		
3) industrial and commercial equipment	9,897	11,203
4) other assets	244,190	240,788
5) investments in progress and payments on account		
Total property, plant and equipment	254,087	251,991
III – Financial assets		
1) equity investments in		
a) subsidiaries		
b) associates		
d-bis) other companies		
Total equity investments		
2) receivables		
a) from subsidiaries		
c) from parent companies	1,944,576	1,944,576
d-bis) from others		
Total receivables	1,944,576	1,944,576
Total financial assets	1,944,576	1,944,576
Total fixed assets (B)	**2,325,262**	**2,330,238**
C) Current assets		
I - Inventories		
1) raw and ancillary materials and consumables		
3) construction contracts in progress		
4) finished products and goods		
Total inventories		
II - Receivables		
1) from customers		
2) from subsidiaries		
3) from associates		
4) from parent companies	3,420,700	2,797,072
5) from companies subject to control of parent companies	3,151,799	3,265,257
5-bis) tax credits	46,655	46,655
5-ter) deferred tax assets	167,650	167,650
5-quater) from others	218	7,134
Total receivables	6,787,022	6,283,767
IV - Cash and cash equivalents		
1) bank and postal deposits	61,701	73,223
3) cash and valuables in hand	937	1,179
Total cash and cash equivalents	62,638	74,402
Total current assets (C)	**6,849,660**	**6,358,169**
D) Accruals and deferrals	**61,949**	**12,940**
Total assets	**9,236,871**	**8,701,347**

DRAFT FINANCIAL STATEMENTS OF THE COMPANY INTEGRA SRL MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH ACCOUNTING EFFECT FROM 01 APRIL 2018

	31.03.2018	31.12.2017
LIABILITIES		
A) Shareholders' equity		
I - Share capital	1,500,000	1,500,000
IV - Legal reserve	365,875	365,875
V - Statutory reserves		
VI - Other reserves	3,412,578	3,412,578
VIII - Retained profits (losses)	971,202	0
IX - Profit (loss) for the period	209,658	971,202
Total equity	**6,459,313**	**6,249,655**
B) Provisions for risks and charges		
2) for taxes, including deferred tax	1,782	1,782
4) others	457,062	457,062
Total provisions for risks and charges	**458,844**	**458,844**
C) Post-employment benefits	**246,136**	**243,114**
D) Payables		
4) payables to banks		
7) trade payables	700,394	739,599
9) payables to subsidiaries		
11) payables to parent companies	539,183	295,138
11-bis) payables to companies subject to the control of parent companies	339,650	271,138
12) tax payables	128,555	39,482
13) payables to pension and welfare agencies	177,188	195,718
14) other payables	112,908	109,059
Total payables	**1,997,878**	**1,650,134**
E) Accruals and deferrals	**74,700**	**99,600**
TOTAL LIABILITIES	**9,236,871**	**8,701,347**

DRAFT FINANCIAL STATEMENTS OF THE COMPANY INTEGRA SRL MERGED BY INCORPORATION INTO THE COMPANY IREN SPA WITH ACCOUNTING EFFECT FROM 01 APRIL 2018

Amounts in euro

	Financial Year 2018 (Jan-Mar)	Financial Year 2017
INCOME STATEMENT		
A) Value of production		
1) revenue from sales and services	1,140,649	4,323,818
3) changes to construction contracts in progress		
5) other revenue and income	37,050	511,922
Total value of production	**1,177,699**	**4,835,740**
B) Costs of production		
6) for raw and ancillary materials, consumables and goods	1,731	28,241
7) for services	352,995	1,604,987
8) for use of third-party assets	33,018	126,598
9) for personnel		
a) wages and salaries	329,914	1,285,768
b) social security contributions	98,397	386,427
c) post-employment benefits	23,602	93,336
Total personnel expenses	451,913	1,765,531
10) amortisation, depreciation and write-downs		
a) amortisation of intangible assets	7,071	66,882
b) depreciation of property, plant and equipment	16,473	94,418
c) other impairment of fixed assets		
d) impairment of receivables included in current assets and cash and cash equivalents		
Total amortisation, depreciation, and write-downs	23,544	161,300
11) changes in inventories of raw and ancillary materials, consumables and goods		
12) provisions for risks		
14) other operating expenses	14,832	147,329
Total costs of production	**878,033**	**3,833,986**
Difference between value and costs of production (A - B)	**299,666**	**1,001,754**
C) Financial income and expenses		
16) other financial income		
d) income other than the above	0	1
Total other financial income	0	0
17) interest and other financial expenses	155	780
Total financial income and expenses (15 + 16 – 17 +/- 17-bis)	**155**	**(779)**
Profit (loss) before tax	**299,511**	**1,000,975**
20) Income tax expenses for the period	**89,853**	**29,773**
21) Profit (loss) for the period	**209,658**	**971,202**

