# Annual Report
at 31 December 2010

# Contents

# NOTICE OF CALL OF THE SHAREHOLDERS' MEETING

The shareholders are called to an ordinary and extraordinary meeting in Reggio Emilia in via Nubi di Magellano 30 at the Sala Campioli on 30 April 2011 at 11.00 a.m., on first call, and if necessary, on 6 May 2011, at the same time and place on second call, to discuss the following

## AGENDA:

### Extraordinary meeting

Proposal to amend articles 10 (Shareholding Limits), 11 (Convocation to the Shareholders' Meeting), 12 (Notice of call), 13 (Participation in shareholders meetings), 14 (Representation), 16 (Constitution of the shareholders' meeting and validity of the resolutions), 17 (Minutes of the shareholders' meetings), 20 (Procedures and criteria for the presentation of lists), 25 (Resolutions of the Board of Directors), 32 (Procedures and criteria for the presentation of lists) and 41 (Provisional resolutions) of the articles of association: inherent and consequent resolutions.

### Ordinary meeting

Financial statements at 31 December 2010, Directors' Report and proposal for the distribution of dividends: inherent and consequent resolutions.

## PARTICIPATION AND REPRESENTATION IN SHAREHOLDERS' MEETINGS

Pursuant to article 83-sexies of Legislative Decree No. 58 of 24 February 1998, those who hold voting rights at the end of the record date of 19 April 2011 and for whom the relative communication obtained from the qualified intermediary has been submitted to the company, have the right to participate in the shareholders' meeting.
Debit and credit entries into the accounts subsequent to that date do not give rise to the right to vote in the shareholders' meeting.

Eligible individuals may be represented in the shareholders' meeting provided a written proxy drafted as required by applicable laws has been provided, while the proxy form is available on the company's website "www.gruppoIren.it", under Investor Relations, Corporate Governance section, Shareholders' Meetings sub-section.

The company has designated Servizio Titoli S.p.A. which has its registered offices in Milan, Via Mantegna 6, as a representative to which holders of voting rights may confer, pursuant to article 135-undecies of Legislative Decree no. 58 of 24 February 1998, a proxy with voting instructions for all or certain of the items on the agenda. The proxy will be effective only for proposals relating to which the voting instructions have been conferred. The delegation of the aforementioned representative designated by the company must be conferred by 28 April 2011, following the procedures and using the specific proxy form available on the company's website (www.gruppoIren.it) which also explains the procedures that interested parties can use to notify the company of proxies via e-mail.

We reiterate that procedures for voting via mail or through electronic media are not provided for the shareholders.

## OTHER SHAREHOLDER RIGHTS

Shareholders may ask questions on the agenda even before the shareholders' meeting following the procedures and within the times indicated on the company's website (www.gruppoIren.it).

Shareholders who represent, on their own or together with other shareholders, at least one 40th of the share capital with voting rights, may ask within 10 days of publication of this notice, for additional issues to be added to the agenda to be discussed. We reiterate that the issues on which the shareholders' meeting deliberates, pursuant to the law, based on the proposal of directors or a draft or report submitted by them, cannot be used as additions to the agenda. The procedures and terms for the exercise of this right are indicated on the company's website (www.gruppoIren.it).

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We specify that the share capital represented consists of 1,181,725,677 ordinary shares with voting rights and 94,500,000 savings shares without voting rights, all with a par value of 1.00 (one) each.

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## DOCUMENTATION

The report prepared by the Board of Directors on the agenda items, the "Annual Financial Report" and the "Annual Report on Corporate Governance and the Ownership Structure" are made available to the public, pursuant to the law, at the company's registered offices and the offices of Borsa Italiana S.p.A. in addition to the company's website www.gruppoIren.it) which also provides information on the composition of the share capital and the limitations set by the articles of association in regard to ownership of Iren shares.

Shareholders may obtain a copy of the documentation by requesting it from the corporate affairs department via fax at number 011-703563 or via e-mail to: affarisocietari@gruppoIren.it.

30 March 2011

The Chairman of the Board of directors
(Mr. Roberto Bazzano)

# KEY FIGURES OF THE IREN GROUP

| | 2010 Pro forma | 2009 Pro forma | % Change | 2010 |
|---|---|---|---|---|
| **Income statement figures** *(millions of euro)* | | | | |
| Revenue | 3,381 | 3,273 | 3.3 | 2,829 |
| Gross operating profit | 603 | 564 | 7.1 | 496 |
| *Operating profit* | 339 | 312 | 8.4 | 287 |
| Profit before tax | 290 | 193 | 50.5 | 239 |
| Consolidated profit for the year | 186 | 50 | (*) | 150 |
| **Statement of financial position figures** *(millions of euro)* | *At 31/12/2010* | *At 31/12/2009 pro-forma* | | *At 31/12/2010* |
| Net invested capital | 4,342 | 3,976 | 9.2 | 4,342 |
| Equity | 2,082 | 1,920 | 8.4 | 2,082 |
| Net financial position | (2,260) | (2,056) | 9.9 | (2,260) |
| **Financial/economic indicators** | *2010 pro-forma* | *2009 pro-forma* | | *2010* |
| GOP/Revenue | 17.84% | 17.23% | | 17.54% |
| Debt/Equity | 1.08 | 1.07 | | 1.08 |
| **Technical and trading figures** | *2010 pro-forma* | *2009 pro-forma* | | |
| Electrical energy sold (GWh) | 14,567 | 14,573 | (0.04) | |
| Heat energy produced (GWht) | 2,754 | 2,461 | 11.9 | |
| District heating volume (mln $m^3$) | 66 | 63 | 4.6 | |
| Gas sold (mln $m^3$) | 3,132 | 2,910 | 7.6 | |
| Water distributed (mln $m^3$) | 188 | 193 | (2.4) | |
| Waste handled (tons) | 1,005,468 | 934,806 | 7.6 | |

(*) Change of more than 100%

Iren is a multiutility company listed on the Italian Stock Exchange which was established on 1 July as a result of the merger of Iride and Enìa. It operates in the sectors of electricity (production, distribution and sale), heat (production and sale), gas (distribution and sale), integrated water services, environmental services (collection and disposal of waste) and services for public administrations.

Iren is structured as an industrial holding company and its registered offices are in Reggio Emilia, while it maintains operating branches in Genoa, Parma, Piacenza and Turin and companies which handle individual lines of business. Thanks to its significant production assets, the investments made and the leadership attained in all areas of business, together with its territorial rooting, Iren is currently the second largest multiutility group in Italy.

The holding company handles strategic, development, coordination and control activities, while the five operating companies ensure the coordination and development of business lines pursuant to the guidelines set forth below:

- Iren Acqua Gas integrated water services;
- Iren Energia production of electricity and heat and provision of technological services;
- Iren Mercato sales of electricity, gas and district heating;
- Iren Emilia gas, waste collection, waste management and treatment and the management of local services;
- Iren Ambiente design and management of waste collection and processing plants as well as management of the production plants for district heating in the Reggio Emilia area.

**Production of electrical energy:** Thanks to a considerable number of electrical and thermal energy plants for district heating production, an overall electric production capacity of over 7,400 GWh/year, including the portion ensured by Edipower.

**Gas Distribution:** Through its 8,800 km long network, Iren serves over a million customers.

**Distribution of electrical energy:** With over 7,200 km of medium and low voltage networks, the Group distributes electrical energy to over 710,000 customers in Turin and Parma.

**Integrated water service:** With 13,900 km of aqueduct networks, 7,868 km of sewerage networks and 813 treatment plants, Iren provide services to over 2,400,000 residents.

**Waste management:** With 122 equipped ecological stations, 2 waste-to energy plants and 2 landfills, the group serves 111 municipalities with over 1,200,000 residents.

**District heating:** With over 700 km underground networks with double piping, the Iren Group provides heat of over 66 million $m^3$ to a population exceeding 550,000 persons.

**Sales of gas, electrical energy and thermal energy:** The group currently sells over 3.1 billion $m^3$ of gas, more than 12,000 GWhe of electrical energy and 2,840 GWht of heat for district heating through the network.

# COMPANY OFFICERS

## Board of Directors

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

## Board of Statutory Auditors

| | |
|---|---|
| Chairman | Aldo Milanese |
| Standing auditors | Lorenzo Ginisio |
| | Giuseppe Lalla |
| Supplementary auditors | Massimo Bosco |
| | Emilio Gatto |

## Manager in charge of financial reporting

Massimo Levrino

## Independent Auditors

KPMG S.p.A.

(1) (2) (3) (4) Members of the Executive Committee
(5) Member of the Remuneration Committee
(6) Chairman of the Remuneration Committee
(7) Member of the Supervisory Body
(8) (11) Member of the Internal Control Committee
(9) Chairman of the Supervisory Body
(10) Member of the Remuneration Committee and the Supervisory Body
(12) Chairman of the Internal Control Committee


## MISSION AND VALUES OF THE IREN GROUP

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

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

# LETTER TO THE SHAREHOLDERS

Dear Shareholders,

Despite the general economic environment which is still suffering, your company reached significantly positive results in 2010: consolidated revenue of euro 3,381 million, up by 3% compared to 2009, EBITDA of euro 603 million, up by 7% and profit of euro 178 million, up by 23%.

2010 was a very significant year for your company during which the merger between Iride S.p.A. and Enìa S.p.A. was concluded, thus giving rise to one of the major multiutility groups and the only one present in several regions and with completely eco-friendly energy production.
The Iren Group has a significant position domestically in each of its areas of business, a balanced mix of regulated and liberalized activities and a strong integration between its upstream and downstream energy activities.
Thanks to its production assets, the investments made and under way and its roots in the territory, Iren is currently one of the major multiutility groups able to satisfy in an efficient way the energy needs of citizens and businesses, improve its own performance in the distribution and processing of water, increase the services offered to its customers, and develop new initiatives in the renewable resources area while making significant investments in processes and plants for the treatment and disposal of waste.
Just a few months from its establishment, the Iren Group presented to the financial community its new business plan for 2011-2015 which summarizes the development activities and the sectors in which the Group maintains a significant competitive advantage, these being the water, environment and district heating areas, which will make it possible to reap the opportunities offered as the market evolves. In the liberalized sectors, the Group aims to increase its current base of final customers for energy (gas and electricity) and to optimize its portfolio of gas procurement and generation.
Based on these strategic lines, the Iren Group expects considerable industrial and economic growth.

There has been important progress in your company's business development activities. With regard to energy production, the upgrading of the Valle Orco hydroelectric plants was completed and the construction of the new Torino Nord power plant (400 MW of electric power and 220 MW of thermal power) which will reinforce the Iren Group's leadership position in cogeneration combined with urban district heating, while concurrently providing significant benefits in terms of energy savings (95,000 TOE saved) and improvement in air quality, in line with the sustainable development principles that characterized the Group.

In the commercial area, the objective of building loyalty and increasing the customer portfolio involved promotion of electrical energy and gas contracts throughout the reference area and the development of a range of offers able to satisfy the requirements of the various customer segments.
In the area of energy procurement, the Group intensified its activities by diversifying the imports by country and contractual form (long term and spot) while finalizing the Livorno regasification terminal, thereby completing the laying of the land link pipeline. The terminal will allow procurement of liquefied gas (LNG) and therefore further diversification of the sources and technologies within an industry that is now subject to frequent changes.

Positive developments took place also in the area of renewable energy for the realisation of photovoltaic plants in the reference territory with a total capacity exceeding 4 MW, a 5 MW photovoltaic park in Puglia and the construction of a 1 MW micro hydro plant on the Secchia river.

In the water sector, the Iren Group completed a project for the concentration and development of a portion of its activity through its partnership with F2i in Mediterranea delle Acque which will allow for optimization of the Financial Resources required to sustain the growth as provided in the Business Plan.
In 2010, your company made significant investments aimed mainly at developing the networks, reducing water losses, upgrading energy efficiency and improving the treatment and purification plants to ensure environmental compatibility with the standards set by european directors, the Environmental Plans and the improvement objectives defined by the Iren Group, in line with its own standards of social and environmental responsibility.

In the environmental area, the Polo Ambientale Integrato (Integrated Environmental Hub) was completed in Parma. This is an industrial site dedicated to the treatment and disposal of waste which, together with the activity involving the upgrading of differentiated collection, will provide for the province of Parma with a fundamental step toward self sufficiency in waste management.
In 2010, the expansion of collection over the territory and home collection systems made it possible to reach separate waste collection of 55.4% in the area served, with a leading position domestically.

The investments made by the Iren Group in 2010 amount to euro 536 million, involving development of the various sectors of our activity and represent a major contribution to the structural and service development in the territories in which the Group operates.

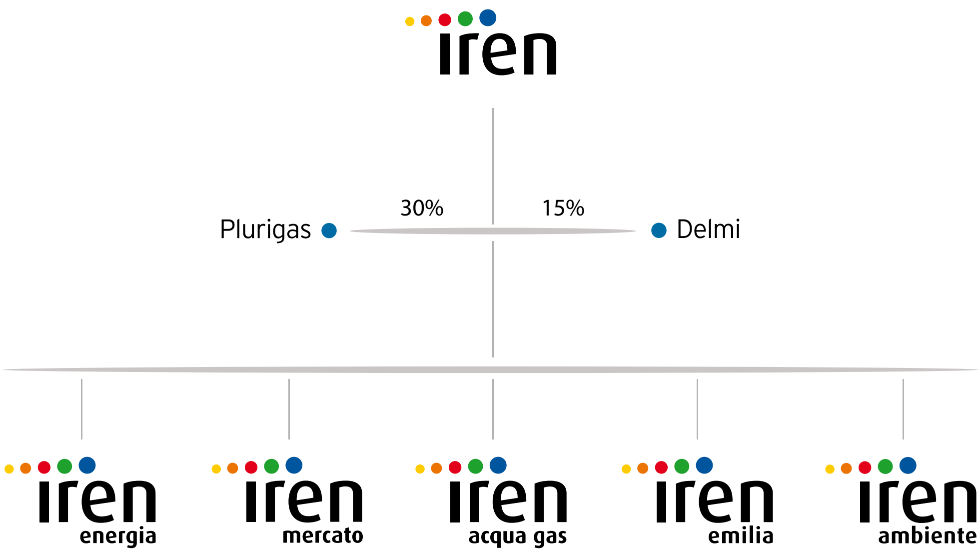
The results achieved were made possible by an ever increasing focus on rationalization and internal synergies as well as the commitment and professionalism of all our employees, to whom I would like to express, on behalf of the entire Board of Directors, our most heartfelt thanks.

The Chairman of the Board of directors
Mr. Roberto Bazzano

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

# Directors' Report
at 31 December 2010

# IREN GROUP: CORPORATE STRUCTURE




The major equity investments of Iren Holding are shown in the chart above.

## IREN ENERGIA

### Production of cogeneration electrical and heat energy

Iren Energia's installed capacity totals approximately 2,300 MW, of which around 1,400 MW is generated directly and around 900 MW through Edipower and Energia Italiana. Specifically, Iren Energia owns 20 electrical energy production plants: 12 hydroelectric plants and 8 thermoelectric cogeneration plants, for a total capacity of 1,400 MW of electrical energy and 1,800 MW of heat energy, of which 700 MW through cogeneration. All primary energy sources used – hydroelectric and cogeneration sources – are completely eco-compatible. The hydroelectric production plant plays a particularly important role in environmental protection, as it uses a renewable and clean resource which does not emit pollutants. Hydroelectric energy reduces the need to turn to other forms of production that have a greater environmental impact. Environmental protection is a corporate priority for Iren Energia which has always maintained that the development of hydroelectric production systems, in which it invests heavily each year, is one of the main ways to protect the environment. Iren Energia's total heat capacity is equal to 1,800 MWt, of which 40% is generated by Group-owned cogeneration plants, while the remainder comes from conventional heat generators. The annual heat production was in the region of 2,754 GWht in 2010, with district heating volumes of approximately 66 million cubic metres. Iren Energia currently has numerous investments in the hydroelectric and cogeneration sectors, aimed at strengthening its position as an energy producer. These investments will result in an increase of approximately 370 MW in installed capacity, from the current 2,300 MW.

### Distribution of electrical energy to non-eligible customers

Through its subsidiary, AEM Torino Distribuzione, Iren Energia distributes electrical energy to the entire metropolitan areas of Turin and Parma (around 1,085,000 residents). In 2010, the electrical energy distributed was equal to around 4,282 GWh, of which 3,365 GWh in Turin and 917 GWh in Parma.

### Services to Local Authorities and Global Service

Iride Servizi, which is controlled by Iren Energia, provides Turin with street lighting services, traffic light management, heating and electrical systems management in municipal buildings, and the global technology service management of the Turin Court House.
The electronic infrastructures and connections in the cities of Turin and Genoa are managed by the subsidiaries AemNet and SasterNet, respectively.

### District heating

The district heating and gas distribution activities in the capital of the Piedmont region are performed by AES Torino (51% owned by Iren S.p.A.), which owns one of Italy's most extensive district heating networks (approximately 400 km of double piping in 2010). In 2010, the gas network extended over 1,327 km, serving approximately 500,000 end customers.
Following the merger with Enìa, Iren Energia also holds the district heating network of Parma, Reggio Emilia and Piacenza which covers approximately 293 km.
Finally, Nichelino Energia which was established jointly with Iren Energia (which holds a 62% shareholding), Iren Mercato (5%) and AES Torino (33%), aims to develop district heating in the city of Nichelino.

## IREN MERCATO

Through Iren Mercato, the Group operates in the electrical energy, gas and heat marketing sector, acts as fuel provider to the Group, performs energy efficiency certificates, green certificates and emission trading, provides customer management services to Group companies and supplies heat services and heat sales through the district heating network.
Commercial activities on the free market are implemented both directly and through business investments in local trading companies mainly located in the northwest and the Tyrrhenian area.
The main sources of electricity available for Iren Mercato operations are the thermoelectric and hydroelectric plants of Iren Energia S.p.A. and, through tolling agreements; furthermore, Iren Mercato receives 10% of the electrical energy from Edipower plants.
At 31 December 2010, the retail gas customers managed directly by Iren Mercato amounted to approximately 741,000, while the electrical energy retail customers managed were approximately 657,000.

### Sale of natural gas

Total volumes of natural gas procured in 2010 were approximately 3,132 million cubic meters of which approximately 1,946 million cubic meters were sold to customers outside the Group, 185 million cubic meters were used in the production of electrical energy for tolling contracts with Edipower and 1,001 million cubic meters were used within the Iren Group both for the production of electrical and thermal energy and for the provision of heating services.

### Sale of electrical energy

The volumes sold in 2010, net of distribution losses, amounted to 14,567 GWh.

Following is a cluster analysis of end customers.

### Free market and stock exchange

Total volumes sold to end customers and wholesalers amount to 8,646 GWh, while the volumes used on the stock exchange amounted to 5,922 GWh.
With regard to procurement, in 2010, the Iren Group internal sources (Iren Energia, Tirreno Power) amounted to 5,799 GWh while volumes coming from Edipower tolling amounted to 1,515 GWh. Recourse to the IPEX market amounted to 5,119 GWh while supplies from wholesalers amounted to 1,388 GWh.

### Former non-eligible market

Total customers managed by Iren Mercato in the higher protection segment were around 443,000.
Overall volumes sold during the year amounted to 1,278 GWh.

### Sale of heat through the district heating network

Iren Mercato manages the sale of heat to customers who receive district heating from the municipality of Genoa through the CAE, Turin, Nichelino and in the provinces of Reggio Emilia, Piacenza and Parma.
This entails the supply of heat to customers already on the district heating network, the management of customer relations and the control and management of the substations that supply power to the thermal plants in the buildings served by the network. The heat supplied to customers is provided by Iren Energia S.p.A..

At the end of 2010, the customer portfolio managed in the Piedmont area increased to reach a total volume of district heating that exceeded 43 million $m^3$, which corresponds to over 430,000 residents or 40% of Turin residents, while in the Emilia area the district heating volumes amounted to approximately 17.6 million cubic metres.

### Heat service management

During 2010, developments continued in relation to the Energy Service Contracts, particularly those targeting the private jointly-owned property sector.
The contract with the Liguria Regional Government is also operative with regard to the management of energy services in hospitals and health authority premises in which, through CAE (Global Services) and the Climatel and OCCLIM specialist companies, the company has managed a number of important operational management and maintenance contracts. Iren Mercato is the supplier of the energy services of this enterprise. A similar initiative was launched with A2A in the Lazio region ATI.

## IREN ACQUA GAS

### Integrated Water Services

First-level company Iren Acqua Gas, directly and through the operating subsidiaries Mediterranea delle Acque and IdroTigullio and through the investee Am.Ter, manages the water services in the provinces of Genoa, Parma and Reggio Emilia.
In particular, it assumed from July 2004 the role of market operator for the Genoa District and from 1 July 2010, the management of the water division for the Reggio Emilia and Parma areas was granted to Iride Acqua Gas as part of the Iride-Enìa merger.

The water services reform introduced in Italy by the Galli Law consists of essentially two principles: the overcoming of fragmentation of operators and the implementation of integrated systems, which would include the entire water cycle, from captation, to distribution, collection, treatment and disposal, until water is returned to the environment again. Through its own structure, Iren Acqua Gas reaches through its managed ATOs [Ambito Territoriale Ottimale] (Genoa, Reggio Emilia and Parma) a total of 128 municipalities serving over 1.7 million residents.
In 2010, Iren Acqua Gas sold approximately 164 million cubic meters of water (pro forma figure for 2010) in the areas it manages, through a distribution network spanning over 9,400 km. In regard to waste water, it manages a sewerage network spanning approximately 5,400 km.

IdroTigullio manages the integrated water service in the Levante area of the Genoa ATO through 464 km of aqueduct networks with 453 km of sewerage networks, 7 medium-sized treatment plants and another 34 minor plants.

AmTer manages the integrated water service in the Ponente area of the province of Genoa for a total of 316 km of aqueduct networks, 140 km of sewerage networks and 4 water treatment plants.

### Gas Distribution

Through its subsidiary Genova Reti Gas, Iren Acqua Gas distributes methane gas in the municipality of Genoa and in another 19 surrounding municipalities, for a total of around 350,000 end customers. The distribution network comprises about 1,800 km of network of which about 418 km is medium pressure and the rest low pressure. The area served covers around 571 sq. km and is characterised by an extremely complex chorography with considerable changes in altitude. Natural gas arriving from the domestic transport pipelines transits through seven interconnected reception cabins owned by the company and is introduced into the local distribution network. Thanks to innovative technologies for the laying and maintenance of networks, ordinary maintenance can be performed while reducing time, costs and inconvenience, for residents, to a minimum.
The distribution service is also provided to the Grosseto basin through subsidiary Gea S.p.A..
Through its subsidiaries Iren Acqua Gas has distributed 447 million cubic meters of gas during 2010.

### Special technological services/research

Through its Saster and SasterPipe Divisions, Genova reti Gas S.R.L is able to offer the market engineering services of the networks (IT, modelling, simulation) and upgrading of technological networks with no dig technologies, of which the company holds an exclusive know-how. In order to specially promote and organise scientific and cultural initiatives aimed at safeguarding environment and water resources, and at managing at best network services, in 2003 the Fondazione AMGA Onlus was also created. The corporate business is aimed at promoting and implementing research, training and information projects, as well as supporting actions carried out by other entities as to environmental safeguard and organisation of public utility services.

## IREN EMILIA

Iren Emilia operates in the gas distribution, waste collection and waste management sectors and coordinates the activities of Emilia Romagna territorial companies for the management of the integrated water cycle, electricity and district heating networks and other minor businesses (public lighting, management of public parks, etc).

Iren Emilia manages the distribution activity for natural gas in 71 of the 140 municipalities of the provinces of Reggio Emilia, Parma and Piacenza. The company manages over 5,700 km of high, medium and low pressure distribution networks with a maximum collection capacity from the national transport network of 726,879 SCMH.

Iren Emilia carries out its activity in the waste management area within the provinces of Piacenza, Parma and Reggio Emilia for a total of 112 municipalities in the area, serving 1,109,000 residents. Being aware of the importance of preserving the environment and sustainable development, Iren Emilia has activated differentiated capillary waste collection systems which, thanks also to the management of over 122 equipped ecological stations, have made it possible for the area served to obtain results in excess of 55% of the fraction of differentiated waste sent for recovery for transformation into raw materials.

In particular, the company collects urban waste, performs street and sidewalk cleaning, snow clearing and cleaning and maintenance of parks and green areas. Through Iren Ambiente, a company belonging to the Iren Group, it ensures that waste collection takes place in such a way as to preserve and safeguard the environment and studies the aspects of the waste collection problem, increasing its knowledge and the development of technologies that are more innovative and "environmentally safe" than existing ones.

It also carries out operations management of the integrated water cycle (aqueduct, purification and sewerage) in the provinces of Parma, Piacenza and Reggio Emilia. This activity refers to a total network of 11,416 km of aqueduct networks, 6,075 km of sewerage networks, 3,379 wastewater pumping systems and 735 purification plants.

The operations management of the district heating network is carried out in the cities of Reggio Emilia, Parma and Piacenza and refers to a total network spanning 293.5 km that serves a volume of 17.6 million cubic meters. Operations management of the electrical energy distribution network is carried out in the city of Parma for 2,320 km of network and 122,830 delivery points to end customers.

## IREN AMBIENTE

### Waste Management sector

Whether directly or through investees, Iren Ambiente operates in the collection, treatment, storage, recovery and recycling of urban and special waste, energy recovery (heat and electrical energy) through waste to energy transformation and the operation of plants for the production of bio gas in the provinces of Parma, Reggio Emilia and Piacenza. Iren Ambiente manages a significant customer portfolio to which it provides services for the disposal of special waste and it provides treatment, selection, recovery and final disposal of urban waste collected by Iren Emilia S.p.A..
The undifferentiated portion of waste collected is disposed of in various ways as part of the investigation for the best use of the waste through an industrial process involving mechanical selection so as to reduce the portion destined to waste to energy conversion and disposal in landfills. Iren Ambiente handles over 900,000 tons of waste per year within 12 treatment, selection and storage plants, 2 waste to energy plants (Piacenza and Reggio Emilia), 1 landfill (Poiatica - Reggio Emilia) and 2 composting plants (Reggio Emilia). The Parma Integrated Environmental Hub (IEH) is currently under construction and its deployment is forecasted in 2012. This hub provides for a selection and waste to energy plant.

### Production of electrical energy from renewable sources

Iren Ambiente is active also in the production of electrical energy from renewable sources through various projects focused mainly on the photovoltaic sector. A 5 MW plant has been constructed in Puglia (through the subsidiary Enia Solaris) as well as a 1 MW plant which covers the requirements of a company building and another 29 lower capacity plants installed in headquarters of companies and municipal buildings. A marketing operation in the photovoltaic sector under the brand "Raggi & Vantaggi" [rays and advantages] (consisting of 50 plants contractualized and realized during the year) was developed successfully from subsidiary Iren Rinnovabili S.r.l..
Furthermore the construction of the 1 MW hydroelectric plant located in the municipality of Baiso (RE) was completed.
With regard to products in the wind energy sector, during the year the wind measurement recordings were completed in the Apennine area and in 2011 the request will be submitted for authorization of a 6 MW wind farm. Particular attention was paid also to the development of a business model for promotion of initiatives in the biogas and biomethane sectors.

### Management of district heating plants

Iren Ambiente also operates, on the basis of specific contracts with Iren Energia S.p.A., in the district heating sector for the operation and extraordinary maintenance of thermal and cogeneration plants in the three provinces of Emilia Romagna: Parma, Reggio Emilia and Piacenza.

# INFORMATION ON THE IREN SHARE IN 2010

## Iren share performance on the Stock Market

During 2010, the financial markets were characterized by a negative trend within the international financial scenario which was worsened by the financial crisis of certain european sovereign states (mainly Greece, Spain and Ireland) which led governments in the Euro zone to implement measures to contain the debt.

Furthermore, no definite signs of recovery were visible during the year in the real economy: the weakness in the demand together with the oversupply situation in the energy sectors where the main features of the negative trend for multiutilities that were exposed consistently to the liberalized energy sectors, with significant impacts also to their shares on the stock exchange.

The Iren share began trading on 1 July 2010, the effective date of the merger between Iride and Enìa, that is from the time Enìa shares were exchanged for Iride shares and the latter changed its name to Iren.

The Iren share at the end of December 2010 was trading at euro 1.25 per share, down 7.4% compared to its value at the beginning of the year, with volumes that amounted to approximately 1.4 million shares daily.

In the same period, the average price per share was euro 1.31 after bottoming out at euro 1.12 per share on 30 November 2010 and reaching a high point of euro 1.53 per share on 22 April 2010.

## Stock Exchange Data

| | euro/share in the first nine months of 2010 |
|---|---|
| Average price | 1.31 |
| Maximum price | 1.53 |
| Minimum price | 1.12 |
| Number of shares ('000) | 1,276,226 |

## Price performance and volumes of the Iren share

The shares of the major comparable multiutility companies also posted a negative performance for the period except for Acea, while the FTSE Italia All Share index was down 5.6%.

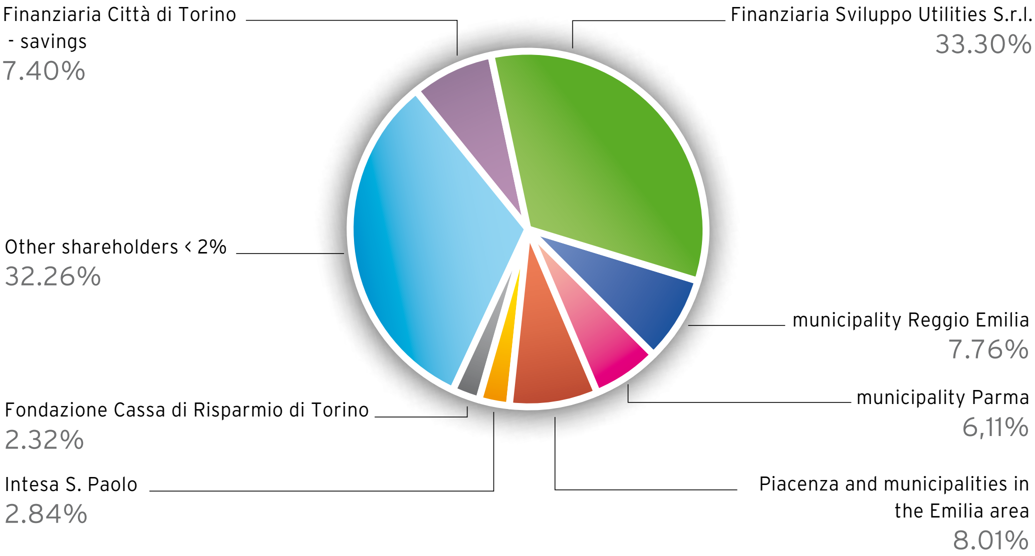

### Share coverage

The Iren Group is currently handled by eight brokers: Banca IMI, Banca Leonardo, Centrobanca, Cheuvreux, Equita and Intermonte while Mediobanca and Deutsche Bank were added to this list in July 2010. Furthermore, the shares visibility was supported by intense financial communication activity starting in July, with the investor relations team going on a roadshow to the major European and U.S. stock exchanges to meet approximately ninety institutional investors.

## SHAREHOLDING STRUCTURE

At 31 December 2010, based on information available to the company, the shareholding structure of Iren was as follows:

### Iren S.p.A. Shareholding Structure
(% of total share capital)

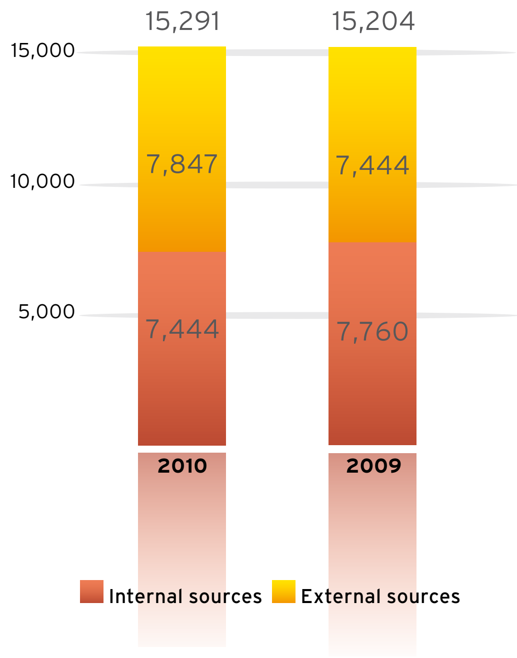


# OPERATING FIGURES

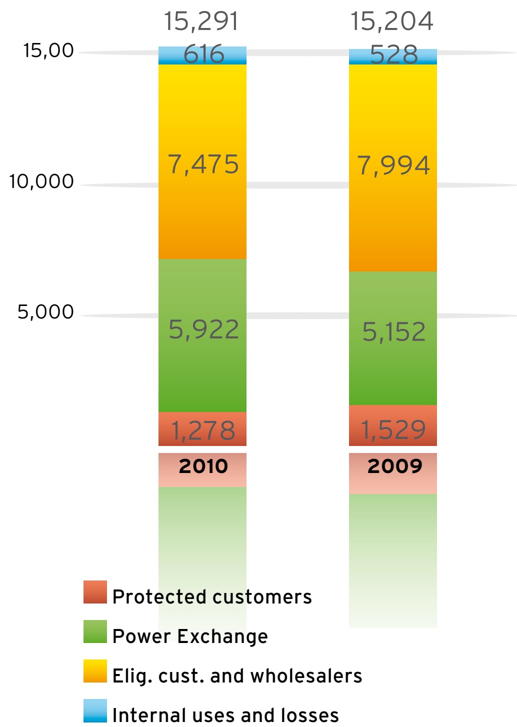
## ELECTRICAL ENERGY PRODUCTION

| GWh | 2010 pro-forma | 2009 pro-forma | % Change |
|---|---|---|---|
| SOURCES | | | |
| Gross production | 7,444 | 7,760 | (4.1) |
| *a) Thermoelectric* | 4,446 | 4,058 | 9.5 |
| *b) Hydroelectric* | 1,016 | 1,280 | (20.7) |
| *c) WTE plants production* | 130 | 122 | 5.9 |
| *d) Edipower plants production* | 1,515 | 1, 910 | (20.7) |
| *e) Tirreno Power plants production* | 338 | 389 | (13.2) |
| Purchases from the Single Buyer | 1,341 | 1,644 | (18.4) |
| Energy purchased on the Power Exchange | 5,119 | 3,999 | 28.0 |
| Energy purchased from wholesalers and imports | 1,388 | 1,800 | (22.9) |
| **Total sources** | **15,291** | **15,204** | **0.6** |
| APPLICATION | | | |
| Sales to protected customers | 1,278 | 1,529 | (16.4) |
| Sales on the Power Exchange | 5,922 | 5,152 | 14.9 |
| Sales to eligible end customers, wholesalers and others | 7,475 | 7,994 | (6.5) |
| Pumping and distribution losses | 616 | 528 | 16.6 |
| **Total application** | **15,291** | **15,204** | **0.6** |

Breakdown of sources




Breakdown of applications

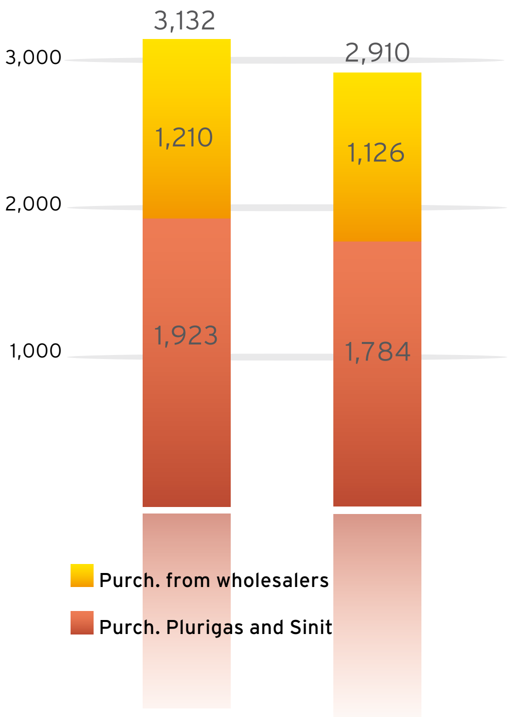


## GAS PRODUCTION

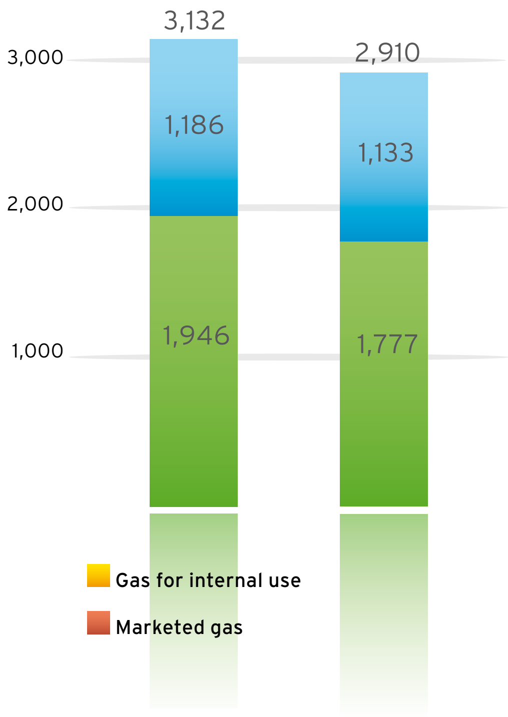
| millions of cubic metres | 2010 pro forma | 2009 pro forma | % Change |
|---|---|---|---|
| SOURCES | | | |
| Purchases (Plurigas and Sinit) | 1,923 | 1,784 | 7.8 |
| Purchases (other wholesalers) | 1,210 | 1,126 | 7.4 |
| **TOTAL SOURCES** | **3,132** | **2,910** | **7.6** |
| APPLICATION | | | |
| Gas marketed by the Group | 1,946 | 1,777 | 9.5 |
| Gas for internal use (*) | 1,186 | 1,133 | 4.7 |
| **TOTAL APPLICATION** | **3,132** | **2,910** | **7.6** |

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

Breakdown of sources




Breakdown of applications




## NETWORK SERVICES

| | 2010 pro forma | 2009 pro-forma | % Change 2010 - 2009 |
|---|---|---|---|
| **ELECTRICAL ENERGY DISTRIBUTION** | | | |
| Electrical energy distributed (GWh) | 4,282 | 4,242 | 0.9 |
| No. of electronic meters | 655,446 | 579,800 | 13.0 |
| **GAS DISTRIBUTION** | | | |
| Gas distributed by AES Torino (mln $m^3$) (*) | 704 | 656 | 7.3 |
| Gas distributed by Iren Acqua Gas (mln $m^3$) | 447 | 408 | 9.5 |
| Gas distributed by Iren Emilia (mln $m^3$) | 1,051 | 971 | 8.2 |
| Total Gas distributed | 2,202 | 2,035 | 8.2 |
| **DISTRICT HEATING** | | | |
| District heating volume (mln $m^3$) | 66 | 63 | 4.6 |
| District heating network (Km) | 704 | 659 | 6.8 |
| **INTEGRATED WATER SERVICE** | | | |
| Water volume (mln $m^3$) | 188 | 193 | (2.4) |

(*) AES Torino 51%

# MARKET CONTEXT

## ELECTRICAL ENERGY

In the period from January to December 2010, net electrical energy production in Italy totalled 286,531 GWh, a slight increase (+1.9%) compared to the same period of 2009. The demand for electrical energy, equal to 326,165 GWh (+1.8%), was 87.8% met by domestic production (+1.9%), with the remaining 12.2% coming from energy imports (-3.7%). At the domestic level, thermoelectric production was 222,157 GWh, an increase of 2.7% over 2009 and covered 77.5% of demand. Production from hydroelectric sources was 49,369 GWh (-7% compared to 2009) covering 17.2% of demand, whilst geothermal, wind and photovoltaic energy production amounted to 15,005 GWh (+23.2%) and met 5.2% of demand.

### Accumulated demand and supply of electrical energy

(GWh and changes in trends)

| | to 31/12/2010 | to 31/12/2009 | changes % |
|---|---|---|---|
| **Demand** | **326,165** | **320,268** | **1.8%** |
| *-Northern Italy* | 149,335 | 145,568 | 2.5% |
| *-Central Italy* | 94,904 | 94,855 | 0.1% |
| *-Southern Italy* | 48,517 | 46,563 | 4.0% |
| *-Islands* | 33,409 | 33,282 | 0.4% |
| **Net production:** | **286,531** | **281,107** | **1.9%** |
| *- Hydroelectric* | 49,369 | 52,844 | -7.0% |
| *-Thermoelectric* | 222,157 | 216,087 | 2.7% |
| *-Geo-thermoelectric* | 5,031 | 5,015 | 0.3% |
| *-Wind and photovoltaic* | 9,974 | 7,161 | 39.3% |
| **Foreign balance** | **33,607** | **34,845** | **-3.7%** |

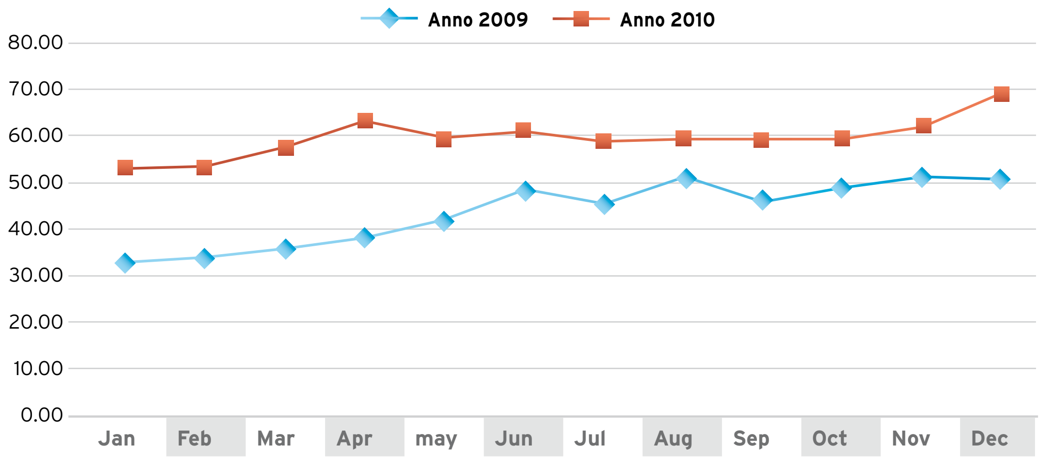
Source: RIE processing using TERNA data

In 2010, there was a recovery in the demand for electricity compared to the previous year, especially insofar as the period from January to July (plus 2.5%). Conversely, August and September suffered a drop compared to the same period in 2009 (respectively -2.5% and -1.6%). In 2009, there was a significant drop in demand for electricity (-5.7% compared to 2008) concentrated especially in the first seven months of the year (-7.6%). Overall, the demand for electrical energy on the domestic network increased annually to a level slightly below the November figure (plus 1.7%).
With regard to sector consumption, we note that in 2009 the contraction and the demand compared to the previous year was due to a significant drop in industry that translated into an annual reduction of -13.8%, while the service sector was up (1.3%) as was the domestic sector (0.8%) and the agricultural sector was practically stationary (-0.3%). The main areas responsible for the increase in demand in 2010 were Northern Italy (+ 2.4%) and Southern Italy (+ 4.2%), while the figures for Central Italy and the islands are essentially in line with those for 2009. The recovering consumption mainly involves the industrial sector and the growth in the service and domestic sectors.

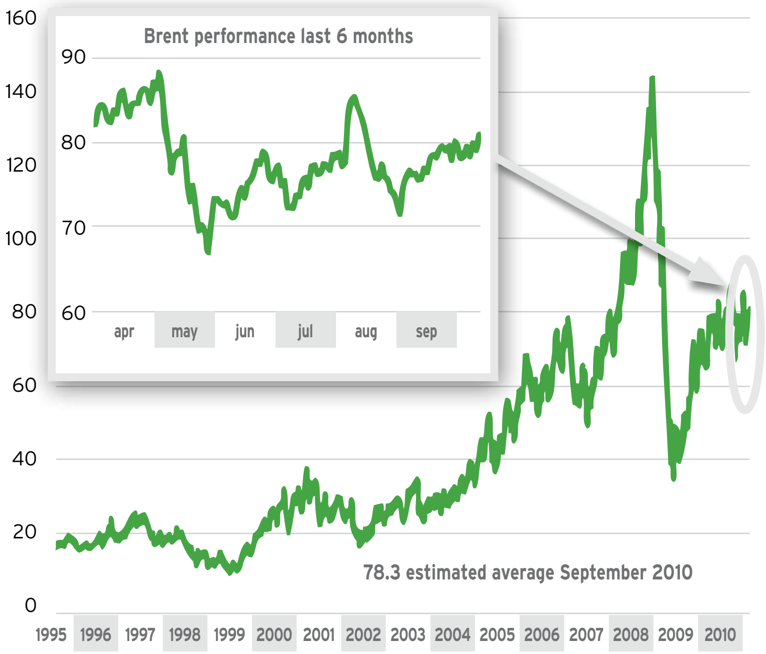
In 2010, the average price of crude oil was $/bbl 79.47, showing an increase compared to the same period of 2009 (+27%). The average €/$ was 1.33 down by 0.06 compared to the average for the same period in 2009. Due to these dynamics, the average crude oil price in euro was € 59.95 per barrel in 2010, +34% higher than the average price for 2009.

2010 was characterized by significant intra-month volatility in the prices of Brent Dated, while the average monthly figures do not show significant fluctuations but a trend towards a moderate increase. The increase became significant mainly starting from October, when the prices which were up to that moment characterized by uncertain dynamics, collected a series of three consecutive raises that led them to exceed 91 dollars per barrel in December, confirming the expectation expressed by operators at the end of 2009 and realigning with 2007 levels.

## Brent performance (€/bbl)



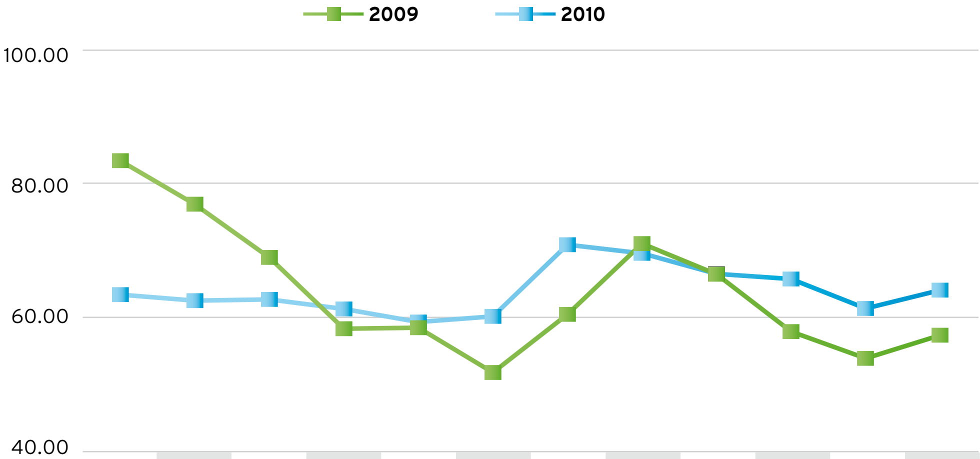

## Performance of Dated Brent




Source: Rie on Platts data

In 2010, the average purchase price of electrical energy on the Power Exchange was equal to 64.02 €/MWh, up by 0.26 €/MWh (+0.4%) compared to the same period in 2009.

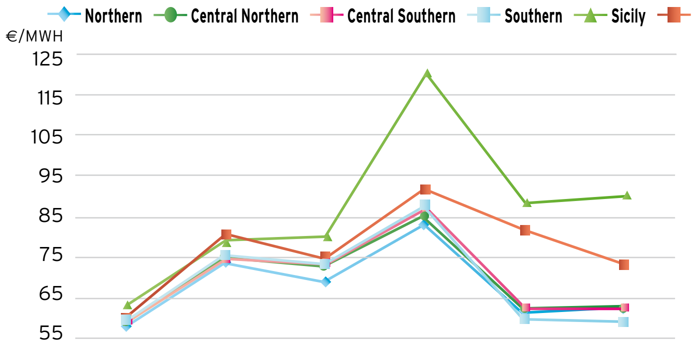
## Average purchase price on the stock exchange (MGP)
## Single National Price (PUN)

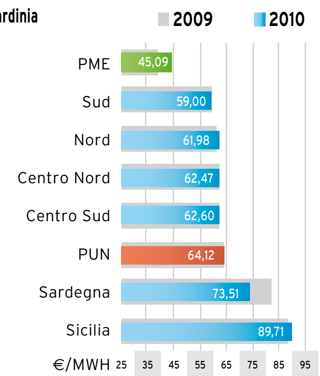



| Jan | Feb | Mar | Apr | May | jun | Jul | Aug | Sep | Oct | Nov | Dec |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 83.45 | 76.95 | 69.00 | 58.36 | 58.51 | 51.82 | 60.50 | 71.07 | 66.49 | 57,63 | 53.93 | 57.39 |
| 63.45 | 62.55 | 62.73 | 61.31 | 59.36 | 60.20 | 70.90 | 69.91 | 66.55 | 65.78 | 61.38 | 64.12 |

The sales prices showed dynamics that differed widely between areas: they were up on an annual basis in the *North* and the *South* of Italy (both +6.1%), more or less stable in *Central Southern* and *Central Northern Italy* and down in the two islands (-35.3% in *Sardinia* and -16.7% in *Sicily*). In Southern Italy, the price was at the lowest level at 59 €/MWh; in the continental zones in fluctuated from 61 to 65 €/MWh while it was higher in the two islands: 73.51 €/MWh in *Sardinia* and 89.71 €/MWh in *Sicily*.

## MGP, selling prices




The liquidity of the stock exchange in 2010 dropped by 6.4 percentage points on an annual basis to 62.6% (199.5 TWh), the minimum level since 2007. Conversely, exchanges at the Energy Account Platform increased by 18.6 percentage points to reach 37.4% of the demand for electrical energy (equal to approximately 119.1 TWh). The table below shows a comparison between the futures prices in January compared to those in December, with the changes being minimal as a comparison between the annual futures values of 68.66 €/MWh at the beginning of the year and 68.19 €/MWh as the monthly average in December will show.

| Jan-10 Futures | | Dec-10 Futures | |
|---|---|---|---|
| **Monthly** | **€/MWh** | **Monthly** | **€/MWh** |
| Feb-10 | 62.10 | Jan- 10 | 68.30 |
| Mar-10 | 60.56 | Feb-11 | 67.82 |
| Apr-10 | 59.04 | Mar-11 | 65.77 |
| **Quarterly** | | **Quarterly** | |
| Jun-10 | 60.92 | Mar-11 | 67.45 |
| Sep-10 | 66.72 | Jun-11 | 63.56 |
| Dec-10 | 67.39 | Sep-11 | 70.77 |
| Mar-11 | 69.40 | Dec-11 | 70.78 |
| **Annual** | | **Annual** | |
| Dec-11 | 68.66 | Dec-11 | 68.19 |

Source: RIE on IDEX data

## GAS

After the 8% drop in 2009, 2010 closed with gas consumption of approximately 83 billion cubic metres, up by 6.6% compared to 2009 but lower by 2.0% compared to 2008 and 2007. The no cumulative data by type of collection show that of the overall increase of 5 billion cubic metres, 2.5 billion cubic metres (50%) are due to withdrawals from the distribution plants (up 7.4% compared to 2009) connected mainly to climate variations, 1.2 billion cubic metres (24%) to thermoelectric uses (up 4% compared to 2009) and 1.3 billion cubic metres (26%) to industrial uses (an 11% increase over 2009). Despite the recovery of consumption, thermoelectric and industrial uses have remained considerably below pre crisis levels: the thermoelectric sector shows volumes lower than 2008 and 2007 by -10.9% and -11.5% respectively, while the industrial sector's drops are -7.5% and -13.2% for the same years.

The table below shows the total consumption of natural gas by solar and thermal year.

### Table 2. Consumption of natural gas for the solar year and the thermal year (AT)

**(Gmc and changes)**

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

* Data up to 23 September
Source: data Snam Rete Gas

| Values in ml cm | 2010 | 2009 | 2008 | 2007 | % Change 10/09 | % Change 10/08 | % Change 10/07 |
|---|---|---|---|---|---|---|---|
| Distribution plants | 36,473 | 33,968 | 33,376 | 32,449 | 7.4% | 9.3% | 12.4% |
| Thermoelectric | 29,825 | 28,672 | 33,477 | 33,718 | 4.0% | -10.9% | -11.5% |
| Industrial | 13,472 | 12,133 | 14,560 | 15,514 | 11.0% | -7.5% | -13.2% |
| Third party network and system consumption (*) | 3,033 | 2,909 | 3,114 | 2,854 | 4.3% | -2.6% | 6.3% |
| **Total withdrawn** | **82,803** | **77,682** | **84,527** | **84,535** | **6.6%** | **-2.0%** | **-2.0%** |

(*) includes: transport, exports, transport company redeliveries, reservoir/widening changes, losses, consumption and gas not accounted for.
Source: processing of Snam Rete Gas figures. Final figures to June 2010, non-definitive figures for July-September 2010, pre-actual figures for October - December 2010.

On the offers side, the data indicate an increase in domestic production of 3.6% (an out of trend change compared to the constant long-term drop that characterizes internal production and which came about only following the strong drop in demand in 2009) and an increase in imports of 8.8%. The drop in income in volumes from Passo Gries (-34.9%), due to the interruption of the Transitgas pipeline between summer and autumn, was offset by a significant increase in imports from the Mazara del Vallo entrance point (+ 24%) and the deployment of the Rovigo LNG terminal with 7.1 billion $m^3$ imported.
In Italy, towards the end of December, the import flow through the Transitgas pipeline into the Italian Network through the Passo Gries entrance point (originating mainly from the Netherlands and Norway) was restored. This had been interrupted from 24 July due to a landslide. The blockage which had led the Ministry to ask operators to accelerate filling of their storages as a precaution, by increasing imports from other pipelines and regasification terminals, resulted in pressure on prices in the wholesale market at the end of the summer. As an annual average for 2010, the price on the PSV (Italian Virtual Gas Hub) was €23.3/Mwh (24.7 ceuro/$m^3$), higher by approx. 30% compared to the average for 2009 due to the recovery of the demand and the increases in September/October following the aforementioned interruption of the pipeline operation. Though in December the PSV prices were essentially in line with those of the major hubs in Europe, the average for the year of the Italian exchange was higher compared to the European markets (approximately 5 ceuro/$m^3$).

## DISTRICT HEATING

Many countries in Central and Northern Europe have been using district heating for decades now. Among these are Germany, Denmark, Sweden, Finland and Czechoslovakia which have penetration rates for district heating that are quite high and in many cases close to 50% of the total thermal needs for the civil usage. In general, 48% of the final consumption of energy in the EU 27 was in the form of heat in the year 2007. The heat consumed represents 86% of the final consumption of the domestic sector, 76% of the business, services and agricultural sectors and 55% of industry. In Italy, the status of district heating can be summarized with the following numbers:

| | 2009 | 2008 | 2007 | 2006 |
|---|---|---|---|---|
| total volumes heated (million m3) | 227 | 212 | 198.7 | 177.3 |
| heat energy supplied to users (GWh) | 6,734 | 6,257 | 5,697 | 5,641 |
| length of a distribution network (km) | 2,404 | 2,256 | 2,171 | 1,953 |
| user substations (no.) | 43,202 | 39,505 | 37,048 | 33,315 |
| energy savings (TOE) | 473,325 | 296,575 | 284,000 | 270,306 |
| carbon dioxide emissions avoided (t) | 1,671,731 | 821,516 | 757,000 | 725,844 |

(Source: AIRU – District heating yearbook 2010)

The number of district heated cities in Italy increased from 27 in 1995 to 92 in 2009.
The first Italian City to obtain a district heating system at the beginning of the 1970s was Brescia, followed in the 1980s by Turin which currently has the most extensive district heating network in Italy; good district heating networks exist also in Cremona, Reggio Emilia, Verona, Milan, Forlì, Mantua, Imola, Bologna, Ferrara, Lodi, Bardonecchia, Legnano, Cavalese, Brunico, etc.. The technology is often used to heat public buildings.
The situation of networks being concentrated in Northern Italy for almost all district heated volumes is now virtually set (approximately 219 million cubic metres or 97% of total volume), this concentration extends over six regions: Lombardy, Piedmont, Emilia Romagna, Veneto, Trentino Alto Adige and Valle d'Aosta.
Considering also biomass plants, almost 13 million cubic metres are heated in Trentino Alto Adige, which is therefore in fourth place insofar as regions with district heating.
If considered at the regional level, the relation between district heating volumes and the resident population is the highest in Trentino Alto Adige where the aforementioned ratio is 16 $m^3$/resident, followed by the Piedmont with 13.7 $m^3$/resident.

# SIGNIFICANT EVENTS OF THE YEAR

## ESTABLISHMENT OF IREN S.P.A.

The merger of Enìa into Iride became effective as of 1 July 2010. From this merger, Iren was established. This is the first multiutility company operating at a supra-regional level and the only totally eco-friendly energy producer.
The new Iren Group is one of the market leaders, with a top placement in all business areas: a leading operator in district heating, third operator in the integrated water cycle sector, third in the waste treatment sector, fifth in the gas sector as regards sales to end customers and sixth in the electric energy sector as regards volumes sold.
The business profile of the Iren Group is expressed in the balanced mix of regulated and liberalized activities, as well as in the strong upstream and downstream integration of the value chain.
The Iren Group organisational and business model is characterised by the presence of a listed holding company, Iren S.p.A., that includes five top rated companies operating in the various business segments: Iren Energia (with registered office in Turin), which manages the electrical energy and heat generation and distribution systems, as well as the technological services; Iren Mercato (Genoa), which manages the purchase, trading and sales activities of electrical energy and gas, as well as sales of heat and services; Iren Acqua Gas (with registered office in Genoa), which manages the integrated water services; Iren Ambiente (Piacenza), which manages waste treatment and disposal plants and Iren Emilia (Reggio Emilia), which manages gas distribution as well as waste collection and treatment services.

## FIRST SHAREHOLDERS' MEETING OF IREN S.P.A.

On 27 August, the Shareholders of Iren S.p.A. met for the first time in an extraordinary and ordinary meeting.
In the ordinary session, the shareholders appointed the new Board of Directors of the company which will remain in office for the years 2010/2011/2012 (expiration: the date of approval of the 2012 financial statements).
The 13 members of the new Board of Directors are: Roberto Bazzano (Chairman), Luigi Giuseppe Villani (Deputy chairman), Roberto Garbati (CEO), Andrea Viero (Managing Director), Franco Amato, Paolo Cantarella, Gianfranco Carbonato, Alberto Clò, Marco Elefanti, Ernesto Lavatelli, Ettore Rocchi, Alcide Rosina and Enrico Salza.
In the extraordinary session, the Shareholders amended article nine of the articles of association in order to insert the majority public shareholder limitation to shareholdings, in relation to the commitment assumed by the public shareholders which is set forth in the shareholder agreements (signed on 28 April); thus 51% of the share capital is and shall be held by public shareholders.

### Governance

Following the appointment of the new Board of Directors, the new Executive Committee of Iren S.p.A. was established and is composed of: Roberto Bazzano (Chairman), Luigi Giuseppe Villani (Deputy chairman), Roberto Garbati (CEO), Andrea Viero (Managing Director), to whom the proxies and powers are granted as provided by article 28 of the applicable articles of association. On 30 August, the Board of Directors appointed the Internal Control Committee, the Remuneration Committee and the Supervisory Body which are constituted as follows:
Internal Control Committee: Enrico Salza (Chairman), Alberto Clò and Alcide Rosina, all of whom are independent directors;
Remuneration Committee: Paolo Cantarella (Chairman), Franco Amato and Ernesto Lavatelli;
Supervisory Body: Marco Elefanti (Chairman), Gianfranco Carbonato and Ernesto Lavatelli.

## SAN GIACOMO TAKE-OVER BID ON MEDITERRANEA DELLE ACQUE S.P.A. – MERGER OF MEDITERRANEA DELLE ACQUE S.P.A. INTO SAN GIACOMO S.R.L.

Following the Framework agreement signed on 24 May between Iride Acqua Gas S.p.A. (now Iren Acqua Gas S.p.A.) with F2i Rete Idrica Italiana S.p.A. and F2i SGR S.p.A. for the concentration and development of the water sector operations and the connected establishment of San Giacomo S.r.l. – a subsidiary of the Iren Group and an investee of F2i Rete Idrica Italiana S.p.A., a voluntary total public takeover was initiated by San Giacomo S.r.l. (article 102 of Legislative Decree no. 58 of 24 February 1998, as amended) on Mediterranea delle Acque S.p.A..
Following the completion on 6 August 2010 of the voluntary take-over bid initiated on 5 July 2010, San Giacomo S.r.l. held a total of 96.807% of the ordinary share capital of Mediterranea delle Acque S.p.A and therefore decided to comply with the purchase obligation (pursuant to article 108 Par. 1 of the Consolidated Law on Finance) and to exercise the purchase right (pursuant to article 111 of the Consolidated Law on Finance), through a joint procedure agreed upon with Consob and Borsa Italiana S.p.A..
This procedure was concluded on 18 October, the date on which San Giacomo S.r.l. became the sole shareholder of Mediterranea delle Acque. Consequently, effective from that same day, and pursuant to provision no. 6797 of 11 October 2010, Borsa Italiana S.p.A. ordered the delisting of the Mediterranea delle Acque S.p.A. shares from the Italian Stock Market (Mercato Telematico Azionario Italiano) which is organized and managed by Borsa Italiana S.p.A..
In December, in their meeting, the shareholders of Mediterranea delle Acque S.p.A. and those of the parent and sole shareholder San Giacomo S.r.l. resolved to merge Mediterranea delle Acque S.p.A into San Giacomo S.r.l. through a simplified procedure pursuant to articles 2503, paragraph one, last sentence and 2505 of the Italian Civil Code. The relative merger deed was signed on 23 December and became effective on 31 December 2010.

## IREN GROUP BUSINESS PLAN FOR 2011-2015

On 13 December 2010, the Iren Group presented to the financial community the new business plan for 2011-2015.
For 2011-2015, the Iren Group intends to concentrate its activities for development in the broader environmental and district heating sectors with regard to internal as well as external growth and with a particular focus on the reference territories. These are sectors in which the group maintains a significant competitive advantage and in which it will be possible to reap opportunities offered by the changing environment.
In the liberalized sectors, the group aims to increase its current base of final customers for energy (gas and electricity) and to optimize its portfolio of gas procurement and generation.
The optimization of the cash flows in the gas and electricity and networks completes the framework of the objectives on which the group will focus its growth over the next five years, together with a view to initiating specific partnerships.
The disposal of non strategic assets will make additional resources available to be used according to the business plan.
Based on these strategic lines, the Iren Group expects growth of EBITDA of approximately euro one billion in 2015 (CAGR of 10% per year).
Furthermore, the Business Plan provides for an investment program for the period from 2011 to 2015 of over euro 2.4 billion and accumulated synergies over that period amounting to euro 70 million, 70% of which are expected to be realized within the first three years of the business plan period.
The net financial position estimated at the end of the business plan period is equal to approximately euro 2.5 billion with Net Debt/Ebitda decreasing 2.5 times (3.6 times in 2009), thanks to full equilibrium in regard to cash flows.

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

As explained in detail above, the Iren Group was established on 1 July 2010 through the merger of Enìa into Iride. Below are presented the pro forma income statement, statement of financial position and statement of cash flows for the Iren Group on which the comments regarding the business performance are based.
With regard to the pro forma data, the 2009 consolidated pro forma financial statements were prepared in order to simulate, in accordance with the measurement criteria applied by Iride in the preparation of its own consolidated financial statements and the applicable laws, the effects of the merger on the business performance and financial position of Iride, under the following general rule:

- as concerns the statement of financial position, it is assumed that the extraordinary transaction took place at the end of the reference period of the statement of financial position itself, that is on 31 December 2009;
- for the income statement, it was assumed that the extraordinary transaction took place at the beginning of the period to which the income statement refers, which is 1 January 2009.

At 31 December 2010, the income statement presents the data under the assumption that the non-recurring transaction took place at the beginning of the period to which the income statement refers, that is on 1 January 2010, while the statement of financial position as at 31 December 2010 already reflects the composition of the new Group and therefore has no differences from the pro forma figures.

## INCOME STATEMENT

### Pro forma consolidated income statement of the Iren Group for 2010

Thousands of euro

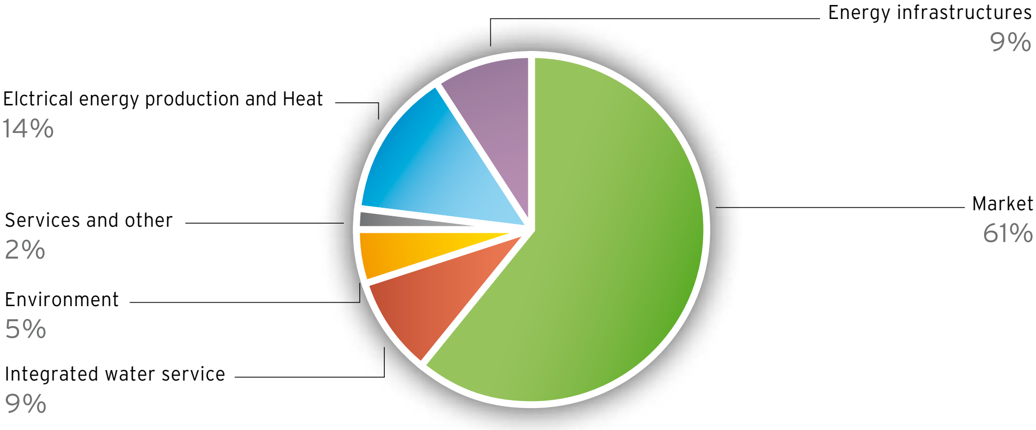
| | 2010 proforma | 2009 proforma | % Change |
|---|---|---|---|
| **REVENUE** | | | |
| Revenue from goods and services | 3,130,702 | 3,056,411 | 2.4 |
| Change in contract work in progress | 1,344 | 574 | (*) |
| Other revenue and income | 248,832 | 215,854 | 15.3 |
| **Total revenue** | **3,380,878** | **3,272,839** | **3.3** |
| **OPERATING EXPENSE** | | | |
| Purchase of raw materials, consumables, supplies and goods | (1,620,894) | (1,616,779) | 0.3 |
| Services and use of third-party assets | (848,752) | (778,073) | 9.1 |
| Other operating expense | (75,722) | (97,111) | (22.0) |
| Capitalised expenses for internal work | 29,967 | 44,262 | (32.3) |
| Personnel expense | (261,985) | (261,471) | 0.2 |
| **Total operating expense** | **(2,777,386)** | **(2,709,172)** | **2.5** |
| **GROSS OPERATING PROFIT** | **603,492** | **563,667** | **7.1** |
| **AMORTISATION, DEPRECIATION AND PROVISIONS** | | | |
| Amortisation/depreciation | (204,177) | (191,877) | 6.4 |
| Provisions | (60,692) | (59,447) | 2.1 |
| **Total amortisation, depreciation and provisions** | **(264,869)** | **(251,324)** | **5.4** |
| **OPERATING PROFIT** | **338,623** | **312,343** | **8.4** |
| **FINANCIAL INCOME** | | | |
| Financial income | 25,826 | 36,129 | (28.5) |
| Financial expense | (86,657) | (162,552) | (46.7) |
| *of which non-recurring* | - | (64,312) | |
| **Net financial expense** | **(60,831)** | **(126,423)** | **(51.9)** |
| Share of profit (loss) of associates accounted for using the equity method | **13,114** | **11,662** | **12.5** |
| Impairment losses on investments | **(440)** | **(4,642)** | **(90.5)** |
| **PROFIT BEFORE TAX** | **290,466** | **192,940** | **50.5** |
| Income tax expense | (106,177) | (149,073) | (28.8) |
| *of which non-recurring* | - | (38,749) | |
| **PROFIT FOR THE PERIOD FROM CONTINUING OPERATIONS** | **184,289** | **43,867** | **(*)** |
| Profit from discontinued operations | 1,740 | 6,077 | (71.4) |
| **PROFIT FOR THE YEAR** | **186,029** | **49,944** | **(*)** |
| attributable to: | | | |
| - owners of the Parent | 177,580 | 42,432 | (*) |
| - non-controlling interests | 8,449 | 7,512 | 12.5 |

(*) Change of more than 100%

## Revenue

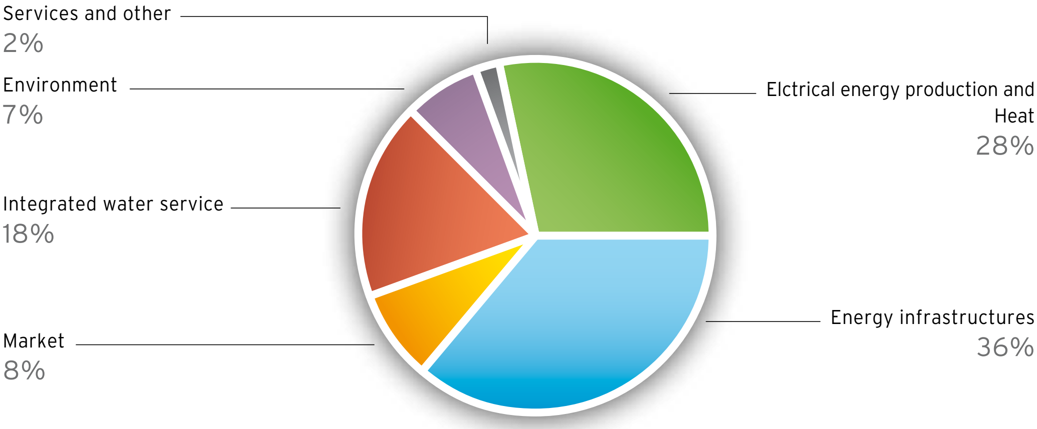
At 31 December 2010, the Iren Group had revenue of euro 3,381 million, up by 3.3% compared to euro 3,273 million for 2009.
This performance is mainly attributable to the higher volumes of gas sold (an increase of euro 75 million) and the tariff increases in regulated sectors, which was partially offset by the reduction in the price of commodity gas (down by euro 38 million).

### Breakdown of revenue




The gross operation profit (EBITDA) of euro 603 million has increased by euro 39 million (+ 7.1%) compared to euro 564 million in 2009. The increase applies across all segments in which the Iren Group operates, but in particular to the energy infrastructure, environmental, market and generation sector.

### Breakdown in Ebitda




## Operating profit

Operating profit (EBIT) amounted to euro 339 million and has improved by 8.4% compared to euro 312 million in 2009. There is furthermore an increase in amortization/depreciation of euro 12 million due to the increase in investments and in provisions of euro 1 million.

### Financial income and expense

Net financial expense was negative by euro 61 million. Specifically, financial expense totalled euro 87 million, down on the 2009 figure, as the latter included a non-recurring component related to financial charges on the recovery of "state aid" of euro 64 million. In addition to this, there was a reduction in the average cost of debt from 3.25% to 2.73%. Financial income reached euro 26 million (down by 28%). The results of associates accounted for using the equity method was a positive euro 13 million, up by 12% compared to the same period in 2009.

### Profit before tax

As a result of the trends indicated above, the consolidated profit before tax reached euro 290 million, a sizable increase of 50% compared to 2009.

### Income tax expense

Income taxes for 2010 are estimated at euro 106 million, down by 29% compared to 2009. They include non-recurring components recognised during the year of euro 39 million in relation to the recovery of "state aid". Furthermore, non-recurring advantages were applied in 2010, which had a positive effect on taxes. In particular, non application (following the clarifications given by the Ministry in 2010) for 2009 of the 1% rate referring to the "Robin Hood tax" (additional IRES) and the tax advantages granted for investments (the "Tremonti Ter"), provided for by Legislative Decree no. 78 of 1 July 2009, converted into Law no. 102/2009, consisting in the reduction of the company income, up to an amount of 50% of the value of investments made, within 30 June 2010.

### Profit for the year from continuing operations

Profit from continuing operations was euro 184 million, a remarkable increase as a result of the non-recovery of the "state aid" as well as the good business performance analysed by segment.

### Profit for the year

Profit for the year was euro 186 million, a significant increase compared to euro 50 million for the same period in 2009. This increase takes into account the recognition, for the previous year, for payment of "state aid" connected to the "tax exemption" (+ 103 million), the higher dividends received from investee Delmi S.p.A. (+7 million) and the positive fiscal effect of the "Tremonti ter" (+ 9.7 million).

## ANALYSIS BY BUSINESS SEGMENT

Following the above-described merger, the Iren Group operates in the following business segments:

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

These operating segments are presented as required by IFRS 8 whereby information must be presented according to segment and applying the elements that the executive committee and the management use in order to reach their operating and strategic decisions.
To correctly read the income statements relating to the individual activities that are presented and commented on below, it is hereby noted that revenue and expense referring to joint activities have been entirely allocated to the businesses, based on the actual usage of the services provided or according to technical and economic drivers.
The segment information that follows contains no secondary segment disclosure by geographical area, since the group operates mainly in one area (the North-Western region of Italy).
Net invested capital and income statements (up to the operating performance) are presented below by segment and with 2009 corresponding figures:

### Results by segment at 31 December 2010

millions of euro

| | Generation | Market | Energy Infrastructures | Water Cycle | Waste | Other services | Non-allocatable | Total |
|---|---|---|---|---|---|---|---|---|
| Non-current assets | 1,223 | 61 | 1,494 | 982 | 261 | 71 | 474 | 4,566 |
| Net working capital | 61 | 35 | (23) | 57 | 6 | (23) | 23 | 137 |
| Other non-current assets and liabilities | (39) | 23 | (85) | (205) | (37) | (14) | (4) | (361) |
| **Net invested capital (NIC)** | **1,245** | **119** | **1,386** | **834** | **230** | **35** | **494** | **4,342** |
| Equity | | | | | | | | 2,082 |
| Net financial position | | | | | | | | 2,260 |
| **Own funds and net financial indebtedness** | | | | | | | | **4,342** |

### Results by segment at 31 December 2009

millions of euro

| | Generation | Market | Energy Infrastructures | Water Cycle | Waste | Other services | Non-allocatable | Total proforma | of which Enia Group | of which Iride Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-current assets | 1,068 | 46 | 1,453 | 965 | 188 | 67 | 508 | 4,296 | 1,438 | 2,858 |
| Net working capital | 83 | 22 | 16 | 48 | (10) | (49) | 4 | 114 | 2 | 112 |
| Other non-current assets and liabilities | (45) | 10 | (108) | (218) | (42) | (13) | (16) | (434) | (270) | (164) |
| **Net invested capital (NIC)** | **1,107** | **78** | **1,361** | **794** | **135** | **5** | **496** | **3,976** | **1,170** | **2,806** |
| Equity | | | | | | | | 1,920 | 533 | 1,387 |
| Net financial position | | | | | | | | 2,056 | 637 | 1,419 |
| **Own funds and net financial indebtedness** | | | | | | | | **3,976** | **1,170** | **2,806** |

## Financial results by segment for 2010

millions of euro

| | Generation | Market | Energy Infrastructures | Water Cycle | Waste | Other services | Netting and adjustments | Total proforma | di cui Enia Group I half 10 | di cui Netting and adjustments | di cui Iren Group |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total revenue and income | 687 | 2,865 | 428 | 434 | 222 | 104 | (1,361) | 3,381 | 558 | (6) | 2,829 |
| Total operating expenses | (516) | (2,816) | (214) | (326) | (178) | (87) | 1,360 | (2,777) | (451) | 7 | (2,333) |
| **Gross operating profit (EBITDA)** | **172** | **49** | **214** | **108** | **45** | **17** | **(1)** | **603** | **107** | **1** | **496** |
| Net am./depr., provisions and impairment losses | (73) | (18) | (72) | (70) | (27) | (6) | (0) | (265) | (55) | 0 | (210) |
| **Operating profit (EBIT)** | **99** | **31** | **142** | **38** | **18** | **11** | **(1)** | **339** | **52** | **1** | **286** |

## Financial results by segment for 2009

millions of euro

| | Generation | Market | Energy Infrastructures | Water Cycle | Waste | Other services | Netting and adjustments | Total proforma | di cui Enia Group | di cui Netting and adjustments | di cui Iride Group |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total revenue and income | 672 | 2,823 | 399 | 398 | 212 | 102 | (1,331) | 3,273 | 1,047 | (33) | 2,259 |
| Total operating expenses | (503) | (2,779) | (206) | (291) | (174) | (83) | 1,327 | (2,709) | (861) | 34 | (1,882) |
| **Gross operating profit (EBITDA)** | **168** | **44** | **192** | **106** | **38** | **19** | **(4)** | **564** | **186** | **1** | **377** |
| Net am./depr., provisions and impairment losses | (71) | (13) | (73) | (65) | (24) | (5) | 0 | (251) | (102) | 0 | (149) |
| **Operating profit (EBIT)** | **98** | **31** | **120** | **41** | **14** | **14** | **(4)** | **312** | **84** | **1** | **228** |

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

### Production of electricity and heat

2010 revenue amounted to euro 687 million, up by 2.3% compared to euro 672 million for 2009.

| | | 2010 actual | 2009 actual | Δ % |
|---|---|---|---|---|
| Revenue | €/mil. | 687.3 | 671.7 | 2.3% |
| Gross operating profit | €/mil. | 171.8 | 168.4 | 2.0% |
| *Ebitda Margin* | | *25.0%* | *25.1%* | |
| Operating profit | €/mil. | 99.1 | 97.9 | 1.3% |
| Investments | €/mil. | 181.1 | 90.3 | 100.6% |
| Electrical energy produced | GWh | 5,461 | 5,339 | 2.3% |
| *from hydroelectric sources* | GWh | 1,016 | 1,280 | -20.7% |
| *from thermoelectric sources* | GWh | 4,446 | 4,058 | 9.5% |
| Heat produced | $GWh_t$ | 2,754 | 2,461 | 11.9% |
| *from cogenerative sources* | $GWh_t$ | 2,046 | 1,731 | 18.2% |
| *from non-cogenerative sources* | $GWh_t$ | 709 | 730 | -2.9% |

During 2010, the electrical energy produced was of 5,461 GWh, an increase of 2.3% compared to 5,339 GWh in 2009 on account of the joint effect of higher production in cogeneration (+ 9.5%) and lower hydroelectric production (-20.7%), due mainly to the lower hydraulic capacity and the scheduled unavailability in the Valle Orco, for the repowering of the Rosone plant and the Pont Ventoux plant.
Heat production amounted to 2,754 GWht, up from the 2,461 GWht in 2009 (+ 11.9%), and is a result of the increase in the connected volumes (+ 3 million m3 or 5%) and the favourable weather conditions.
Gross operating profit was euro 172 million, slightly up compared to euro 168 million in 2009 (+ 2%) due to the joint effect of the following:

- - 53 million in the hydroelectric segment, mainly on account of the lower volumes produced (-264 GWh) and resulting in lower contribution of the incentive provided by green certificates and furthermore in 2009 there was prior year income which will not recur in 2010;
- + 57 million in cogeneration of electricity and heat: attributable mainly to the higher electricity volumes produced (+ 388 GWh) and heat (+ 293 GWht), the increased contribution of green certificates, the sale of ETS certificates and the reduction of operating expense.

Operating profit (Ebit) was approximately euro 99 million, essentially unchanged from the euro 98 million in 2009.

Capital expenditure relating to segment amounts to euro 181 million, of which euro 140 million refers to cogeneration (relating almost entirely to the Torino Nord project), euro 30 million to the production of hydroelectricity (repowering of the Valle Orco hydroelectric plants) and euro 10 million to renewable sources.

## Market

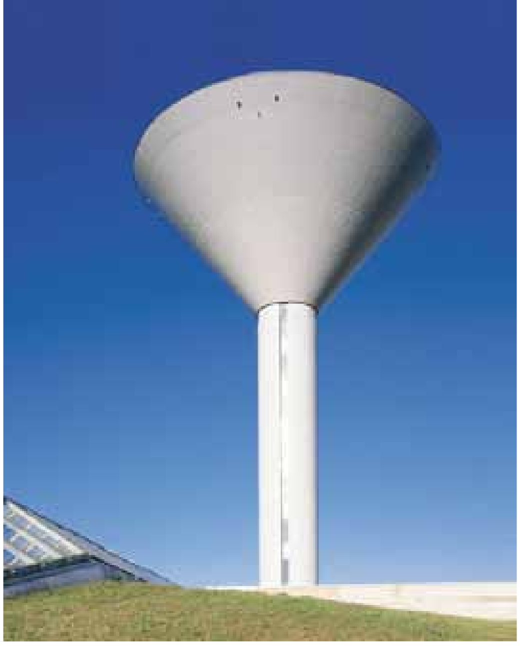
The turnover for the market segment amounted to euro 2,865 million up slightly (+ 1.5%) compared to euro 2,823 million for the corresponding period in 2009. Gross operating profit of euro 49 million has increased by euro 4.8 million (+ 10.9%) compared to euro 44.2 million in 2009.

| | | 2010 actual | 2009 actual | Δ % |
|---|---|---|---|---|
| Revenue | | 2,865.1 | 2,823.0 | 1.5% |
| Gross operating profit | €/mil. | 49.0 | 44.2 | 10.9% |
| *Ebitda Margin* | | *1.7%* | *1.6%* | |
| *from electrical energy* | *€/mil.* | 9.7 | 13.3 | -23.4% |
| *from gas* | *€/mil.* | 34.2 | 24.4 | 39.9% |
| *from heat* | *€/mil.* | 5.1 | 6.5 | -21.3% |
| Operating profit | €/mil. | 31.4 | 31.1 | 1.0% |
| Electrical energy sold | GWh | 14,567 | 14,573 | 0.0% |
| Electrical energy sold net of purchases/sales in the Stock Exchange | GWh | 11,645 | 12,841 | -9.3% |
| Gas purchased | Mln mc | 3,132 | 2,910 | 7.6% |
| *Gas marketed by the Group* | Mln mc | 1,946 | 1,777 | 9.5% |
| *Gas for internal use* | Mln mc | 1,186 | 1,133 | 4.7% |

### *Sale of electrical energy*

Overall volume sold on the market (end customers, stock exchange and wholesalers) amounts to 11,645 GWh, down by approximately 9.3% compared to 2009 (12,841 GWh).
In 2010, availability within the Group (Iren Energia, Tirreno Power) was higher than that of the previous year, totalling 5,799 GWh (5,728 GWh in 2009), whilst volumes from Edipower tolling were down on the previous year and amounted to 1,515 GWh (1,910 GWh in 2009). Furthermore, there was more recourse to the IPEX market (5,119 GWh compared to 3,999 GWh in 2009) as an effect of the low price is expressed by the market which made the exchange activity more competitive compared to the previous year. There has also been a contraction of supplies from wholesalers (-23%) with an annual volume supplied of 1,388 GWh (1,800 GWh in 2009).

Volumes sold to end customers and wholesalers amount to 8,646 GWh versus the 9,421 of 2009 (-8.2%); gross sales on the power exchange amount to 5,922 GWh versus the 5,152 in 2009 (+ 14.9%).