INDEPENDENT AUDITORS' FEES

Under the terms of Art. 149-*duodecies* of the Regulations implementing Italian Legislative Decree 58/1998, the fees
for the year due to PricewaterhouseCoopers S.p.A. can be summarised as follows:

thousands of euro

	Auditing services	Services related to auditing	Other services	Total
Iren S.p.A.	255	84	19	**358**

STATEMENT OF CHANGES IN SHAREHOLDERS’ EQUITY, WITH ADDITIONAL INFORMATION

Amounts in euro

Nature/Description	31/12/2018	31/12/2017	31/12/2016
SHARE CAPITAL	1,300,931,377	1,276,225,677	1,276,225,677
EQUITY-RELATED RESERVE			
Share premium reserve (1)	133,019,647	105,102,206	105,102,206
Negative goodwill	56,792,947	56,792,947	56,792,947
INCOME-RELATED RESERVE			
Legal reserve	58,345,452	49,997,599	45,584,761
Other reserves:			
Extraordinary reserve	53,766,557	53,766,557	49,686,741
Contribution reserve	-	-	-
Fair value reserve	-	-	-
Other reserves taxable on distribution	1,402,976	1,402,976	1,402,976
Hedging reserve	(5,150,176)	(4,262,125)	(14,658,238)
Actuarial reserve, IAS 19	(2,793,362)	(2,896,390)	(3,458,348)
Retained earnings (losses)	67,544,008	-	-
TOTAL	**1,663,859,426**	**1,536,129,447**	**1,516,678,722**
Unavailable portion	1,492,296,476	1,431,325,482	1,426,912,644
Remaining available portion	171,562,950	104,803,965	89,766,078

(1) Distributable to shareholders after the legal reserve has reached one fifth of the share capital

KEY:
A: for capital increase
B: to cover losses
C: for distribution to shareholders

Amounts in euro

Possible use	Available portion	Summary of uses over the last three years	
		Coverage of losses	Other reasons
B	1,300,931,377		
A, B	133,019,647		
A, B, C	56,792,947		
B	58,345,452		
A, B, C	53,766,557		
A, B, C	-		
A, B	-		
A, B, C	1,402,976		
	(5,150,176)		
	(2,793,362)		
A, B, C	67,544,008		
	1,663,859,426		
	1,492,296,476		
	171,562,950		

DEFERRED TAX ASSETS AND LIABILITIES

	2018				
	differences				
	initial	formation	merger	payment	remainder
Deferred tax assets					
Directors' fees	-	-	24		24
Independent Auditors' fees	95	93	-	95	93
Provisions for IRES IRAP risks	10,331	7,824	2,744	2,533	18,367
Provisions for IRES risks	6,026	-	457	-	6,483
Provisions for impairment of receivables	-	9,600	1,081	-	10,681
Provisions for personnel	1,386	35	-	314	1,106
Provisions for personnel without advances	1,688	-	-	-	1,688
Contribution Taxable	-	-	75	-	75
Amortisation/depreciation Surpluses	1,849	378	459	-	2,686
Maintenance	-	-	212	-	212
Provisions for impairment of stocks	-	-	254	-	254
MBO energy discounts and interest	10,175	4,270	-	7,210	7,235
Derivatives	5,608	1,168	-	526	6,251
Provisions for post-employment benefits	2,692	144	-	457	2,379
Multi-annual costs	57	-	-	28	28
Default and other interest	-	-	116	-	116
GOP interest expense	-	-	1,349	-	1,349
total taxable base/deferred tax assets	39,907	23,512	6,771	11,163	59,027
Deferred tax liabilities					
Surplus IRES amortisation & depreciation	138	368	2,164		2,670
Default interest receivable	-	-	242	-	242
Provisions for impairment of receivables	44	-	-	-	44
Other	-	-	7	-	7
Adjustment to post-employment benefits	464	-	-	-	464
Previous land/buildings depreciation	760	-	-	-	760
total taxable base/deferred tax liabilities	1,406	368	2,413	-	4,188
TAX LOSSES	-	-	-	-	-
Net deferred tax assets (liabilities)	**38,501**	**23,144**	**-**	**11,163**	**54,839**

thousands of euro

2018				
taxes				
taxes to inc/stat	taxes to equity	IRES (corporate income tax) 24.00%	IRAP (regional business tax)	total
-		6	-	6
-	-	22	-	22
1,136	-	4,408	-	4,408
-	-	1,556	-	1,556
2,304	-	2,564	-	2,564
(56)	(11)	266	-	266
-	-	-	-	-
-	-	18	-	18
91	-	645	-	645
-	-	51	-	51
-	-	61	-	61
(696)	(10)	1,736	-	1,736
-	154	1,500	-	1,500
(24)	(52)	571	-	571
(7)	-	7	-	7
-	-	28	-	28
-	-	324	-	324
2,748	82	13,761	-	13,761
63	-	641	-	641
-	-	58	-	58
-	-	11	-	11
-	-	2	-	2
-	-	111	-	111
-	-	182	-	182
63	-	1,005	-	1,005
-	-	-	-	-
2,685	**82**	**12,756**	**-**	**12,756**