As concerns the number of protected customers, the total volumes sold amounted to 1,278 GWh in 2010, down on the previous year's figure by approx. 16% due to deregulation of the market to which the company contributed with marketing development initiatives that led to transfer of protected customers to the more profitable liberalized market.

The contraction (-5%) of the sales volumes to end customers (7,088 GWh in 2010 compared to 7,448 GWh in 2009) has been affected by the aforementioned reduction in volumes sold to protected customers as well as by the movement from the target customers served to customers with lower average annual consumption.

The gross operating profit from the sales of electrical energy amounts to euro 9.7 million, down compared to last year by euro 3.6 million (-23.4%). This reduction ensues from the steep drop in the exchange price following the energy overcapacity situation and the performance of the energy scenarios.

### *Sale of Natural Gas*

Overall volumes of natural gas supply during the year amounted to approximately 3,132 million cubic metres (approximately 2,910 million cubic metres in 2009), sold directly to customers outside the group and used for the production of electrical energy and the provision of heating services.
The larger volume sold compared to 2009, by approximately 220 million cubic metres (+7.6%), are due to the favourable weather conditions with temperatures that were on the average lower than the previous year and commercial development aimed at containing the effects of market liberalization, particularly in the areas that have been served by the Group historically.

The gross operating profit of euro 34 million has increased by approximately euro 10 million (+ 39.9%) compared to 2009. This positive movement compared to the previous year is essentially due to the increase in the contribution margin connected to the higher volumes sold and the benefit gained from renegotiating the procurement terms with suppliers.

### *Development of the market*

During 2010, the Group focused on developing its own customer base, with a double intention of consolidating its presence on the reference market through actions aiming to achieve customer loyalty and expanding its own perimeter of interests, through market penetration (consolidation of sales channels and extension of the teleselling activity in the Emilia Romagna area and differentiation of the offers by customer segment).
These actions as a whole made it possible to limit competitor activity and to increase the number of customers served, compared to 31 December 2009.

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

The gross operating profit for 2010 amounts to euro 5.1 million compared to euro 6.5 million for the corresponding period in 2009 and is therefore down by euro 1.4 million ( -21.3%).

### *Energy infrastructures*

Activities in the energy infrastructure area, which includes the distribution of gas, electrical energy and heat brought in income of euro 428 million, up by +7.4% compared to euro 399 million in 2009 mainly on account of the tariff increases.
Gross operating profit amounted to euro 214 million, an increase on the euro 192 million of 2009 (+11.3%). Operating profit amounted to euro 142 million, an increase of 18.4% compared to euro 120 million in 2009.

| | | 2010 actual | 2009 actual | Δ % |
|---|---|---|---|---|
| Revenue | €/mil. | 428.4 | 398.7 | 7.4% |
| Gross operating profit | €/mil. | 214.2 | 192.4 | 11.3% |
| *Ebitda Margin* | | *50.0%* | *48.3%* | |
| *from electricity networks* | *€/mil.* | 79.3 | 73.3 | 8.1% |
| *from gas networks* | *€/mil.* | 91.7 | 78.2 | 17.6% |
| *from district heating networks* | *€/mil.* | 44.1 | 41.3 | 6.7% |
| *from the regasification plant* | *€/mil.* | -0.8 | -0.4 | n.s. |
| Operating profit | €/mil. | 141.9 | 119.7 | 18.4% |
| Investments | €/mil. | 171.1 | 182.0 | -6.0% |
| *in electricity networks* | *€/mil.* | 27.4 | 35.2 | -22.1% |
| *in gas networks* | *€/mil.* | 51.7 | 44.0 | 17.5% |
| *in district heating networks* | *€/mil.* | 48.0 | 34.7 | 38.4% |
| *in regasification plant* | *€/mil.* | 44.0 | 68.2 | -35.4% |
| Electrical energy distributed | GWh | 4.282 | 4.242 | 0.9% |
| Gas distributed | Mln mc | 2.202 | 2.035 | 8.2% |
| District heating volumes | Mln mc | 66 | 63 | 4.6% |

### *Electrical Energy Distribution Networks*

Gross operating profit amounted to euro 79 million, an increase of euro 73 million over 2009 (+8.1%). The increase compared to 2009 is attributable to the higher contribution from the network connection activity, higher revenue from the recovery of the equalization relating to prior years, the continuity bonus for the service and the higher costs resulting from the Council of State ruling no. 02943/210 regarding distribution losses.
During 2010, investments of approximately euro 27 million were made (of which euro 17 million related to Turin electricity networks and euro 10 million to Parma electricity networks), mainly referring to the replacement of electronic meters, new connections and the construction of new primary MV/LV cabins.

### Gas Distribution Network

The gross operating profit from Gas Network distribution has increased to euro 92 million (+ 17.6%) compared to euro 78 million for 2009. The positive change is attributable mainly to tariff increases, prior year income for equalization and lower costs in the year.

Capital expenditure made in the segment amounts to approximately euro 52 million and mainly involve the 10 year renovation plan of the network through replacement of the great cast iron pipes pursuant to resolution 168/04 of the AEEG and the development initiatives for the distribution network and connections in the main areas served by the Group (Genoa, Turin, Reggio Emilia and Parma).

### District Heating networks

The gross operating profit for the district heating segment was euro 44 million up by + 6.7% compared to euro 41 million in 2009, mainly on account of the increases in volumes connected (+ 5%).
During 2010, investments were made of approximately euro 48 million, mainly in regard to the Torino Nord project (euro 25 million), Nichelino Energia (euro 7 million) and projects in the Emilia Romagna area (euro 14 million).

### Regasification plant

The investments in this segment amount to euro 44 million and refer to the construction of the LNG regasification plant in Livorno by OLT.

### Integrated water service

At 31 December 2010, the integrated water service segment had revenue of euro 434 million, up by 9.3% compared to euro 398 million for 2009.
The increase in the segment revenue is mainly due to the increase in tariffs and the increased capitalized costs for the realization of investments on assets under concession which are recognized under revenue (approximately+ euro 20 million), as required by IFRIC 12.

| | | 2010 actual | 2009 actual | Δ % |
|---|---|---|---|---|
| Revenue | €/mil. | 434.3 | 397.5 | 9.3% |
| Gross operating profit | €/mil. | 108.1 | 106.1 | 1.9% |
| *Ebitda Margin* | | *24.9%* | *26.7%* | |
| Operating profit | €/mil. | 38.2 | 40.6 | -7.0% |
| Investments | €/mil. | 104.8 | 107.2 | -2.3% |
| Water sold | Mln mc | 188 | 193 | -2.4% |

Gross operating profit amounted to euro 108 million, slightly up on the euro 106 million (+1.9%) in 2009.
The increase is mainly generated by the positive effect of tariff increases resolved by the Optimal District Authorities (Agenzie di Ambito territoriale ottimale - AATOs) in the areas managed by the Iren Group and was partially offset by the reduction in the quantities of water sold and the higher non-recurring costs.
Operating profit is euro 38 million, down by 7% compared to euro 41 million in 2009. The drop is attributable to the increases in amortisation/depreciation relating to non-current assets and higher allocations accruals to the Allowance for impairment and the Provision for risks.

### The environment

Turnover amounted to euro 223 million, up by +5.1% compared to euro 212 million for 2009. The increase in revenue is mainly due to the tariff increases decided upon by the AATOs, the increase in revenue from the sale of special waste and the sale of energy produced through the WTE process and the bio gas plants.

| | | 2010 actual | 2009 actual | Δ % |
|---|---|---|---|---|
| Revenue | €/mil. | 222.5 | 211.7 | 5.1% |
| Gross operating profit | €/mil. | 44.7 | 38.1 | 17.6% |
| *Ebitda Margin* | | *20.1%* | *18.0%* | |
| Operating profit | €/mil. | 17.9 | 13.7 | 29.4% |
| Investments | €/mil. | 46.6 | 33.6 | 38.8% |
| Waste handled | ton | 1,005,468 | 934,806 | 7.6% |
| *Urban waste* | ton | 804,899 | 771,051 | 4.4% |
| *Special waste* | ton | 200,569 | 163,754 | 22.5% |

The gross operating profit for the segment amounted to euro 44.7 million, up by 17.6% compared to euro 38.1 million for 2009. The improved profit is attributable to the tariff increase decided upon and the lower waste disposal costs following the rationalization of the disposal process, which however were offset by higher collection costs on account of the extension of the differentiated collection system to "door to door."

The investments in the segment amounted to euro 46.6 million and mainly refer to the Parma Integrated Environmental Hub (IEH) (euro 31.8 million), and the expansion and extraordinary maintenance of the collection plants of euro 6.3 million and to equipment, media and ecological islands for the collection services of euro 8.5 million. The significant increase compared to 2009 is mainly due to the progress of the works relating to the IEH (+ euro 14 million).

### Services

The Services segment includes the global service, facility management, telecommunications, street lighting, cemetery services and other minor services.

Revenue totalled euro 104 million, up by +2.4% compared to euro 102 million for 2009.
Gross operating profit amounted to euro 15.8 million compared to euro 14.5 million for 2009.

| | | 2010 actual | 2009 actual | Δ % |
|---|---|---|---|---|
| Revenue | €/mil. | 104.4 | 101.6 | 2.4% |
| Gross operating profit | €/mil. | 15.8 | 14.5 | 9.0% |
| *Ebitda Margin* | | *15.1%* | *14.2%* | |
| Operating profit | €/mil. | 10.1 | 9.3 | 8.7% |
| Investments | €/mil. | 32.2 | 40.7 | -21.0% |

## STATEMENT OF FINANCIAL POSITION

### Reclassified pro forma Statement of Financial Position of the Iren group as at 31 December 2010

thousands of euro

| | 31.12.2010 | 31.12.2009 pro forma | % Change |
|---|---|---|---|
| Non-current assets | 4,566,148 | 4,295,911 | 6.3 |
| Other non-current assets | (118,920) | (127,776) | (6.9) |
| Net working capital | 137,040 | 113,829 | 20.4 |
| Deferred tax assets (liabilities) | 27,241 | 9,185 | (*) |
| Provisions and employee benefits | (325,267) | (324,121) | 0.4 |
| Assets held for sale | 55,528 | 8,980 | (*) |
| **Net invested capital** | **4,341,770** | **3,976,008** | **9.2** |
| Equity | 2,081,620 | 1,920,312 | 8.4 |
| *Long-term financial assets* | *(88,388)* | *(279,153)* | *(68.3)* |
| *Medium and long-term financial indebtedness* | *1,829,263* | *1,870,294* | *(2.2)* |
| Medium and long-term net financial indebtedness | 1,740,875 | 1,591,141 | 9.4 |
| *Short-term financial assets* | *(521,828)* | *(249,645)* | *(*)* |
| *Short-term financial indebtedness* | *1,041,103* | *714,200* | *45.8* |
| Net short-term financial indebtedness | 519,275 | 464,555 | 11.8 |
| Net financial indebtedness | 2,260,150 | 2,055,696 | 9.9 |
| **Own funds and net financial indebtedness** | **4,341,770** | **3,976,008** | **9.2** |

(*) Change of more than 100%

Following are the main dynamics affecting the statement of financial position as at 31 December 2010.

The increase in **non-current assets** reflects the increased investments with particular reference to: *production of electricity* with the Torino Nord project of euro 135 million, the *energy infrastructures* (gas networks of euro 52 million, district heating networks of euro 48 million and electricity networks of euro 27 million), the *integrated water cycle* of euro 105 million, the *market* with OLT project of euro 44 million and the *environment* of the euro 47 million.

The increase in the **net working capital** has been affected by the dynamics of the trade payables and receivables and the tax items.

The increase in **deferred taxes** is essentially due to the increases in the Allowance for impairment and the Provisions for risks which mainly contain provisions for losses on electrical energy resulting from the Council of State resolution 02943/2010 and the resolution of the Court of Cassation no. 335/08 relating to the integrated water cycle.

The increase in the **assets held for sale** has been affected by the reclassification of net assets of the subsidiary Aquamet, the sale of which will be concluded in the initial months of 2011, and the investment in the associate ASTEA.

The increase in **equity** is mainly the result of the profit for the year and the distribution of dividends. The higher **net financial indebtedness** is the result of outflows for investments and dividends paid. The statement of cash flows which is presented below provides a breakdown of the movements in 2010.

## CASH FLOW FIGURES

### Pro forma statement of cash flows for the Iren Group

thousands of euro

| | 2010 pro forma | 2009 pro forma | % Change |
|---|---|---|---|
| **A. Opening cash and cash equivalents** | **56,905** | **121,833** | **(53.3)** |
| **Cash flow from operating activities** | | | |
| Profit for the year | 186,029 | 51,260 | (*) |
| Adjustments: | | | |
| Amortisation of intangible assets and depreciation of property, plant and equipment and investment property | 204,177 | 191,877 | 6.4 |
| Net change in post-employment benefits and other employee benefits | (2,804) | (1,836) | 52.7 |
| Net change in the provisions for risks and other charges | 3,950 | 31,409 | (87.4) |
| Loss from the sale of discontinued operations net of tax effects | (1,740) | (6,077) | (71.4) |
| Change in deferred tax assets (liabilities) | (18,056) | (20,020) | (9.8) |
| Variation in non-current assets (liabilities) | (8,856) | 6,972 | (*) |
| Dividends received | (6,787) | (6,220) | 9.1 |
| Portion of loss of associates | (13,114) | (11,662) | 12.5 |
| Net impairment losses (reversals of impairment losses) on investments | 440 | 4,642 | (90.5) |
| **B. Cash flows from operating activities before variations in NWC** | **343,239** | **240,345** | **42.8** |
| Variation in inventories | 6,048 | 285 | (*) |
| Variation in trade receivables | (83,805) | 217,682 | (*) |
| Variation in tax assets and other current assets | 22,464 | (54,240) | (*) |
| Variation in trade payables | 44,167 | (34,151) | (*) |
| Variation in tax liabilities and other current liabilities | (12,085) | (5,550) | (*) |
| **C. Cash flows from variations in NWC** | **(23,211)** | **124,026** | **(*)** |
| **D. Operating cash flows (B+C)** | **320,028** | **364,371** | **(12.2)** |
| Cash flows from (used in) investing activities | | | |
| Investments in intangible assets and property, plant and equipment and investment property | (557,957) | (483,661) | 15.4 |
| Investments in financial assets | (7,707) | (7,595) | 1.5 |
| Proceeds from the sale of investments, changes in consolidation scope and assets held for sale | 50,565 | 12,208 | (*) |
| Transfer of discontinued operations net of cash disposed of | - | 11,445 | (100.0) |
| Dividends received | 6,787 | 6,220 | 9.1 |
| Other variations in financial assets | (3,245) | (128) | (*) |
| **E. Total cash flows used in investing activities** | **(511,557)** | **(461,511)** | **10.8** |
| **D. Free cash flows (D+E)** | **(191,529)** | **(97,140)** | **97.2** |
| Cash flows from/(used in) financing activities | | | |
| Dividends paid | (110,589) | (112,387) | (1.6) |
| Other changes in equity | 97,664 | (4,732) | (*) |
| Variation in financial receivables | 10,073 | (94,603) | (*) |
| Variation in financial payables | 281,588 | 243,934 | 15.4 |
| **G. Total cash flow from financing activities** | **278,736** | **32,212** | **(*)** |
| **H. Cash flows for the year (F+G)** | **87,207** | **(64,928)** | **(*)** |
| **I. Closing cash and cash equivalents (A+H)** | **144,112** | **56,905** | **(*)** |

(*) Change of more than 100%

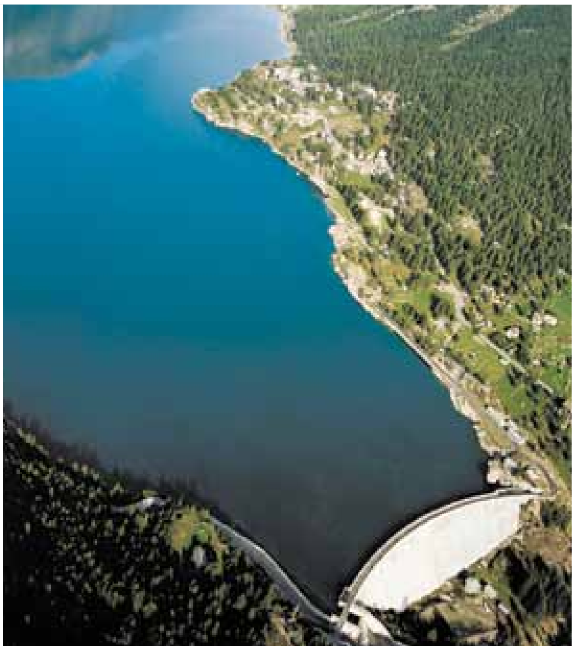
At 31 December 2010, net financial indebtedness amounted to euro 2,260 million, up by 10% compared to 31 December 2009 due to a negative free cash flow of euro 191 million, the changes in equity, including dividends paid, which were negative by euro 13 million.
The free cash flow, negative by euro 191 million, derives from the combined effect of the following cash flows:
- cash flows from operations are positive by euro 320 million and are composed of euro 343 million from the cash flows from operations before variations in net working capital and euro -23 million from the cash flows from variations in net working capital;
- cash flows used in investing activities of euro 511 million, generated from euro 558 million investments in intangible assets, property, plant and equipment and investment property (including investments made for the building of infrastructures under concession, pursuant to IFRIC 12), euro 8 million in non-current financial assets and investments and changes in net assets held for sale relating to subsidiary Aquamet and the associate ASTEA.

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

thousands of euro

| | 2010 pro forma | 2009 pro forma | Change % |
|---|---|---|---|
| Free cash flow | (191,529) | (97,140) | 97.2 |
| Dividends paid | (110,589) | (112,387) | (1.6) |
| Share capital increase | - | - | - |
| Other changes in equity | 97,664 | (4,732) | (*) |
| **Change in net financial position** | **(204,454)** | **(214,259)** | **(4.6)** |

(*) Change of more than 100%



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

The figures of Iren S.p.A. referring to 2010 include:

- up to 30 June 2010, the figures relating to Iride S.p.A.
- from 1 July 2010, the figures relating to Iren S.p.A., a company resulting from the merger of Iride S.p.A. with Enìa S.p.A..

In view of the above developments, meaningful corresponding figures between the two years are not available.

## INCOME STATEMENT

### Revenue

Total revenue for Iren S.p.A. was euro 15 million, primarily from services provided to Group companies.

### Operating expense

Operating expense amounted to euro 32 million and includes services and use of third-party assets (euro 16 million), other operating expense (euro 3 million) and personnel expense (euro 13 million).

### Amortisation, depreciation and provisions

Amortisation, depreciation and provisions amount to approximately euro 1 million.

### Financial income and expense

The balance is positive at euro 110 million. Financial income, equal to euro 178 million, amongst other things includes dividends and interest income from subsidiaries and associates (euro 143 million) and interest income from subsidiaries (euro 33 million). Income from investments includes the extraordinary distribution of a total euro 99 million drawn from distributable reserves by the companies leading the business segments, Iren Acqua Gas, Iren Energia, Iren Mercato, Iren Ambiente and Iren Emilia. Financial expense is equal to euro 67 million.

### Profit before tax

Profit before tax is euro 93 million.

### Income tax expense

Income taxes are positive by euro 10 million and consist mainly of income from consolidation. Indeed, the company opted for participation in the national consolidation tax scheme pursuant to article 118 of the new Consolidated Income Tax Act (TUIR) and Iren S.p.A. therefore calculates IRES on the sum of taxable profits/losses of each company taking part in the consolidation area.
In return for the taxable income earned and transferred to the parent, the consolidated company commits to pay "tax settlements" to the parent equal to the amount of taxes owed on the income transferred, net of the IRES tax credits transferred.

### Profit for the year

Profit for the year, net of taxes, amounts to euro 103 million.

### Reclassified Income Statement of Iren S.p.A.

thousands of euro

| | 2010 | 2009 | % Change |
|---|---|---|---|
| **REVENUE** | | | |
| Revenue from goods and services | 10,359 | 4,760 | (*) |
| Other revenue and income | 4,510 | 967 | (*) |
| **TOTAL REVENUE** | **14,869** | **5,727** | **(*)** |
| OPERATING EXPENSE | | | |
| Purchase of raw materials, consumables, supplies and goods | (9) | (15) | (40.0) |
| Services and use of third-party assets | (15,685) | (15,016) | 4.5 |
| Other operating expense | (2,607) | (1,355) | 92.4 |
| Personnel expense | (13,524) | (6,486) | (*) |
| **Total operating expense** | **(31,825)** | **(22,872)** | **39.1** |
| **GROSS OPERATING LOSS** | **(16,956)** | **(17,145)** | **(1.1)** |
| **AMORTISATION, DEPRECIATION AND PROVISIONS** | | | |
| Amortisation/depreciation | (531) | (396) | 34.1 |
| Provisions | (244) | 1,826 | (*) |
| **Total amortisation, depreciation and provisions** | **(775)** | **1,430** | **(*)** |
| **OPERATING LOSS** | **(17,731)** | **(15,715)** | **12.8** |
| **FINANCIAL INCOME** | | | |
| Financial income | 177,651 | 238,580 | (25.5) |
| Financial expense | (67,247) | (119,292) | (43.6) |
| **Total financial income** | **110,404** | **119,288** | **(7.4)** |
| **PROFIT BEFORE TAX** | **92,673** | **103,573** | **(10.5)** |
| Income tax expense | 10,016 | (31,504) | (*) |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | **102,689** | **72,069** | **42.5** |
| Profit from discontinued operations | - | - | - |
| **PROFIT FOR THE YEAR** | **102,689** | **72,069** | **42.5** |

(*) Change of more than 100%

## STATEMENT OF FINANCIAL POSITION

### Non-current assets

Intangible assets, property, plant and equipment, investment property and financial assets totalled Euro 2,445 million.

### Net working capital

Net working capital was negative by euro 11 million. Deferred tax assets totalled euro 15 million, and Provisions for Risks are equal to euro 29 million.

### Equity

2010 closed with equity of euro 1,633 million.

### Net financial indebtedness

At the end of 2010, net financial indebtedness amounted to euro 787 million. Specifically, medium-long term indebtedness, equal to euro 886 million, includes medium-long term financial liabilities of euro 1,771 million and medium-long term financial assets of euro 885 million. Financial assets mainly refer to loans to subsidiaries. Short-term financial indebtedness is equal to euro 99 million and includes short-term indebtedness, mainly to banks, amounting to euro 907 million, and short-term financial receivables, mainly from Group companies, amounting to euro 963 million, and cash equivalents totalling euro 44 million.

## Reclassified statement of financial position of Iren S.p.A.

thousands of euro

| | 31.12.2010 | 31.12.2009 | Variazione % |
|---|---|---|---|
| Non-current assets | 2,444,522 | 1,600,402 | 52.7 |
| Other non-current assets | 414 | 325 | 27.4 |
| Net working capital | (11,301) | 16,739 | (*) |
| Deferred tax assets | 15,521 | 11,220 | 38.3 |
| Provision for risks and employee benefits | (28,999) | (12,857) | (*) |
| **Net invested capital** | **2,420,157** | **1,615,829** | **49.8** |
| Equity | 1,632,760 | 1,110,997 | 47.0 |
| *Medium and long-term financial assets* | *(885,163)* | *(510,211)* | *73.5* |
| *Medium and long-term financial indebtedness* | *1,771,438* | *1,259,334* | *40.7* |
| Medium and long-term net financial indebtedness | 886,275 | 749,123 | 18.3 |
| *Short-term financial assets* | *(1,006,214)* | *(722,879)* | *39.2* |
| *Short-term financial indebtedness* | *907,336* | *478,588* | *89.6* |
| Net short-term financial indebtedness | (98,878) | (244,291) | (59.5) |
| Net financial indebtedness | 787,397 | 504,832 | 56.0 |
| **Own funds and net financial indebtedness** | **2,420,157** | **1,615,829** | **49.8** |

(*) Change of more than 100%

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

thousands of euro

| | 2010 | 2009 | % Change |
|---|---|---|---|
| Free cash flow | 114,408 | 42,378 | (*) |
| Dividends paid | (70,724) | (70,724) | - |
| Share capital increase | - | - | - |
| Other changes in equity | (509) | (4,658) | (89.1) |
| Net financial indebtedness acquired through the Iride-Enia merger and the resulting non-recurring transactions | (325,740) | - | - |
| **Change in net financial position** | **(282,565)** | **(33,004)** | **(*)** |

(*) Change of more than 100%

## CASH FLOW FIGURES

### Statement of cash flows of Iren S.p.A.

thousands of euro

| | 2010 | 2009 | % Change |
|---|---|---|---|
| **A. Opening cash and cash equivalents and cash-pooling balance** | **624,616** | **557,212** | **12.1** |
| **Cash flow from operating activities** | | | |
| Profit for the year | 102,689 | 72,070 | 42.5 |
| Adjustments: | | | |
| Amortisation of intangible assets and depreciation of property, plant and equipment and investment property | 531 | 396 | 34.1 |
| Net variation of post-employment benefits and other employee benefits | 2,130 | 94 | (*) |
| Net variation in the provisions for risks and other charges | 1,662 | (1,632) | (*) |
| Variation in deferred tax assets and liabilities | (283) | (5,281) | (94.6) |
| Variation in non-current liabilities | (89) | (71) | 25.4 |
| Dividends received | (113,650) | (134,554) | (15.5) |
| **B. Cash flows from operations before variations in NWC** | **(7,010)** | **(68,978)** | **(89.8)** |
| Variation in trade receivables | (9,171) | 2,477 | (*) |
| Variation in tax assets and other current assets | (8,351) | (11,177) | (25.3) |
| Variation in trade payables | 21,103 | 3,760 | (*) |
| Variation in tax liabilities and other current liabilities | 4,209 | (18,258) | (*) |
| **C. Cash flows from variations in NWC** | **7,790** | **(23,198)** | **(*)** |
| **D. Operating cash flows (B)** | **780** | **(92,176)** | **(*)** |
| **Cash flows from/(used in) investing activities** | | | |
| Investments in intangible assets,property, plant and equipment and investment property | (22) | - | - |
| Dividends received | 113,650 | 134,554 | (15.5) |
| **E. Total cash flows from investing activities** | **113,628** | **134,554** | **(15.6)** |
| **F. Free cash flows (D+E)** | **114,408** | **42,378** | **(*)** |
| **Cash flows from/(used in) financing activities** | | | |
| Dividends paid | (70,724) | (70,724) | - |
| Other changes in equity | (509) | (4,658) | (89.1) |
| New loans | 200,000 | 545,000 | (63.3) |
| Repayment of loans | (279,523) | (253,565) | 10.2 |
| Variation in financial receivables | (362,233) | (59,741) | (*) |
| Variation in financial payables | 146,178 | (131,286) | (*) |
| Cash and cash equivalents acquired through the Iride-Enia merger | 32,965 | - | - |
| **G. Total cash flows from/(used in) financing activities** | **(333,846)** | **25,026** | **(*)** |
| **H. Cash flows for the year (F+G)** | (219,438) | 67,404 | (*) |
| **I. Closing cash and cash equivalents including cash pooling balance (A+H)** | **405,178** | **624,616** | **(35.1)** |
| **L. Cash-pooling balance with subsidiaries** | **(361,607)** | **(604,145)** | **(40.1)** |
| **M. Closing cash and cash equivalents (I + L)** | **43,571** | **20,471** | **(*)** |

(*) Change of more than 100%

The following table reconciles the equity and profit shown in the parent Iren S.p.A.'s separate financial statements at 31 December 2010 with those in the consolidated financial statements.

thousands of euro

| | Equity | Profit for the year |
|---|---|---|
| **Equity and profit for the year of the Parent** | **1,632,760** | **102,690** |
| Difference between the carrying amount and the value of associates measured using the equity method | 21,562 | 9,993 |
| Higher value from the consolidation compared to the carrying amount of consolidated equity investments | 278,938 | 233,379 |
| Elimination of dividends from subsidiaries/associates | | (144,257) |
| Elimination of intragroup margins | (80,966) | (58,602) |
| Other | (264) | (99) |
| **Group equity and profit for the year** | **1,852,030** | **143,104** |

"Elimination of intragroup margins" refers to the elimination of the gains from the sale of company divisions or companies belonging to the Group. These include, in particular:

- the transaction relating to the integrated water cycle of Genoa which was carried out by former AMGA (positive effect of euro 4 million on the income statement and negative by euro 73 million on equity).
- the sale that took place concurrently with the San Giacomo transaction in 2010 (negative effect of euro 60 million on the income statement and euro 11 million on equity).

# SIGNIFICANT EVENTS AND OUTLOOK

## SUBSEQUENT EVENTS

### Transformation of San Giacomo S.r.l into a joint stock company and renaming as Mediterranea delle Acque S.p.A.

By virtue of the resolution taken by the shareholders of San Giacomo S.r.l. in their meeting on 28 December 2010, effective on 5 January 2011, San Giacomo was transformed from a limited liability company into a joint-stock company. Concurrently, the company was renamed Mediterranea delle Acque S.p.A., thus adopting the name of the merged company.

## BUSINESS OUTLOOK

Based on available information and the forecasts for the year underway, the outlook for 2011 is a macroeconomic scenario still characterised by the persisting weakness recorded in 2010 that affected the demand for electrical energy and gas. The Iren Group forecasts consolidation in the growth of its assets as a result of the progressive contribution of the investments made and increasing profits. The results of the Iren Group will however be influenced by developments in the energy industry, applicable regulations and the seasonality of the segments in which it operates, especially as regards weather conditions.
In 2011, the Iren Group will proceed with the investments set forth in its business plan, which include: the new 390 MW cogeneration plant the North Western area of Turin, the Livorno regasification terminal and the Parma waste to energy plant.

# LEGISLATIVE FRAMEWORK

Following are the main new laws issued during 2010 which influence the segments in which the group operates. A more complete presentation of the laws affecting Iren is presented in the annexes.

## NEW LAWS

In implementation of the provisions of law number 99/09 (article 30), Legislative Decree no. 130 of 13 August 2010 provided for a review of the "antitrust ceilings" and introduced concurrently, through a complex design, measures aimed at providing incentives for new gas storage capacity, including in a commercial sense, so as to store gas when it costs less and thus decrease the systems procurement costs, especially as concerns industrial consumers who consume higher amounts.

Legislative Decree no. 105 of 8 July 2010 was converted into law no. 129/10 which provides for establishment with the Single Buyer (SB) of an integrated information system for the management of information flows relating to the Electric Energy & Gas markets, based on a database identifying end customers and including information regarding any breaches of contract by these customers (non-payment) as well. This system which has been designed to facilitate switching operations and to standardize and regulate relations between distributors and sellers should be implemented, initially in the electricity sector, during 2011.
With its resolution ARG/Gas no. 89/10, AEEG intervened on the reference prices for gas decreasing, effective from 1 October 2010 and for the thermal year 2010-2011, the QE (energy quota) and therefore the CCI (Wholesale Marketing Cost Component) by approximately 2 ceuro/cm, a figure which increases in the event of an increase in the reference index (i.e., an increase in the prices of the reference fuels) or decreases in the opposite case. The economic trends in 2010 were characterized by increased competition in the upstream market due to new supply/demand relations and the availability of infrayear gas lots at low prices. This allowed at least some of the operators (conversely to what had generally occurred in the past, the trend favoured non-integrated operators compared to those possessing long-term contracts) to benefit from more favourable long term costs compared to previous thermal years and is therefore giving them a broader competition base. This began to reflect on the final market with offers that were discounted compared to the reference price which is fixed by the AEEG. This was the first thermal year in which this happened. However the AEEG considered that these offers do not automatically reflect the new procurement conditions and therefore intervened in the terms that were indicated.
The decrease may have significant consequences on the margins of sellers, in correlation with a specific procedure for procurement and the spaces and outcomes of the upstream contract renewals over the long term.

After the launch in December of the Gas Exchange and following a long process of consultation (the last documents were published in December 2010), the AEEG introduced at the beginning of 2011 the new plan for the gas balancing based on market mechanisms; the first intervention provides for the introduction of a gradual simplified system. The process, which aims to provide more liquidity and transparency to the wholesale market for gas and therefore to promote efficiency and competition, will be accompanied by a review of the quantity allocation processes and consumption profiling.

# FINANCIAL MANAGEMENT

## GENERAL FRAMEWORK

During 2010, the trend towards decreasing interest rates which began from October 2008 was exhausted and there was a reversal of that trend which was more marked in the medium to long term rate curve segment. The European Central Bank issued repeated measures to reduce the benchmark rate which from 4.25% in October 2008 decreased to the current 1% and remained constant since May 2009.
An analysis of the Euribor 6-month rate shows a heavy decrease from 5.4% in October 2008 to the minimum level of 0.94% at the end of March 2010, with a slight recovery to the current level of 1.5%. Fixed rates reflected in the IRS values for five and 10 years also decreased starting from September 2008 up to August 2010, when historical low levels were reached and an upward trend began which is still underway.

## ACTIVITIES PERFORMED

During 2010, activities aimed at consolidating the financial structure of the Iren Group continued. The development of funding needs is monitored through careful financial planning, which enables requirements for new financial resources to be anticipated, taking into account the repayments of outstanding loans, the development of indebtedness as a result of carrying out the investment programme, the development of working capital and the balance of short-term and long-term sources.
The organisational model adopted by the Iren Group, with the goal of financial optimisation of all Group companies, provides for Iren's adoption of a centralised treasury management, medium to long-term loans and financial risk monitoring and management. Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suitable to its needs, and the best market conditions.
In more detail, the financing transactions completed in 2010 show that in December, and with the support of bank guarantees, use was made of the euro 100 million line which has a 15 year-term and was decided upon by the European Investment Bank at the end of 2008, for a total of euro 200 million, of which euro 100 million had already been used at the end of 2009. Again in December 2010, a new medium term loan was agreed and used of euro 100 million with the Cassa Depositi e Prestiti. This loan was in replacement of a loan of an equal amount that was agreed in 2009 with Cassa Depositi e Prestiti for which the renewal option was not exercised.
The new loans were granted in support of the investment programme and make it possible to maintain a proper balance between the Group's short and long term financial exposure. At 31 December 2010, the Group's mortgage debt represented 87% of the total net financial indebtedness, and medium/long-term net financial indebtedness accounted for 77%. This percentage takes into account the classification of receivables due from the Municipality of Turin under non-current financial assets.

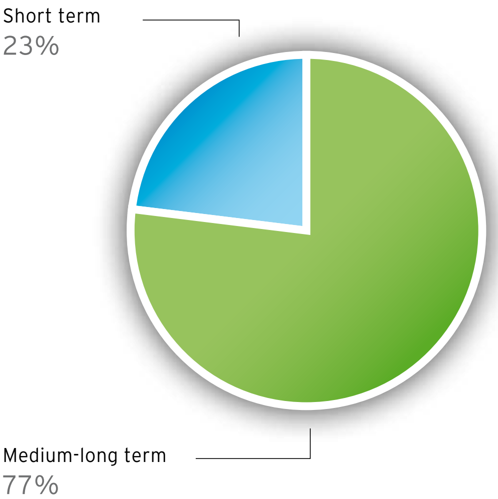
Within the Group, during 2010, OLT Offshore LNG Toscana (41.71% consolidated) obtained a new facility from the Iren Mercato shareholders (financed by Iren within the Group cash pooling) and E.On, in equal portions and for a total amount of euro 470 million, mainly used for the repayment of the USD 171 million bank loan obtained to cover the purchase of the gas carrier for the Livorno regasification terminal and in support of other investments. AES Torino (51% consolidated) obtained a medium term bank loan of euro 25 million and Nichelino Energia obtained a medium term loan of euro 5 million.
The Iren Group is exposed to various types of financial risks, including liquidity risk, interest rate risk, and currency risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit such risks. Derivatives are neither used nor held purely for trading purposes. Further information can be found on the paragraph "Risk Management" in the Notes to the Financial Statements.
Two new interest rate swaps were agreed in 2010 to cover the euro 100 million debt, expiring in 2019-2020 and effective from 2011. During the year, two new basis swaps were agreed for a total of euro 130 million which are valid for the entire 2011. These contracts make it possible to exchange between two variable rates, in particular one-month euribor for 6-month euribor. This exchange makes it possible to finalise existing interest rate risk hedges and to reduce the annual spread.

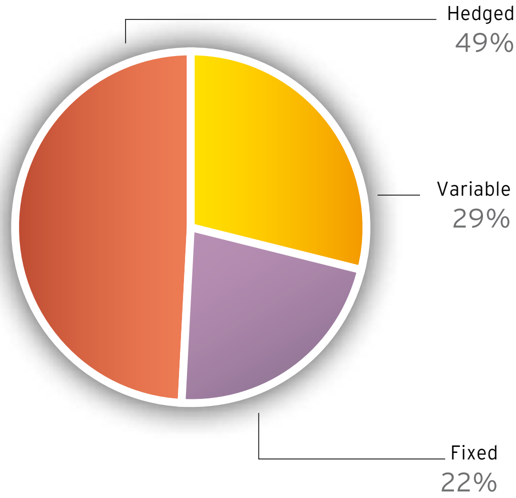
At 31 December 2010, the portion of variable rate debt which is not hedged with derivative instruments was 25% of the loan positions and 35% of the consolidated net financial indebtedness, in line with the target of the Iren Group which is to maintain a balance between fixed and variable interest rate positions or ones that are protected from significant increases in interest rates.

Net financial indebtedness by maturity

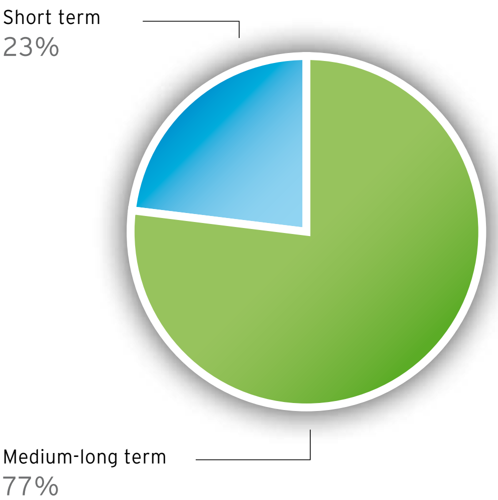
Net financial indebtedness by rate category

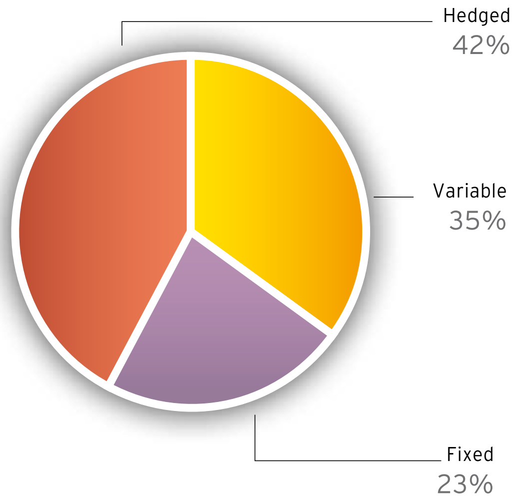
Position at 31/12/2009




Position at 31/12/2010



# TRANSACTIONS WITH RELATED PARTIES

The company and the companies controlled by it base transactions with related parties on compliance with principles of transparency and correctness. A good part of these transactions concern services provided to the customers in general (gas, water, electricity, heat, etc.) and are governed by contract rules normally applicable to these situations.
Where they do not concern current services, transactions are governed by specific contracts, the terms of which are established in accordance with normal market terms. If these references are not available or significant, the various profiles will be defined in consultation with independent experts and/or professionals.

## TRANSACTIONS WITH SUBSIDIARIES AND ASSOCIATES

*Intercompany Services* - In order to make best use of the organisational synergies arising from the merger of Iride and Enìa, the Iren structure was designed on the basis of 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 and based on service agreements signed by the parties.
All the aforementioned activities are governed by service contracts agreed at arm's length conditions.

*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, medium/long-term loans are taken out with banks by Iren, after which the funds are transferred to the Group's companies to support investments made by these companies based on intercompany facility agreements.
The regulation of financial transactions between the Parent and the First-level companies, regarding both the cash pooling of the resources available within the Group for day to day requirements (working), and for the management of the resources needed to support medium/long term investments were approved. The conditions of infragroup contracts, signed based on the above regulation, were defined according to the conditions at which the Parent procures on the financial market.

*Tax consolidation scheme* - Starting from 2007, Iride S.p.A., now Iren S.p.A., opted for tax consolidation pursuant to articles 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 recorded by the individual consolidated companies, properly adjusted for the consolidation changes.
In 2010, all financial and legal transactions between the parties were governed by the specific Infragroup agreement between the companies involved and the parent, Iride S.p.A., now Iren S.p.A..
The merged Enia S.p.A. initially adhered, as parent, to the consolidation tax scheme, together with other Group companies.
Following the favourable outcome of the request made to the Tax Authorities to continue the tax consolidation scheme with the new parent Iren, as from 1 July 2010 the companies being part of the Group tax consolidation scheme of the former Enia S.p.A. (merged into Iride S.p.A., then renamed Iren S.p.A) could adhere to the above-mentioned tax consolidation scheme.
Moreover, the new tax consolidation scope, in addition to the parent Iren S.p.A., includes the following companies, without interruption: AEM Torino Distribuzione, CELPI, Iride SERVIZI, AEMNET, Iren Acqua Gas, Iren Mercato, Iren Energia, CAE AMGA Energia, AGA, AES Torino, Mediterranea delle Acque, Zeus, Immobiliare delle Fabbriche, Nichelino Energia, Enia Parma, Enia Piacenza, Enia Reggio Emilia, Tecnoborgo, Iren Ambiente and Iren Emilia.
In particular, the afore-mentioned contract covers the way in which the IRES taxable amounts are transferred and the related remuneration charge, as well as the effects of any suspension of this scheme or of its non-application in future years.
Italian Law 244 of 24 December 2007 (2008 Finance Law), with effect starting from the 2008 tax period, radically changed the group taxation rules. It abolished all consolidation adjustments provided for by art. 122 of the Consolidated Income Tax Act, abrogated the rules regarding infragroup transfers pursuant to art. 123 of the Consolidated Income Tax Act and introduced the possibility, under certain conditions, to deduct from the consolidated income surplus interest expense of the

participating companies that may have accrued due to the new interest expense deductibility provisions set forth in art. 96 of the Consolidated Income Tax Act.
Due to the aforementioned legislative amendments, the parties agreed on the necessity to update the regulation in effect pursuant to article 22, maintaining the principles mentioned above.
After the companies chose to adhere to the consolidated tax scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay the consolidating company "tax settlements" equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.
The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the parent is able to determine the total group Income for IRES purposes.
The consequences regarding early interruption of the consolidation scheme, 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* - Both the Iride and the Enìa group opted for Group VAT settlement in 2010. As the merger took place during the year, the two settlements took place under the newco Iren S.p.A. but were kept separate until the end of the 2010 tax period. In 2011, the two positions were reunited and a new option was sent within the deadline set by the law.
From a procedural point of view, in 2010, the Group VAT settlement procedure required transferral to parent Iren S.p.A. of all obligations relating to the settlement and payment of periodic VAT.
The companies which participate in this settlement procedure, under former Iride S.p.A. are, in addition to the Parent Iren S.p.A.: Iren Energia S.p.A., Iride Servizi S.p.A., Iren Acqua Gas S.p.A., Iren Mercato S.p.A., AEM Torino Distribuzione S.p.A., AEM NET S.p.A., CAE AMGA Energia S.p.A., AES Torino S.p.A., CELPI S.c.r.l., GENOVA RETI Gas. The companies included following the extraordinary group VAT settlement transaction are: Enia Reggio Emilia S.p.A., Enia Parma S.p.A., Enia Piacenza S.p.A., Iren Ambiente S.p.A., Iren EMILIA S.p.A., Enia SOLARIS S.p.A..

Furthermore, in 2010, Iren Mercato continued operations for the gas procurement contract with the associate Plurigas which made it possible to serve, in addition to the Genoa area, several trade companies belonging to the Iren Group as well.

The Group, through Iren Mercato, disposes of a share of energy deriving from Edipower power plants through tolling contracts.

## TRANSACTIONS WITH SHAREHOLDER MUNICIPALITIES-RELATED PARTIES

The transactions of Iren S.p.A., directly or through its subsidiaries, with shareholder Municipalities identified as related parties (mainly the municipalities of Reggio Emilia, Parma and Piacenza) and with Finanziaria Sviluppo Utilities S.r.l. and the municipalities of Turin and Genoa, and its parents are mainly relations of a commercial character defined on the basis of agreements or individual contractual relations that govern the conditions under which the services are provided by the company.
The information about statement of financial position and income statement relations with related parties are set forth in the notes to the consolidated financial statements.

# RISK MANAGEMENT

The management of business risks is an essential component of the Internal Control System of corporate governance in a listed company, and the Code of Conduct set forth by Borsa Italiana assigns specific responsibilities as regards this aspect. The enterprise risk management model in place within the group is currently being adapted and implemented in the new Iren entity. The model contains the methodological approach for the integrated identification, measurement and management of group risks.

Following are the main elements of the risk management system. Please see the notes to the financial statements of the Iren Group for a full explanation.

For each of the following risk types:

- Financial risk (interest rate, currency, spread);
- Credit risk;
- Energy risk (risk factors associated with energy and/or financial markets, such as market variables or pricing choices);
- Operational risk (risk factors associated with the ownership of assets, involvement in business activities, processes, procedures and information flows, and with the group's image).

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

This model also governs the roles of the various parties involved in the risk management process, which is governed by the Group Board of Directors and requires the creation of a Group Risk Committee and specific Risk Commissions, which shall take more hands-on action regarding specific management models for each of the types of risk.

The "Risk Management" department, reporting to the CEO, was set up within the Iren Group. This department is formally entrusted with the following activities:

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

A summary of the risk management models is shown hereunder.

*1. FINANCIAL RISKS*

Iren Group's activity is exposed to various types of financial risks, including liquidity risk, currency risk and interest rate risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit such risks. Derivatives are neither used nor held for purely trading purposes.

*a) Liquidity risk*

Liquidity risk is the risk that financial resources available to the company are insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.

The Group Finance Department was centralised in order to optimise the collection and use of financial resources. Specifically, the centralised management of cash flows in Iren, both through cash pooling and centralisation of all collection and payments within the Iren current accounts, make it possible to allocate Group-wide available funds according to the needs

arising from time to time within the single companies. Cash movements are recognised in infragroup bank accounts along with infragroup interest income and expense.
Other investees have an independent financial management structure in compliance with the guidelines provided by the Parent.
Based on the cash pooling model, the accounts of all the companies are zeroed every day by means of a netting system that transfers the balances of currency transactions on the accounts of the Parent.
The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored.
Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suitable to its needs, and the best market conditions.
In December, the facility of euro 100 million was used with the support of bank guarantees. This is a 15-year loan, granted by the European Investment Bank at the end of 2008 for a total amount of euro 200 million, euro 100 million of which has already been used at the end of 2009. In December 2010, a new medium-term loan, amounting to euro 100 million, granted by Cassa Depositi e Prestiti, was also entered into and used. This loan replaced a facility of equal amount, entered into in 2009, with Cassa Depositi e Prestiti, for which the extension option was not exercised. Within the Group, during 2010, OLT Offshore LNG Toscana (41.71% consolidated) obtained a new facility from the shareholders Iren Mercato (financed by Iren within the Group cash pooling) and E.On, in equal portions and for a total amount of euro 470 million, used for the repayment of the USD 171 million bank loan obtained to cover the purchase of the gas carrier for the Livorno regasification terminal and in support of other investments. AES Torino (51% consolidated) obtained a medium term bank loan of euro 25 million and Nichelino Energia obtained a medium term loan of euro 5 million.

At 31 December 2010, 27% of the residual amount payable for mortgages was contractualised at a fixed interest rate and 73% at a floating rate.
With regard to liquidity risk potentially deriving from contractual clauses allowing counterparties to withdraw financing should certain events occur (default and covenant risk), the clauses in Iren loan agreements do not contain critical elements.
For a number of Iren medium/long-term loan agreements, a commitment to observe financial covenants is envisaged (such as Debt-EBITDA, EBITDA-Financial expense). Checks are on an annual basis and limits were defined with adequate prudence criteria and have been met in full. Moreover, other covenants such as the Change of Control clause have been provided for, which sets forth that the Iren Group should be kept under indirect or direct control of Local Authorities, as well as clauses concerning negative pledges, under which the company undertakes not to give collateral beyond a specific limit, and the Pari Passu clause, which reserves an equal treatment to lending banks with respect to the treatment for other unsecured creditors.
The medium/long-term loan agreements of certain Group companies also envisage the observance of financial covenants (Net Financial Position-EBITDA, Net Financial Position-Equity) which have been satisfied.

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

c) Interest rate risk
The Iren Group is exposed to fluctuations in interest rates above all for financial charges regarding indebtedness. Iren Group's objective is to limit its exposure to interest rate increases while maintaining acceptable borrowing costs.
The risks associated with the increase in interest rates are monitored non-speculatively and, if necessary, reduced or eliminated by signing hedging swap and collar contracts with high credit standing financial counterparties, with the sole purpose of cash flow hedges. With the exception of certain marginal positions, at 31 December 2010 all contracts to limit exposure to risk from fluctuating interest rates were classified as cash flow hedges in that they satisfy requisites for the application of hedge accounting.
The overall fair value of the above-mentioned interest rate hedges was a negative euro 24,076 thousand at 31 December 2010.
The hedging contracts agreed, together with fixed-rate loans, hedge approximately 65%

of net financial indebtedness against interest rate risk, in line with the Iren Group target of maintaining a balance between floating rate loans and fixed rate loans or in any case hedged against significant increases in interest rates.

*2. CREDIT RISK*

The Group's credit risk is mainly related to trade receivables that show no particular concentration since the credit exposure is spread across a large number of counterparties, since it is connected to the sale of electrical energy, district heating and gas to retail and business customers, public entities and the provision of water and environmental services (T.I.A. pursuant to Legislative Decree 22/97).

In order to control credit risk, operating management of which is entrusted to individual regional functions, methodologies have been defined for monitoring and control of loans in addition to the definition of strategies for reduction of credit exposure including the management of legal disputes regarding the customer and the services provided.

The internal trade credit policy and ex ante assessment tools of creditworthiness, as well as monitoring and recovery activities differ in relation to the various categories of customers and the various consumption dimension levels.

Over the last few years in order to strengthen the analysis and monitoring capacities, new tools have been introduced for the acquisition of commercial information and customer payment records, operating management for the collection of overdue receivables, outsourcing the telephone inquiry activity for certain customer segments and the management of inbound telephone calls referring to written reminders.

Credit risk is hedged, for certain types of business customers, by appropriate forms of bank or insurance guarantees upon demand issued by first rate credit entities. For some business customers with higher levels of electric energy and gas consumption, a special credit insurance policy has been taken out to cover the risk of bad debts.

An interest-bearing guarantee deposit is provided for some types of services (water, natural gas, "protected customer" electrical energy) in compliance with regulations governing these activities. This deposit must be reimbursed if the customer adopts the payment through bank/post current accounts.

Generally applied payment terms are compliant with regulations in force and are consistent with market standards. In the event of non payment, interest in arrears will be debited to the extent indicated in the supply contracts and as set out by regulations in force.

Accruals to the allowance for impairment accurately reflect the actual credit risk. In fact, for a targeted quantification each receivable amount recorded on the database is analysed, also taking into account ageing, with subsequent accrual.

In regard to the aging of trade receivables, approximately 48% consist of outstanding receivables that are not yet due, while 21% refer to receivables that are overdue up to 60 days. This distribution derives mainly from the concentration in the second half of 2010 of mass invoices relating to the electric energy service, the water service and the waste treatment and disposal services. The cluster of receivables overdue by more than 120 days is in line with the group's experience and has been affected by the ongoing effects of the economic and financial crisis as well as the consolidation of the company departments following the merger.

With regard to the concentration of receivables, we note the relations between subsidiary Iride Servizi and the Municipality of Turin. For further details please see in particular note 7 "Non-current financial assets" to the consolidated financial statements.

*3. ENERGY RISK*

*Iren Group is exposed to price risk, including the related currency risk, on the energy commodities traded, these being electrical energy, natural gas, coal, etc., as both purchases and sales are either directly impacted by fluctuations in the price of such energy commodities or through indexing formulae.*

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

*For this purpose, the Group carries out production planning for its plants and purchases electrical*

*energy, with the aim of reconciling energy self-production and market supply with demand from Group customers.*

*Effective for the first four and the last three months of 2010, two exchange transactions were carried out (Average FX Options), amounting to USD 110,000 thousand as an energy portfolio hedge to reduce the risk. In December 2010, to hedge the 2011 energy portfolio, two commodity swaps on the gas release 07 index were agreed for a total notional amount of 1 TWh as well as one average rate forward transaction of USD 142,777 thousand.*

*For 2010, the Iren Group signed Electrical Energy purchase contracts for 1,078 GWh (of which 692 GWh with GSE and 386 GWh with Tirreno Power). These hedge the parties against the risk of excessive volatility in the price of electrical energy and do not involve energy trading. In 2010, facility agreements were also signed for Energy (e.g. ITEC, Itmix, BINE) and Power (PUN), for a total of 44 GWh (with annual term) and 223 GWh (of which 175 GWh with annual term and 48 GWh traded on IDEX with monthly/quarterly term), mainly to cover individual purchases and sales and with the aim of margin-setting. Financial contracts were then purchased following the merger with Enìa totalling 110 GWh.*
*New facility agreements were also entered for 2001 on IDEX, for a total of 55 GWh.*

*The fair value of agreements that were still in force on 31 December 2010 is in aggregate negative of euro 1,622 thousand.*

*4. OPERATIONAL RISKS*
This category includes all the risks not included in the previous categories, which may influence the achievement of operational targets, i.e. relating to the effectiveness and efficiency of business transactions, including the levels of performance, profitability and protection of the resources against losses.
The Enterprise Risk Management model, which will be extended throughout the Iren Group, including on the basis of the models implemented in the former Iride and Enìa, focused on the integrated and synergic management of risks, and it implements a management process that consists of the following stages:

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

Each process stage is performed in accordance with standards and references defined at Group level.
The operating part of the process is managed by local Risk Managers, who are responsible for specific areas in coordination with a central structure providing orientation and supervision.

The operational risk management process also aims at optimizing the Group's insurance profiles in the key "property" and "liability" areas.

a) *Legislation and regulatory risks*
The legislation and regulatory framework is subject to possible future changes, and therefore is a potential risk. For this purpose, the Iren Group set up internal structures in charge of the continuous monitoring of reference legislation, in order to assess and, as far as possible, mitigate its impact. Therefore, operational risks also include those relating to the expiration of the outstanding concessions. For further details, reference is made to Annex I of this report.

b) *Strategic Risks*
The local utilities sector is experiencing a phase of important development and consolidation. Deregulation and liberalisation mean companies have been forced to adopt a more decisive approach to competitive pressure, taking advantage of the opportunities for external and internal corporate growth offered by the new market scenarios.
The strategic development plan of the Iren Group provides for significant investments, from the development of joint ventures of important regasification plants for the gas supply, to the construction or upgrading of waste to energy plants to complete the district heating extension plan, as well as to the upgrading of the hydroelectric plants, and the consolidated presence in the electrical energy and gas distribution sectors, and water sector.
The above interventions entail an exposure of the Group to regulatory, technical, commercial, economic and financial risks (obtaining of licences, application of new technologies, compliance with commercial schedules, analysis of competition, etc.), which the Group has to tackle through specific processes and structures, focused on covering all phases, from assessment, to authorisation and realization of such project.

c. *c. Plant-related risks*
In relation to the consistency of the Group production assets, plant risk is managed using the methodology described above in order to correctly allocate the resources in terms of control and prevention (preventive/preemptive maintenance, control and supervision systems, emergency and continuity plans, etc.).
As a further safeguard, Insurance Instruments are in place which have been appropriately configured according to the individual plants characteristics.

d. *IT Risks*
The major operating risks connected with the IT system involve the availability of "core" systems which include those interfacing with the Power Exchange by Iren Mercato.
The Company is in fact one of the leading Italian operators on the Power Exchange and any accidental unavailability of the system could have considerable economic consequences, connected with the non-submission of energy sale or purchase offers.
To mitigate such risks, specific measures have been adopted, such as the redundancy of parts of the system and appropriate emergency procedures ("disaster recovery"), which are periodically subjected to efficiency testing.

# RESEARCH AND DEVELOPMENT

Research and development performed within the Group in 2010 was mainly geared towards optimising and improving operating applications and the assessment of new technology opportunities. The following are the principal research and development activities carried out in 2010.

## TURIN AREA

### Energy savings and renewable sources

*Action plan for sustainable energy (TAPE) of the municipality of Turin*
Iride Servizi has cooperated on setting up the plan which is part of the Covenant of Mayors initiative launched by the European Commission, the members of which have committed to reduce carbon emissions over 20% by 2020.

*Plan for the Energy Sustainability of the Municipality of Turin*
Iride Servizi continued to cooperate with the Municipality on implementation of the Municipality of Turin Sustainable Energy Plan. The project provides for four areas of intervention:

- energy restructuring in public buildings;
- active policies in favour of energy saving and the use of renewable energy sources;
- creation of an innovation centre dedicated to energy and environmental topics;
- technical training on energy-related subjects.

In particular, during 2010, the projects relating to the first three buildings were set up (there will be six in total) and these will undergo intervention in the 2011/2012 period; the remaining projects will be set up during the course of the year.

*Project for the construction of a network for powering electric vehicles*
As part of its collaboration with the city of Turin, Iride Servizi has set up a project for the realization of a network of small columns for the recharging of electric vehicles.
In its initial phase, the initiative provides for the installation of 10 recharging points located in the centre of the city: This initiative is part of the European territorial cooperation program Alpine Space through the CO2 Neutral Transport for the Alpine Space "CO2-NeuTrAlp" project.

*Photovoltaic plants*
The activity of constructing a 160 kWp plant on the roof of a building used as a garage in Turin's Martinetto industrial centre continued and furthermore other corporate locations were studied, including the Pianezza street building, which can be considered for the construction of new plants.
As regards the relation with the city of Turin, support was provided in designing the two small plants that will be constructed in "Spina 3" (Valdocco Area ) and "Spina 4" (Porqueddu Area) respectively.

*Heating systems for Turin Municipal buildings*
Construction has been completed on the small, gas-powered trigeneration systems (100 kW heat, air-conditioning and electricity systems) installed in the offices of the Civil Defence Department in Turin.

*Municipal electrical systems*
The use of fluorescent bulbs, which was the subject of previous experiments, within the renovation works of the electrical plants in municipal buildings and, in particular, in school buildings, continued. The use of such bulbs was combined with an automated system for light flow regulation based on light sensors and on people-detector systems. This gives an excellent yield of the bulbs, extends the average life of equipment and avoids energy wastage, considering the average usage levels.

*Public lighting in Turin*
The experiment involving equipping Turin public lighting with "led" lights began and a further plan which will be implemented during 2011 is underway for elimination of approximately 7000 lights which still contain mercury vapour lamps.
During the year the PRIC (regulation plan for public lighting) was updated and is set to be approved by the municipal council in the first four months of 2011.

*Services Innovation Project for the Municipality of Turin*

This activity, managed through a dedicated project team, has continued in several sectors:

- Business Intelligence: the system, in operation, enables monitoring of the municipal heating system consumption, by providing detail and summary reports on the measurements taken;
- Mobile Computing Applications: the MOB-I system, already used for real-time management of scheduled maintenance and fault repair work on heating plants, was expanded to incorporate management of the municipal electrical systems and during the year the system for the traffic lights that will go into production in 2011 was developed;
- Sales Management: during 2010, a procedure was completed which allows municipal offices to submit requests and to approve quotes via the web-based application, therefore eliminating a part of the correspondence management workload.
- Technical Documents: this system is operational and manages the document, hard copy and electronic archive for electric, thermal and special plants; during the year, the activity of rationalizing the documentation continued in order to eliminate the previous system which was by then dated;
- Website for breakdown notifications: pages have been added to the Iren portal for the notification of breakdowns and the insertion of intervention requests for municipal heating and electricity systems. The application communicates with SAP and automatically creates and assigns the activities which it forwards to the MOB-I system. During 2011, use of the application will be extended to all municipal buildings.

*Mini-hydro plants*

Planning was completed on requalification of the Chiomonte (TO) and Susa (TO) hydroelectric plants, for which 3 new hydroelectric groups are to be installed: one 8.7 MW group at the Chiomonte plant and two groups of 4.8 MW and 1.5 MW at Susa with expected production of approximately 40 GWh/year. In May 2010, Valle Dora Energia S.r.l. was established with the municipalities of Susa, Chiomonte, Exilles and Salbertrand which, during 2011, will begin the authorization process to obtain new hydroelectric concessions.

The authorisation procedure was concluded for installation of a 0.6 MW hydroelectric unit on the artificial course for the fish population, to be constructed adjacent to the diversion weir on the River Po in the municipality of La Loggia, expected to produce approximately 4 GWh per year (the concession agreement is expected from the province of Turin).

The authorisation procedure continued for a new 1.2 MW plant for construction in the municipality of Noasca (TO), with expected production of around 3 GWh per year and for which the decision of the environmental compatibility authorities has already been obtained.

Planning has been completed and the authorisation procedure launched for a new 1.8 MW plant (Dres) to be constructed in the municipality of Ceresole (TO) with an expected production capacity of around 4 GWh per year.

The new hydroelectric plant of Baiso (RE) has been completed: two groups of 1.1 MW each for an expected production of approximately 9 GWh/year.

*Mobile computing applications*

Mob-I (Mobile Integration) is a workforce management system used by the Iren Group, which makes it possible to integrate BackOffice Systems which manage maintenance, work for consumers and immediate intervention with Electronic Devices used directly on the fields such as Tablet PCs, PDAs (Personal Digital Assistant), Smartphones, Digital Pens or remote activators such as electronic meters.
Mob-I was implemented for AEM Distribution as from 2004 and then adopted by Iride Servizi in 2005, Iren Energia in 2007, AES in 2009, Mediterranea delle Acque in 2009 and Genova Reti Gas in 2010.
During 2010, the Mob-I client application was developed using functionalities recently introduced by HTML5, which made it possible to store on the device the information even in the absence of a network connection, so as to ensure operation including under conditions with limited coverage.
The advantage of using HTML5 lies in the possibility of installing the same version of the client on many different devices, both insofar as the hardware features, such as for example the dimensions of the screen, and as regards the operating system adopted, as the application will work with any browser that supports the standard.
In this manner it was possible to install the Mob-I client on Genova Reti Gas Honeywell PDAs that use the windows mobile operating system and AES's Motorola PDAs.
The same client works also on traditional tablet PCs that run on the windows operating system, smart phones and tablets that use the Android operating system and mobile devices that use the Apple OS such as the IPhone or IPAD.
The solution allows for significant savings, whether they are of economic nature because it is based on standard technologies but do not carry licensing costs or organizational, because management can avoid maintaining various types of clients depending on the device used.
In regard to the AEM Distribuzione MOBI applications, The Workforce Management System used by internal and external personnel for planned activities as well as the management of breakdowns on the electricity distribution network, was further expanded through the integration of the Transformation and Conversion activities. The integration will make it possible to reduce the work scheduling previously carried out on each individual system.
The previously used scheduling module was further expanded with new functionalities to improve the activities involving the central scheduling and assignment of work.
Furthermore, a new version of the WFM system (client side MOBI) was introduced with improved characteristics and performance which will be distributed to all operations teams during 2011.

*Remote control of the district heating networks*

The project for the remote control of the district heating network aims to provide the tools for efficient management of consumption control, the configuration of the operating parameters, the technical maintenance activity and management of the SST alarms in order to improve the services to the district heating customers.
To this end the technological platform has been planned which is able to acquire the operating parameters from the substations, process the data and offer the necessary reporting and control tools. The project consists of setting up the entire technological platform and includes both the supply and installation of the peripheral hardware to be installed at 5600 substations as well as the connection of the transmission data and central servers and development of processing software.
This platform includes the construction of an electronic data collection network based on GPRS technologies, through which the data from the periphery will be transmitted to the central processing system. Through a dedicated software development activity, algorithms will be implemented for processing of the field protocols in order to monitor the individual physical volumes. The user interfaces will therefore be set up using standard market and open source software environments, able to display the operation data and send commands for the implementation of climatic regulators.
These interfaces will be made available to AES as well as the companies that carry out the maintenance activity at the district heating plants.

*SOA - Service Oriented Architecture*

During 2010, the SOA oriented architecture evolution adopted by the corporate information systems continued.
In 2005, the first web services were implemented to link the various applications and communication using an EAI (Enterprise Application Integration) system.
In 2007, a BRE (Business Rules Engine) was introduced to manage in an orderly and documented

way the complex business logic required for integration between the customer management system and invoicing with the remotely managed electronic meters system.
In 2010, a system was introduced for monitoring in real time the BAM (Business Activity Monitoring) company activities, which makes it possible to graph the work flows through various systems which over time have been implemented to manage unbundling issues and organisation of field operations. The BAM system uses probes installed on the systems being monitored to recover the significant events of the works such as creation and the change of status. The events are collected cyclically by the system through a series of web services and memorized within its own database.
The BAM is able to relay the events originating from various systems that refer to the same work providing both an aggregate report with the various details and a summary and intuitive graphic representation in the form of a UML sequence diagram; furthermore a series of rules defined in the BRE makes it possible to send alarms via e-mail and signal situations defined as irregular or to be kept under control.

## GENOA AREA

In 2010 as in previous years, the Group paid particular attention to technological innovation and updating its specific knowledge in the water area and particularly the quality of the waters for human consumption. To this end, through the AMGA Foundation, it promoted and supported specific research projects carried out during the course of the year in collaboration with universities and research entities at the national and international level.

Iren Acqua Gas and the AMGA Foundation have maintained their participation active in the water supply and sanitation technology platform (WSSTP) which was initiated in 2004 by the European Commission as part of the seventh framework program in order to support, through the collaboration of all stakeholders, research and knowledge transfer and competences for sustaining growth and competitiveness in the water sector and providing useful suggestions for the definition of research priorities in the European water sector.
In addition to being involved in various working groups and task forces, the Group collaborates and coordinates the work group activities involving the Pilot Programme on Urban Area, with particular reference to activities relating to the management of infrastructures, flooding in urban areas, environmental contamination, the impact of climate change, the quality of water resources and sludge from purification plants.
In addition to that, Iren Acqua Gas and Fondazione AMGA are members of the Water Research Foundation (Water RF – American aqueduct foundation) in which approximately 1000 North American and international entities are members who contribute to carrying out research programs at the highest scientific level with which an effective collaboration has been established for years including through joint projects on issues of common interest.
Thanks to the networking activity and the collaboration promoted at the domestic and International level, the Iren Group is able to integrate available staff through external financing: Indeed, various projects which were presented were financed as European programs and proposals for projects which were presented as part of ad hoc partnerships are currently being defined.
The main research topics are: water analysis and control, best practices for water treatment and potabilisation, models and innovative technologies for the management of the infrastructures in the water sector.
In 2010, Iren Acqua Gas and Fondazione AMGA also participated in the TICASS Consortium (acronym for Tecnologie Innovative per il Controllo Ambientale e lo Sviluppo Sostenibile –innovative technologies for environmental control and sustainable development). In this area, Fondazione AMGA and Iren Acqua Gas aim to create a technological innovation hub for the promotion, development and transferral of innovative technologies in the control and management of the environment and sustainable development, aimed at improving the quality of life. In particular, Iren Acqua Gas supervises the activities planned within the management and valorisation of water and environmental resources, coordinating the activities of the specific sector and defining the research and development priorities for stakeholders, as these are proposed within industrial research project proposals. Within TICASS, Fondazione AMGA carries out an important connection role with the aforementioned European water supply Technological Platform and the Sanitation Technology Platform.

In particular, in 2010 Iride Acqua Gas initiated and/or completed the following projects:

*Interfering endocrines in waters destined for human consumption*

This project was started in 2009 and takes into consideration the issue of interfering endocrines "EDs" which are a heterogeneous group of substances that imitate the effects of natural hormones or interfere with them, to interact with the endocrine system and can affect health.
The project "interfering endocrines in waters destined for human consumption," carried out in collaboration with several Italian universities (Genoa, Pisa, Trento), the Istituto Superiore di Sanità (ISS), other Italian aqueducts (Genoa, Como, Florence, Bari, Turin, Bologna) aims to establish the valuation method to be used by the operators of aqueducts to check the vulnerability of their resources to the presence of EDs, which provides for the use of various tests that are partially directly executable by the operator of the structure in question.
During 2010, the project continued the monitoring campaigns in the six case studies identified (at the aqueducts of Genoa, Turin, Bari, Como, Bologna and Florence) while optimizing both the chemical techniques as well as the biological techniques created especially for the project during the preceding year. The progress of the work group's activity were officially presented and published in domestic and international magazines. The group activity is expected to be concluded in 2011 and in particular, a convention on the specific issue will be organized to illustrate the results obtained and the commitment made by the group and Fondazione AMGA to this issue.

*Assessment of microbiological risk in the approach of Water Safety Plans and development of analytical support methods*

The project named "Assessment of microbiological risk in the approach of Water Safety Plans and development of analytical support methods" aims to set up an investigation method for identifying new species of pathogens of communitary and legal interest and identifying the work methodology that can be exported to any aqueduct making it possible to appropriately examine the criticality tied to microbiological contamination throughout the entire treatment chain. This methodology makes it possible to follow that course indicated by the criteria processed as part of the Water Safety Plans in regard to microbiological risk.
In collaboration with Istituto Superiore di Sanità, forms have been drafted for most of the pathogens affecting aqueducts, relating to the identification of risk conditions as they relate to territorial and structural features. Furthermore the department of environmental and life sciences of the university of Piemonte Orientale have set up microbiological methods for researching pathogens that have been identified as being of a priority nature which have currently been transferred to the Iride Acqua Gas laboratory and are being used to increase knowledge about microbiological contamination in water, managed by the Iren Group.

*Asset Management: decisional models under data uncertainty or unavailability scenarios*
This project arises from the operators' need to plan investments in their water mains and sewer infrastructures, taking into account their impact on service levels and systematically overcoming the problem of uncertainty of available data.
The decision makers' support tools depend on the uncertainty of the incoming data and the models used in the parameters assumed; the project provides for identification of the types of uncertainty and their quantification, assessing the impact of the models on the outputs and developing methodologies aiming to obtain the best possible solutions.

*Decision model for the management of water resources*
The management of water resources based on multiple procurement sources requires complex decision processes, which take into consideration the demands of consumers, the energy implications, the quality requirements for the supplied water and the contingent and forecasted availability.
The project provides for implementation of a mathematical model, applied to the Genoa water system which contains all the elements of the procurement and distribution system and makes it possible to apply management strategies to water resources under ordinary and emergency conditions.

*Definition of guidelines for the realisation of a processing system for urban waste water and sludge*
This project included a preliminary study prior to the design of new purification systems that can centralize the treatment of a portion of the waters and sludge from certain zones surrounding the urban area. The applicable technologies were analyzed in order to obtain the best possible result in regard to the quality of the purified water, the energy used, the management of sludge destined for final disposal and the elimination of bad odours.

*Analysis and estimate models of the flexibility of demand in relation to price*
This project aimed to carry out econometric analysis of the demand for water for domestic use, particularly the flexibility parameter (for industrial and/or agricultural uses as well, if possible), creating a database on volumes and the tariff structure in Italy at municipality level, integrated with other information of a social and economic nature.

## EMILIA ROMAGNA AREA

The research and development issues relating to SPL Iren Ambiente and Iren Emilia focused mainly on the use of renewable resources, rationalizing energy consumption, processing waste and processing residue, watching over environmental well-being, developing new materials and converting into electric energy.
Attention was paid to developing new materials to be used in the photovoltaic cells for the generation of Electric Energy. Control units based on usage of biomass associated to turbines or small size motors for the generation of energy have currently being placed under observation. New integrated generation solutions are proposed constantly using different production methods, usually solar energy in combination with wind energy or biomass so as to use the source that is most convenient at the time.
Energy savings is also an area in which in depth research is carried out. The combination of various plants set up in such a way that each uses the energy that has been unused by another plant (waste to energy, combined cycles) making it possible to recover energy that would otherwise be lost.
An important research area consists of the development of optimization algorithms and algorithms for control of plant management. The conversion into electric energy requires constant attention to the development of appropriate generators (generators for wind plants) and the architecture of static converters and the relative regulation systems that make it possible to connect plants producing from heterogeneous sources to the national distribution network in such a way that the various energy sources can be used to the best advantage.
The research activity in the renewable sources and energy savings area also covers all areas of the water sector, from correct management of resources to usage of its various components.
Studying the treatment of waste and residues as a source of alternative energy is one more line of action taken by the research and development activity.
Last, but not least, is the sector of electric mobility, the study and development of smart grids and their sustainability.

# ORGANISATION

The most significant event of 2010 was the completion of the merger of Enìa S.p.A. into Iride S.p.A., which gave rise to the Iren Group as from 1 July 2010, the shares of which are listed on regulated markets managed by Borsa Italiana.

The architecture of the new group provides for:
- An industrial holding company (Iren S.p.A.), which through its departments/central units:
  - carries out management and coordination, through the definition of strategic guidelines, management guidelines, allocation of resources and the coordination of various business segments belonging to the Group
  - directly carries out certain operating activities for the various group companies
  - carries out in-service activities for the various group companies

  ensuring supervision of the integration of the group.
- Five first level companies, wholly owned by the industrial holding company, that manage the individual business segments, through organizational structures appropriate for management of operations, act on the various market sector whether directly or through their subsidiaries or investee companies.

The First-level companies are:
- Iren Energia S.p.A. (registered office in Turin), leading company of the "Electrical Energy" and "Technological Services" segment, manages the electrical energy/energy-heat waste to energy plants and the electrical energy and heat generation and distribution systems, as well as technological services (thermal and electrical plant, street lighting and traffic lights, facility and fleet management, etc., excluding ICT) directly and/or through investees for internal as well as external clients.
- Iren Acqua Gas S.p.A. (registered office in Genoa), leading company in the "Water" segment, manages the Integrated Water Services directly and/or through investees;
- Iren Mercato S.p.A. (registered office in Genoa), leading company in the "Market" segment, manages the procurement, trading and sales activities of electrical energy-heat, gas and energy-related services, directly and/or through investees;
- Iren Emilia S.p.A. (registered office in Reggio Emilia), the leading company of the gas segment manages the gas distribution activity and ICT/TLC Services and sanitation services directly and/or through investees;
- Iren Ambiente S.p.A. (registered office in Piacenza), leading company in the "Waste treatment and disposal" segments, manages, either directly or indirectly, the waste treatment and disposal plants and plants as well as renewable resource plants (biomass, wind, sun, geothermal, etc., excluding hydroelectric power plants) directly and/or through investees.

The Appointed Bodies of the Holding are entrusted with the task of coordinating the First-level Companies and the related business segments, as defined by the articles of association of Iren S.p.A..

The First-level Companies have been assigned the task of "functional coordination" over the entire sector, also with respect to Companies located in different areas. They are mainly entitled to act on issues such as business development (off-area development, management of tenders, etc.), budget and multi-annual plans, tariff and investment policies, research and development, innovation, operational and project standards, etc..

Among the major projects initiated within the Group, in addition to the reorganization activities following the merger, the project for the review of the management, executive and professional positions using the Hay method is worth special mention.

# PERSONNEL

At 31 December 2010, the employees working for the Iren Group totalled 4,752, down by 3.4% compared to the pro forma figure at 31 December 2009 which was 4,917 employees. The table below provides a breakdown of staff at 31 December 2010, divided into Holding and First-level companies (with their relative subsidiaries).

| Company | Workforce at 31/12/2010 |
|---|---|
| Iren S.p.A. | 270 |
| Iren Acqua Gas and subsidiaries | 1,049 |
| Iren Ambiente and subsidiaries | 241 |
| Iren Emilia and subsidiaries | 1,711 |
| Iren Energia and subsidiaries | 1,045 |
| Iren Mercato and subsidiaries | 436 |
| **Total** | **4,752** |

The decrease which took place in 2010 is the result of:

i. The further development of the workforce management policy, with recruitment restrictions and staff-leaving incentives, which has led to a decrease of 64 employees.
ii. The disposal of the Tema scrl branch with staff of -80 and the acquisition of Undis Servizi Srl with staff of +13, both transactions carried out by Iren Ambiente resulting in a decrease of 67 employees.
iii. Classification among the assets held for trading of Aquamet, the workforce of which is 34 employees.

At 31 December 2009, workforce was decreased by 165 employees overall.

## TRAINING

Training within the Iren Group constitutes significant leverage in support of management policy, growth and valorisation of human resources and is developed in line with organizational strategies and internal innovation processes.
Over time training has assumed a lifelong learning character and is therefore flexible and interactive. It is understood as a constant process of individual and collective learning, through which behaviours, competences and the cultural values of the group are developed along with a sense of belonging and the quality of work and relations.

In 2010, the man-hours linked to the various education and training initiatives organised by the Iren Group totalled around 90,000 hours. These figures do not include hours spent during informal on-the-job training and self-training, or hours spent training companies and third party entities.

Among the initiatives we highlight the following:

- In the Emilia Romagna area, the gas emergency and first aid project carried out in a blended format, that is traditional classroom training and distance learning using a platform named "Energy Academy" created to integrate and transform traditional training locations into extended permanent learning environments, implemented and populated during the year;
- In Genoa, the "Training for Assistants" project aim to promote professional development, through synergy and alignment with the corporate mission with a focus on interpersonal, managerial and organizational relations;
- In the Turin territory, the project focusing on Assistants involved in the realization of the new Torino Nord waste to energy plant, with two training modules, one oriented to its development of collaboration capacity and problem solving carried out outdoors and the other with a focus on negotiation.

At the end of November, the training needs for 2011 were set forth, using a method applied throughout the group using questionnaires and structured interviews which involve managers and junior managers.

# INFORMATION SYSTEMS

The merger process and consequently organizations of responsibilities in 2010 also affected the information systems with the establishment of an information systems and TLC department within the holding company, with operating competence on systems supporting the group's transversal and support processes.
The activities carried out by the information system department in particular were mainly focused on ensuring operational continuity for the various companies belonging to the group through realization of automatic interfacing procedures between the preexisting accounting systems. Furthermore, the new system was developed for management of administration, control, logistics, the treasury and consolidated financial statements of the parent Iren S.p.A. and the application environments of Iren Emilia S.p.A. and Iren Ambiente S.p.A. were adapted to the new organizational structure.
Concurrently, the objective of achieving a single system for the calculation of the payroll of the entire group, the implementation of the new process for handling the holding company's incoming and outgoing correspondence and the integration of e-mail systems was reached and implementation of the necessary infrastructure systems was carried out for Iren S.p.A.
In regard to technology, the group's major branches were interconnected on an intranet and video conferencing systems were implemented, telephone systems were integrated so that calls to the operators can be redirected to all group telephone users while all group users are able to connect to each other using a short number without going through the public telephone network.
In regard to invoicing final customers, the changes were made as needed after the reorganization from the merger; for projects begun by Iride and Enìa relating to the physical separation of the databases of the distribution and selling companies in the electric energy &gas sectors, a study was initiated aimed at integrating and rationalizing the activity underway so as to promote convergence to a single application platform and avoid duplicating interventions.
The overall architectural design was applied to the group information systems in order to uniform and rationalize the solutions used in the various companies and render the architecture compliant with regulatory provisions.

# QUALITY, ENVIRONMENT AND SAFETY

## QUALITY

All the first level companies belonging to the Iren Group have systems that are certified according to international ISO 9001 (Quality), ISO 14001 (Environment), excluding Iren Mercato that does not obtain certifications according to the ISO 14001 standard. The Turin and Genoa companies also have certification pursuant to the OHSAS 18001 standard (Safety).
Currently the Quality, Safety and Environment systems are managed in each first level company by the respective departments; furthermore, they are in line with the group policy, which is strongly focused on sustainable development of the company, in a corporate as well as environmental sense.

Turin and Genoa first level companies (SPLs) and their subsidiaries implemented in 2010 the system for managing the security of corporate information, pursuant to international standard ISO 27001, this also having the purpose of ensuring that the manager in charge of financial reporting is able to effectively manage the flow of accounting records. This system consists in assessing the risks in which the businesses and instruments used are exposed and in planning and implementing countermeasures necessary to prevent and manage these risks. During 2011, we intend to develop this risk management system by integrating it into the current operating – economic – financial risk management system.

EMAS Registration (EU Regulation 761/2001 or the EMAS Eco-Management and Audit Scheme) was confirmed for 2010 for the Moncalieri thermoelectric production plants and the updated 2009 Environmental Report was approved.
The Turin SPLs together with AEM Torino Distribuzione pursued their course towards EFQM excellence (European Foundation for Qualità Management), led by the local public services agency (Agenzia dei Servizi Pubblici Locali) developing benchmarking projects on energy savings and corporate reporting. In 2011, the self evaluation process will be reiterated according to the revised criteria of the 2010 EFQM model.

Iren Acqua Gas and Mediterranea delle Acque received the Excellence certification from the certification organization (obtained in 2000 as AMGA and Genova Acque, respectively). The pursuit of corporate excellence was obtained through control of all aspects relating to quality, environment and safety and the realization of an integrated management system that makes it possible to constantly monitor and control the three aspects.
Genova Reti Gas has for some time now had a certification system covering all three standards.
Furthermore, in 2009, Laboratori Iride Acqua Gas obtained certification for UNI EN ISO 9001:2008, UNI EN ISO 14001:2004 BS OHSAS 18001:2007 standards.

The SPL Iren Emilia S.p.A. and three other territorial operating companies, Enìa PR S.r.l., Enìa RE S.r.l. and Enìa PC S.r.l., and Iren Ambiente S.p.A., have maintained their certification pursuant to standards UNI EN ISO 9001 (Quality) and UNI EN ISO 14001 (Environment), with their strong competence acquired on the territory and the multiplicity and multidisciplinary nature of the services provided to customers and citizens.
During 2010, audits were successfully conducted on the supervision of the management system for quality and the environment and verification of the supervision of the corporate management system for compliance with standards concerning emission trading verifications and the concurrent validation of the declaration regarding Co2 emissions pursuant to Directive 2003/87/EC as amended for the competent activities and plants.

During 2010, the SPLs Iren Emilia and Iren Ambiente were involved, together with territorial operating companies, in consolidating the system for quality management in the Parma area, through organization and coordination of specific workgroups on the development of technical documentation, in the implementation of the quality management system for plant management and gas networks and Piacenza for the extension of certification pursuant to ISO 9001 to them, implementation of a preliminary environmental analysis pursuant to ISO 14001 in the Reggio Emilia area for the Mancasale site and treatment plant, the conclusion of the preliminary environmental analysis pursuant to ISO 14001 in the Reggio Emilia area for the Poiatica landfill and complex site located on Via Gonzaga and finally, the implementation of the environmental management system for the activities connected with the Poiatica site.

For 2011, the Iren Group will operate in the following areas in regard to certified systems:

- Extension of the QAS certification to two organizational units and assets acquired following the merger with former Enia, for companies in the Turin and Genoa area.
- Certification pursuant to the OHSAS BS 18001 standard (Safety) for CAE – Idrotigullio and Amter.
- Renovation and/or maintenance of accreditation for the laboratory located in Imperia and Reggio Emilia.