DEFERRED TAX ASSETS AND LIABILITIES

	2017			
	differences			
	initial	formation	payment	remainder
Deferred tax assets				
Directors' fees	-	-	-	-
Independent Auditors' fees	33	95	33	95
Provisions for risks without deferred tax assets	-	-	-	-
Provisions for IRES IRAP risks	5,251	9,649	4,568	10,331
Provisions for IRES risks	6,026	-	-	6,026
Provisions for personnel	1,465	279	358	1,386
Provisions for personnel	1,794	-	107	1,688
Surplus amortisation & depreciation	2,790	-	941	1,849
MBO energy discounts and interest	11,479	3,679	4,982	10,175
Derivatives	19,287	-	13,679	5,608
Provisions for post-employment benefits	3,455	-	763	2,692
Multi-annual costs	114	-	57	57
Total taxable base/deferred tax assets	**51,696**	**13,701**	**25,489**	**39,907**
Deferred tax liabilities				
Surplus IRES amortisation & depreciation	506	-	368	138
Surplus IRAP amortisation & depreciation	-	-	-	-
Provisions for impairment of receivables	44	-	-	44
Dividends not received	-	-	-	-
Capital gains on disposal of IRES assets	-	-	-	-
Adjustment to post-employment benefits	464	-	-	464
Previous land/buildings depreciation	760	-	-	760
Provisions for risks	-	-	-	-
Total taxable base/deferred tax liabilities	**1,775**	-	**368**	**1,406**
TAX LOSSES	-	-	-	-
Net deferred tax assets (liabilities)	**49,921**	**13,701**	**25,121**	**38,501**

thousands of euro

2017				
taxes				
taxes to IS	taxes to equity	IRES (corporate income tax):	IRAP (regional business tax)	total
-	-	-	-	-
15	-	23	-	23
-	-	-	-	-
1,219	-	2,479	-	2,479
-	-	1,446	-	1,446
30	(49)	333	-	333
-	-	-	-	-
(226)	-	444	-	444
(365)	89	2,442	-	2,442
-	(3,283)	1,346	-	1,346
-	(183)	646	-	646
(14)	-	14	-	14
659	(3,426)	9,173	-	9,173
(88)	-	33	-	33
-	-	-	-	-
-	-	11	-	11
-	-	-	-	-
-	-	-	-	-
-	-	111	-	111
-	-	182	-	182
-	-	-	-	-
-	-	-	-	-
(88)	-	337	-	337
-	-	-	-	-
-	-	-	-	-
747	**(3,426)**	**8,836**	**-**	**8,836**

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Trade Receivables	Financial Receivables, Cash and cash equivalents	Other receivables	Trade Payables	Financial Payables
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	-	-	232	1	-
Municipality of Parma	-	-	-	12	-
Municipality of Piacenza	-	-	-	84	-
Municipality of Reggio	7	-	-	105	-
Municipality of Turin	314	-	-	258	-
Finanziaria Sviluppo Utilities	16	41	-	-	-
SUBSIDIARIES					
Acam Acque	27,062	112,754	2,714	165	-
Acam Ambiente	2,956	16,359	11	1,103	-
AMIAT	5,308	68,406	0	1,188	-
Amiat Veicolo	(9)	11,080	-	-	-
ASM Vercelli	2,800	-	-	557	43,257
Atena Trading	152	-	401	17	5,521
Bonifica Autocisterne	7	-	-	-	296
Consorzio GPO	-	-	-	-	2,063
Enia Solaris	14	14,577	81	-	-
Greensource	70	9,218	-	5	-
Immobiliare delle Fabbriche	-	-	-	-	9,596
Iren Acqua	6,301	-	-	89	15,111
Iren Acqua Tigullio	941	-	-	-	2,309
Iren Ambiente	6,280	212,486	-	481	185
Iren Energia	13,819	439,021	33,487	304	1,160
Iren Laboratori	1,914	-	110	125	5,738
Iren Mercato	9,722	-	17,814	587	50,663
Iren Rinnovabili	1,743	65,726	156	1,031	-
I Reti	26,922	647,599	47	3,386	3,455
Maira	1	-	-	-	-
REI - Ricupero Ecologici Industriali	80	7,322	-	-	-
Recos	570	14,898	-	-	-
Salerno Energia Vendite	15	-	-	-	3,979
Spezia Energia Trading	52	37	-	4	2,295
Studio Alfa	-	-	-	127	-
TRM	290	-	-	144	-
Varsi Fotovoltaico	29	16,078	-	-	-
JOINT VENTURES					
Acque Potabili	108	-	-	-	-
OLT Offshore LNG Toscana	19	401,900	-	-	-
ASSOCIATES					
A2A Alfa	3	-	-	-	-
Acos	3	-	-	-	-
Acos Energia	-	-	-	3	-
Acquaenna	52	-	-	-	-
Aguas de San Pedro	1	-	-	-	-
Amter	137	-	-	0	-
ASA	315	-	-	1	-
Astea	7	-	-	-	-
Asti Energia e Calore	-	956	-	-	-
CSP Innovazione nelle ICT	-	-	-	313	-
Domus Acqua	54	-	-	0	-
Iniziative Ambientali	4	-	-	-	-
Mondo Acqua	3	-	-	-	-
Piana Ambiente	62	-	-	-	-
So. Sel.	53	-	-	4	-
Valle Dora Energia	21	-	-	-	2,734

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Other payables	Revenue and income	Costs and other charges	Financial income	Financial expense
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	-	-	250	-	-
Municipality of Parma	-	-	83	-	-
Municipality of Piacenza	-	-	172	-	-
Municipality of Reggio	-	6	304	-	-
Municipality of Turin	-	421	455	-	-
Finanziaria Sviluppo Utilities	-	31	-	-	-
SUBSIDIARIES					
Acam Acque	102	5,851	60	2,335	-
Acam Ambiente	64	2,364	373	259	-
AMIAT	5,730	17,553	4,017	2,239	-
Amiat Veicolo	60	391	-	613	-
ASM Vercelli	463	2,758	1,986	-	80
Atena	-	658	45	-	6
Bonifica Autocisterne	27	43	-	-	0
Consorzio GPO	-	-	-	-	-
Enia Solaris	51	14	-	431	-
Greensource	29	70	13	254	-
Immobiliare delle Fabbriche	17	-	-	-	-
Iren Acqua	7,603	6,180	362	-	-
Iren Acqua Tigullio	1,467	948	0	31	-
Iren Ambiente	11,966	20,892	1,192	10,589	-
Iren Energia	21,279	35,987	1,366	104,334	-
Iren Laboratori	-	2,003	113	0	-
Iren Mercato	-	22,901	3,118	47,742	-
Iren Rinnovabili	142	2,084	882	829	-
I Reti	7,211	60,974	2,682	79,573	-
Maira	-	1	-	-	-
REI - Ricupero Ecologici Industriali	106	195	-	348	-
Recos	-	456	-	215	-
Salerno Energia Vendite	-	0	-	-	-
Spezia Energia Trading	-	46	-	37	-
Studio Alfa	-	4	210	-	-
TRM	-	523	270	-	-
Varsi Fotovoltaico	114	29	-	434	-
JOINT VENTURES					
Acque Potabili	-	23	-	-	-
OLT Offshore LNG Toscana	-	5	-	13,445	-
ASSOCIATES					
A2A Alfa	-	3	-	-	-
Acos	-	3	-	-	-
Acos Energia	-	-	3	-	-
Acquaenna	-	10	-	-	-
Aguas de San Pedro	-	1	-	-	-
Amter	-	52	29	-	-
ASA	-	266	-	-	-
Astea	-	7	-	-	-
Asti Energia e Calore	-	0	-	26	-
CSP Innovazione nelle ICT	-	-	547	-	-
Domus Acqua	-	1	-	-	-
Iniziative Ambientali	-	4	-	-	-
Mondo Acqua	-	3	-	-	-
Piana Ambiente	-	-	-	-	-
So. Sel.	-	44	9	-	-
Valle Dora Energia	-	72	-	-	-

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Trade Receivables	Financial Receivables, Cash and cash equivalents	Other receivables	Trade Payables	Financial Payables
OTHER RELATED PARTIES					
Subsidiaries of Municipality of Turin	50		-	62	
Subsidiaries of Municipality of Genoa	8		-	9	
Subsidiaries of Municipality of Parma	-		-	-	
Subsidiaries of Municipality of Piacenza	-		-	-	
Subsidiaries of Municipality of Reggio Emilia	-		-	-	
Total	**108,277**	**2,038,457**	**55,051**	**10,163**	**148,362**