## SAFETY AND ENVIRONMENT

### Safety

With regard to safety, the policies of the Parent Iren S.p.A and the Companies leading the business segments have always been aimed at complying with the relevant safety laws while also attaining constant improvement.

During 2010, safety-related activities were carried out in compliance with OHSAS 18001 regulations, making it possible to maintain certification for the Turin and Genoa companies.
For Iren Energia, Iride Servizi and AEM Torino Distribuzione, the periodic management committees which handle and monitor safety aspects in general continue.
The Risk Assessment Documents have been updated for the company's/structures involved in the Iride – Enia merger.
Risk evaluation has been started for ionizing optical radiation while procedures have been put in place for assessing work related stress.
The verification of the safety aspects inherent in the Torino Nord project continued.
Training proceeded along the lines of the training schedule and involved, among other things, courses for managers and junior managers, on the new AEMD procedures relating to the prevention of electricity risk, regulations on contracts and work sites and specific risks (alcohol and drug addiction).
New staff safety representatives elected for Iren Energia, Iride Servizi and AEM Torino Distribuzione were also trained. During 2010, Genoa company staff safety representatives also received annual training updates.
The persons responsible for workplace safety and hygiene have been formally identified: the employer, executives and officers, assigning any specific delegated powers or specific assignments according to the complexity of the department.

Iren Emilia has an internal Prevention and Protection Department with the requirements necessary for the tasks of the Prevention and Safety Service Manager (RSPP) and the Members of the Prevention and Protection Service (ASPP). Iren Emilia's prevention and protection department carries out the tasks for the group's other companies located in Emilia Romagna. The employer has appointed three competent doctors to carry out the health supervision tasks in the provinces of Parma, Piacenza and Reggio Emilia. This activity is carried out with the updating of the documentation in order to align it with the new corporate organization. The Prevention and Protection Department provides a training schedule for safety for all the group's Emilia Romagna companies and ascertains the effectiveness of the training. The employer Iren Emilia has conferred to the manager of the safety department via a proxy drawn up by a notary the powers for implementation of the safety policy and the verification of its implementation.

### The environment

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

The following resources have been deployed in order to ensure a sustainable corporate growth based on a constant improvement:

- development of electrical energy from renewable resources (hydroelectric) or similar to renewable resources (waste to energy), as well as promotion of district heating, as supply of thermal energy having a lower environmental impact, and adoption of the best plant technologies available on the market to ensure the lowest environmental impact;
- enhancement of the use of water resources in terms of collection and use as well as release and discharge;
- correct management of production, stocking, transport and disposal/recovery of special waste.
- dissemination of information on the impact of corporate activities on the external environment, through specific reporting, such as the Sustainability Report, the Environmental Statements, etc..

From an operational point of view, to ensure the lowest environmental impact, the Group reconfirmed its commitment especially to:

- maintenance of UNI EN ISO 14001:2004 Environmental Management Certification and EMAS registration for the environmental management systems. In particular, with the issue of the new European Parliament and Council Regulation (EC) no. 1221/2009 on the on organisations' voluntary adhesion to a common system of ecomanagement and audit (EMAS), the Group implemented the content of the new Regulation in EMAS documentation at the Moncalieri thermoelectric plant;
- monitoring of environmental performance through the use of special indicators for each single significant environmental aspect;
- control of the impact of plants on the environment, especially as regards emissions, air quality, waste water, noise and electromagnetic fields, odours and biodiversity;
- performance of special internal audits aimed at checking the correct management of critical environmental issues for the corporate plants;
- in compliance with administration tasks, especially as regards the monitoring and controls granted by the Environmental Integrated Authorisations (I.P.P.C. Directive) and the issue of greenhouse gas emissions (Emission Trading System) for the plants involved;
- continuous involvement of the company's staff, through special training courses, scheduled on an annual basis and focusing on environmental issues and the best practice for the management of plants, to ensure the lowest environmental impact;
- implementation in the various sites of the Iren Group of the new control system of waste traceability. This system is called SISTRI, created by the Minister of the Environment and Territorial and Sea Protection to ensure an innovative and more efficient management of the entire waste treatment segment through advanced technological solutions.

# IREN AND SUSTAINABILITY

To grow in a sustainable way to generate value for stakeholders, while reconciling economic, social and environmental objectives is a fundamental target for the Iren Group.

The new group, which has come about through the vision of the shareholders which consisted of creating a modern company able to produce wealth while safeguarding the environment and respecting the expectations of stakeholders, proceeds along the road it has chosen in regard to sustainability since growth is planned and implemented in compliance with the principles of Corporate Social Responsibility (CSR).

Respect and protection of the territory, responsible use of natural resources, research for a continuously improved quality of air, water and generally the quality of life by minimizing various forms of pollution and increased eco-compatible energy make the group one of the leading operators in the country insofar as the capacity to grow in harmony with the environment and the territory.

Respect and empowerment of the people constitute a fundamental principle which inspires the group's personnel policies. To increase professional competences, promote creativity and active participation while respecting fundamental human rights are considered to be essential prerequisites for the company's growth and development. The general objective is to "be a team," integrating individual competences and functions within a system based on shared rules and maintaining the competitiveness of employees high through policies aimed at increasing quality and professionalism.

The Iren Group has inherited from its predecessors, the Iride and Enìa Groups, the strong tie with the territory of reference, placing particular attention on dialogue and the involvement of citizens and stakeholders as a fundamental element for social and economic sustainability.

In order to communicate to its stakeholders the actions, results and objectives in regard to social responsibility, the Iren Group publishes a sustainability report each year.

The document represents a tool to expresses the values, strategies and qualitative/quantitative relations with major stakeholders. It furthermore constitutes a tool for management of corporate performance, able to monitor results and identify objectives for the future in regard to the company's social responsibility, in line with the principle of continual improvement.
The Iren Group prepares the sustainability report according to the "Sustainability Reporting Guidelines & Electric Utility Sector Supplement" provided by the Global Reporting Initiative (GRI) in 2009; furthermore, the "principles for the preparation of the social report" prepared by the study group for social reporting [Gruppo di Studio per il Bilancio Sociale (GBS)] are taken into account as a reference for the preparation of the report for the determination and distribution of added value.
The document is reviewed in accordance with the criteria issued by the International Auditing and Assurance Standards Board.

# INFORMATION ON IREN'S CORPORATE GOVERNANCE

Iren S.p.A. results from the merger of Enìa S.p.A. into Iride S.p.A. (taking the name of Iren S.p.A.) which took effect on 1 July 2010.
The merger between Iride and Enìa was promoted by their respective majority shareholders, FSU S.r.l. (equally owned by the municipalities of Turin and Genoa) and the municipalities of Reggio Emilia, Parma and Piacenza in order to create a new entity able to develop industrial synergies and become a hub for further aggregations on the domestic market.
Iren S.p.A. is organised as an industrial holding company, operating in the business segments of the merged companies through a group of five first level companies specialised in management of the various business areas, which operate directly or through their investees in the various segments.
This structure aims to enhance the complementary nature of the two original Groups and strengthens both the territorial roots and integration of the various business segments.
Management and coordination over subsidiaries is carried out by Iren S.p.A. as expressly provided and governed by the Articles of Association of Iren S.p.A. and in the Articles of Association of the first level companies. The articles of association of Iren S.p.A. also provide that: (i) the chairman be in charge of the coordination of first level companies, Iren Acqua Gas and Iren Mercato, as well as their subsidiaries and/or investees and the related assets (ii) the CEO be in charge of the coordination of the first level company Iren Energia and its subsidiaries and/or investees and the related assets; (iii) the general manager be in charge of coordination of the first level companies Iren Emilia and Iren Ambiente and their subsidiaries and/or investees and the related assets.

## CORPORATE GOVERNANCE – POSTPONEMENT

The company operates under a traditional governance model the operating rules of which are dictated by these articles of association in addition to applicable primary and secondary laws.
In particular, in regard to management powers, the board of directors assumes a central role and, for issues that do not fall under the exclusive competence of this body, the articles of association provide for delegation by the board of directors to the executive committee which, in turn, is required to sub-delegate certain issues to the chairman, CEO and general manager.
In regard to the shareholders' meeting, the board of statutory auditors and the legally-required audit, subject to applicable laws, the articles of association establish tasks and operation under articles 9, 10, 12, 19 and 20.

With regard to Corporate Governance of the company, and specifically:

- adoption of the Code of Conduct for listed companies promoted by Borsa Italiana and the related implementation status;
- the report on corporate governance and ownership structure with information pursuant to art. 123-bis, Italian Legislative Decree no. 58 of 24 February 1999, as amended (the Consolidated Law on Finance).

Reference should be made to the "Report on corporate governance and ownership structure" pursuant to art. 123-bis of the Consolidated Law on Finance, drafted in compliance with Edition II of the Format issued by Borsa Italiana S.p.A. in February 2010, and prepared in observance of disclosure obligations to Shareholders and to the market as envisaged by Borsa Italiana's Code of Conduct (2006 edition) and art. 89-bis of the Issuer Regulation.
For 2010, in consideration of the fact that the merger of Enìa into Iride took place with effect from 1 July 2010, three reports on corporate governance and ownership structure were prepared: two referring to the first half of 2010 (Iride and Enìa) and the other to the second half of 2010 (Iren).
This report and related annexes, pursuant to art. 123-bis, subsection 3 of the Consolidated Law on Finance are disclosed together with this Directors' Report and are available to the public from the company's registered office and Borsa Italiana S.p.A.. The documents are also available in the Investor Relations section on the website www.gruppoIren.it.

In order to conform its own corporate governance model to the recommendations set forth in the Code of Conduct, in its meeting of 30 August 2010 the Board of Directors of Iren established:

- A committee for remuneration (the "**Remuneration Committee**) for carrying out the functions set forth in article 7 out of the Code of Conduct and the specifications made in the meeting of the Board of Directors held on 30 September 2010;

- An internal control committee (the "**Internal Control Committee**") to carry out the functions set forth in article 8 of the Code of Conduct.

Furthermore, pursuant to the provisions introduced by Legislative Decree 27 of 27 January 2010, Iren will propose to its shareholders the adoption of proposals modifying the articles of association during the shareholders' meeting convened to the approve the 2010 financial statements.
Following is a brief description of the competences attributed to each committee and the relative composition.

### Remuneration committee

The Remuneration Committee is a body that acts in a consulting and recommendation capacity, the main task of which is:

(i) to present remuneration proposals to the Board for the CEOs and other Directors that have certain duties, monitoring application of the decisions adopted by the Board itself;
(II) to regularly evaluate the criteria adopted for the remuneration of key managers, ensure these criteria are applied in accordance with the information provided by the CEO and make general recommendations to the Board of Directors on the issue of remuneration.

The establishment of this committee aims to ensure the maximum amount of information and transparency on remuneration to executive directors and key managers, as well as the procedures used for the determination of this remuneration. The Remuneration Committee acts exclusively in a consulting and recommendation capacity, while the power to determine the remuneration of the directors and key managers, pursuant to article 2389 paragraph three of the Italian Civil Code continues to rest with the Board of Directors, upon hearing the opinion of the Board of Statutory Auditors.
The interested parties are not present during the negotiation and adoption of decisions regarding the remuneration of Directors by the Board of Directors.
On 30 August 2010, Iren'S Board of Directors appointed the following directors as members of the Remuneration Committee: Paolo Cantarella (independent director), Ernesto Lavatelli and Franco Amato (indipendent director).

### Internal control committee

The Internal Control Committee aims to ensure that the assessments and decisions of the Board of Directors in regard to the internal control system, the approval of the financial statements and the interim financial statements and the relations among companies and the independent auditors are supported by appropriate investigation. The Internal Control Committee is in charge of the tasks and functions established by the Code of Conduct.
In addition to assisting the Board of Directors in carrying out the above mentioned tasks, the Internal Control Committee:

a) along with the Manager in charge of financial reporting and the independent auditors, evaluates the proper use of the accounting policies by the Parent, Iren S.p.A., and their compliance with the policies adopted by the subsidiaries for the purposes of drafting the consolidated financial statements;
b) upon request of the CEO and/or the Executive Director, it expresses opinions on the specific aspects regarding identification of the main corporate risks and the design, establishment and management of the internal control system;
c) assesses the business plan and the regular reports prepared by those in charge of internal control;
d) it assesses audit companies' proposals for the audit of the financial statements as well as their audit plan and the findings set out in their reports and any management letters;
e) it supervises the effectiveness of the administrative/accounting audit process;
f) it carries out further tasks assigned to it by the Board of Directors;
g) it reports to the Board on its activity and the adequacy of the internal control system at least on a half-yearly basis, at the time of approval of the financial statements and the interim report.

The Internal Control Committee also assists the Board of Directors in the following tasks:

a) defining the guidelines of the internal control system so that the main risks concerning Iren and its subsidiaries are properly identified, and adequately measured, managed, and monitored, in addition to establishing criteria to establish the compatibility of those risks with the proper management of the company (based on the Risk Management/Corporate Compliance activity);
b) identifying an executive director to oversee the operation of the internal control system;

c) evaluating the appropriateness, efficiency, and effective function of the internal control system at least once a year based on the activity of the Internal Audit/Corporate Compliance;
d) describing the essential elements of the internal control system in the company governance report, expressing its evaluation on its overall adequacy.

In carrying out its duties, the Internal Control Committee has access to information and company departments as necessary for these duties while it may also use external consultants under the conditions established by the Board of Directors.
On 30 August 2010, Iren'S Board of Directors, in an effort to ensure that at least one member possesses adequate experience in accounting and financing, appointed independent directors Enrico Salza, Alcide Rosina and Alberto Clò members of the Internal Control Committee.

## STATEMENT REGARDING COMPLIANCE WITH REGULATIONS ON CORPORATE GOVERNANCE

Iren'S system of corporate governance is in line with the provisions set forth in the Consolidated Finance Law and the Code of Conduct. In particular, the articles of association are compliant with the provisions of the Consolidated Law on Finance and other provisions of the law or regulations applicable to listed companies.
In particular, the articles provide that:
- Directors must fulfil the requirements of the law and the regulations (article 147-quinquies, of the Consolidated Law on Finance);
- At least two members of the Board of Directors must possess the independence requirements established by applicable regulations (article 147–ter, paragraph four of the Consolidated Law on Finance);
- The appointment of all members of the Board of Directors must take place on the basis of lists (article 147-ter, paragraph one of the Consolidated Law on Finance);
- Minority shareholders are entitled to appoint at least two members to the Board of Directors (article 147-ter, paragraph three of the Consolidated Law on Finance);
- One standing and one alternate statutory auditor must be elected from the list presented by the minority shareholders (article 148, paragraph two of the Consolidated Law on Finance);
- The Chairman of the Board of Statutory Auditors and an alternate auditor must be appointed by the minority shareholders (article 148 paragraph 2-bis);
- One individual in charge of financial reporting must be appointed and the requirements for his/her professionalism and powers and tasks attributed to him/her must be set (article 154-bis of the Consolidated Law on Finance).

### Maximum number of commitments in other companies

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

### Treatment of corporate information

The management of communication outside the company of corporate information falls under the responsibility of the CEO who uses the services of the Investor Relations department which acts in coordination with the "Institutional and External Relations" and "Corporate Affairs" departments under the direction of the body in charge of Iren'S financial communications.
In its meeting of 10 December 2010, and in line with the provisions of the Exchange Regulation, the Board of Directors adopted the "regulation for internal management and external communication of confidential and/or privileged information." This procedure expressly governs the communication obligations pursuant to article 114, subsection 7 of the Consolidated Law on Finance, as amended by article 9 of Law 62/2005 (market abuse), and articles 152-sexies et seq. of the Consob Issuer Regulation with reference to the organisational and company situation of the Iren Group. Specifically, in accordance with the provisions of the above-mentioned self-regulatory law, regulations and

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

### Executive director in charge of supervising the operations of the internal control system

Iren Board of Directors identified the following person as the executive director in charge of supervising the operations of the internal control system: Roberto Bazzano.

### Internal control manager

In its meeting of 30 September 2010 and having heard the opinion of the Internal Control Committee, the Board appointed Anna Socco and Maurilio Battioni as the internal control managers, in charge of checking that the internal control system is always adequate, fully operational and functional. The appointment took place immediately following the appointment of Mr. Bazzano as the executive director in charge of supervising the operations of the internal control system.
The Internal Control Managers carry no responsibility for any operational areas and do not receive remuneration for the office assigned to them.

Iren has established an Internal Audit department: the managers are the same persons in charge of the aforesaid department. To this end, an adequate budget has been assigned for the carrying out of their activities.
The Internal Control Managers:
- have direct access to all the information necessary to carry out the task;
- report on the work carried out to the internal control committee and the Board of Statutory Auditors;

Iren Internal Control Managers presented to the Internal Control Committee a summary report on their activities in the second half of 2010 for the purpose of checking the adequacy and operation of the Company's Internal Control System.
Specifically, the managers' reports provided information on the following issues:
- presentation of the current configuration of Iren'S internal control system, with reference to the elements it is composed of;
- presentation of the results of the controls carried out by the Internal Audit department at the main Group companies in order to monitor the internal control system in the most significant Iren procedures and those of its main subsidiaries: with reference to each checks carried out, the summary framework of the findings will be presented, along with any suggestions made and the follow-up of the any corrective actions initiated or in place;

- summary of the actions taken, within Iren and in the first level companies, regarding implementation of the organisational, management and control models pursuant to Legislative Decree 231/01 approved by the respective Boards of Directors, and as concerns the action set up pursuant to the prescriptions of Law 262/05.

### Other bodies and commitments

Iren has adjusted its corporate governance system to the provisions of the Consolidated Law on Finance and the Code of Conduct through adoption by the Issuer's Board of Directors of the necessary resolutions.
Furthermore, Giulio Domma was appointed Investor Relations Manager, and on 1 July 2010 Massimo Levrino was appointed manager in charge financial reporting pursuant to article 154-bis of the Consolidated Law on Finance, with the concurring approval of the Board of Statutory Auditors.
Iren did not consider it necessary to establish within the Board of Directors an appointment committee, as it considers that the procedure for presentation of lists for the election of administrative bodies as established by the articles of association constitutes a guarantee of correctness and transparency in the system for the nomination of directors.

### Requirements for the directors

All members of the company's Board of Directors fulfil the requirements of honour as stated in article 147-quinquies of the Consolidated Law on Finance.
Directors Paolo Cantarella, Gianfranco Carbonato, Alcide Rosina, Franco Amato, Enrico Salza and Alberto Clò also fulfil the requirements of independence as provided by article 148, paragraph three of the Consolidated Law on Finance and article 3.C.1 of the Code of Conduct.

### Organisational model pursuant to Legislative Decree 231/2001

Iren and the companies belonging to the Iren Group have adopted an organisational, management and control model defined in accordance with Legislative Decree 231/2001, organised into the various sections as set out by said Legislative Decree and in accordance with the indications contained in the code of conduct prepared by Confindustria and Confservizi which has been adopted by the Iren Group (the "**Model**").
The model aims at representing a structured and organised system of procedures and control activities which would prevent, to the extent possible, the perpetration of actions that could form the basis of the offences envisaged by Legislative Decree 231/2001.
Identification of the actions which are exposed to risk relating to the commitment of an offence and their consequent lawsuits aim to increase awareness in those who work in the name of or on behalf of Iren insofar as committing the sanctionable offence while also allowing Iren to intervene in order to prevent or stop the commission of the offences themselves, through monitoring of the activity.
The model, approved by the Board of Directors in its meeting of 14 November 2007, includes:

(i) the description of the regulatory framework;
(ii) the description of the company's activities, a summary of the governance model and the general organisational structure of the company;

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

The families of offences identified are as follows:
(i) offences in relations with the public authorities;
(ii) corporate offences;
(iii) market abuse;
(iv) offences committed by breaching regulations on the prevention of work accidents;
(v) other types of offences.

In addition to the organisational, management and control model, the issuer has adopted an Ethics Code following the resolution of the Board of Directors made on 10 December 2010.
The Company decided to have its supervisory body act on a collective basis, in order to meet the independence, professional competence and continuity of action requirements noted above.
The members of the supervisory body are three directors without executive powers, one of whom is independent.
The Iren Supervisory Body will carry out regular checks on the areas of activity considered to be at risk in accordance with Legislative Decree 231/2001 along with the internal audit department, and report on what it has done and the results that emerge on a half-yearly basis to the Board of Directors. Where necessary, the Supervisory Body will make suggestions aimed at improving the control system of the activities and will monitor their implementation.
Both the general part of the model and the Code of Ethics are available on the internet site of the company www.gruppoIren.it in the investor relations/corporate governance/other corporate documents section.

### Transactions with related parties

On 30 November 2010, Iren's Board of Directors adopted the "Internal regulation for transactions with related parties" which was issued in implementation:
a) of the provisions relating to transactions with related parties pursuant to article 2391-bis of the civil code;
b) the provisions set forth under article 114 of Legislative Decree 58 of 24 February 1998 (the "Consolidated Law on Finance");
c) the regulation containing provisions on transactions with related parties, adopted by Consob with its resolution 17221 of 12 March 2010 and subsequently amended with resolution 17389 of 23 June 2010 (the "Consob Regulation").

The Regulation is applicable as from 1 January 2011.

The provisions relating to the disclosures provided by the Consob Regulation and this regulation are applicable from 1 December 2010.
The "Internal regulation on transactions with related parties" is published on Iren's website (www.gruppoIren.it) and, in summary, provides for:
a) identification of related parties;
b) the meaning of transaction with related parties;
c) transactions of a significant amount and the relative procedure;
d) transactions of a lesser significance and the relative procedure;
e) transactions of a higher significance and the relative procedure;
f) exclusions;
g) establishment of the committee for transactions with related parties;
h) transactions for which the shareholders' meeting is competent;
i) amendments to the articles of association to be submitted to the extraordinary shareholders meeting of Iren;
j) forms of advertising.

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

a) the Chairman of Iren S.p.A. (Mr. Bazzano) is also CEO and Managing Director of Iren Acqua Gas;
b) the CEO of Iren S.p.A. (Mr. Garbati) is also CEO and Managing Director of Iren Energia;
c) the Managing Director of Iren S.p.A. (Mr. Viero) is also CEO and Managing Director of Iren Emilia and CEO of Iren Ambiente.

Any interests that these authorised bodies have in operations between the Parent and the first level Companies will be declared when they are being approved by the respective Boards of Directors.

Relations between the Company and its subsidiaries and related parties must be ruled by a transparent and fair approach as noted in the director's report (in accordance with article 2391 bis of the Italian Civil Code). A good part of these relations concern services provided to the customers in general (gas, water, electricity, heat, etc.) and are governed by contract rules normally applicable to these situations.
Where they do not concern current services, the relations are governed by specific contracts, the terms of which are established in accordance with normal market terms. If these references are not available or significant, the various profiles will be defined in consultation with independent experts or professionals.

The functions and competences of the committee of independent directors which, pursuant to the Consob Regulation, must express an opinion in relation to the execution of transactions of a lesser or higher significance with related parties and, in general, carry out all other functions assigned in regard to transactions with related parties, have been entrusted by the Board of Directors (meeting of 30 November 2010) to its Internal Control Committee, the composition of which is extended exclusively for the execution of these competences in regard to transactions with related parties.
In particular, in order to guarantee the independence requirement and the "non correlation" in a single transaction ("non correlation" being the extraneous status in regard to a counterparty within a specific transaction and its related parties), the Internal Control Committee was expanded with other independent directors (pursuant to article 148, paragraph three, Legislative Decree 58/98 pursuant to article three of the Code of Conduct issued by Borsa Italiana) who are members of the Board of Directors of the company, attributing to the Chairman of the Internal Control Committee the task of identifying, on the basis of age seniority and also taking into account the tasks already assigned pursuant to the Internal Regulation, a subcommittee (the "designated members") composed of three independent directors who are not related insofar as the individual transaction with the related party under examination.
To this end, in its meeting of 30 November 2010, the Board of Directors confirmed, pursuant to article 7.1 of the Internal Regulation on Transactions with Related Parties regarding the extended composition of the Internal Control Committee, and only insofar as the execution of functions relating to transactions with related parties, that the following members of the company's Board of Directors:

- Franco Amato;
- Paolo Cantarella
- Gianfranco Carbonato;

are currently in possession of the requirements set forth in article 148 paragraph three of Legislative Decree 58/98 as amended (the Consolidated Law on Finance) and those set forth in the Code of Conduct of Borsa Italiana S.p.A. and that adopted by the company, and therefore are eligible as independent directors pursuant to article 3 (h) of Consob Regulation containing provisions in regard to transactions with related parties.


# OTHER INFORMATION

## CODE ON THE PROTECTION OF PERSONAL DATA

The requirements have been fulfilled relating to the data protection document (DPS), pursuant to annex B of Legislative Decree 196/03 "Code on the Protection of Personal Data" which contains provisions on the technical procedures to adopt for electronic processing of sensitive data.

## CERTIFICATIONS PURSUANT TO ARTICLE 2.6.2 OF THE EXCHANGE REGULATION

With regard to the certifications required by article 2.6.2 paragraph 15 of the Exchange Regulation relating to compliance with the conditions set forth under article 36 et seq of the Consob Market Regulation, the company does not control companies that have been established and are governed by countries which are not members of the European Union and which are of a significant nature pursuant to the provisions under section VI, par. II of the regulation adopted by Consob with its resolution 11971 of 1999 as it is currently applicable. Therefore the provisions contained in paragraph 1 of article 36 of the Market Regulation do not apply. With regard to the conditions set forth in article 37 of the Market Regulation, the company is not subject to the management and coordination of other companies.

## REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE

The report on corporate governance and ownership structure, approved by the Board of Directors and published concurrently with the Directors' report, includes the information which is not set forth in the preceding chapter "Corporate Governance," as required by paragraphs 1 and 2 of article 123 of Legislative Decree number 58 of 24 February 1998 and subsequent amendments and integrations.

# ANNEX 1 REGULATORY FRAMEWORK

## REGULATIONS ON THE MANAGEMENT OF LOCAL PUBLIC SERVICES OF ECONOMIC IMPORTANCE

1) Art. 23-bis, of Law Decree no. 122 of 25 June 2008 converted into law with amendments by art. 1, comma 1 of Law no. 133 of 6 August 2008 introduced material amendments to the current law on Local Public Services (LPS) of economic importance, providing guidance overcoming the problem of direct management by Local Authorities and in favour of greater involvement of the market with regard to opening up competition.
   The major points of the provisions can be summarised as follows:
   - application to all segments, with prevalence given to segment regulations;
   - assignment of services management through public tenders as standard, giving priority to private enterprises;
   - as an exceptional measure only, in situations where recourse to the market is not feasible, the option of using other forms of management (business combinations, in-house companies) provided that adequate justification for the "exceptional" decision is submitted to and verified by the Antitrust Authority with issue of an opinion;
   - a ban, for operators awarded an assignment without participation in a public tender, on developing their activities and extending these to other segments, not even via participation in competitive procedures;
   - recourse to a Regulation to define the transitional regime for awards not in line with the new provisions.
2) Law Decree no. 135 of 25 September 2009 was issued (converted into Law no. 166 of 20 November 2009), which considerably modified the provisions of art. 23-bis.
   In brief, the major amendments concern:
   - exclusion of the electrical energy, regional rail transport, pharmacies and gas distribution segments from the scope of application of the regulation;
   - the option of managing local public services through a public-private business combination in which the private partners holds at least 40% of the capital and is awarded tenders via public procedures that envisage the assignment of specific operating duties;
   - definition of the regulations governing the transitional regime, which envisage:
     - the deadline for management performed via in-house companies brought forward to 31 December 2011, unless by that date a private partner is found that invests in at least 40% of the capital and by public procedures as envisaged in post-transitional period regulations;
     - the deadline for management performed by business combinations in which the private partner is not assigned operating duties was brought forward to 31 December 2011;
     - the deadline for management other than with the aforementioned provisions was brought forward to 31 December 2010;
     - safeguarding of the traditional term of management assignments, made by 1 October 2003, to companies listed on the stock exchange at that time (or their subsidiaries), provided that the public investment falls to a percentage not exceeding 40% by 30 June 2013 and not exceeding 30% by 31 December 2015.

The provisions of article 23 bis oriented economically significant Local Public Services toward greater privatization. In fact: (i) in-house management will automatically cease on 31 December 2011, and new assignments to such companies will be subject to a series of very strict conditions of an entirely exceptional nature being met, so much so as to render this tool difficult to use in future (and in any event restricted to purely marginal situations); (ii) management through public-private business combinations recognise a stronger role for the private partner, envisaging its acquisition of an investment of no less than 40% of the share capital and the assignment of operating duties. In light of indications provided in the European Commission's Interpretation Guidance (5 February 2008) on public-private partnerships, the contribution required of the private partner in the combination can consist in the provision of operating services and/or an administrative contribution to the management of the company. Now, the private partner must make a specific, qualified contribution to the company operations, no longer that of a purely "financial" partner, a contribution that may involve active participation in corporate governance, exercising suitable decision-making powers in relation to the company's administrative bodies.
With Presidential Decree no. 168 of 7 September 2010, the regulation on economically significant lo-

cal public services was approved, pursuant to article 23-bis of Law Decree no. 112/2008. This regulation confirms that the provisions of article 23-bis are not applicable to services which are regulated by specific sector regulations, which include the distribution of electrical energy and gas. Article 2 of the regulation establishes that through a framework resolution to be adopted within 12 months from the effective date, local entities must verify their ability to apply competitive management of local public services, limiting the attribution of exclusivity rights to cases in which private economic initiative is not appropriate and liberalizing in all other cases the economic activities in line with the characteristics of universality and accessibility of the service. The aforementioned regulation also contains rules for the carrying out of public competitive tenders for assignment of public services; it also limits the cases requiring the opinion of the Italian antitrust authority for in-house assignments, to cases in which the economic value of the service to be assigned exceeds Euro 200,000 and regulates assignment of assets and services by in house companies and companies in which the government is a shareholder, it obligates companies with state shareholders (except those listed on the Stock Exchange) to adopt criteria and procedures for the recruitment of personnel and the assignment of mandates, and regulates incompatibility issues between functions carried out by the local entities and the management of public services. The regulation also establishes that service contracts and service cards must provide users or categories of users the ability to complain about the violation of a right or significant legal interest and to resolve out of court disputes.
The summary analysis of the SPL regulations, following the recent changes referred to above, allows us to express a largely positive opinion regarding their impact on Iren Group prospects.
In particular:

- the safeguarding of assignments to companies (and their subsidiaries) listed as of 1 October 2003 consolidates management of the Integrated Water Service provided by the SPL Iren Acqua Gas in the Genoa ATO, due to expire in 2032, provided that the public capital is reduced to the percentage indicated in the regulation within the times required; also safeguarded is the City of Turin District Heating service provided by the subsidiary AES Torino S.p.A. should this activity be considered as an economically significant SPL activity and the management of water and sanitation services to the Emilia Romagna ATOs which are summarized below (integrated water service in the first table and sanitation in the second table):

| ATO | REGIME FOR WATER | DATE OF AGREEMENT | EXPIRATION DATE |
|---|---|---|---|
| Reggio Emilia | ATO/Operator Agreement | 10 June 2004 | 20 December 2011 |
| Parma | ATO/Operator Agreement | 27 December 2004 | 30 June 2025 |
| Piacenza | ATO/Operator Agreement | 18 May 2004 | 20 December 2011 |
| **ATO** | **REGIME FOR SANITATION** | **DATE OF AGREEMENT** | **EXPIRATION DATE** |
| Reggio Emilia | ATO/Operator Agreement | 10 June 2004 | 20 December 2011 |
| Parma | ATO/Operator Agreement | 27 December 2004 | 27 December 2014 |
| Piacenza | ATO/Operator Agreement | 18 May 2004 | 20 December 2011 |

- the assignments to public-private companies, in which the Iren Group has non-controlling interests, are in line with the new regulations (and would therefore be safeguarded until expiry of the agreement with the Authority concerned), as these investments were acquired through a public tender, and the private partner (an Iren Group company) has been assigned governance powers in line with the principles established in the aforementioned EC Interpretation Guidance;
- the fact that the deadlines have been brought forward on assignments to in-house companies and that such companies can only retain their assignments if a share of their capital (not less than 40%) is transferred to a private partner (through public procedures), may open up new development opportunities. Iren Group companies (as none are subject to restrictions on the acquisition of new services) can participate in the tenders for both assignment of activities formerly operated by in-house companies and for the selection of private partners in business combinations resulting from the transformation of in-house companies.

The following regions: Tuscany, Piedmont, Marche, Umbria, Emilia-Romagna, Liguria and Puglia have appealed to the Constitutional Court against the domestic regulation under article 23 bis of Law Decree no. 112/2008 amended by Law Decree 133/2008 converted with Law 166/09 for violation of regional and local entity independence in violation of the region's competition laws; these appeals were dismissed as lacking grounds with ruling 325/2010. With these appeals the regions had objec-

ted that the regulations of article 23-bis sought ends which lay outside state competence and were therefore contrary to EU regulations. Furthermore, they complained that the power of the regions, intended as institutional communities, to intervene in the organization of local public services in the reference territories and for which the region's have been granted specific competences pursuant to article 117, paragraph four of the constitution, were adversely affected.
As the claims were not accepted by the Supreme Court, no effect should occur upon expiration of the concessions as set forth in article 23-bis.
Furthermore, with its decision of 12 January 2011, the Constitutional Court ruled on the admissibility of the following requests for a referendum to abrogate the laws: Article 23 bis Legislative Decree 112 of 25 June 2008 "Procedures for the assignment and management of economically significant local public services" and article 154 paragraph 1 (integrated water service tariff) of Legislative Decree 152 of 13 April 2006 "Determination of the tariff for the integrated water service" only insofar as the portion referring to "based on adequate remuneration of invested capital."
The referendum must be declared by decree issued by the President of the Republic between 15 April and 15 June 2011, provided that early elections are not declared prior to this in which case the referendum would be postponed by a year.

## DISTRIBUTION OF ELECTRICAL ENERGY

Distribution of electrical energy
Since 2008, the third regulatory period (2008-2011), for which AEEG issued the resolution 348/07, contains:

- the Amalgamated Law on Transportation (TIT, Annex A), which sets out the tariffs for transmission, distribution and metering of electrical energy. Amongst the new elements, it should be noted that the tariff option system for distribution proposed by the distributor has been replaced by tariffs defined by AEEG, compulsory for all distributors, and specific fees have been defined for consistent withdrawals of reactive energy;
- the Amalgamated Law on Connections (TIC, Annex B), which defines economic conditions for the supply of connections to customers. In order to facilitate market competition, the fixed fee is not provided for the first change of electrical energy supplier for 2008 or for changes after 2009 (updating of res. ARG/elt 188/08).
  On the other hand, for production plant connections, the new rules of the Amalgamated Law on Active Connections (TICA, Annex A to res. ARG/elt 99/08) with the facilities provided by resolution ARG/elt 179/08, only for plants using renewable sources or high-performance cogeneration plants) are valid from 2009.

For the period 2008-2011, the new rules of the Amalgamated Act on regulation of Quality of distribution, metering and sale of electric energy are also valid (TIQE, Annex A to res. 333/07) regarding electricity service continuity (blackouts) and the marketing quality of the electricity distribution and metering service (fast service provision, meeting agreed times, metering frequency).
As regards electricity service continuity, the gradual introduction of premiums/penalties is worth mentioning. This also aims to reduce the average number (previously duration only) of service interruptions per customer and, from 1 July 2009, repayments to LV and MV customers for "prolonged

and extended" interruptions (originating at any voltage level and for whatever reason, which last longer than the specific standard times defined by res. 172/07), plus from 2008 extension to MT users with up to 500 kW capacity of the obligation to pay the CTS charge unless they issue a declaration to their distributor to the effect that their systems meet precise technical requirements.
From 2009 the CTS was replaced by the CTSM (enhanced CTS) for certain types of MV customers applying for connection before 16 November 2006 and who have not submitted the system adequacy declaration (res. 33/08).
As regards commercial quality, starting from 2008 all types of works and action on plants can obtain automatic repayments from the distributor, already envisaged if an appointment is not kept.
From 2009, automatic repayments will increase according to the delay in providing the service with respect to the preset standard.
Again with regard to commercial quality, from 1 July 2009 the new, stricter rules on complaint handling and invoice error adjustment (res. ARG/com 164/08) are accompanied by two new specific levels to be met by the distributor (response times to vendor requests for technical data), failing which an indemnity is payable to the vendor which must then be passed on to the customer.
As regards the hourly treatment of consumption, by the end of 2011, this will gradually be extended to all customers in accordance with the mass installation plan for remote management of electronic meters for LV withdrawal points (res. 292/06).
To manage free market flows (fully effective from 1 July 2007, when domestic customers will also be liberalised):

- resolution 157/07 provided a form that domestic customers can complete to prevent distributors from supplying their "base data" on request to potential free market vendors. This resolution also defined the procedures that distributors must follow to transfer data if customers do not block their flow;
- resolution ARG/elt 4/08 defined rules governing the cut-off of customers in arrears and compliance with services ensuring greater protection or safeguarding of customers from defaulting free market vendors with respect to Terna or the distributor;
- resolution ARG/elt 42/08 set out rules for management of the customer "switching" process (passage from one vendor to another).

In order to support families with economic and/or physical difficulties (homes where there are people who use electric-medical life-support appliances), the Ministerial Decree of 28 December 2007 envisaged the "electricity bonus", i.e. a discount on the annual electricity expenditure, the value of which is updated by the AEEG (res. ARG/elt 191/08) for 2009 and resolution ARG/elt 211/09 for 2010). Large families were later granted the bonus (res. ARG/elt 19/09) following the amendments introduced by Law Decree 185/08.
Resolution ARG/elt 117/08 of AEEG defined calculation of the above discount and conferred management of the bonus upon distributors. The bonus is included in the vendor's bill to customers whose applications submitted to their local municipal authority (or other appointed organisation) had been accepted.
The bonus, backdated to 2008 for customers meeting the requirements and applying by 30 June 2009, became fully effective in 2009.

## SALE OF ELECTRICAL ENERGY

*Ministry for Economic Development Decree of 29 April 2009*
This decree establishes guidelines on the electricity market reform introduced by the "anti-crisis law", Italian Law no. 2 of 28 January 2009, discussing topics related to the new dispatch rules and the resources selection procedure during the planning stage of the Ancillary Services Market (MSD) and the Balancing Market (MB). The decree establishes the pricing conditions for the Day-Ahead Market (MGP) and envisages that the Intraday Market energy price be determined according to a continuous trading mechanism. It also introduces certain rules on market transparency and calls for the implementation of measures needed to promote competition in areas where market anomalies occur.
*Ministerial Decree of 16 April 2009*
This 2009 decree approves amendments to the electricity market regulations which introduce the (MI1 and MI2) Intraday Markets, replacing the former Adjustments Market (MA1). In addition, certain changes to the MTE forward contracts market are approved, simplifying transactions and increa-

sing the products traded. On 1 November 2009, the new Electricity Market Regulations introducing the intraday market entered into force, and on 1 January 2010 the new MSD market rules became effective.

*Resolution ARG/elt/97/08*

AEEG Resolution 97/08 envisaged inclusion of production plants linked to the Sardinia and Sicily transmission networks in the list of essential system security units with effect from 31 July 2008. A number of operators appealed against this measure. On 23 October 2008, the Lombardy Regional Administrative Court accepted the appeals and cancelled the aforementioned resolution. Regarding the appeal against resolution 97/08, news is expected in March on the compensation payable to ENEL, after which Edipower will request the same treatment.

*Resolution ARG/elt/52/09*

Resolution ARG/elt/52/09 introduces new rules on the regulation of plants considered essential. It defines the criteria for plants to be considered essential to national energy needs, the conditions under which entities owning such plants are expected to submit offers and the mechanisms by which both adequate remuneration is guaranteed to the producer and system costs are minimised.

The AEEG called upon Terna to provide the operators concerned with lists of essential plants which, from 1 January 2010, must formulate offers using the methods indicated. Terna issued this communication to the various operators on 15 October 2009, including to Edipower for the San Filippo del Mela plant, which has adapted to the requirement and chosen the alternative methods proposed in the resolution (MSD offer price for quantities considered essential equal to the price of an open-cycle turbogas unit). Edipower and other operators have appealed against Resolution 52/09, claiming that it is damaging to market equilibrium. No judgement has yet been issued on this appeal, and therefore from 1 January 2010 the San Filippo production unit offers apply the new methods.

The obligations of Edipower upon conclusion of lawsuit number 1721 without assessment of infraction were accepted through the provision issued by the antitrust authority on 30 December 2010; these provided among other things that Edipower would join the "ordinary regime" pursuant to article 65, annex A of AEEG Resolution 111/06, as it was amended by resolution ARG/elt 52/09. This regime provides for barriers to offers made by the plant whether on the day ahead, the intraday, or the dispatch services market. Edipower's obligation extends to accepting equivalent effects to those above in the event that the aforementioned law on the essential units should be amended due to any acceptance of pending appeals relating to resolution ARG/elt 52/09.

*Resolution ARG/elt/151/08*

To help consumers compare and assess the various electrical energy supply offers, the AEEG made the web-based "Trova offerte" system available from April 2009. The system displays the offers of vendors operating in the area and helps identify those that best meet the consumer's needs, providing an estimate of the annual costs based on the different offers. Vendors' inclusion in the "Trova offerte" initiative is optional. To protect consumers, however, the AEEG has established that, in order to participate, vendors must be included in the list of qualified sales companies that meet certain reliability requisites established by the Authority. Iren Mercato was admitted to the above list and has also opted for inclusion in the "Trova offerte" system.

*Resolution ARG/elt/164/08*

The amalgamated law on quality of service for electricity and natural gas sales (TIQV) was applied in full with effect from 1 July 2009 – ARG/com 164/08.