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Other payables	Revenue and income	Costs and other charges	Financial income	Financial expense
OTHER RELATED PARTIES					
Subsidiaries of Municipality of Turin	-	50	139		1
Subsidiaries of Municipality of Genoa	-	31	3		-
Subsidiaries of Municipality of Parma	-	-	8		-
Subsidiaries of Municipality of Piacenza	-	-	-		-
Subsidiaries of Municipality of Reggio Emilia	-	-	-		-
Total	**56,430**	**183,958**	**18,692**	**263,735**	**87**

RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB Communication no. 6064293 dated 26 July 2006)

thousands of euro

IAS/IFRS STATEMENT OF FINANCIAL POSITION		RECLASSIFIED STATEMENT OF FINANCIAL POSITION	
Property, plant and equipment	23,086		
Intangible assets	50,372		
Investments in subsidiaries, associates and joint ventures	2,564,032		
Other equity investments	100		
Total (A)	**2,637,590**	**Non-Current Assets (A)**	**2,637,590**
Other non-current assets	10,660		
Other non-current liabilities	(10,595)		
Total (B)	**65**	**Other non-current assets (liabilities) (B)**	**65**
Inventories	1,751		
Trade receivables	109,603		
Current tax assets	2,334		
Other receivables and other current assets	122,275		
Trade payables	(67,782)		
Other payables and other current liabilities	(81,211)		
Current tax liabilities	(23,721)		
Total (C)	**63,249**	**Net working capital (C)**	**63,249**
Deferred tax assets	13,761		
Deferred tax liabilities	(1,005)		
Total (D)	**12,756**	**Deferred tax assets (liabilities) (D)**	**12,756**
Employee benefits	(18,284)		
Provisions for risks and charges	(36,750)		
Provisions for risks and charges - current portion	(2,012)		
Total (E)	**(57,046)**	**Provisions for Risks and Employee Benefits (E)**	**(57,046)**
		Net invested capital (G=A+B+C+D+E)	**2,656,614**
Equity (F)	**1,789,787**	**Equity (F)**	**1,789,787**
Non-current financial assets	(1,620,371)		
Non-current financial liabilities	2,676,602		
Total (G)	**1,056,231**	**Medium/long term financial indebtedness (G)**	**1,056,231**
Current financial assets	(418,643)		
Cash and cash equivalents	(256,778)		
Current financial liabilities	486,258		
Total (H)	**(189,163)**	**Short-term financial debt (H)**	**(189,163)**
		Net financial debt (F)+(G)+(H)	**867,068**
		Own funds and net financial indebtedness (F+I)	**2,656,855**

STATEMENT REGARDING THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-*TER* OF CONSOB REGULATION No. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. The undersigned Massimiliano Bianco, Chief Executive Officer, and Massimo Levrino, Corporate Financial Reporting Manager and Administration, Finance and Control Manager of Iren S.p.A., hereby certify, also in view of the provisions of Art. 154-*bis*, paragraphs 3 and 4 of Italian Legislative Decree No. 58 of 24 February 1998:

   - the adequacy in respect of the company's characteristics and
   - the actual application during 2018 of administrative and accounting procedures in preparing the separate financial statements.

2. It is also certified that:

   2.1 the separate financial statements:

      a) are prepared in compliance with the applicable international accounting standards endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council, of 19 July 2002;

      b) correspond to the results of the books and account records;

      c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

   2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the issuer's situation and of all companies included in the consolidation, together with a description of the major risks and uncertainties to which they are exposed.

12 April 2019

The Chief Executive Officer

Massimiliano Bianco

Administration, Finance and Control Manager
and Financial Reporting Manager appointed under
Law 262/05

Massimo Levrino

Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
Iren SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Iren SpA (the "Company"), which comprise the statement of financial position as of 31 December 2018, the income statement, the statement of other comprehensive income, the statement of changes in shareholders' equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2018, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of Iren SpA pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matters	*Audit procedures in response to key audit matters*
Assessment of recoverability of equity investments *Notes to the financial statements at 31 December 2018: Note 3 "Investments in subsidiaries, associated companies and joint ventures"*	
The financial statements of Iren SpA at 31 December 2018 show equity investments amounting to Euro 2,564.0 million, the breakdown of which is as follows: 1. *Iren Energia SpA*: Euro 1,139.1 million; 2. *Ireti SpA*: Euro 1,039.4 million; 3. *Iren Ambiente SpA*: Euro 243.4 million; 4. *Iren Mercato SpA*: Euro 142.1 million. The overall value of such equity investments represented approximately 49% of the total assets of the financial statements as at 31 December 2018. The Company assesses the recoverability of the value of the equity investments shown in the financial statements annually or, more frequently, whenever there are indications leading to presume the existence of an impairment loss. Considering the current structure of the Iren Group, this assessment coincides with the assessment of the recoverability of goodwill values, performed when drawing up the consolidated financial statements, as the above subsidiaries correspond to the Cash Generating Units (CGU) identified, in accordance with the definition set forth in the international accounting standard IAS 36 - *Impairment of assets*. The above assessment of the recoverability of goodwill is based upon the higher between fair	We carried out a preliminary understanding and evaluating of the impairment test procedures prepared by management and approved by the Board of Directors of Iren SpA on 28 January 2019, in order to assess compliance with the requirements of the international accounting standard IAS 36. Our procedures focused on a critical examination of the main assumptions behind the drawing up of the 2019-2023 Business Plan and of the discounting rates used; furthermore, specific sensitivity analyses were performed, aimed at evaluating the impact on the results of the tests of changes in the main parameters adopted. Moreover, we also verified the overall mathematical correctness of the plan and of the impairment test model prepared by management, reviewing, for each company / business unit, the method followed to obtain the discounting rate and the constant growth rate of cash flows beyond the plan's time frame. We also compared the book value of each equity investment with the related recoverable value. These activities were performed also involving experts belonging to the PwC network. Finally, we verified the completeness and accuracy of the information provided in the

value less costs to sell and value in use of each CGU to which goodwill has been allocated. The value in use was determined by discounting future cash flows expected from each CGU in the 2019-2023 period, as well as their respective terminal values. These flows were extracted from economic and financial projections based on the Business Plan approved by the Board of Directors on 26 September 2018. Investments are considered as a key audit matter due to their size and to the inherent estimate elements influencing the valuations made by the directors on their recoverability.	notes, which included the changes occurred in 2018.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 14 May 2012, the Shareholders' meeting of Iren SpA engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation (EU) No. 537/2014.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Iren SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Company as of 31 December 2018, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Iren SpA as of 31 December 2018 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Iren SpA as of 31 December 2018 and are prepared in compliance with the law.

With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Turin, 30 April 2019

PricewaterhouseCoopers SpA

Signed by

Piero De Lorenzi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

REPORT OF THE BOARD OF STATUTORY AUDITORS OF IREN S.P.A. TO THE SHAREHOLDERS' MEETING

(pursuant to Art. 153 of Italian Legislative Decree 58/1998 and Art. 2429 of the Italian Civil Code)

Dear Shareholders,
the Board of Statutory Auditors, pursuant to article 153 of Legislative Decree 58/1998, the Consolidated Law on Finance (hereafter, "CLF"), and to article 2429, paragraph 2 of the Italian Civil Code, is called upon to inform the Shareholders' Meeting about the supervisory activities it has performed, and on any omissions or censurable events discovered. The Board of Statutory Auditors may also make observations and proposals with regard to the financial statements, their approval and issues falling under its responsibilities.
During the course of the year, the regulatory tasks assigned to the Board of Statutory Auditors under the current legal and regulatory provisions were carried out. The Board of Statutory Auditors supervised observance of the law and the Articles of Association, as well as ensuring respect for the principles of proper administration. It also supervised the adequacy of the organisational, administrative and accounting structures of the company, as pertained to its responsibilities. To this end, the Board of Statutory Auditors did not find any irregularities that require indication in this Report.

1. Independence of members of the Board of Statutory Auditors

The Board has verified the absence of any causes for removal from office for its members, pursuant to article 148, CLF, as well as the maintenance of independence requirements for the same: *(i)* under the terms of the said art. 148 CLF, paragraph 3, and *(ii)* under the terms of Application Criterion 8.C.1 of the Corporate Governance Code of Listed Companies.

2. Particularly significant operations and events

The Board of Statutory Auditors attests, as far as it is responsible, the compliance of the operations of greatest economic and financial significance carried out by the company with the law and the articles of association and that they are not manifestly imprudent or risky, in potential conflict of interests or such that they would compromise the integrity of corporate assets.
The aforementioned operations, as well as significant events in 2018 and after, in reference to IREN S.p.A. and the companies which are direct or indirect subsidiaries of the same ("IREN Group" or the "Group"), are outlined in the sections "Significant events of the year" and "Events after the reporting period and business outlook" in the Directors' Report at 31 December 2018.

3. Related-party or intra-group transactions

Under the terms of the relevant legislation the Board of Directors of IREN has approved a Procedure on Transactions with Related Parties, updated on 2 July 2018 (published on the Iren website: www.gruppoiren.it).
In the sections "Information on related-party transactions" in the Notes to the Separate Financial Statements of IREN S.p.A., and in the Notes to the Consolidated Financial Statements at 31 December 2018, the economic and financial transactions with related parties are illustrated. The details of these transactions are provided in Annex X to the Separate Financial Statements and in Annex XII to the Consolidated Financial Statements.
The chairperson of the Board and/or one of the regular auditors attend regularly the meetings of the Committee for Transactions with Related Parties, monitoring the procedures concretely adopted for significant resolutions in the interest of the company and the Group.
In consideration of the model adopted by the Group with IREN SpA as the Holding provided with adequate centralised staff structures, and of the direction and coordination work carried out, the company provides services to the subsidiaries on the basis of specific contracts. Any other non-recurring intra-group transactions are dictated by the need to rationalise the operations according to the management structure organised in Business Units.