The main new elements are:

- two new specific quality indicators, i.e. the maximum justified response time to written complaints and the maximum time to remedy duplicate invoicing;
- an additional general quality indicator, i.e. the minimum percentage for justified replies to requests for invoice adjustment.

Note that if the specific quality standards are not observed, the vendor must automatically indemnify the customer – in the next available invoice – by a base amount of Euro 20.

*Resolution ARG/elt/35/09*

To update the economic terms of protected sales for the quarter April-June, AEEG Resolution 35/09 introduced certain amendments to the Amalgamated Law on Sales, raising the remuneration component for commercial costs.

With this consultation document DCO 9/10; AEEG proceeded with the consultation (deadline for observations by 14 June 2010) on the proposal for reformation of the remuneration mechanism of available electricity generation capacity, in order to create a forward market for capacity.

## CONCESSION FOR SHUNTS TO BE USED FOR HYDROELECTRIC ENERGY PRODUCTION

The law no. 122 of 30 July 2010, which converted Law Decree number 78 of 31 May 2010, provided an extension of five years for concessions of large shunts of public water for the production of electric energy, in order to ensure compliance with the terms for the call for tenders for these concessions and to ensure fair compensation to the economic operators for the investments made. In addition to the above-mentioned five-year extension, a further seven-year extension is also foreseen for concessions in force on 31 December 2010 within provincial territories to be defined with a decree of the Ministry of Economy and Finance. The additional fees that were paid by concessionaries in 2006 and 2007 are notwithstanding, pursuant to the 2006 Finance Act, whose provisions were declared to be unconstitutional by ruling no. 1/2008 of the Constitutional Court. The relative amounts are therefore definitively withheld by the Government and Municipalities. This law also amended, effective from 10 January 2010, the basis of calculation for the additional concession fees for the Imbriferi Montani municipalities and basins, setting them at Euro 28 and Euro 7, respectively, with an update, for future years, scheduled every two years, pursuant to Art. 3 of Law no. 925 of 1980.

## GAS DISTRIBUTION

Amongst the major changes in the regulatory framework of the gas distribution sector in 2010, the most important are the measures adopted by the AEEG regarding the following issues:

- distribution and metering tariffs
- distribution and metering service

### Gas distribution and metering tariffs

1) By resolution ARG/gas 22/09 of 2 March, the Authority amended and supplemented the consolidated law regulating gas distribution and metering tariffs for the period 2009-2012, approved by res. ARG/gas 159/08.
   The main amendments refer to provisions on:
   - updating of the tariff components to cover centralised capital costs;
   - calculation of the historical cost of assets acquired as a result of business combinations completed after 31 December 2003;
   - the calculation method for the conversion coefficient of metered gas volumes;
   - special cases of unavailability of information to reconstruct layered historical data for calculation of the net values of property, plant and equipment.
2) By resolution ARG/gas 79/09 of 30 June, the Authority approved the gas distribution and metering tariffs for 2009, in relation to the launch of the new 2009-2012 regulatory period and reorganisation of the previous 2000+ tariff categories to just six, established in res. ARG/gas 159/08.
   The new tariffs also take into account the additional distributor tasks in compliance with reso-

lutions ARG/gas 159/08 and 69/09 and, specifically, assignment of responsibility for the metering service, i.e. the collection, confirmation and recording of gas consumption, previously entrusted to the vendors, to guarantee a higher level of third party input to the service and increasingly reliable, verifiable metering.

3) By resolution ARG/gas 88/09 of 6 July, the Authority established the expenditure compensation system for the supply of natural gas, in support of consumers in economic difficulty (the "gas bonus"), developed on the electricity bonus model already in force and introduced following the issue of Decree Law 185/08 (the "anti-crisis decree"). The system will become operative from 1 November 2009, backdated to 1 January, and will have a renewable validity of 12 months. Direct and indirect domestic customers may benefit on submission of an application to their local municipal authority.
4) By resolution ARG/gas 109/09 of 5 August and subsequent communication of 26 August, the Authority published the reference tariffs for 2010 for the gas distribution and metering service, i.e. the tariff that allows individual distributors to reach the recognised revenue limit.
   In particular, by resolution ARG/gas 109/09 the Authority determined:
   - the reference tariff for 2009 for the 62 distribution companies for which the analysis of data submitted by the operators was completed successfully;
   - the related two-monthly equalisation on account for 2009, envisaged in the Consolidated Law governing gas distribution and metering service tariffs for the period 2009-2012, pursuant to res. ARG/gas 159/08, for the companies referred to above which are natural gas distributors. These amounts were later amended for the fifth and sixth 2-month periods by resolution ARG/gas 164/09.
5) By resolution ARG/gas 164/09 of 2 November, the Authority made certain amendments to the consolidated law regulating gas distribution and metering tariffs for the period 2009-2012, approved by res. ARG/gas 159/08, 197/08, 79/09 and 109/09. Specifically:
   - the deadline has been postponed from 30 September 2009 to 30 November 2010 for recognition to sales companies of the quota relating to the revenue limit to cover operating costs for the collection, confirmation and recording of gas metered at the supply points if, in the first half of 2009, metering was performed by the sales company rather than the distribution company;
   - as an exception to the provisions of the Consolidated Law on tariff regulations regarding calculation of the permitted revenue limit, a transitional rule is defined for 2009 and in areas not fully operative for calculation of the number of active supply points effectively served by each distribution company;
   - lastly, the value of the revenue limit component to cover costs for the collection, confirmation and recording of metered gas by the distribution company was adjusted, now Euro 2.85 per supply point rather than Euro 2.95 per supply point;
6) By resolution VIS 169/09 of 21 December 2009, the Authority published the results of the inquiry launched in res. ARG/gas 79/09 to verify information submitted by natural and other gas distributors in order to determine the reference tariffs for 2009.
7) By resolution ARG/gas 197/09 of 21 December 2009, following the above-mentioned inquiry in accordance with res. VIS 169/09, the Authority approved the company and area component

values for the 2009 reference tariffs for numerous gas distribution service operators. By the same measure, the Authority partially accepted a number of trade association requests, including ANIGAS, regarding the introduction of a mechanism for recovery of the loss of revenue linked to the graduality mechanism introduced to recognise amortisation. Specifically, though it did not consider that there were logical or theoretical grounds to apply different methodologies to the valuation of invested capital and related amortisation rates, the Authority established:

- the application of graduality to the value of assets per individual area and no longer to the entire operator;
- for tariff purposes, extension of the useful life of assets to offset the effects of application of the graduality mechanism also to the amortisation rate, and in any event guaranteeing return on investments.

To calculate the 2009 tariffs, the graduality mechanism will be maintained until a final decision is reached, expected by 31 July 2010. However, when that final decision is reached and further to the results of additional inquiries to be completed, the Authority will need to verify the real existence of grounds to activate the graduality mechanism, envisaging that any recovery of lost revenue is performed under the equalisation mechanisms for 2010.

8) By resolution ARG/gas 206/09 of 29 December, for 2010 the Authority approved:
   - the values of the company and area components of the reference tariffs;
   - customary tariffs for natural gas distribution and metering services;
   - tariff options for gas distribution and metering services other than natural gas;
   - the amount of the two-monthly equalisation on account for distribution service revenue.

   Specifically, the reference tariffs, tariff options and two-monthly equalisation on account for 2010 were given final approval for operators for which, by resolution 197/09, the Authority approved the 2009 reference tariffs.
   In addition, the Authority updated the values of components to cover operating costs for the metering service and for the marketing of gas distribution and metering services, and confirmed the value of the tariff component to cover the increase in the number of switch readings since 2006 to Euro 0.1 per supply point per year.
   The Authority plans to review the related reference tariffs and tariff options for 2010 if recalculation of the 2009 reference tariffs, to be completed by 31 July 2010, fails to confirm that the conditions are met for activation of the aforementioned graduality mechanism. The resolution also envisages a one-year postponement, i.e. from 2011, of the introduction of the MEAV method to assess standard investment costs for tariff purposes, given the delay in defining the related price list by the Authority.
   Therefore, for the purpose of annual updates, for the measurement of new investments:
   - investments relating to 2008 and 2009 are measured at cost;
   - investments relating to 2010 are also measured at cost. If the actual cost incurred by the company is higher than the standard cost established by the Authority, the distributor must justify the discrepancy;
   - from 2011, investments will be measured at standard cost, according to a price list to be defined by the Authority using the "MEAV" – Modern Equivalent Asset Value criterion, based on the "old for new" concept.

9) Resolution ARG/gas 115/10 of 28 July 2010 – updating of the tariffs for distribution services and gas metering for 2010.
   With this resolution, taking as a reference the tariffs of 2009 approved definitively with resolution ARG/gas 114/10, AEEG determined for 2010:
   - the referenced tariffs pursuant to article 22 and article 85 of the RTDG;
   - tariff options for non-natural gas distribution and metering services pursuant to article 86 of the RTDG;

10) Resolution ARG/gas 195/10 of 5 November 2010 – re-determination, for material errors, of the tariffs for distribution services and gas metering for 2009.
   With this resolution AEEG:
   - re-determined the reference tariffs for 2009 so as to complete the equalization mechani-

sm procedure for that year;
- corrected the tariff options for non-natural gas distribution and metering services pursuant to article 86 of the RTDG for 2009;
- postponed to a subsequent provision the definition of reference tariffs for 2010, to be adopted in time to determine the equalization amounts;

11) Resolution ARG/gas 235/10 of 14 December 2010 – update for 2011 of obligatory tariffs for provision of distribution services and natural gas metering and tariff options for the non-natural gas distribution and metering services through channelled networks. Commencement of the procedure for resumption of the power to regulate tariffs pursuant to the rulings of the Lombardy TAR, section III, 11 October 2010, nos. 6912, 6914, 6915 and 6916. Provisions regarding tariff options for non-natural gas distribution and metering services through channelled networks for 2010;
    With this resolution AEEG:
    - began the procedure aimed at adopting amendments to the applicable regulation on the determination of tariffs for the distribution and metering of natural and other gases in order to comply with the rulings of the Administrative Regional Court (TAR) of Lombardy nos. 6912, 6914, 6915 and 6916 of 2010;
    - approved the mandatory tariffs set forth under paragraph 35.1 of the RTDG for 2011;
    - suspended, while awaiting the procedures mentioned above, the determination of the reference tariffs for 2011;
    - published the tariff options for non-natural gas distribution and metering services pursuant to article 86 of the RTDG for 2010 and 2011, providing;
        - for certain companies and areas of application, temporary application for 2010 and 2011, of the tariff options determined for 2009, while awaiting the necessary additional information on the data sent;
        - for certain companies and areas of application, temporary application for 2011, of the tariff options determined for 2010, while awaiting the necessary additional information on the data sent.

### Assessment of safety of gas-powered plants

By resolution ARG/gas no. 32/09 of 25 March 2009, the Authority postponed to a later resolution the starting date to assess safety of reactivated and/or modified gas-powered plants (originally envisaged for 1 April 2009), as per Title III of the related regulations approved by resolution no. 40/04. In doing so the Authority also accepted the claim submitted by the trade associations, including ANIGAS, given the uncertainty of the reference regulatory framework, due to the absence of implementation decrees for the Ministry for Economic Development Decree 37/08, which substantially reviewed Law 46/90 and legislation on the safety of gas-powered systems, and the need to standardise provisions of resolution 40/04 to those of Ministerial Decree 37/08. Excluded from the deadline postponement established in resolution 32/09 however is the case of reactivation of a gas supply suspended where the emergency services discovered a gas leak in the system. In fact, the regulation pursuant to resolution 40/04 remains in force, allowing the distributor to activate the supply on receipt of the special document ("Form E") from the end customer.
Furthermore, the Consolidated Law on gas distribution continuity and service (res. 120/08) regarding electricity service continuity (blackouts) and the marketing quality of the gas distribution and metering service (fast service provision, meeting agreed times, metering frequency) also apply.

### Gas metering service

1) By resolution ARG/gas 69/09 of 5 June, the Authority issued urgent provisions on metering at the supply points of natural gas distribution plants. In view of the transfer of responsibility to distribution companies for the collection, confirmation and recording of gas consumption from 1 July 2009, the Authority introduced a series of amendments to the regulatory framework and set a number of deadlines that must be observed by operators. The measure details the application criteria for resolution ARG/gas 159/08, which assigned metering responsibility to distributors, previously the task of the sales company, and defines the basic methods for the exchange of information regarding the metering service. By the same measure, the Authority established:
    - launch of the procedures to formulate measures for completion of the regulations on natural gas metering services;
    - launch of the procedures to formulate measures to define a specific quality standard, concerning distribution companies' failure to perform metering where the meter is accessible, and other amendments to resolution 229/01;
    - to arrange updating of the standard network code approved by resolution 108/06, made necessary as a result of the provisions of resolution ARG/gas 69/09.
2) In consultation paper 33/09 of 29 October 2009, the Authority illustrated proposals for the identification of a methodology, unique at national level, for use in the reconstruction of gas consumption following meter replacement, due to metering errors found that are higher than the values permitted under metering legislation, pursuant to art. 41 of the Consolidated Law governing the quality of gas distribution and metering services for the period 2009-2012, approved by resolution ARG/gas 120/08. These proposals take into account the content of an inter-association paper submitted to the Authority by the main distributors and vendors' associations, including ANIGAS, on three important points of the method regarding calculation:
    - of the total volume of gas consumed;
    - the error percentages recognised;
    - volumes subject to the error percentages recognised.

    By resolution ARG/gas 7/10 of 27 January 2010, the AEEG introduced the methodology to be applied in this respect, with effect from 1 April 2010.
3) By resolution ARG/gas 184/09 of 1 December 2009, the Authority assigned responsibility to the distribution company for metering installation and maintenance at the distribution network supply points, pursuant to the Consolidated Law annexed to resolution 159/08, a task formerly assigned to the carrier, to adapt to the new provisions on metering service organisation. Following the aforementioned change, therefore, responsibility for the metering of natural gas at the supply points is as follows:
    - the entity responsible for metering installation and maintenance is:
        - for standard supply points, the distribution company;
        - for distribution network supply points, the distribution company for the end customers drawing gas from those points;
        - for interconnection points, the sub-distribution company;
    - the entity responsible for the collection, confirmation and recording of gas meter readings is:
        - for standard supply points, the carrier;
        - for distribution network supply points, the distribution company for the end customers drawing gas from those points, with effect from 1 July 2009;
        - for interconnection points, the sub-distribution company.

### Other provisions to note which had an impact on the gas distribution activity:

Resolution Arg/gas 185/08 with which AEEG issued operating instructions regarding communication standards to be used between Distributors and Vendors for the exchange of information relating to commercial services.

Resolution Arg/com 147/10 with which the AEEG defined in detail the scope of responsibility between Distributor and Vendor in regard to managing appointments with final customers for execution of commercial activities.

Resolution Arg/gas 155/08 containing guidelines for the deployment of gas metering groups characterized by minimum requirements and with remote management and reading functions (smart meter gas).

## GAS SALES

*Italian Law 99/2009*
Law no. 99 of 23 July 2009, the "Development Law", promotes efficiency measures for the natural gas market, with the aim of ensuring high-level protection for end customers and guaranteeing competitiveness for industrial end customers with consistently high gas usage. The Development Law has identified three tools: creation of the "Gas Exchange", redefinition of the role of Single Buyer, review of the provisions of Legislative Decree 164/2000 (the antitrust ceilings set by the dominant operator).
*Resolution ARG/gas/64/09*
This resolution introduces the new Amalgamated Law on Sales that reviews the scope of application of end customer protection and certain tariff components covering procurement, transport and storage costs.
Three customer categories are identified: domestic customers, apartment blocks with consumption under 200,000 scm per year and other customers. The first two categories have access to protected terms, whereas this option is not open to the third category as it no longer has individual protection. Consequently, all companies that have not yet adopted the free market offer system must stipulate a new free market supply contract. Otherwise switching to the terms proposed by the supplier will be automatic. The customers most affected are therefore the SMEs, which are still served at protected prices. The Amalgamated Law on Sales defines a single national value for the sales price, revises the Wholesale Marketing Cost Component (CCI) from 1 October 2009, amending and simplifying the calculation formula; the Qs (storage service remuneration component), introducing a set value subject to annual review; reviews the distribution and metering service components; updates the Qt component and introduces a component to cover additional charges.
*Resolution ARG/gas/69/09*
By this resolution the AEEG sanctions the transfer of responsibility for meter reading from the sales company to the distribution company.
*Resolution ARG/gas/88/09*
The AEEG has established the operating methods for application of the "gas bonus" envisaged in the Law Decree issued on 29 November 2008.
*Resolution ARG/gas/170/09*
The AEEG has made a number of amendments to the Amalgamated Law on Sales Service Quality regarding the quality assessment of telephone services, also envisaging publication of the final classifications.
In November 2009, the AEEG published the classification on vendors' call centres for the first half of 2009.
The final score is the result of partial scores assigned for access and quality (70% weighting) and the level of satisfaction (30% weighting).
In particular:

- service access concerns the availability of telephone lines, call access periods (operating time ranges and the number of days the call centre is open), and whether the calls are free, even via mobile phone;
- for service quality, assessment is based on the average waiting times to speak with an operator, the percentage of calls answered by an operator, customer call-back options, indication of the number of calls in the queue or estimated waiting time, ease of browsing to achieve access, whether a web portal is available and the adoption of initiatives with consumer associations;
- with regard to the level of customer satisfaction, the AEEG conducts a half-yearly survey via "recall" of a sample of customers for each vendor to check the level of satisfaction.

## INTEGRATED WATER SERVICE

The reform process of the integrated water service, begun with Law 36/94 (the Galli Law) was revised with the approval of Legislative Decree no. 152 of 3 April 2006, as amended by Legislative Decree no. 219 of 10 December 2010. Furthermore, Law no. 42 of 2010 provided for elimination of the Optimal District Authorities (ATOs) one year following the effective date of that law (the period was extended to 31 March 2011 by the "Milleproroghe" [thousand extensions] decree (Law Decree no. 225 of 29 December 2010).
The integrated water service is also governed by Regional Laws no. 25 of 1999 and no. 10 of 2008 for the Emilia Romagna region.
Legislative Decree 152/06 states that *"the tariff represents the fee for the integrated water service and is calculated taking into account the quality of the resource and the service rendered, necessary works and upgrading, management costs, adequacy of the return on invested capital, costs for safeguard works, and ATO's operating costs. This with a view to ensuring full coverage of investment and operating costs based on both cost recovery principles and the principle according to which "who pollutes pays". All tariff quotas of the integrated water service are to be considered fees"* (Art. 154).
Based on provisions of the Normalised Method (decree of 1 August 1996), the tariff of each ATO must be determined according to a reference tariff that forms the basis for the initial tariff level and progressively guides and establishes adjustments taking into account productivity improvement objectives, the quality of the service provided and inflation. The reference tariff, as indicated in the decree of 1 August 1996, is governed by a mechanism of moderation of the so-called price cap. As regards tariff quotas referring to public sewers and water treatment services, these are payable by users also where water treatment plants do not exist or are temporarily inoperative (Legislative Decree no. 152 of 3 April 2006, Art. 155). During 2008, this provision was cancelled by judgement of the Constitutional Court no. 335 dated 10 October 2008.
The judgement of the Constitutional Court declared the constitutional illegality of:

- Art. 14, subsection 1, of Law no. 36 of 5 January 1994 (Water resources), of both the original text and the text amended by Art. 28 of Law no. 179 of 31 July 2002 (Rules on environment), where it is provided that the tariff quota referred to the water treatment service is due by users "also if sewers are not equipped with central water treatment plants or if these plants are temporarily not operating";
- Art. 155, subsection 1, first sentence, of Legislative Decree no. 152 of 3 April 2006 (Rules on the environment), where it is provided that the tariff quota referred to the water treatment service is due by users "also when there are no central water treatment plants or these plants are temporarily not operating".

This effect, however, does not result in automatic reduction of the water service tariff for the portion regarding the water treatment service whenever the user is not directly supplied by a water treatment plant, as the extension of the resolution of the Constitutional Court assumes not only that the existence of an operating water treatment plant serving the sewage network are checked, but also that the competent Authorities adopt specific regulation and administration acts.
The above mentioned repayment obligation would cause a modification of the financial management plan of the IWS.
In this case, by the effect of current regulations, both the financial balance of management, and the return on investments must in any case be guaranteed by the IWS operator.
As a consequence, if this repayment obligation becomes applicable and the IWS operator is expected to repay users who are eligible to receive the IWS tariff quota regarding the water treatment service, the operator would in any case be entitled to collect a tariff sufficient to cover both operating costs and to repay investments made or scheduled. Therefore, the total amount of the tariff collected by the operator within the ATO operating area would remain unchanged.
Parliament went on to issue Law no. 13 of 27 February 2009, *"Conversion to law, with amendments, of Law Decree no. 208 of 30 December 2008, containing extraordinary measures regarding water resources and environmental protection."*
Art. 8-sexies of Law 13/2009, "Provisions regarding the integrated water service", states that:

1) Charges regarding planning and construction or completion of water treatment plants, as well as charges regarding related investments, as expressly identified and planned by the area plans, shall represent a binding component of the integrated water service tariff, which is to be included in the calculation of fees payable by the user. The above-mentioned component is

therefore due to the operator from users if there are no water treatment plants or these plants are temporarily not operating, from the launch of procedures for the assignment of design services or completion works for activation of the treatment service, provided these comply with the scheduled timing.

2) In implementation of Constitutional Court judgement no. 335 of 2008, within a maximum five years from 1 October 2009, integrated water service operators must repay, also in instalments, the tariff quota which is not due for the water treatment service. In the cases indicated in the second sentence of subsection 1, charges arising from planning, construction or in-progress works will be deducted from the amount repayable. The amount repayable is calculated by the respective District Authorities, within 120 days of the date of conversion of this decree into law.
3) Provisions as per subsections 1 and 2 are directly applicable also to local managers of aqueducts, sewers and water treatment services. In these cases, local authorities will calculate the amount to be repaid.
4) Within two months of the conversion effective date of this decree, at the proposal of the Supervisory Committee on the use of water resources, the Minister of the Environment and Territorial and Marine Protection must issue decrees containing criteria and implementation guidelines, in accordance with provisions set out by the annex to the Minister of Public Works decree of 1 August 1996, in collaboration with the Minister of the Environment and published in the Official Gazette no. 243 dated 16 October 1996, taking account of both the special conditions granted to subjects who are not connected and autonomously provide for the treatment of their sewage, and the possible environmental impact, as per subsection 2, together with the minimum information that users are entitled to receive periodically from single operators regarding the plans for construction, completion, upgrading and activation of water treatment plants provided for by the relevant area Plan, and its gradual implementation and related information, including indications provided in bills issued.
5) Users are entitled to receive information regarding the operator's summary expenses already incurred and estimated future expenses. These costs must be added to the tariff quota to cover charges arising from activities as per subsection 4. Information on compliance with the construction schedule must also be given.
6) The Committee arranges periodic checks and monitoring of the correct implementation of operator disclosure obligations in the event of default, in order to comply with the provisions of this article and of Article 152, subsections 2 and 3, Legislative Decree no. 152 of 3 April 2006.

As a result of entry into force of the above provisions, any repayment to users by the IWS operator of the tariff quota related to the water treatment component is therefore suspended pending:

- the deadline, now past, of 1 October 2009;
- the definition of criteria and parameters for the implementation of "repayment of the tariff quota not due for water treatment" by the Ministry of the Environment, through decrees, within two months of entry into force of the law (see par. 4). This Ministry of the Environment Decree of 30 September 2009 was published in the Official Gazette – on 8 February 2010 – and contains the criteria and parameters for repayment to users of the tariff quota relating to the water treatment service. The Decree identifies the ATO as the entity responsible for establishing the criteria and parameters for repayment to users of the tariff quota in question, and defines the minimum information that operators must provide to users regarding the aforementioned plan of action;
- identification of the amount payable to each user by the operator, to be performed by the ATO by the mandatory deadline of 120 days of entry into force of the law (see par. 2), subject however to issue of the Ministry of the Environment decrees defining the criteria and parameters for implementation of that calculation and the repayment methods.

## REGULATIONS RELATING TO WASTE MANAGEMENT

Like the regulation for the Integrated Water Service, the general regulation applicable to the integrated Waste Management services sector is set forth and covers the entire country in the Environment Code (Legislative Decree 152/2006 as amended) and at the regional level by Emilia Romagna Regional Laws no. 25/99 and no. 10/2008.
The Environment Code constantly undergoes significant revisions that have significant repercussions on the activities of the companies operating in the sector, following the entry into effect of first level and implementation regulatory provisions (the latest being Legislative Decree 205/10). Further amendments are expected, including as a result of the obligation to implement the European regulations.
Article 2, paragraph 186-bis of law 191/2009 (Finance Law 2010) and Law Decree 225/10 are noted in particular. The coordination of these regulations indicates that, as from 31 March 2011, the District Authorities for the management of water resources and integrated management of urban waste pursuant to articles 148 and 201 of Legislative Decree no. 152/2006 (the Environment Code) will be eliminated and the regions will be assigned the task of assigning through laws the functions previously carried out by these organizations, according to principles of subsidiarity, differentiation and adequacy. However, this deadline has now been extended to 31 March 2011 and the government has been granted the right to postpone the elimination of the ATOs to 31 December 2011.
The sector regulations on the SISTRI (sistema informatico di tracciabilità dei rifiuti) IT system for the traceability of waste: Ministerial Decree of 17.12.2009 as amended and Decree of 22 December 2010 should also be noted.
Integrated Waste Management means the total activities carried out to optimize management of waste, these being the transportation, treatment and disposal of waste, including street sweeping and the management of these operations (article 8 of the Environment Decree).
The Environment Decree also provides for organization by ATOs and management by a District Authority (in Emilia Romagna, the District Authority pursuant to Regional Law 25/99) for the integrated waste service as well, which must have a legal entity in which local entities are obliged to participate as they transfer the execution of their competences in regard to integrated waste management to it.
The Iren Group provides waste services based on agreements entered into with the competent ATO. The table below indicates the information regarding the agreements in existence on the date of this report in the territory in which the Group operates.

| Ato | Regime | Agreement date | Expiration date |
|---|---|---|---|
| Reggio Emilia | ATO/Operator Agreement | 10 June 2004 | 20 December 2011 |
| Parma | ATO/Operator Agreement | 27 December 2004 | 27 December 2014 |
| Piacenza | ATO/Operator Agreement | 18 May 2004 | 20 December 2011 |

Based on the regulations for the Emilia Romagna region (for waste services, article 16 of Regional Law no. 1/2003 as it is currently applicable), the agreement provides for a decade long duration of the Assignments.
Legislative Decree no. 205 of 3 December 2010 introduced amendments to numerous provisions of Legislative Decree no. 152 of 3 April 2006, adding innovations, among other things, to the recycling and recovery of waste, promoting the adoption of self sufficiency and proximity principles for the disposal and recovery of undifferentiated urban waste.

## TARIFF SYSTEM FOR WASTE SERVICES

Pursuant to article 238 of the Environment Decree, anyone owning or holding under any capacity, premises or uncovered areas used privately or publicly and which are not accessories or annexes to the premises themselves existing in the communal territory zone and which produce urban waste, are required to pay a tariff.
The tariff is the consideration paid for the collection, treatment and disposal of solid urban waste.
The tariff for the management of waste is commensurate with the average ordinary quality and quantity of waste produced per unit of surface area, in relation to the uses and types of activities

carried out, taking account also of the revenue indices per usage and territorial bracket.
The tariff is set by the District Authority and it is applied and collected by the entities entrusted with the integrated management service.
For determination of the tariff, accessory costs relating to the management of urban waste are taken into account, such as street sweeping expenses, for example.
The tariff consists of:

- a portion calculated in relation to the essential components of the service costs, which mainly involve the investments for the works and the relative depreciation and
- a portion dependent on the quantity of waste handled, the service provided and the level of management costs, so as to ensure total coverage of the investment and operation costs.

In July 2009, with its rebuttal no. 38/2009, the Constitutional Court declared the taxation nature of the sanitation tariff pursuant to article 49 of Legislative Decree no. 22 of 15 February 1997, also known as the "TIA 1", therefore sustaining that said tariff is not subject to VAT.
Subsequently, the legislator intervened with Law Decree 78 of 31 May 2010, which under paragraph 33 of article 14 established that "*the provisions of article 238 of Legislative Decree no. 152 of 3 April 2006 are interpreted in the sense of the non taxation nature of the tariff provided therein. The disputes relating to this tariff, which ensued subsequently to the effective date of this Decree, fall under the jurisdiction of the ordinary judicial authority.*"
Therefore, currently, the TIA consideration is applied, including VAT, while an intervention by the legislator is awaited for the issue, if any, of refunds for the application period of the TIA1 and the consequent reorganization of the entire issue and the relative regulatory regime.

## EXTENSION OF THE ABOLITION OF ATOS

Law Decree no. 225 of 22 December 2010 (the "Milleproroghe" decree) provided for the postponement to 31 March 2011 of the elimination of the ATOs which had been provided by the 2010Finance Act. This period may be further extended by the government up to 31 December 2011.

## GREEN CERTIFICATES, ENERGY EFFICIENCY CERTIFICATES AND THE ETS

### Green certificates

In accordance with art. 11 of Legislative Decree no. 79/99, producers and importers of electrical energy generated from non-renewable sources must introduce electrical energy produced from renewable sources into the network, equal to a portion of the electrical energy produced from non-renewable and non-waste to energy sources. The mandatory portion, initially set at 2%, in the period 2004-2006 was increased each year by 0.35 percentage points (art. 4, subsection 1, Legislative Decree 387/2003), whereas the annual increase for the period 2007-2012 was established as 0.75% by Law no. 244 of 24 December 2007 (2008 Finance Act).
This obligation can also be fulfilled by the purchase on the market and following return to GSE for the cancellation of a corresponding quantity of green certificates. These certificates are conferred to producers of electrical energy according to the production of electrical energy from plants

powered by renewable sources, which began operations or were repowered after 1 April 1999 and qualified as IAFR (plants powered by renewable sources) by GSE according to criteria set out by MAP decrees of 24 October 2005.
The eligible period to obtain recognition of green certificates, initially 8 years, was later extended to 12 years by Legislative Decree no. 152 of 3 April 2006 (Consolidated Environmental Act).
Italian Law no. 244 of 24 December 2007 (2008 Finance Act) amended the regulation on green certificates, and the term of the recognition period for plants started up after 31 December 2007 was extended to 15 years. Differentiated rates were introduced according to the sources.
Plants considered waste to energy plants according to parameters set out by resolution no. 42/02 AEEG are exempt from the purchase of green certificates. Moreover, art. 1, subsection 71, Law no. 239 of 24 August 2004 (Marzano) also conferred the right to recognition of Green Certificates for production to cogeneration plants combined with district heating (together with hydrogen and combustible cell plants). This subsection was cancelled by art. 1, subsection 1120, paragraph g, of Law no. 296 of 27 December 2006 (2007 Finance Act), but rights acquired by plants compliant with provisions set out by Art. 14 of Legislative Decree no. 20 of 8 February 2007 (especially regarding authorisation dates and/or operation start-up and the EMAS certification) are still valid. The Green Certificates assigned to cogeneration plants combined with district heating were however subject to certain limitations: the recognition period is 8 years (Law no. 244 of 24 December 2007) and can be used to cover up to 20% of the obligation (Legislative Decree no. 20 of 8 February 2007 – Art. 14, subsection 3).
The Decree of the Ministry for Economic Development of 21 December 2007 approved and published the Technical Procedures which define the submission ways of IAFR qualification applications. These procedures differ from renewable sources and the so-called similar sources (among which cogeneration combined with district heating).
In accordance with the provisions of art. 2, subsection 150 of the 2008 Finance Act, through the Ministerial Decree of 18 December 2008, the Ministry for Economic Development set out the transition method from the previous incentive mechanism to new mechanisms (provided for in the 2008 Finance Act), and the method for extending on-site exchange to plants powered with renewable sources with an annual average nominal power not higher than 200 kW.
Amongst other things, the transition refers to the period 2009-2011 during which the GSE (at the request of the Green Certificates holder) will collect the Green Certificates issued for production for the whole of 2010 at the average market price of the previous three years.
Law 99/2009 established that, with effect from 2001, the obligation regarding green certificates passes from electrical energy producers to the wholesalers, based on the electrical energy used in the previous year (art. 27, subsection 18 and 19). The decree implementing this new regulation, which should have been issued by the Ministry for Economic Development, has not yet been published. In the meantime the decree converting Law Decree 135/2009 to law has postponed implementation of the obligation transfer to 2012.
The abrogation of article 27, paragraphs 18 and 19 of Law no. 99/2009 according to which the obligation of producers to transfer of green certificates to wholesalers does not apply, took place with Law Decree no. 91 of 30 April 2010 on "Urgent measures for the deferral of terms in regard to the environment and automotive transport, as well as the assignment of Co2 emission certificates."
On 30 November 2010, the Council of Ministers approved the draft of the Legislative Decree providing for implementation of European Parliament directive 2009/28/EC "on the promotion of the use of energy from renewable sources" which introduced innovative elements to the relative incentive mechanism.
The draft provides that the incentives for new plants using renewable sources starting from 2013 be replaced by an incentive that will be determined through a private contract with the GSE based on criteria aimed at ensuring the certainty of the incentive until the end of the useful life of the plants. The draft also provides for differentiating the incentive according to criteria based on dimensions and by source: for small size plants (up to five MW) or plants powered by biogas, biomasse and sustainable bioliquids, a fixed tariff mechanism (feed-in) and for those which are not in the first category a mechanism of competitive tenders combined with a minimum incentive guaranteed by the GSE. The draft for the legislative Decree above provides the issuing of further implementation decrees for entry into force of the amendment.
During the transition period from the previous incentive system to the new mechanisms (2012 – 2015), the draft provides that the GSE will maintain the obligation to collect by 2015; in particular, the green certificates for 2010 energy will be collected at the average price of the previous three-year period, as established by the Ministerial Decree on 18 December 2008 issued by the Ministry for Economic Development, while those relating to energy for the period from 2011 to 2015 will be collected

at a price equal to 70% of the difference between 180€MWh and the PUN. From 2016, active green certificates from plants which were commissioned prior to 2012 will be replaced by a feed-in tariff, defined on the basis of the criteria for small size plants. The decrees regarding the new incentive systems are said to be adopted within a year from the entry into effect of the latter.
On the demand side for green certificates, from 2013, the obligatory portion pursuant to article 11 of Legislative Decree 79/99 is provided to decrease linearly in each of the subsequent years, starting from the assumed value for 2012 based on the applicable law (7.55%), until it is eliminated in 2015. Furthermore, for the importation of the non renewable sources, elimination of the current exemption from delivering green certificates is provided.

### Energy efficiency certificates

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

### Emission trading system

In accordance with the Kyoto Protocol, from 2008 to 2012 industrialised countries and transition economies are committed to reducing the global emission of greenhouse gases by an overall 5%, compared to the levels for 1990.
The reduction targets, different for each member country, are 8% for the European Union and 6.5% for Italy.
To meet the reduction obligations established by the Kyoto Protocol, Directive 2003/87/EC has defined a trading system for the emission allowances of greenhouse gases within the European Union, i.e. the "Emission Trading System" (ETS). The Italian law implementing Directive 2003/87/EC is Le-

gislative Decree no. 216 of 4 April 2006.
The Emission Trading System provides that a maximum limit is established for emissions from industrial plant producing greenhouse gas allocating each plant (through the National Assignment Plans - NAP - be approved by the Commission) a given number of emission quotas, which give the right to emit a corresponding quantity of tonnes of carbon dioxide into the atmosphere during the year to which the quotas refer.
Each year the operators of plants governed by Directive 2003/87/EC are required to return a number of quotas corresponding to the emissions actually produced.
Any surplus of quotas (positive difference between quotas assigned at the start of the year and actual emissions into the atmosphere) may be set aside or sold on the market, while any deficit may be covered through purchase of quotas. Member States must therefore ensure free circulation of the emission quotas within the European Community allowing real development of the European market for emission rights.
For the period 2008-2012, on 27 November 2008, the national committee for the management and implementation of Directive 2003/87/EC approved Resolution 20/2008, which executes the Decision on Assignment of CO2 quotas for 2008-2012, following the European Commission's approval of the National Assignment Plan. For both 2008 and 2009, quotas pertaining to each plant were therefore issued by the Committee and made available on the accounts of the various producers.
The quotas relating to the 2 GT Repowering (Moncalieri), defined by the National Assignment Plan (NAP) as a "new entry" plant for "inclusion in period II" were not assigned by the plan as, at that time, the plant was still inoperative; they should be assigned free of charge by the Italian Government (as defined in the NAP – from a reserve) once the plant becomes fully operative, differentiating between a lump-sum quota (for the first six months of operations) and an annual quota on full start-up of the plant. The distribution criteria for the quotas that will be adopted by the Ministry are not yet known.
On 16 April 2010, resolution no. 07/2010 of the National Management Committee for Directive 2003/87/EC, authorized the Piacenza plant (district heating) as a "new entry." The quotas for the new entries for 2010 have not yet been assigned.
On 28 April 2010, with resolution 09/2010 and in regard to the 2009 quotas, this Committee approved the resolution for assignment of the free quotas for "new entries" in 2009. The Pappagnocca plant of Reggio Emilia, which was deployed in October 2009, has not yet received the free quotas since, as mentioned previously, the reserve for 2009 was depleted ahead of time. The thermal producing plant owned by Enia Parma did receive the new free quotas which were added to those already assigned by the NAP.

### Concessions and assignments

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

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

## DISTRIBUTION OF NATURAL GAS

### Genoa area

Iren Acqua Gas through Genova Reti Gas S.r.l. (wholly owned)
Natural gas distribution service sector in the municipality of Genoa and the neighbouring municipalities is carried out by Genova Reti Gas S.r.l. which is wholly owned by the SPL Iren Acqua Gas S.p.A.. The relative assignment by the municipality of Genoa was given on 29 December 1995 to the then existing AMGA S.p.A..
The tables below show the information regarding the aforementioned assignment as well as assignments given by other municipalities. The expiration date of the service indicated in the tables results from application of the current law regarding extensions, that is the Letta Decree (Legislative Decree 164/2000), the Marzano Law (Law 239/2004) and Law Decree 273/05. The relative extension procedures are still underway in certain cases.

| MUNICIPALITY | Assignment date | Expiry |
|---|---|---|
| GENOVA | 29 December 1995 | 31 December 2012 |
| AVEGNO | 10 July 1989 | 31 December 2012 |
| BARGAGLI | 10 July 1989 | 31 December 2012 |
| BOGLIASCO | 11 June 1966 | 31 December 2012 |
| CERANESI | 10 June 1983 | 31 December 2010 |
| CICAGNA | 10 July 1989 | 31 December 2012 |
| DAVAGNA | 10 July 1989 | 31 December 2012 |
| FAVALE DI MALVARO | 29 January 1999 | 31 December 2012 |
| LORSICA | 29 January 1999 | 31 December 2012 |
| LUMARZO | 10 July 1989 | 31 December 2012 |
| MELE | 20 April 1984 | 31 December 2010 |
| MOCONESI | 10 July 1989 | 31 December 2012 |
| NEIRONE | 10 July 1989 | 31 December 2012 |
| PIEVE LIGURE | 24 February 1986 | 31 December 2010 |
| SANT'OLCESE | 12 July 1985 | 31 December 2012 |
| SERRA RICCO' | 6 October 1982 | 31 December 2010 |
| TORRIGLIA | 10 July 1989 | 31 December 2012 |
| TRIBOGNA | 10 July 1989 | 31 December 2012 |
| USCIO | 10 July 1989 | 31 December 2010 |
| MIGNANEGO | 28 October 1987 | 31 December 2010 |

Concessions expiring on 31 December 2010 are currently in the extension process awaiting definition of the new assignments by the competent authorities.

### Turin Area

The services regarding methane gas and district heating distribution in the municipality of Turin and the municipalities of Turin and Moncalieri respectively, are managed by AES TORINO S.p.A. following conferral as from 27 January 2001: (i) by ITALGAS, for the distribution of methane gas service, (ii) by AEM Torino S.p.A., for the distribution of heat service.
The municipality of Turin, with the resolution of its Municipal Council no. 63 of 23 January 2000, approved:

(i) The text of the agreement relating to the "Gas Service" and assignment of this service to Italgas and subsequent transferral to the newly established AES Torino S.p.A.;
(ii) Authorisation to transfer to the newly established AES Torino S.p.A. the branch of AEM Torino relating to the distribution of district heating, through its entry into the AEM Torino agreement entered into with the municipality on 28 November 1996 and expiration on 31 December 2036. Following the conferrals of the branches, effective 31 October 2006, the heat selling activity was transferred to Iride (now Iren) Mercato S.p.A and the heat production activity was transferred to Iride (now Iren) Energia S.p.A..

The concession relating to the distribution of gas in the municipality of Turin expires on 31 December 2010. With its resolution of 21 December 2010, the Municipal Council of Turin approved the assign-

ment of the natural gas distribution service to AES Torino S.p.A. while awaiting identification of the ATEMs within the time limits set forth under article 23-bis of Law Decree no. 112 of 25 June 2008, as modified by Law Decree no. 135 of 25 September 2009 and in any case until the new operator takes over as provided by Law Decree no. 159 of 1 October 2007, article 46-bis.
With its agreement dated 29 December 2008, the city of Nichelino (Turin) assigned the concession for use of the public soil and subsoil for the setting of networks, plants and infrastructures which relate to the district heating service for a period of 30 years from the last connection made, to the temporary association of companies established between Iren Energia S.p.A., Iren Mercato S.p.A. and AES Torino S.p.A., which together established Nichelino Energia S.r.l..

### Emilia Romagna area

The table below indicates the information regarding the Assignments and Concessions in existence in the territory in which the Enìa (now Iren) Group operates. The expiration date of the service indicated in the table results from application of the law regarding extensions, that is the Letta Decree (Legislative Decree 164/2000), the Marzano Law (Law 239/2004) and Law Decree 273/05. Due to the provisions therein, the expiry of the transitional period is set for 31 December 2007, with automatic extension to 31 December 2009, provided the operators cover the requirements specifically indicated under article 15, par. 7 of the Letta Decree. As the Group covers the requirements set forth in the aforementioned law to take advantage of the extension (in particular, art. 15, par. 7.b: "users served in excess of one hundred thousand final customers and gas distributed in excess of one hundred million cubic metres per year") the expiration of the assignments is set for 31 December 2010 as shown in the tables below:

| Municipality | Regime | Assignment | Expiry |
|---|---|---|---|
| Reggio Emilia | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Albinea | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Bagnolo in Piano | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Baiso | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Bibbiano | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Boretto | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Brescello | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Busana | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Cadelbosco di Sopra | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Campagnola Emilia | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Campegine | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Canossa | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Carpiteti | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Casina | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Casalgrande | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Castellarano | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Castelnovo di Sotto | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Castelnovo né Monti | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Cavriago | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Correggio | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Fabbrico | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Gattatico | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Gualtieri | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Guastalla | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Luzzara | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Montecchio Emilia | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Novellara | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Poviglio | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Quattro Castella | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Ramiseto | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Reggilo | Assignment | Prior to 21 June 2000 | 31 December 2010 |

| Municipality | Regime | Assignment | Expiry |
|---|---|---|---|
| Rio Saliceto | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Rolo | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Rubiera | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| San Martino in Rio | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| San Polo d'Enza | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Sant'Ilario d'Enza | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Scandiano | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Toano | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Vetto | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Vezzano sul Crostoso | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Viano | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Villa Minozzo | Assignment | Prior to 21 June 2000 | 31 December 2010 |
| Parma | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Collecchio | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Colorno | Assignment | 1 January 2003 | 31 December 2010 |
| Corniglio | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Felino | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Fontevivo | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Fornovo val di Taro | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Langhirano | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Montechiarugolo | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Neviano degli Arduini | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Noceto | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Palanzano | Concession | 14 September 2004 | 12 years from the deployment of the plants |
| Polesine | Assignment | 1 January 2003 | 31 December 2010 |
| Roccabianca | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Sala Baganza | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| San Secondo | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Sissa | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Soragna | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Tizzano | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Torrile | Assignment | 1 January 2003 | 31 December 2010 |
| Trecasali | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Sorvolo e Mezzani | Assignment | Prior to 21 July 2000 | 31 December 2010 |
| Zibello | Assignment | 1 January 2003 | 31 December 2010 |
| San Giorgio Piacentino | Assignment | 1 June 2004 | 31 December 2010 |
| Besenzone | Concession | 1 November 2003 | 30 November 2015 |
| San Pietro In Cerro | Concession | 1 November 2003 | 30 November 2015 |
| Lugagnano | Assignment | 5 February2004 | 31 December 2010 |

The concessions expiring on 31 December 2010 are currently in the extension process awaiting definition of new assignments by the competent authorities.

## Other territorial areas

The Iren Group also operates in numerous other entities throughout Italy through the assignments or concessions given by the competent municipalities to joint stock companies in which companies belonging to the Iren Group participate directly or indirectly. The main ones are shown below. The expiration dates may be amended as the procedures for extension by the competent administrations are still underway in some cases.

- Province of Ancona / Macerata - ASTEA S.p.A. (21.32% owned by the G.P.O. Consortium in which Iren Emilia is a 62.35% shareholder): Municipalities of Osimo (AN) Recanati (MC), Loreto (AN) and Montecassiano (MC).
- Municipality of Vercelli - ATENA S.p.A. (40% owned by Zeus S.p.A. which is wholly owned by Iren Emilia): Assignment in 1999 with expiration on 31 December 2010.
- Province of Livorno - ASA S.p.A. (40% owned by AGA S.p.A. which is 95.09% owned by Iren Emilia): Municipalities of Livorno, Castagneto Carducci, Collesalvetti, Rosignano Marittima and San Vincenzo – expiration on 31 December 2010
- Province of Grosseto – GEA S.p.A. (59.33% owned by Iren Acqua Gas): Municipality of Grosseto and Campagnatico (GR) – application of expiration as at 31 December 2013 is currently under way
- Central Southern Italy - Aquamet (60% owned by Iren Acqua Gas): Municipalities of Battipaglia (SA); Bellizzi (SA); Montecorvino Pugliano (SA); Montecorvino Rovella (SA); Carinola (CE); Moliterno (PZ); Sarconi (PZ); Corleto Perticara (PZ); Saracena (CS); Francavilla Marittima (CS); Trebisacce (CS); Cassino (FR). The sale of the equity investment in Aquamet will be concluded during 2011.

## Natural gas sales

Pursuant to the Letta Decree on unbundling, i.e., the separation of the distribution activity from the sale of gas, Iren Group also sells natural gas mainly through Iren Mercato.
This activity is also carried out through direct or indirect participation in sales companies including:

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

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

## ELECTRICAL ENERGY SECTOR

AEM Torino Distribuzione S.p.A. manages in the city of Turin the public electric energy distribution service pursuant to the ministerial concession issued by the Minister of Trade and Industry to AEM Torino S.p.A. on 8 May 2001 which was transferred, pursuant to article 38 of Law 340/00, to the aforementioned AEM Torino Distribuzione S.p.A. through a Decree authorizing the transfer issued by the Minister of Productive Activities on 23 February 2004. This concession expires on 31 December 2030.
Through its local mixed companies, the Iren Group is present in the distribution of electrical energy in the following main areas:

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

The Iren Group distributes electrical energy in the municipality of Parma. Pursuant to the Bersani Decree, distributor companies must connect to their networks all individuals that request this, without compromising the continuity of the service and provided the technical rules and the resolution issued by the AEEG on tariffs, contributions and costs are complied with. Distributor companies operating on the date the Bersani Decree entered into effect continue to carry out the distribution service on the basis of the concessions granted by 31 March 2001 by the Minister of Industry and Trade which expire on 31 December 2030. Upon expiration of this time period, the service will be assigned on the basis of calls for tenders to be announced in compliance with national and community laws on public calls for tenders for a period not to exceed the five years from the expiration. In order to rationalize the distribution of electric energy, only one concession is granted for distribution per municipal area.
The concession for carrying out the distribution of electric energy in the municipality of Parma, which had been granted to AMPS S.p.A. and subsequently to Enia S.p.A., was transferred to AEM Torino Distribuzione S.p.A., with the expiration of 31 December 2030 being maintained, through the Decree of the Minister of Economic Development issued on 22 September 2010.

## DISTRICT HEATING SECTOR

By virtue of the sale of the company branch effective from 1 July 2010, Iren Energia S.p.A. took over from Enia S.p.A. the management of the district heating service for Parma, Piacenza and Reggio Emilia which was governed by conventions and agreements with the local authorities.

## INTEGRATED WATER SERVICE

### Genoa area

Iren Acqua Gas holds the assignment for the management of the integrated water service (aqueduct, sewerage and purification) in the 67 municipalities of the province of Genoa serving a total of 880,000 residents.
The assignment was attributed upon decision no. 8 of the Genoa ATO Authority on 13 June 2003. The term of this agreement was definitively set upon the decision of the Genoa ATO Authority from 7 August 2009 until 31 December 2032.
This decision was assumed on the basis of the regional law of Liguria 39/2008 which attributed to the ATO the right to assign the integrated water service (IWS) to a single operator, provided that this assignment could take place as a direct assignment and therefore without going through the tendering procedure, in compliance with EU provisions and the applicable domestic law on the assignment of local public services and therefore also the provisions set forth under article 113, par. 15-bis of Legislative Decree 267/2000, which continue to apply. In execution of this provision, the ATO determines the termination date of existing concessions with consideration taken of the average term of concessions granted in the same sector following public procedures, notwithstanding the possibility of determining, on a case for case basis, the end of the concession at a later date, should it be in line with the recovery times for particular investments made by the operator, subject to the updating and renegotiation of existing conventions.
The Prime Minister's Office has appealed to the Constitutional Court to request that the Liguria Regional Law no. 39/2008, art. 4 be declared constitutionally illegitimate. In particular, the Prime Minister's Office affirmed that, among other things, this regional law contravenes article 23-bis

of Law Decree no. 112/2008, which governs economically significant local public services and requires that local public services be assigned through public tenders, notwithstanding the right to assign directly under the clearly defined and justified circumstances set forth under paragraph 3 of this article. On the other hand, the regional law provided for generic assignment of the service to an individual entity pursuant to community laws and the applicable Italian laws on assignments and therefore in any one of the three forms provided for by article 113, par. 5 of Legislative Decree 267/2000, even if the aforementioned specific circumstances do not apply.
The Constitutional Court, with its sentence 335/2010, accepted the government's appeal against the Regional Law of Liguria 39/2008, declaring it unconstitutional insofar as the previously indicated parts; the issuer believes that the assignment to the Iren Group will not be affected since, in the absence of the aforementioned Regional Law, the current assignment would continue to comply with the domestic law set forth in Law Decree 112/2008, which the Prime Minister's Office requested the Constitutional Court to apply and which was confirmed by the ruling itself.
Indeed, the regional law refashioned the National law and the assignment to Iren Acqua Gas is founded as it consists of an assignment "authorized on 1 October 2003 to companies in which the public has an equity interest and which are listed on the stock exchange on that date and their subsidiaries pursuant to article 2359 of the Italian civil code," (pursuant to paragraph 8, letter e of article 23-bis of Law Decree 112/2008 amended by Law Decree 133/2008 converted into law 166/09), for which cessation of operation is provided upon expiration as indicated in the service contract.
The management of the integrated water service in the municipalities of the province of Genoa is carried out on the basis of agreements with operators that are protected and/or authorized with specific provisions by the Genoa ATO which were entered into starting from 2003. The authorized and/or protected companies belonging to the Iren Group that are operators are Mediterranea delle Acque S.p.A. (60% owned by Iren Acqua Gas), Idro-Tigullio S.p.A. (66.55% owned by San Giacomo) and AMTER S.p.A. (49% owned by San Giacomo).
In particular, Mediterranea delle Acque is the leading operator providing support to the SPL Iren Acqua Gas as manager of the Genoa ATO, its services extending beyond the Municipality of Genoa to a further 37 municipalities (out of a total of 67) in the area covered by the ATO.

Following is a list of the municipalities belonging to the Genoa ATO which are served by the Iren Group with specific indication of the integrated water service segment handled:

## INTEGRATED WATER SERVICES OPERATIONS - ASSIGNEE
Iren Acqua Gas expir. 31/12/2032

| Municipality | Aqueduct | Sewerage | Purification |
|---|---|---|---|
| Arenzano | AM.TER | AM.TER | AM.TER |
| Avegno | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Bargagli | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Bogliasco | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Borzonasca | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Busalla | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Camogli | --------- | Mediterranea delle Acque | Mediterranea delle Acque |
| Campo Ligure | AM.TER | AM.TER | AM.TER |
| Campomorone | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Casarza Ligure | -------------- | Idro-Tigullio | Idro-Tigullio |
| Casella | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Castiglione Chiavarese | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| Ceranesi | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Chiavari | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| Cicagna | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| Cogoleto | AM.TER | AM.TER | AM.TER |
| Cogorno | ------------ | ------------- | Idro-Tigullio |

| Comune | Acquedotto | Fognatura | Depurazione |
|---|---|---|---|
| Coreglia Ligure | ---------- | Idro-Tigullio | Idro-Tigullio |
| Crocefieschi | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Davagna | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Fascia | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Favale di Malvaro | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| Fontanigorda | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Gorreto | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Isola del Cantone | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Lavagna | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| Leivi | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| Lorsica | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| Lumarzo | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Masone | AM.TER | AM.TER | AM.TER |
| Mele | AM.TER | AM.TER | AM.TER |
| Mezzanego | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Mignanego | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Moconesi | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Moneglia | ------------- | Idro-Tigullio | Idro-Tigullio |
| Montebruno | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Montoggio | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Né | ------------ | Società dell'Acqua Potabile | Società dell'Acqua Potabile |
| Neirone | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Orero | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| Pieve Ligure | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Portofino | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| Propata | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Rapallo | ------------- | Idro-Tigullio | Idro-Tigullio |
| Recco | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Rezzoaglio | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Ronco Scrivia | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Rondanina | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Rossiglione | AM.TER | AM.TER | AM.TER |
| Rovegno | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| S. Colombano Certenoli | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| S. Margherita Ligure | Idro-Tigullio | Idro-Tigullio | Idro-Tigullio |
| S. Olcese | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Santo Stefano d'Aveto | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Savignone | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Serra Riccò | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Sestri Levante | ------------ | Idro-Tigullio | Idro-Tigullio |
| Sori | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Tiglieto | AM.TER | AM.TER | AM.TER |
| Torriglia | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Tribogna | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Uscio | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Valbrevenna | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Vobbia | Mediterranea delle Acque | Mediterranea delle Acque | Mediterranea delle Acque |
| Zoagli | Acque Potabili | Idro-Tigullio | Idro-Tigullio |

## Emilia Romagna area

The Iren Group provides water services based on agreements entered into with the competent ATOs. The table below indicates the information regarding the agreements in existence in the territory in which the Group operates.

| ATO | Regime | Agreement date | Expiration date |
|---|---|---|---|
| Reggio Emilia | ATO/Operator Agreement | 30 June 2003 | 31 December 2011 |
| Parma | ATO/Operator Agreement | 27 December 2004 | 30 June 2025 |
| Piacenza | ATO/Operator Agreement | 20 December 2004 | 31 December 2011 |

Based on the laws of the Emilia Romagna Region (articles 10 of Regional Law 25/99 for water services, as amended by Regional Law 1/2003), the agreements provide for a decade long term of the assignments, except for the agreement relating to the Parma ATO water service which, based on article 113, par.15-bis of the T.U.E.L., [consolidated law on local entities] sets the expiration of the assignment at 30 June 2025, by virtue of the disposal of 35% of the AMPS capital by the municipality of Parma in 2000 through a public procedure.
In regard to the ownership status of the water service assets, pursuant to the applicable laws and concurrently with the merger process through which Enìa was established, AGAC, AMPS and TESA spun off the assets of the respective Integrated Water Service, so that it merged into Agac Infrastrutture S.p.A., Parma Infrastrutture S.p.A. and Piacenza Infrastrutture S.p.A. (the "asset" companies), the entire shareholding base of which is composed by Local Entities.
The asset companies make available to the Iren Group all the spun off assets relating to the SII operation, on the basis of a contract and payment of instalments by the Reggio Emilia, Parma and Piacenza ATOs.

## Province of Reggio Emilia

Agac Infrastrutture S.p.A. provides to the Iren Group the plants for the Integrated Water Service, against payment of an instalment by the Reggio Emilia ATO, based on a "*contract regulating the concession for use through the lease of an organized complex of assets consisting of networks, plants and equipment for the integrated water service*" concluded between the parties on 1 March 2005 and relating to the provision of water services in the 44 municipalities of the Province of Reggio Emilia, except for the municipality of Toano. This contract is effective from the signature date and expires upon expiration of the assignments to the Integrated Water Service operator, notwithstanding any amendments resulting from application of the legislation applicable to the sector. The contract also provides that in addition to the term, it shall be modified by rights in the event that future legislation for the sector provides for a different term.
In this respect, the agreement for the management of the integrated water service concluded on 30 June 2003 between AGAC and ATO no. 3 of Reggio Emilia set the assignment term at 10 years, as established by Regional Law 25/99 starting from 20 December 2001. In consideration thereof, the expiration of the existing assignment for water services in the province of Reggio Emilia is set for 20 December 2011.
For the concession to use the assets, Iren Group pays Agac Infrastrutture S.p.A. an annual consideration of Euro 6,900,000. This amount was calculated on the basis of annual interest and repayment of the principal of debts attributable to the concession works used by the operator and includes the sub concession of the coastal aqueduct assets owned by the Municipalities.

### Province of Parma

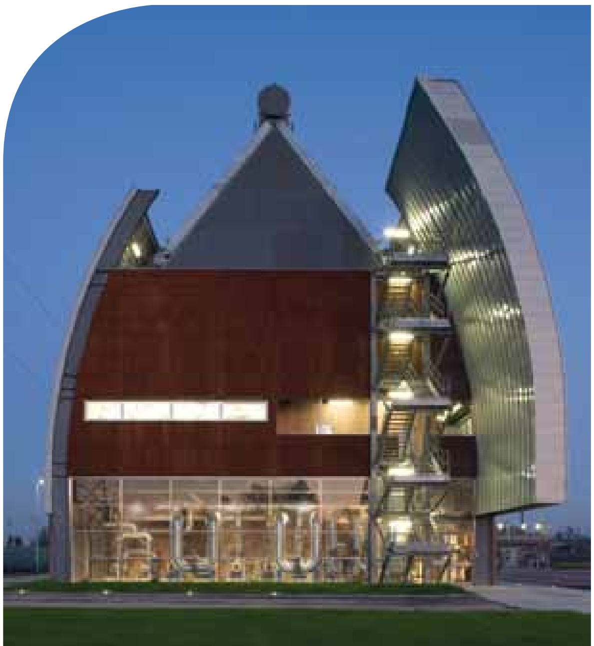
Parma Infrastrutture S.p.A. provides to the Iren Group the plants for the Integrated Water Service, against payment of an instalment by the Parma ATO, based on a "*contract regulating the concession for use through the lease of an organized complex of assets consisting of networks, plants and equipment for the integrated water service*" concluded between the parties on 18 March 2005 and relating to the provision of water services in the Province of Parma. This contract is effective from 1 March 2001 and expires upon expiration of the assignments for the Integrated Water Service operation, notwithstanding any amendments resulting from application of the legislation applicable to the sector. The contract also provides that in addition to the term, it shall be modified by rights in the event that future legislation for the sector provides for a different term.
To this effect, the agreement for the operation of the water services concluded on 27 December 2004 between the AMPS and ATO no. 2 of Parma set the expiration of the existing assignment for 30 June 2025.
For the concession to use the assets, Iren Group pays Parma Infrastrutture S.p.A. an annual consideration of Euro 2,205,000. This amount was calculated on the basis of annual interest and repayment of the principal of debts attributable to the concession works used by the operator and includes the sub concession of the coastal aqueduct assets owned by the Municipality of Parma.

### Province of Piacenza

Piacenza Infrastrutture S.p.A. provides to the Iren Group the plants for the Integrated Water Service, against payment of an instalment by the Piacenza ATO, based on a "*contract regulating the concession for use through the lease of an organized complex of assets consisting of networks, plants and equipment for the integrated water service*" concluded between the parties on 18 February 2005 and relating to the provision of water services in all 48 municipalities of the Province of Piacenza. This contract is effective from the signature date and expires upon expiration of the assignments to the operator for the operation of the integrated water service, notwithstanding any amendments resulting from application of the legislation applicable to the sector. The contract also provides that in addition to the term, it shall be modified by rights in the event that future legislation for the sector provides for a different term. In this respect, the agreement for the operation of the integrated water service concluded on 20 December 2004 between TESA and ATO no. 1 of Piacenza set the assignment term at 10 years, as established by Regional Law 25/99 starting from 20 December 2001. In consideration thereof, the expiration of the existing assignment for water services in the province of Piacenza is set for 20 December 2011.
For the concession to use the assets, the Iren Group pays Piacenza Infrastrutture S.p.A. an annual amount of Euro 1,142,000.

### Sewerage network management

In the province of Reggio Emilia, the assignment for the management of a sewerage network was assigned to the Iren Group as from 1 July 2003 and has an overall term of 10 years. The agreement provides for the provision of the following services: (i) emergency services (collection and recording of comments regarding irregularities, rendering safe and carrying out work for the restoration of sewers and the road surface or the stability of the work); (ii) ordinary maintenance (washing and expurging the sewer pipes, cleaning the street drains and grates, cleaning the floodways, control and maintenance of pumping stations, control and maintenance of the rain tanks); (iii) extraordinary




maintenance (repairing and/or replacing small parts of piping, repairing inspection wells and rainwater collection wells (drains and grates), replacing electromechanical equipment and metal structure work in pumping stations and rain tanks); and (iv) issuing of connection authorizations (right to authorize all new connections to the public sewer system).
In the province of Parma, the assignment for the management of a sewerage network was assigned to the Iren Group as from 2000 and has an overall term of 25 years. The agreement provides for the provision of the following services: (i) emergency services (collection and recording of reports regarding irregularities, rendering safe and carrying out work for the restoration of sewers and the road surface or the stability of the work); (ii) ordinary maintenance (washing and expurging the sewer pipes, cleaning the street drains and grates, cleaning the floodways of black and mixed mud, control and maintenance of pumping stations, control and maintenance of the rain tanks); (iii) extraordinary maintenance (repairing and/or replacing small parts of piping, repairing inspection wells and rainwater collection wells (drains and grates), replacing electromechanical equipment and metal structure work in pumping stations); and (iv) providing technical advice to the entities in charge of issuing discharge authorizations.
In the province of Piacenza, the assignment for the management of a sewerage network was assigned to the Iren Group, as from 20 December 2004, for a term of 7 years. The agreement provides for the provision of the following services: (i) operation and ordinary maintenance of sewage pipes for black and mixed water, in order to ensure operation and hydraulic continuity; (ii) preparation of the tubing and relative work and replacement of small portions in an emergency, cleaning of street drains and grates connected to makes sewerage networks and of storage tanks; (iii) operation and maintenance of waste water pumping stations, with reparation and replacement in an emergency of electromechanical equipment, etc.; (iv) issuing of technical advice regarding compliance to the entities in charge of issuing authorizations for discharge into public sewerage systems; (v) execution of the connections to the sewerage system, upon drafting of the relative expense estimate and payment by the applicants; (vi) emergency services and availability after work hours.
Following the reorganization provided for as part of the merger of Enia S.p.A. into Iride S.p.A. which took place on 31 December 2010, the management of the IWS in the Parma and Reggio Emilia ATOs was transferred to Iren Acqua Gas. The latter uses, for operations, the structures of Iren Emilia including through the Territorial Operating Companies controlled by the latter.
The management of the Piacenza IWS has been assigned to Iren Emilia which uses the Piacenza TOC for operations.

### Other territorial areas

The Iren Group also operates in numerous other entities throughout Italy in the IWS area through the assignments or concessions given by the competent municipalities to joint stock companies in which Iren Acqua Gas or other companies belonging to the Iren Group participate directly or indirectly. Following are the major such companies.

- Toscana Costa ATO - ASA S.p.A. (40% owned by AGA S.p.A. which is 95.09% owned by Iren Emilia) integrated water service in the municipality of Livorno and other municipalities in the province
- Marche Centro - Macerata ATO (ATO3). ASTEA S.p.A. (21.82% owned by Consorzio GPO which is in turn 62.35% owned by Iren Emilia) only for the municipalities of Recanati – Loreto – Montecassiano, – Osimo, Potenza Picena, Porto Recanati
- Biella, Casale, Vercelli ATO: ATENA S.p.A. (40% owned by ZEUS S.p.A. which is wholly owned by Iren Emilia (for the Vercelli area).
- Municipality of Ventimiglia: AIGA S.p.A. (49% owned by Iren Acqua Gas)
- Municipality of Imperia: AMAT S.p.A. (48% owned by Iren Acqua Gas)
- Alessandria ATO: ACOS S.p.A. (25% owned by Iren Emilia) for the Municipality of Novi Ligure – ASMT Servizi Pubblici S.p.A. (44.76% owned by Iren Emilia) for the Municipality of Tortona.

### Waste Management sector

The Iren Group provides waste management services based on agreements concluded with the competent ATOs. The table below indicates the information regarding the agreements in existence on the date of this report in the territory in which the Group operates:

| ATO | Regime | Agreement date | Expiration 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 |

Based on the regulations for the Emilia Romagna region (for waste services, article 16 of Regional Law 25/99 as amended by Regional Law no. 1/2003), the agreements provide for a decade long term of the Assignments. The expirations set forth in Law 166/09 apply to the waste management service as well. In regard to waste disposal as part of the public operation of the urban and similar waste service, Regional Law 25/99 includes: (i) sweeping, (ii) collection, (iii) transportation and (iv) dispatching for recovery or disposal including preliminary processing of the waste. The Environment Decree introduces, furthermore, the disposal phase into the integrated waste management service area. In compliance with the provisions of currently applicable Regional Law 25/9, disposal is not currently included among the activities regulated by the existing agreements between the ATOs/operator.

### Reorganization of the water and waste sector

The organizational-institutional structure of the integrated water services and the integrated waste services defined by the Consolidated Law on the Environment (Legislative Decree 152/2006) was amended by law no. 42 of 26 March 2010, which provided for elimination of the ATOs as indicated in articles 148 and 201 of the aforementioned Consolidated Law, effective 1 January 2011. The Regions will have to assign the operations already carried out by these Authorities according to principles of subsidiarity, differentiation and adequacy.

However, with Law Decree no. 225 of 20 December 2010, the deadline of 1 January 2011 was extended to 31 March 2011, with the government retaining the right to proceed to a further extension to 31 December 2011.

With Law no. 14 (the Finance Act) of 23 December 2010 the Region of Emilia-Romagna in regard to the reorganization of local public services (IWS and waste) declared that it will comply by 31 July 2011 and will extend the competences of the ATOs until that date.

### Services provided to the Municipality of Turin

On 31 October 2006, Iride Servizi S.p.A. took over from AEM Torino S.p.A. as a result of the sale of the branch as part of the reorganization process connected to the merger of AMGA S.p.A. into AEM Torino S.p.A.:

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

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

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

PROPOSAL RELATING TO THE AGENDA ITEM "*Financial statements at 31 December 2010, Directors' Report and proposal for the allocation of dividends: Inherent and consequent resolutions.*"

Dear Shareholders,

In relation to the above, we propose that you:
- approve the financial statements at 31 December 2010 which show a profit for the year of Euro 102,689,656.80;
- approve the following proposal for the allocation of profit for the year:

| | | |
|---|---|---|
| Iren S.p.A. profit for the year | euro | 102,689,656.80 |
| 5% of profit for the year to the "legal reserve" | euro | 5,134,482.84 |
| To the shareholders, a unit dividend of Euro 0.0764 for the 1,181,725,677 ordinary shares and the 94,500,000 savings shares of a nominal amount of Euro 1 to be paid starting from 26 May 2011, for a total of | euro | 97,503,641.72 |
| To the "Extraordinary reserve" | euro | 51,532.24 |

- approve the distribution of an extraordinary unit dividend of euro 0.0086, payable from the Extraordinary Reserve, for the 1,181,725,677 ordinary shares and the 94,500,000 savings shares of a nominal amount of euro 1 to be paid starting from 26 May 2011, for a total of Euro 10,975,540.82.

  Therefore, should you approve the aforementioned proposals, the total unit dividend to be assigned to each of the 1,181,725,677 ordinary shares and the 94,500,000 savings shares of a nominal amount of Euro 1 to be paid starting from 26 May 2011, on detachment of the coupon of 23 May 2011, will equal euro 0.085 for a total of euro 108,479,182.54.

For the Board of Directors
The Chairman
Mr. Roberto Bazzano

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

# Consolidated Financial Statements

at 31 December 2010

# STATEMENT OF FINANCIAL POSITION

thousands of euro

| ASSETS | Note | 31.12.2010 | of which related parties | 31.12.2009 (1) | of which related parties |
|---|---|---|---|---|---|
| Property, plant and equipment | (1) | 2,642,531 | | 1,692,447 | |
| Investment property | (2) | 2,687 | | 2,212 | |
| Intangible assets with a finite useful life | (3) | 1,168,458 | | 715,963 | |
| Goodwill | (4) | 132,117 | | 104,745 | |
| Investments accounted for using the equity method | (5) | 324,106 | | 308,219 | |
| Other investments | (6) | 296,249 | | 34,339 | |
| Non-current financial assets | (7) | 88,388 | 82,361 | 279,333 | 264,980 |
| Other non-current assets | (8) | 29,463 | | 23,762 | |
| Deferred tax assets | (9) | 134,046 | | 88,212 | |
| **Total non-current assets** | | **4,818,045** | | **3,249,232** | |
| Inventories | (10) | 45,227 | | 39,017 | |
| Trade receivables | (11) | 1,115,235 | 246,345 | 672,554 | 153,262 |
| Current tax assets | (12) | 5,755 | | 3,712 | |
| Other receivables and other current assets | (13) | 209,504 | 2,081 | 199,092 | 26,702 |
| Current financial assets | (14) | 377,281 | 367,728 | 184,578 | 180,786 |
| Cash and cash equivalents | (15) | 144,548 | | 40,373 | |
| **Total current assets** | | **1,897,550** | | **1,139,326** | |
| **Assets held for sale** | **(16)** | **77,857** | **569** | **5,837** | |
| **TOTAL ASSETS** | | **6,793,452** | | **4,394,395** | |

(1) The figures were restated to reflect the adoption of IFRIC 12.

thousands of euro

| LIABILITIES | Note | 31.12.2010 | of which related parties | 31.12.2009 | of which related parties |
|---|---|---|---|---|---|
| **Equity attributable to owners of the Parent** | | | | | |
| Share capital | | 1,276,226 | | 832,042 | |
| Reserves and retained earnings | | 432,700 | | 412,945 | |
| Profit for the year | | 143,104 | | 6,397 | |
| **Total equity attributable to owners of the Parent** | | **1,852,030** | | **1,251,384** | |
| **Non-controlling interests** | | **229,590** | | **135,219** | |
| **TOTAL EQUITY** | **(17)** | **2,081,620** | | **1,386,603** | |
| **LIABILITIES** | | | | | |
| Non-current financial liabilities | (18) | 1,829,263 | | 1,338,039 | |
| Employee benefits | (19) | 94,327 | | 63,827 | |
| Provisions for risks and charges | (20) | 195,133 | | 58,368 | |
| Deferred tax liabilities | (21) | 106,806 | | 102,337 | |
| Other payables and other non-current liabilities | (22) | 148,383 | | 11,940 | |
| **Total non-current liabilities** | | **2,373,912** | | **1,574,511** | |
| Current financial liabilities | (23) | 1,041,103 | 3,628 | 583,078 | 3,893 |
| Trade payables | (24) | 955,677 | 301,675 | 588,097 | 84,699 |
| Other payables and other current liabilities | (25) | 270,444 | 3,387 | 204,975 | 22,554 |
| Current tax liabilities | (26) | 12,560 | | 9,401 | |
| Provisions for risks and charges - current portion | (27) | 35,807 | | 47,730 | |
| **Total current liabilities** | | **2,315,591** | | **1,433,281** | |
| **Liabilities classified as held for sale** | **(28)** | **22,329** | | **-** | |
| **TOTAL LIABILITIES** | | **4,711,832** | | **3,007,792** | |
| **TOTAL EQUITY AND LIABILITIES** | | **6,793,452** | | **4,394,395** | |

# INCOME STATEMENT

thousands of euro

| | Note | 2010 | of which related parties | 2009 (1) (2) | of which related parties |
|---|---|---|---|---|---|
| REVENUE | | | | | |
| Revenue from goods and services | (29) | 2,600,075 | 262,382 | 2,087,634 | 252,077 |
| Change in contract work in progress | (30) | 1,274 | | 339 | 339 |
| Other revenue and income | (31) | 228,128 | 6,580 | 171,530 | 13,521 |
| **Total revenue** | | **2,829,477** | | **2,259,503** | |
| **OPERATING EXPENSE** | | | | | |
| Purchase of raw materials, consumables, supplies and goods | (32) | (1,370,811) | (401,961) | (1,170,015) | (345,569) |
| Services and use of third-party assets | (33) | (713,128) | (150,614) | (512,336) | (122,038) |
| Other operating expense | (34) | (68,114) | | (76,628) | |
| Capitalised expenses for internal work | (35) | 19,454 | | 19,737 | |
| Personnel expense | (36) | (200,470) | | (142,683) | |
| **Total operating expense** | | **(2,333,069)** | | **(1,881,925)** | |
| **GROSS OPERATING PROFIT** | | **496,408** | | **377,578** | |
| **AMORTISATION, DEPRECIATION, PROVISIONS AND IMPAIRMENT LOSSES** | | | | | |
| Amortisation/depreciation | (37) | (165,095) | | (119,811) | |
| Provisions and impairment losses | (38) | (44,617) | | (29,443) | |
| **Total amortisation, depreciation, provisions and impairment losses** | | **(209,712)** | | **(149,254)** | |
| **OPERATING PROFIT** | | **286,696** | | **228,324** | |
| **FINANCIAL INCOME** | **(39)** | | | | |
| Financial income | | 16,648 | 6,980 | 24,085 | 14,147 |
| Financial expense | | (75,100) | (11) | (128,184) | (33) |
| *- of which non-recurring* | | - | | *(64,312)* | |
| **Net financial expense** | | **(58,452)** | | **(104,099)** | |
| Share of profit of associates accounted for using the equity method | (40) | 11,052 | | 10,664 | |
| Impairment losses on investments | (41) | (440) | | (4,642) | |
| **PROFIT BEFORE TAX** | | **238,856** | | **130,247** | |
| Income tax expense | (42) | (90,206) | | (124,436) | |
| *- of which non-recurring* | | - | | *(38,749)* | |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | | **148,650** | | **5,811** | |
| Profit from discontinued operations | (43) | 1,740 | 190 | 6,077 | |
| **CONSOLIDATED PROFIT FOR THE YEAR** | | **150,390** | | **11,888** | |
| attributable to: | | | | | |
| - owners of the Parent | | 143,104 | | 6,397 | |
| - non-controlling interests | (44) | 7,286 | | 5,491 | |
| **Earnings per ordinary and savings share** | **(45)** | | | | |
| - basic (euro) | | 0.14 | | 0.01 | |
| - diluted (euro) | | 0.14 | | 0.01 | |

(1) The figures are restated to reflect recognition of Aquamet under assets held for sale. For further details, see note 43 Profit from discontinued operations.

(2) The figures were restated to reflect the adoption of IFRIC 12.

# STATEMENT OF COMPREHENSIVE INCOME

thousands of euro

| | Note | 2010 | 2009 |
|---|---|---|---|
| **Profit for the year - Owners of the parent and non-controlling interests (A)** | | **150,390** | **11,888** |
| **Other comprehensive income** | | | |
| - effective portion of changes in fair value of cash flow hedges | (46) | (433) | (11,592) |
| - change in fair value of available-for-sale financial assets | (46) | (13,409) | - |
| - share of other profits (losses) of companies accounted for using the equity method | (46) | 2,516 | 193 |
| Tax effect of other comprehensive income | (46) | (551) | 3,952 |
| **Total other comprehensive loss for the year, net of tax effect (B)** | | **(11,877)** | **(7,447)** |
| **Total comprehensive income for the year (A)+(B)** | | **138,513** | **4,441** |
| **Total comprehensive income for the year attributable to:** | | | |
| Owners of the Parent | | 131,302 | (1,050) |
| Non-controlling interests | | 7,211 | 5,491 |

# STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium reserve | Legal reserve | Hedging reserve |
|---|---|---|---|---|
| **31/12/2008 Restated (*)** | **832,042** | **105,102** | **17,936** | **(7,627)** |
| Legal reserve | | | 2,322 | |
| Dividends to shareholders | | | | |
| Retained earnings | | | | |
| Change in interests | | | | |
| Comprehensive loss for the year | | | | (7,447) |
| of which: | | | | |
| - Profit for the year | | | | |
| - Other comprehensive loss | | | | (7,447) |
| **31/12/2009** | **832,042** | **105,102** | **20,258** | **(15,074)** |
| Legal reserve | | | 3,604 | |
| Dividends to shareholders | | | | |
| Changes in business combinations | 444,184 | | | (3,387) |
| Var. in consolidation area and in interests | | | | |
| Other changes | | | | |
| Comprehensive income for the year | | | | 1,432 |
| of which: | | | | |
| - Profit for the year | | | | |
| - Other comprehensive income | | | | 1,432 |
| **31/12/2010** | **1,276,226** | **105,102** | **23,862** | **(17,029)** |

(*) See the changes in accounting policies described in the notes to the 2009 consolidated financial statements of the Iride Group

"Changes in business combinations" includes changes deriving from the merger with Enìa, and therefore from branches belonging to the former Enia, which are now owned by other Group companies.
"Variation in consolidation area and in interests" includes the contribution of companies that, due to the merger, entered the Iren Group and the variation in interests, mainly pertaining to San Giacomo (Mediterranea delle Acque) and marginally to Laboratori Iride Acqua Gas.
The contribution of companies that, due to the merger, entered the Iren Group resulted in an increase in the Group equity of euro 8,361 thousand and an increase in minority interests of euro 10,193 thousand.
The variation in interests in the company San Giacomo (Mediterranea delle Acque) resulted in an increase in the Group equity totalling euro 14,926 thousand and an increase in non-controlling interests equal to euro 83,459 thousand.

thousands of euro

| Available for Sale reserve | Other reserves and retained earnings (losses carried forward) | Total reserves and retained earnings (losses carried forward) | Profit for the year | Equity attributable to owners of the Parent | Equity attributable to non-controlling interests | Equity attributable to owners of the Parent and non-controlling interests |
|---|---|---|---|---|---|---|
| **-** | **264,383** | **379,794** | **111,252** | **1,323,088** | **134,268** | **1,457,356** |
| | | 2,322 | (2,322) | - | | - |
| | | | (70,724) | (70,724) | (1,937) | (72,661) |
| | 38,206 | 38,206 | (38,206) | - | | - |
| | 70 | 70 | | 70 | (2,603) | (2,533) |
| | | (7,447) | 6,397 | (1,050) | 5,491 | 4,441 |
| | | | 6,397 | 6,397 | 5,491 | 11,888 |
| | - | (7,447) | | (7,447) | | (7,447) |
| **-** | **302,659** | **412,945** | **6,397** | **1,251,384** | **135,219** | **1,386,603** |
| | | 3,604 | (3,604) | - | | - |
| | (67,931) | (67,931) | (2,793) | (70,724) | (3,549) | (74,273) |
| 5,115 | 67,455 | 69,183 | | 513,367 | - | 513,367 |
| | 23,387 | 23,387 | | 23,387 | 93,804 | 117,191 |
| | 3,314 | 3,314 | | 3,314 | (3,095) | 219 |
| (13,234) | | (11,802) | 143,104 | 131,302 | 7,211 | 138,513 |
| | | | 143,104 | 143,104 | 7,286 | 150,390 |
| (13,234) | | (11,802) | | (11,802) | (75) | (11,877) |
| **(8,119)** | **328,884** | **432,700** | **143,104** | **1,852,030** | **229,590** | **2,081,620** |

# STATEMENT OF CASH FLOWS

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| **A. Opening cash and cash equivalents** | **40,373** | **72,332** |
| **Cash flow from operating activities** | | |
| Profit for the year | 150,390 | 11,888 |
| Adjustments: | | |
| Amortisation of intangible assets and depreciation of property, plant and equipment and investment property | 165,095 | 121,219 |
| Net variation of post-employment benefits and other employee benefits | (1,331) | (1,283) |
| Net variation in provision for risks and other charges | (2,479) | 11,060 |
| Loss from the sale of discontinued operations net of tax effects | (1,740) | (5,056) |
| Deferred tax assets (liabilities) | (16,367) | (15,914) |
| Variation in non-current assets (liabilities) | (10,756) | 2,024 |
| Dividends received | (185) | (5,070) |
| Portion of loss of associates | (11,052) | (10,664) |
| Net impairment losses (reversals of impairment losses) on investments | 440 | 4,642 |
| **B. Cash flows from operations before variations in NWC** | **272,015** | **112,846** |
| Variation in inventories | 6,853 | 675 |
| Variation in trade receivables | 33,120 | 195,134 |
| Variation in tax assets and other current assets | 12,681 | (41,943) |
| Variation in trade payables | 62,222 | (33,481) |
| Variation in tax liabilities and other current liabilities | (52,477) | (544) |
| **C. Cash flow from variations in NWC** | **62,399** | **119,841** |
| **D. Operating cash flows (B+C)** | **334,414** | **232,687** |
| **Cash flows from/(used in) investing activities** | | |
| Investments in intangible assets and in property, plant and equipment and investment property | (490,139) | (289,749) |
| Investments in financial assets | (7,707) | (7,595) |
| Proceeds from the sale of investments, changes in consolidation scope and assets held for sale | 23,906 | 5,453 |
| Transfer of discontinued operations net of cash disposed of | - | 11,445 |
| Dividends received | 185 | 5,070 |
| Dividends received from associates | 10,772 | 2,385 |
| Other variations in financial assets | (3,230) | (128) |
| **E. Total cash flows used in investing activities** | **(466,213)** | **(273,119)** |
| **F. Free cash flows D+E)** | **(131,799)** | **(40,432)** |
| **Cash flows from financing activities** | | |
| Dividends paid | (74,273) | (72,661) |
| Share capital increase | - | - |
| Other changes in equity | 98,585 | (12,600) |
| Variation in financial receivables | 8,076 | (87,773) |
| Variation in financial payables | 165,322 | 181,507 |
| Cash and cash equivalents acquired with the Iride-Enia merger | 37,828 | - |
| **G. Total cash flow from financing activities** | **235,538** | **8,473** |
| **H. Cash flows for the year (F+G)** | **103,739** | **(31,959)** |
| **I. Closing cash and cash equivalents (A+H)** | **144,112** | **40,373** |

# NOTES TO THE FINANCIAL STATEMENTS

## INTRODUCTION

Iren S.p.A. is an Italian multiutility company, listed on the Italian Stock Exchange (Borsa Italiana). It was established on 1 July 2010 from the merger of IRIDE and ENÌA.

The business combination of the IRIDE and Enìa Groups, which involved the merger of Enìa into IRIDE, was described in the Informative Document drawn up pursuant to art. 70 of the Issuer Regulation released to shareholders and the market on 28 June 2010.