4. Atypical and/or unusual operations

The Notes to the Separate Financial Statements of IREN S.p.A., and to the Consolidated Financial Statements, the information produced by the Board of Directors and that received from directors and company management did not indicate the existence of any atypical and/or unusual operations, including intra-group or with related parties. In addition, as of the date this Report was prepared, the Board of Statutory Auditors has not received any communications from the auditing bodies of subsidiaries, associates, or investees, or from the Independent Auditors, containing observations on this point that would require reporting.

5. Meetings of the Board of Statutory Auditors, the Board of Directors and the Board's Sub-Committees

During the year ended 31 December 2018, the Board of Statutory Auditors met 13 times, with the attendance as a rule of all of its members. Details on attendance can be found in the table presented in the specific section in the Report on Corporate Governance and Ownership Structures, prepared pursuant to article 123 bis of the CLF.

In addition, the Board of Statutory Auditors attended the meetings of the Board of Directors (19 meetings) and as a rule ensured the presence of at least one of its members at meetings of the Control, Risks and Sustainability Committee (11 meetings), the Committee for Transactions with Related Parties (11 meetings) and the Remuneration and Appointments Committee (18 meetings).

6. Remarks pursuant to Italian Legislative Decree 39/2010, to Italian Legislative Decree no. 254 of 30 December 2016, and on the independence of the Independent Auditors

As regards independent auditing of the accounts, the Board of Statutory Auditors recalls that this task is assigned to the audit firm PricewaterhouseCoopers S.p.A. (the Independent Auditors, or PwC), which on 30 April 2019 issued the Reports, under the terms of art. 14 of Italian Legislative Decree no. 39 of 27 January 2010 and of art. 10 of Regulation (EU) no. 537/2014, on the Separate Financial Statements of IREN SpA and on the Consolidated Financial Statements of the Group at 31 December 2018, to which we refer you, noting at the same time that they do not contain observations.

The Board of Statutory Auditors supervised the efficacy of the independent account auditing process, periodically meeting with PwC staff to discuss the activities performed. The Independent Auditing firm has signed the Annual Confirmation of Independence under the terms of art. 6 paragraph 2) lett. a) of European Regulation 537/2014 and under the terms of paragraph 17 of ISA Italy 260.

Further appointments conferred on the Independent Auditors are governed by specific Guidelines "Awarding appointments to the Independent Auditors" compliant with the relevant legislation. The related amounts are presented in the Notes to the Separate Financial Statements and in the Notes to the Consolidated Financial Statements in the paragraph "Fees to independent auditors".

In addition the Board confirms that the Consolidated Non-Financial Declaration has been drawn up in compliance with the prescriptions of articles 3, 4 and 6 of Italian Legislative Decree no. 254 of 30 December 2016. The independent auditing firm PwC issued, with a specific report on 30 April 2019, an attestation on the compliance of the information provided with respect to what is required by the aforementioned legislative decree and with respect to the principles, methodologies and methods provided for in the GRI (Global Reporting Initiative) reporting standard.

7. Remarks on the financial reporting process and internal audit system

During financial year 2018 the Board of Statutory Auditors supervised the adequacy of the administrative and accounting system, and the reliability of the latter to represent correctly the operating events, through obtaining information from the Financial Reporting Manager and from the other managers of the administrative units. As a whole, the Board of Statutory Auditors considers that the administrative and accounting system is adequate and reliable in relation to the size and complexity of the Company and the Group.

In the context of its responsibilities, the Board of Statutory Auditors has supervised the adequacy of the internal audit system, through: (i) obtaining information from the managers of the respective corporate units; (ii) meetings with the managers of the Risk Management unit and of the Internal Audit unit; (iii) attendance, of at least one of its members, at meetings of the sub-committees of the board of directors; iv) exchange of information with the Independent Auditors.

In addition, the Board of Statutory Auditors was informed, through half-yearly reports sent to the Board of Directors, about the activities performed by the Oversight Committee established pursuant to Legislative Decree 231/2001, as amended.
Finally, the Board of Statutory Auditors acknowledged what was attested - under the terms of art. 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 as amended, by the Chief Executive Officer and the Financial Reporting Manager pursuant to Italian Law 262/05 - on the adequacy of the administrative and accounting procedures for preparing the annual and consolidated financial statements.
The Board of Statutory Auditors considers, on the basis of the results of these control activities, that the internal audit system can be considered adequate to the size and complexity of operations.

8. Remarks on the adequacy of the organisational structure

To the extent of its responsibilities, the Board of Statutory Auditors has supervised the adequacy of the Company's organisational structure, acquiring information from managers of the corporate units, and considers this structure to be adequate as a whole to the Company's characteristics and the activities it performs.

9. Further activities of the Board of Statutory Auditors

We can report also that the Board of Statutory Auditors:

(i) did not receive complaints pursuant to article 2408 of the Italian Civil Code, or reports;
(ii) issued no opinions under the terms of the law during the year;
(iii) acknowledged the existence of rules issued by the parent company so that the subsidiaries provide all the information necessary to the parent company to fulfil the disclosure obligations provided for by law;
(iv) in relation to the first-level subsidiaries, obtained information in relation to the organisational structure and internal auditing system through the central units of the parent company, meetings with the top management of the subsidiaries and communication with the respective auditing bodies;
(v) acknowledged that the annual Remuneration Report was prepared pursuant to article 123-*ter* of the CLF and had no particular remarks to make on the same;
(vi) as regards the Company's acceptance of the Corporate Governance Code, please see the Report on Corporate Governance and Ownership Structures;
(vii) confirms that during periodic meetings with representatives of the Independent Auditors, no aspects emerged that require mention in this report.

During its supervisory activities, as described above, no censurable events, omissions or irregularities were discovered that require noting in this Report.
In addition, the Board of Statutory Auditors does not consider that elements exist which would require it to make proposals to the Shareholders' Meeting pursuant to article 153, paragraph 2 of the CLF.

The draft Separate Financial Statements and the Consolidated Financial Statements at 31 December 2018, and the Directors' Report were approved at the Board of Directors meeting held on 12 April 2019. The Separate Financial Statements show net profits of € 125,928 thousand, while the Consolidated Financial Statements show net profits of € 273,237 thousand.
As it is not responsible for the independent auditing of the accounts, which is the duty of the Independent Auditors PwC, the Board of Statutory Auditors supervised the general structure of the Annual and Consolidated Financial Statements and their compliance with the regulations that govern the preparation and structure. The Board of Statutory Auditors also verified that they correspond to the events and information that it has been made aware of during execution of its responsibilities. The Board of Statutory Auditors has no particular observations to make on this subject.
In the section "Risks and uncertainties" in the Directors' Report, the Directors describe the main risks to which the Company is exposed: financial risks (liquidity, interest rate, exchange rate), as well as credit, energy, operational, reputational and strategic risks. Contingent liabilities are discussed in the sections "Guarantees and contingent liabilities", found in the Notes to the Separate Financial Statements and the Notes to the Consolidated Financial Statements.

In view of all of the above, the Board of Statutory Auditors, acknowledging the attestations issued jointly by the Chief Executive Officer and the Financial Reporting Manager, considering the content of the reports prepared by PwC, does not find, in relation to its responsibilities, any reasons to object to approval of the draft Financial Statements at 31 December 2018 prepared by the Board of Directors. The Board of Statutory Auditors agrees with the proposal formulated by the Board of Directors as regards the allocation of the profit for the year.

Reggio Emilia, 30 April 2019

for The Board of Statutory Auditors
prof. Michele Rutigliano, chairperson

SUMMARY OF THE RESOLUTIONS OF THE SHAREHOLDERS' MEETING

The Ordinary Shareholders' Meeting:

- having viewed the Financial Statements at 31 December 2018 and the Board of Directors' Report;
- having viewed the Report by the Board of Statutory Auditors;
- having viewed the Report by the independent Auditors PricewaterhouseCoopers S.p.A.;

resolves

1) to approve the Financial statements of Iren S.p.A. at 31 December 2018 and the Director's Report prepared by the Board of Directors;

2) to approve the proposed allocation of the profit for the year, Euro 125,927,825.42, as follows:

    - Euro 6,296,391.27, 5% of the profit for the year, to the legal reserve;
    - a maximum of Euro 109,278,235.67 as dividend to Shareholders, corresponding to Euro 0.084 for each of the maximum no. of 1,300,931,377 ordinary shares constituting the Company's share capital, specifying that treasury shares, if any, will not benefit from the dividend; the dividend will be paid starting from 26 June 2019, ex-dividend date 24 June 2019 and record date 25 June 2019;
    - in a specific retained earnings reserve, the remaining amount of at least Euro 10,353,198.48.

Iren S.p.A.
Via Nubi di Magellano, 30
42123 Reggio Emilia - Italy
www.gruppoiren.it