In particular, as provided for by the merger plan dated 1 July 2010:
- the merging company IRIDE was renamed Iren S.p.A.;
- the ordinary shares of Iren S.p.A. (formerly IRIDE) were exchanged with the shares held by the shareholders of Enìa at a ratio of 4.2 ordinary shares of Iren S.p.A. for each ordinary share of Enìa. The Iren shares are listed starting from 1 July, while the Enìa shares were delisted;
- a capital increase in Iren S.p.A., amounting to euro 444,183,894.00 was decided and at 31 December 2010 it totalled euro 1,276,225,677.00, subscribed and fully paid, divided in 1,181,725,677 ordinary shares and 94,500,000 unlisted, savings shares.

The business segments in which the Group operates are:
- Production of Electricity and Heat (Hydroelectric energy, co-generation of electricity and heat, production from renewable sources);
- Market (Sale of electric energy, gas, heat);
- Energy Infrastructures (Distribution networks of electricity, distribution networks of gas, district heating networks, LNG regasification plants);
- Integrated Water Service (sale and distribution of water, water treatment and sewerage);
- Waste Collection (Waste collection and disposal);
- Other services (Telecommunications, Public Lighting, Global Services and other minor services).

Paragraph XII, Information by business sectors, includes information as per IFRS 8.

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

In comparing the amounts included in the Financial Statements at 31 December 2009 and 31 December 2010, it should be noted that the first amounts refer to the Iride Group only and do not include the Enia Group contribution.

The pro forma figures and related preparation criteria are described in the Directors' Report.

In order to make the financial statements of the two Groups comparable, some restatements were required to the statements at 31 December 2009. The most significant restatements are described in these notes.

In particular, amendments referring to the recognition criteria of assets related to service concession arrangements (IFRIC 12) required the restatement of some statement of financial position items in the consolidated financial statements at 31 December 2009 and are disclosed, for comparative purposes only, in these consolidated financial statements. In particular, the application of the interpretation included in IFRIC 12 resulted in reclassifications of the Statement of Financial Positions as at 31 December 2009 and 1 January 2009, as well as of the Income Statement for the year 2009.

The following table shows changes in the Statement of Financial Position and Income Statement.

thousands of euro

| ASSETS | 31.12.2008 | Application of IFRIC 12 | 01.01.2009 Restated IFRIC12 | 31.12.2009 | Application of IFRIC 12 | 31.12.2009 Restated IFRIC12 |
|---|---|---|---|---|---|---|
| **ASSETS** | | | | | | |
| Property, plant and equipment | 2,187,221 | (618,675) | 1,568,546 | 2,349,683 | (657,236) | 1,692,447 |
| Investment property | 2,105 | | 2,105 | 2,212 | | 2,212 |
| Intangible assets | 57,730 | 618,675 | 676,405 | 58,727 | 657,236 | 715,963 |
| Goodwill | 104,452 | | 104,452 | 104,745 | | 104,745 |
| Investments accounted for using the equity method | 303,810 | | 303,810 | 308,219 | | 308,219 |
| Non-current financial assets including derivatives | 262,194 | | 262,194 | 313,672 | | 313,672 |
| Other non-current assets | 26,649 | | 26,649 | 23,762 | | 23,762 |
| Deferred tax assets | 71,517 | | 71,517 | 88,212 | | 88,212 |
| **Total non-current assets** | **3,015,678** | - | **3,015,678** | **3,249,232** | - | **3,249,232** |
| Inventories | 39,693 | | 39,693 | 39,017 | | 39,017 |
| Trade receivables | 870,921 | | 870,921 | 675,787 | | 675,787 |
| Tax assets | 7,584 | | 7,584 | 7,842 | | 7,842 |
| Other receivables and other current assets | 150,044 | | 150,044 | 191,729 | | 191,729 |
| Current financial assets including derivatives | 146,656 | | 146,656 | 184,578 | | 184,578 |
| Cash and cash equivalents | 72,332 | | 72,332 | 40,373 | | 40,373 |
| **Total current assets** | **1,287,230** | - | **1,287,230** | **1,139,326** | - | **1,139,326** |
| **Assets held for sale** | **5,156** | | **5,156** | **5,837** | | **5,837** |
| **TOTAL ASSETS** | **4,308,064** | - | **4,308,064** | **4,394,395** | - | **4,394,395** |

thousands of euro

| LIABILITIES | 31.12.2008 | Application of IFRIC 12 | 01.01.2009 Restated IFRIC12 | 31.12.2009 | Application of IFRIC 12 | 31.12.2009 Restated IFRIC12 |
|---|---|---|---|---|---|---|
| **Equity attributable to owners of the Parent** | | | | | | |
| Share capital | 832,042 | | 832,042 | 832,042 | | 832,042 |
| Reserves and retained earnings | 379,794 | | 379,794 | 412,945 | | 412,945 |
| Profit for the year | 111,252 | | 111,252 | 6,397 | | 6,397 |
| **Total equity attributable to owners of the Parent** | **1,323,088** | | **1,323,088** | **1,251,384** | | **1,251,384** |
| **Non-controlling interests** | **134,268** | | **134,268** | **135,219** | | **135,219** |
| **TOTAL EQUITY** | **1,457,356** | | **1,457,356** | **1,386,603** | | **1,386,603** |
| **LIABILITIES** | | | | | | |
| Non-current financial liabilities | 959,143 | | 959,143 | 1,338,039 | | 1,338,039 |
| Employee benefits | 65,110 | | 65,110 | 63,827 | | 63,827 |
| Provisions | 74,493 | | 74,493 | 58,368 | | 58,368 |
| Deferred tax liabilities | 101,556 | | 101,556 | 102,337 | | 102,337 |
| Other payables and other non-current liabilities | 12,801 | | 12,801 | 11,940 | | 11,940 |
| **Total non-current liabilities** | **1,213,103** | | **1,213,103** | **1,574,511** | | **1,574,511** |
| Current financial liabilities | 780,467 | | 780,467 | 583,078 | | 583,078 |
| Trade payables | 621,620 | | 621,620 | 588,140 | | 588,140 |
| Other payables and other current liabilities | 164,892 | | 164,892 | 186,050 | | 186,050 |
| Tax liabilities | 49,985 | | 49,985 | 28,283 | | 28,283 |
| Provisions for current portion | 20,546 | | 20,546 | 47,730 | | 47,730 |
| **Total current liabilities** | **1,637,510** | - | **1,637,510** | **1,433,281** | - | **1,433,281** |
| **Liabilities related to assets held for sale** | **95** | | **95** | - | | - |
| **TOTAL LIABILITIES** | **2,850,708** | - | **2,850,708** | **3,007,792** | - | **3,007,792** |
| **TOTAL EQUITY AND LIABILITIES** | **4,308,064** | - | **4,308,064** | **4,394,395** | - | **4,394,395** |

By reason of the fact that the effects of the application concerned the restatement of a limited number of items, the inclusion of the column disclosing balances at the beginning of the first corresponding period (1 January 2009) in the statement of financial position was deemed unnecessary.

thousands of euro

| | 2009 | Application of IFRIC 12 | 2009 Restated IFRIC12 |
|---|---|---|---|
| **REVENUE** | | | |
| Revenue from goods and services | 2,022,735 | 71,917 | 2,094,652 |
| Variation in contract work in progress | 339 | | 339 |
| Other revenue and income | 172,295 | | 172,295 |
| **Total revenue** | **2,195,369** | **71,917** | **2,267,286** |
| **OPERATING EXPENSE** | | | |
| Purchase of raw materials, consumables, supplies and goods | (1,168,247) | (729) | (1,168,976) |
| Variation in inventories | (1,107) | | (1,107) |
| Services and use of third-party assets | (458,949) | (53,861) | (512,810) |
| Other operating expense | (80,185) | (113) | (80,298) |
| Capitalised expenses for internal work | 37,604 | (17,214) | 20,390 |
| Personnel expense | (143,273) | - | (143,273) |
| **Total operating expense** | **(1,814,157)** | **(71,917)** | **(1,886,074)** |
| **GROSS OPERATING PROFIT** | **381,212** | **-** | **381,212** |
| **AMORTISATION, DEPRECIATION AND PROVISIONS** | | | |
| Amortisation/depreciation | (121,220) | | (121,220) |
| Provisions and impairment losses | (29,453) | | (29,453) |
| **Total amortisation, depreciation and provisions** | **(150,673)** | | **(150,673)** |
| **OPERATING PROFIT** | **230,539** | | **230,539** |
| **FINANCIAL INCOME** | | | |
| Financial income | 24,106 | | 24,106 |
| Financial expense | (128,723) | | (128,723) |
| *- of which non-recurring* | *(64,312)* | | *(64,312)* |
| **Net financial expense** | **(104,617)** | | **(104,617)** |
| Share of profit of associates accounted for using the equity method | 10,664 | | 10,664 |
| Impairment losses on investments | (4,642) | | (4,642) |
| **PROFIT BEFORE TAX** | **131,944** | | **131,944** |
| Income tax expense | (125,112) | | (125,112) |
| *- of which non-recurring* | *(38,749)* | | *(38,749)* |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | **6,832** | | **6,832** |
| Profit from discontinued operations | 5,056 | | 5,056 |
| **CONSOLIDATED PROFIT FOR THE YEAR** | **11,888** | | **11,888** |
| attributable to: | | | |
| - owners of the Parent | 6,397 | | 6,397 |
| - non-controlling interests | 5,491 | | 5,491 |
| **Earnings per ordinary and savings share** | | | |
| - basic (euro) | 0.01 | | 0.01 |
| - diluted (euro) | 0.01 | | 0.01 |

As regards the statement of cash flows, the only significant change was recorded in dividends received, which reduced the operating cash flow and increased cash flows from financing activities.

The company's consolidated financial statements at 31 December 2010 include those of the Company and its subsidiaries (jointly referred to as the "Group" and individually as "Group entities") and the Group's investment in associates and jointly-controlled entities.

## IRIDE-ENIA MERGER – ACCOUNTING ASPECTS

For accounting purposes, the business combination that resulted in the formation of Iren did not feature the elements suited for a "Business Combination". IFRS 3 was therefore deemed as not applicable. Based on this standard, "one single entity, the acquirer, obtains control of one or more businesses, the acquiree".

In the case of Iren, the obligation set forth by IFRS 3 to identify one (single) acquirer seems in contrast with the willingness, expressed by the subjects taking part in the business combination, to adopt, in an extremely complex context, joint measures from which the existence of a controlling company with respect to the others cannot be inferred.

Therefore, the business combination is substantially connectable to the formation of a joint venture, as provided for by IAS 31.

The IFRS do not set out a specific accounting policy that a joint venture should adopt regarding assets and liabilities that are jointly controlled by the venturers. As regards the above-mentioned transactions, the international practice has developed two alternative approaches:

• Fair value: in this case, assets and liabilities of the subjects taking part in the merger are recognised in the newly incorporated entity at their fair value determined at the date of merger.

• Historical cost: assets and liabilities from subjects taking part in the merger are recognised in the newly incorporated entity with a pooling of interest method as regards the carrying amounts recognised in the accounts of the companies taking part in the merger, before the transaction.

In this case, the Directors, in charge of defining an accounting policy to disclose the transactions in accounting terms, deem that the most suited accounting policy to disclose the transaction is the pooling of interest method, also taking account of the methods used by the Iride Group in similar transactions previously carried out.

For further information about the above-mentioned merger, reference should be made to the documentation prepared in accordance with the relevant legislation and the applicable provisions of CONSOB (the Italian commission for listed companies and the stock exchange), as made available in accordance with the terms of the legislation itself.

## I. CONTENT AND STRUCTURE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Iren Group at 31 December 2010 have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the european Union, as well as with the provisions set forth in implementation of art. 9 of Legislative Decree no. 38/2005. The IFRS include all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).
These consolidated financial statements at 31 December 2010 consist of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

As from 1 January 2009, the Group applied "IAS 1 Revised", which introduces supplementary information with reference to the so-called "Statement of comprehensive income". This supplementary statement includes items on profits pertaining to equity, such as variations in the hedging reserve, the share of other investments in other associates and profit/loss of other available-for-sale financial assets accrued over the year. The changes in these items were previously included and disclosed in the statement of changes in equity.

In the statement of financial position, assets and liabilities are classified as "current/non-current". Assets and liabilities, classified as discontinued or held for sale, are shown separately. Current assets, which include cash and cash equivalents, are those that shall be realised, transferred or consumed during the ordinary operating cycle of the Group or during the twelve months following year end. Current liabilities are those that shall be settled during the ordinary operating cycle of the Group or during the twelve months following year end.
The income statement is classified on the basis of the nature of costs. In addition to the operating profit/(loss), the income statement also shows the gross operating profit/(loss) obtained by deducting total operating expense from total revenue.
The indirect method is used in the statement of cash flows.
The financial statements have been drawn up based on the historical cost principle, except for certain financial instruments measured at fair value.
In addition, the financial statements of consolidated entities are drawn up at the reporting date of the reference year.

## II. CONSOLIDATION PRINCIPLES

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

### Subsidiaries

Entities controlled by the Group are considered subsidiaries, as defined by IAS 27 - Consolidated and Separate Financial Statements.
Such control exists when the Group has the direct or indirect power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.
Equity and portion of profit/loss attributable to non-controlling interests are identified separately in the consolidated statement of financial position and income statement.
Subsidiaries are consolidated on a line-by-line basis. Infragroup balances, transactions, unrealised income and expenses are eliminated in full.
The new IAS 27, applicable prospectively as from 1 January 2010, sets out the following: a) all changes in the interests, that are not a loss in control, are to be accounted for as equity transactions and therefore recognised with a balancing entry in equity; b) when a controlling entity assigns its control in a subsidiary, but still holds an equity investment in the company, this investment must be measured at fair value and any gains or losses deriving from the loss in control shall be charged to income statement.
Goodwill deriving from the acquisition of a non-controlling investment in a subsidiary was previously recognised as the difference between the additional investment cost and the carrying amount of the investment in net assets acquired at the exchange date.

### Jointly-controlled entities

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

### Associates (companies accounted for using the equity method)

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

### Transactions eliminated on consolidation

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

## III. CONSOLIDATION SCOPE

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

Parent
Iren S.p.A.

Companies consolidated:
The five First-level companies were consolidated and, through their consolidated financial statements, their subsidiaries:

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

2) Iren Mercato and its subsidiaries:
- CAE AMGA Energia and its subsidiaries:
  - O.C. CLIM
  - Climatel
- GEA Commerciale

3) Iren Acqua Gas S.p.A. and its subsidiaries:
- Genova Reti Gas
- GEA
- Aquamet (classified as asset held for sale)
- Laboratori Iride Acqua Gas
- San Giacomo and its subsidiaries:
  - Idrotigullio
  - Immobiliare delle Fabbriche

4) Iren Emilia and its subsidiaries:
- Enìa Parma
- Enìa Piacenza
- Enìa Reggio Emilia
- Enìatel
- Consorzio GPO (classified as asset held for sale)
- AGA
- Undis Servizi
- Tema (classified as asset held for sale)
- Zeus

5) Iren Ambiente and its subsidiaries:
- Iren Rinnovabili and its subsidiaries:
  - Enìa Solaris
- Tecnoborgo
- Bonifica Autocisterne
- Montequerce

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

Companies consolidated proportionally:
AES Torino S.p.A. (51% held by Iren Energia, but jointly managed with the other shareholder Italgas, due to contractual agreements signed by the parties)
Società Acque Potabili (30.86% held by Iren Acqua Gas)
Acquedotto Savona (100% held by Società Acque Potabili)
Acquedotto Monferrato (100% held by Società Acque Potabili)
Acque potabili Siciliane (56.77% held by Società Acque Potabili)
Acque potabili Crotone (100% held by Società Acque Potabili)
OLT Offshore LNG S.p.A (41.71% held by Iren Mercato)
Namtra Investments Ltd (wholly owned by OLT Offshore LNG

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

### Changes in the scope of consolidation

The merger of Enia into Iride resulted in the entrance of the following companies in the scope of consolidation, starting from 1 July 2010: Iren Emilia, Iren Ambiente, Enia Parma, Enia Piacenza, Enia Reggio Emilia, Enia Tel, Undis Servizi, Tema (classified as asset held for sale), Tecnoborgo, Iren Rinnovabili, Enia Solaris, Montequerce and Bonifica Autocisterne.

We note also:
- the integration of the Water industrial segment between the Iren Group and the F2i fund, which involved the incorporation of San Giacomo, to which the subsidiaries Mediterranea delle Acque and Idrotigullio were transferred, as well as the subsequent merger of Mediterranea delle Acque into San Giacomo. At the end of this transaction, the Iren Group owns 60% of San Giacomo. For further information, reference is made to section "Significant events" in the Directors' Report.
  This transaction involved an increase in the equity attributable to owners of the parent equal to euro 14,926 thousand and an increase in non-controlling interests of euro 83,459 thousand.
- the change in the percentage of investment in the consolidated Laboratori Iride Acqua Gas, from 77.93% to 73.13%, due to the partial sale of shares to ASMT.

## IV. ACCOUNTING POLICIES

The policies applied in the preparation of the Iren Group consolidated financial statements at 31 December 2010 are set out below. The accounting standards described below were applied consistently by all Group entities.

### Property, plant and equipment

*- Property, plant and equipment*

Property, plant and equipment are recognised at contribution, purchase or internal construction cost. This cost includes all costs directly attributable to bringing the asset to the location and condition necessary for it to be available for use (including, when relevant and the company has the related present obligation, the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located), net of trade discounts and rebates.
Financial expense related to the purchase of items of property, plant and equipment is capitalised for the part of the cost of the asset until it becomes operative.
When significant components of property, plant and equipment have different useful lives, they are accounted for separately.

In particular, according to this policy, land and buildings located on the land is to be recognised separately; therefore, only the buildings are depreciated, while the carrying amount of land is impaired, as described in the following section "Impairment losses".
Ordinary maintenance expenditure is expensed in full. Maintenance 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. 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, including freely transferable assets, 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:

| | Min. rate | Max. rate |
|---|---|---|
| Buildings | 0.9% | 11.1% |
| Lightweight constructions | 3.5% | 10.0% |
| Vehicles | 10.0% | 50.0% |
| Sundry equipment | 6.7% | 100.0% |
| Furniture and office machines | 5.8% | 100.0% |
| Hardware | 20.0% | 100.0% |
| Facilities | 0.8% | 100.0% |

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

*- Assets under finance lease*
Assets held under finance leases are recognised as property, plant and equipment using the financial method with a balancing entry under payables of the same amount, as provided for by IAS 17 which, while reflecting the economic substance of operations, compares these operations to purchase and facility agreements. Based on the above-mentioned method, property, plant and equipment are recognised at the lease principal upon subscription of the finance lease. The amounts due to the lessor are also recognised under financial payables. This liability is decreased over time in line with repayment of the lease principal. Interest on payables is recognised in the income statement based on the amortisation plan, in addition to amortisation 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 receivable is recognised under statement of financial position assets. It decreases over time in line with the collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the amortisation 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.
Expenses incurred after the purchase or completion of a property intended as an investment property increase the initial cost of the asset, if the company is likely to obtain higher future benefits than those previously estimated, thanks to these expenses. Otherwise, such costs are charged to the income statement.
Investment property is depreciated systematically annually on a straight-line basis using rates held to represent the residual useful life of the relevant asset.

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

Intangible assets with finite useful lives are amortised on a systematic basis over their useful lives so that the carrying amount at year end matches their residual life or recoverable amount based on the company's plans to develop production. Amortisation begins when the asset is available for use. Development costs are capitalised if all of the following features can be demonstrated:
- the technical feasibility of completing the asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- the ability to reliably measure the expenditure attributable to the asset during its development;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset;
- it is clear how the asset will generate future economic benefits

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

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

| | Years | |
|---|---|---|
| | from | to |
| Industrial patents and similar rights | 3 | 5 |
| Licences, trademarks and similar rights | 3 | 50 |
| Software | 3 | 30 |
| Other intangible assets with finite useful life | 1 | 20 |

Amortisation begins when the asset is available for use, in other words, when it is able to operate as intended by the company's management. Amortisation expires on the later of either the date in which the asset is classified as held for sale (or included in a disposal group classified as held for sale), pursuant to IFRS 5, or the date in which the asset is derecognised.
Intangible assets under development and payments on account relate to internal and external costs referring to intangible assets for which the company has not yet acquired the right to and has not started to use in production. These investments are amortised from the date when they begin to be used in production.
Under IAS 36, intangible assets under development and payments on account are tested for impairment annually, or whenever there is any indication of impairment, so as to check that the carrying amount matches the recoverable amount.

### Goodwill

Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. If, after this restatement, current values of assets and liabilities and contingent values exceed 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 he investment.
The Group has decided not to retrospectively apply IFRS 3 - Business combinations - to acquisitions that took place before 1 January 2004 on IFRS first-time adoption. Therefore, goodwill on acquisitions made before the transition date has been maintained at its amount determined under Italian GAAP after testing for impairment.
Goodwill is allocated to one or more cash-generating units and is not amortised, but is tested annually for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on "Impairment losses").

### Non-current assets held for sale

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

### Service concession arrangements

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

In particular, the operator purchases a financial asset to the extent that it has an unconditioned contract right to payment or another financial asset from, or upon instruction of the grantor with reference to the building services. The purchased financial asset is subject to provisions set forth in IAS 32, IAS 39 and IFRS 7.

The operator purchases an intangible asset to the extent that it has a right (licence) to receive the payment of the users of the public utility. The right to receive payments from users is not an unconditioned right to receive payments as the amounts depend on how much the utility is used. The intangible asset recognised is subject to the provisions of IAS 38.

If the operator is paid for the building services partly with a financial asset and partly with an intangible asset, the two amounts composing the payment to the operator shall be recognised separately. The payment received or to be received for both items is initially recognised at the fair value of the amount received or to be received and disclosed in the relevant revenue item.

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

### Impairment losses

IFRS require a company to assess whether there are any specific indications of impairment. The company performs an impairment test, which consists of estimating the recoverable amount of the asset and comparing it to its carrying amount.

The recoverable amount is the higher of fair value less costs to sell (if an active market exists) and the value in use of an asset. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating units, inclusive of taxes, represented by the current market assessments of the time value of money and risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. If the impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased to the estimated new recoverable amount. The latter amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised. The reversal of an impairment loss is recognised immediately in the income statement.

Assets that are not subject to amortisation (goodwill and other intangible assets with an indefinite useful life) and intangible assets that are not yet available for use are tested for impairment annually, even though no indication of impairment exists.

### Financial instruments

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

Financial instruments can be classified in the following categories:

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

*- Investments measured using the equity method*

These are investments in associates, i.e. over which the company has significant influence. They are measured using the equity method by recognising an amount equal to the investor's share of equity as per the most recent financial statements available, adjusted to account for the difference between the price paid and equity at the acquisition date.

The investor's share of profit or loss arising from application of the equity method is recognised as a "Share of profit or loss of associates measured using the equity method", while the share of other comprehensive income of associates is recognised in the statement of comprehensive income.

The difference between the purchase cost and the value, pertaining to the owners of the Parent, of current and potential assets and liabilities, which can be identifiable in the associate at the acquisition date, is recognised as goodwill, included in the carrying amount of the investment, and tested for impairment, with the same procedures as described in the section above.

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

*- Other investments*

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

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

*- Financial assets held for trading*

Upon initial recognition, financial assets held for trading are measured at purchase cost, i.e. at the fair value of the consideration paid: transaction costs are included in the purchase cost, since they are related costs. Subsequent to initial recognition, they are measured at fair value, without deducting any transaction costs that may be incurred upon sale or disposal. Changes in fair value are taken directly to the income statement. If fair value cannot be determined reliably, such assets are measured at cost.

*- Available-for-sale financial assets*

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

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

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

*- Hedging*

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

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

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

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

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

Level 1: prices quoted (not adjusted) on active markets for similar assets or liabilities

Level 2: input data different from prices quoted, as per Level 1, which are observable for assets or liabilities, both directly (as per prices), and indirectly (or derived from prices)

Level 3: input data related to assets or liabilities, which are not based on observable market data (non observable data).

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

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

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

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

*- Other financial assets and liabilities*

Loans and receivables are initially recognised at fair value, adjusted by any directly attributable transaction costs. They are subsequently measured at amortised cost.

Securities held until maturity are initially recognised at cost, increased by transaction costs borne for the acquisition of the financial asset. Subsequent to initial recognition, they are measured at amortised cost using the  effective interest method, net of impairment losses.

At each reporting date, or whenever impairment indicators arise, all financial assets, except for FVTPL assets, are tested for impairment in order to determine whether there is objective evidence (such as breaches of agreements, possible bankruptcy or financial difficulties of the debtor, ..) that the value of the asset might not be entirely recoverable.

*- Trade receivables and payables*

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

*- Cash and cash equivalents*

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

### Inventories

Materials and supplies for the maintenance and construction of plants and inventories of raw materials, i.e. fuel oil and diesel, are measured at the lower of cost (cost of acquisition, transformation and other costs incurred to bring the inventories to their current place and condition) and net realisable value based on market trends.
Cost is determined using the average weighted cost method.
Net realisable value for raw materials, semi-finished products and finished goods acquired from third parties is their replacement cost.
If the cost of inventories cannot be recovered because they are damaged, have become entirely or partly obsolete or their sales prices have decreased, they are written down to their net realisable value. If the circumstances leading to the write-down no longer exist, the write-down is reversed.
Inventories pertaining to contract work in progress are measured using the percentage of completion method, net of advances invoiced to customers. Orders for which a loss is expected at level of direct costs are subject to a specific write-down which is charged to income statement in the period in which the loss is recorded.

### Equity

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

### Employee benefits

Post-employment benefits are defined according to plans which, based on their characteristics, are separated into "defined contribution" and "defined benefit" plans.
In defined contribution plans, the company obligation, limited to the payment of State contributions or to a separate fund, is calculated on the basis of contributions due. For the Group these are included under Post-Employment Benefits accrued since 1 January 2007, payable to the INPS (the Italian Social Security Institution) fund and the share paid to the additional pension funds.
The liability relating to the defined benefits plans, net of any plan assets, is calculated according to actuarial assumptions. For the Group, included in this category are Post-Employment Benefits accrued until 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the electricity discount for employees and former employees, additional monthly salaries (art. 47, national labour agreement for the sector) and the loyalty bonus paid to employees.
The present value of the liability is calculated for each employee using the projected unit credit method. The total liability is calculated by estimating the amount payable on termination of the employment relations, taking into account economic, financial and demographic factors. This amount is recognised on a proportional basis over the period of service matured.
For post-employment benefits accrued at 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the proportional basis is not applied as at the reporting date the benefits can be considered accrued in full.
The demographic, economic and financial variables are validated annually by an independent actuary.
Profits and losses deriving from the actuarial calculations are taken to income statement.

### Provisions for risks and charges

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

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

Risks for which the related liability is only potential are disclosed in the notes to the financial statements, and no provision is made.

No additional information is provided for events that are remote, i.e. where it is very unlikely they will arise, and no provision is made.

The provisions are recognised at the amount representing the best estimate of the total that the company would pay to settle the obligation, or transfer it to third parties at year end. If the discounting effect on the value of money is significant, the provisions are calculated by discounting future cash flows expected at a pre-tax discount rate that reflects the current market assessment of the time-value of money.

On discounting, the time-related increase in the provision is recognised as financial expense.

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

### Revenue

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

Revenue from the sale of goods is recognised when:

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

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

Revenue from services is recognised when:

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

### Grants related to assets and grants related to income

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

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

### Other revenue

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

### Costs for the purchase of goods and services

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

### Financial income and expense

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

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

Income is recognised on the following bases:

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

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

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

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

### Income tax expense

Income taxes comprise all the taxes calculated on the Group's taxable income.

Current and deferred taxes are recognised as income or expense and included in the profit or loss for the year, except to the extent that the tax arises from a transaction or event that is recognised, in the same or a different year, directly in equity.

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

Deferred tax assets are recognised only when their recovery is probable.

Deferred tax liabilities are calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

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

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

### Discontinued operations

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

### Translation criteria

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

### Emissions Trading Scheme

The Emissions Trading Scheme, which came into force in the European Union on 1 January 2005, is part of the 'flexible mechanisms' acknowledged by the Kyoto Protocol in order to reach greenhouse gas emission targets. The target for Italy is a 6.5% reduction in CO2 emissions by 2012 over 1990. The Group will actively participate in the emission trading scheme to reduce the emission of greenhouse gases and contribute to reaching the Group's targets with respect to the domestic reduction plan.
The Emissions Trading Scheme accounting solutions include:

- International Accounting Standards Board (IASB) withdrawal of IFRIC 3, i.e. the 'interpretation' used to provide ETS accounting guidelines in accordance with IFRS, due to lack of approval from the European Financial Reporting Advisory Group (EFRAG);
- Publication in April 2007 of a study on this matter by the Italian Accounting Profession in "Diritti di emissione dei gas serra (GHG), aspetti contabili e di bilancio" (GHG emission rights, accounting and financial statements aspects).

Given the absence of a standard interpretation at international level, for Emissions Trading accounting the Group has made use of elements contained in the above-mentioned document issued in April 2007 and has adopted the "net method", i.e. recognizing any excess emissions at market price as a cost in accordance with IAS 37, recognizing only rights acquired against payment under assets (pursuant to IAS 38).

### Energy efficiency certificates

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

- Trade certificates from the Network Operator (GRTN) certifying the annual production of electrical energy from renewable sources (Green Certificates). The Group is the owner of such certificates thanks to the production of electrical energy through hydroelectric plants, the waste to energy plant in Tecnoborgo, biogas plants, as well as to the use of cogeneration plants connected with district heating;
- Trade certificates (TEE) from the Authority for electrical energy and gas (AEEG) which certify the adoption of energy saving measures (White Certificates).

For accounting purposes, these Energy Certificates are considered as follows:

- Green Certificates deriving from the annual production of electrical energy from renewable sources are recognised on an accrual basis;
- White Certificates are accounted for in a slightly different way according to the fact that the company is bound or not bound to return the TEEs. The entities that are bound to return the TEEs shall recognise both the grant related to the year, only for the TEEs (accrued and/or purchased) that they actually own at the reporting date, and the cost of TEEs purchased to meet obligations. If the purchased certificates exceed the requested number, the exceeding certificates are rediscounted. The entities that are not bound to return the TEEs must recognise revenue and costs of the certificates sold, and the purchase cost of unsold certificates will be rediscounted.

### Earnings per share

*- Basic earnings per share*

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

*- Diluted earnings per share*

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

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

## AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS APPLIED IN 2010

The following accounting standards, amendments and interpretations were applied for the first time by the Group starting from 1 January 2010.

- IFRIC 12 "Service Concession Arrangements" defines the recognition and measurement criteria to be adopted in arrangements between public and private sectors related to development, financing, management and maintenance of infrastructures under concession. In particular, should the grantor control the infrastructure by regulating and controlling the characteristics of the services supplied and the applicable prices, as well as by maintaining a residual interest in the activity, the operator shall purchase either the right to use said infrastructure, or the financial asset, or both, according to agreements made. Following the issue of the above-mentioned interpretation, the operators that are included in the above cases, cannot recognise the assets used to supply 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.
  Taking account of arrangements in force in the Iren Group, and based on interpretations and regulations in force to date, the application of IFRIC 12 regards some concessions of the integrated water service sector, the natural gas distribution sector and marginally the district heating sector. In the statement of financial position, IFRIC 12 sets out that infrastructures under concession should be transferred from property, plant and equipment to intangible assets. Taking account of the tariff structure pertaining to services rendered under concession, it is impossible to reliably separate the profit related to the building business from the results of operations. Therefore, in view of the fact that a significant portion of the work is outsourced, the investments borne are recorded under intangible assets based on the costs incurred.
  The amortisation of assets related to service concession arrangements remained unchanged and is still calculated based on expected economic benefits deriving from the use and residual value of the infrastructure, as provided for by the reference regulatory framework.
  Moreover, as retrospective application is not possible, intangible assets to be recognised at 1 January 2009 were determined based on amounts previously recorded as property, plant and equipment in the financial statements at 31 December 2008..

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS FROM 1 JANUARY 2010

- IAS 27 - Revised - relates to the measurement of changes in investments. If changes in investment ownership occur but control is still maintained, the effect shall be recognised in equity; conversely, if the change results in a non-controlling investment, the residual investment shall be measured at fair value. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group as already applied for the 2009 financial statements.

- amendments to IFRS 2, as regards the accounting of cash-settled share-based payment transactions within a Group and repeal of IFRIC 8 and IFRIC 11. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group.

- IFRS 3 - Revised - introduces changes in the presentation of business combinations. Amongst these changes, the following is to be noted: in the business combinations achieved in stages, the entire investment must be re-measured at fair value. Transactions carried out with third parties after acquisition of control, and on the assumption that such control will be maintained, must be accounted for in equity; costs borne for the acquisition shall be immediately charged to income statement; changes in "contingent consideration" are taken to the income statement. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group.

- IFRS 5 "Non-current assets held for sale and discontinued operations": the amendment, applicable as from 1 January 2010 prospectively, clarified that IFRS 5 and the other IFRS, which specifically refer to non-current assets (or groups of assets), classified as available for sale or as discontinued operations, provide all the information required for this kind of assets or operations. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group.

- IFRS 8 "Operating Segments": this amendment, applicable starting from 1 January 2010, requires that all companies disclose the value of all assets for each single reportable segment, if such amount is periodically provided to the chief operating decision maker. This disclosure was previously required also if the above-mentioned condition did not occur. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group.

- IFRIC 9 "Reassessment of Embedded Derivatives": under the amendment, embedded derivatives in contracts acquired as part of business combinations when joint-ventures are formed, are excluded from the application scope of IFRIC 9. The adoption of this revised interpretation has had no impact on the financial position or results of operations of the Group.

- IFRIC 15 "Agreements for the Construction of Real Estate". This interpretation specifies the recognition criteria of revenue and costs related to the signing of an agreement for the construction of real estate, and provides guidance on how to determine whether provisions set forth either by IAS 11 "Construction Contracts" or by IAS 18 "Revenue" are to be applied. It also regulates the accounting treatment to be applied to revenue deriving from additional services rendered for the real estate under construction. The adoption of this revised interpretation has had no impact on the financial position or results of operations of the Group.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation": this interpretation applies to an entity that hedges the currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The adoption of this revised interpretation has had no impact on the financial position or results of operations of the Group.

- IFRIC 17 "Distribution of Non-cash Assets to Owners". In particular, this interpretation clarifies when a dividend payable should be recognised, as well as how the same should be measured and how, when the dividend is paid, the entity should recognise the difference between the carrying amount of the net assets distributed and the carrying amount of the dividend paid. The adoption of this revised interpretation has had no impact on the financial position or results of operations of the Group.

- IFRIC 18 "Transfers of Assets from Customers": this interpretation regards the way of recognising transfers of assets from customers, i.e. of cash, for the connection to a distribution network. IFRIC 18 should be only applied to entities that are not bound to apply IFRIC 12. The adoption of this revised interpretation has had no impact on the financial position or results of operations of the Group.

- IAS 1 – "Presentation of Financial Statements": with this amendment, the definition of current liabilities, included in IAS 1, is modified. The previous definition required that liabilities, which might be settled at any moment through the issue of equity instruments, be stated under current liabilities. This involved the recognition of liabilities related to convertible bonds and that might be converted at any moment into shares of the issuer under current liabilities. Following the amendment, for the purposes of the current/non-current classification of a liability, the presence of a conversion option currently exercisable in equity instruments becomes insignificant. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group.

- IAS 7 "Statement of Cash Flows": the amendment is applicable as from 1 January 2010 and sets out that only cash flows arising from expenses due to the recognition of an asset in the statement of financial position, can be included in the statement of cash flows as deriving from investing activities, while cash flows, such as for promotion and advertising or staff training costs, shall be classified as deriving from operating activities. The adoption of this revised standard has had no impact on the statement of cash flows of the Group.

- IAS 17 - "Leases": the amendment sets out that, when measuring a lease agreement, which includes both land and buildings, the portion regarding land is considered as a finance lease if the land in question has an indefinite useful life; like in this case, the significant risks and rewards associated to its use for the term of the agreement can be considered as transferred to the lessee, although no formal transfer document was signed. This amendment is applicable as from 1 January 2010 and, at the day of adoption, all pieces of land under lease already in force and not yet expired, shall be measured separately, with a possible retrospective recognition of a new lease accounted for as the related agreement were of a financial nature. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group.

- IAS 36 "Impairment of assets": this amendment, applicable prospectively starting on 1 January 2010, sets out that each operating unit, or group of operating units, on which the goodwill is allocated for impairment test, has a size not greater than an operating segment, as set out in IFRS 8.5, before the aggregation allowed for by paragraph 12 of the same IFRS, based on similar economic characteristics or other comparative elements. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group.

- IAS 38 "Intangible assets": the revision of IFRS 3, carried out in 2008, sets out that, if a business combination is separable or results from contract or legal rights, enough information is available to measure the fair value of an intangible asset acquired during a business combination. IAS 38 was therefore adjusted accordingly to reflect this amendment to IFRS 3. Moreover, the measurement techniques to be used to determine the fair value of intangible assets, for which there is no reference active market, have also been clarified. In particular, these techniques include, alternatively, the estimate of discounted net cash flows generated from the assets, the estimate of costs that the company avoided by virtue of the fact that it owned the asset and the latter is not used under a licence agreement, and the estimate of costs required to recreate or replace the asset (as in the so-called cost method). This amendment is applicable prospectively on 1 January 2010. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group.

- IAS 39 "Financial Instruments: Recognition and Measurement": the amendment restricts the non-applicability exception, provided for in IAS 39.2g, to forward contracts between purchaser and shareholder seller in order to sell a company transferred to a business combination to a future acquisition date if the completion of a business combination is not due to further actions of one of the two parties, but only due to the elapsing of a reasonable amount of time. The amendment clarifies that option contracts (whether they are exercisable or not), which permit that one of the two parties has the control on the realisation of future events and the exercise of such contracts would result in the control of a company, fall under the application of IAS 39. Moreover, the amendment envisages that implicit penalties for the early settlement of loans, the amount of which is a reimbursement for the lender of the loss of further interest, must be considered as strictly related to the financing contract that provides for such loans, and therefore they must be recognised separately. Finally, it is also sets out that profits or losses resulting from a hedged financial instrument must be reclassified from equity to income statement in the period in which the expected hedged cash flow has an impact on the income statement. This amendment is applicable prospectively on or after 1 January 2010. The adoption of this revised standard has had no impact on the financial position or results of operations of the Group.

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE BY THE GROUP

- IAS 32 Financial Instruments: presentation: the amendment must be applied retrospectively on or after 1 January 2011 and regards the recognition of issue of rights (rights, options or warrants) denominated in currencies other than the issuer currency. These rights were previously recorded as liabilities from derivative financial instruments. The amendment sets out, instead, that under special conditions, these rights must be classified to equity, independently from the currency at which the exercise price is denominated.

- IAS 24 Related party disclosures: this standard refers to the simplification of the type of disclosure required in transactions with related parties controlled by the Government and clarifies the definition of related parties. This amendment must be applied to periods beginning 1 January 2011.

- IFRS 9 Financial Instruments: published by IASB on 12 November 2009 and then amended on 28 October 2010. The standard, effective 1 January 2013, is the first part of a process developed in stages which aims at replacing IAS 39 in full and introduces the new criteria for the classification and measurement of financial assets and liabilities and the derecognition of financial assets. At the reporting date, the competent bodies of the European Union have not yet concluded the endorsement process necessary for its application.

- IFRIC 14, Prepayment of Minimum Funding Requirements: it allows the companies which pay advance payments as part of minimum funding requirements, to recognise these amounts as assets. This amendment must be applied on and after 1 January 2011.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments: provides guidance on how to recognise the extinguishment of a financial liability by the issue of equity instruments. This interpretation sets out that, when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability, then the shares issued by the company become part of the price paid for the settlement of the financial liability and must be measured at fair value. The difference between the carrying amount of the settled financial liability and the initial value of equity instruments issued must be charged to income statement for the year. This interpretation must be applied on and after 1 January 2011..

### Use of estimates

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

## V. RISK MANAGEMENT

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

- Financial risk (interest rate, currency, spread);
- Credit risk;
- Energy risk (risk factors associated to energy and/or financial markets, such as market variables or pricing choices);
- Operational risk (risk factors associated with the ownership of assets, involvement in business activities, processes, procedures and information flows, and with the group's image);

specific "policies" were defined with the primary goal of fulfilling strategic guidelines, organisational-managerial principles, macro processes and techniques necessary for the active management of related risks.
This model also regulates the roles of the various parties involved in the risk management process, which is governed by the Group Board of Directors. The document requires the creation of a Group Risk Committee and specific Risk Commissions, which shall take more hands-on action regarding specific management models for each of the following types of risk.
The "Risk Management" department, reporting to the CEO, was set up within the Iren Group. This function is formally entrusted with the following activities:

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

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

## 1. FINANCIAL RISKS

Iren Group's activity is exposed to various types of financial risks, including liquidity risk, currency risk and interest rate risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to mitigate such risks. Derivatives are not used or held for purely trading purposes.

### A) Liquidity risk

Liquidity risk is the risk that financial resources available to the company are insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.
The Group Finance Department was centralised in order to optimise the collection and use of financial resources. Specifically, the centralised management of cash flows in Iren, both through cash pooling and centralisation of all collection and payments within the Iren current accounts, make it possible to allocate Group-wide available funds according to the needs arising from time to time within the single companies. Cash movements are recognised in infragroup bank accounts along with infragroup interest income and expense.
Other investees have an independent financial management structure in compliance with the guidelines provided by the Parent.
Based on the cash pooling model, the accounts of all the companies are zeroed every day by means of a netting system that transfers the balances of currency transactions on the accounts of the Parent.
The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored. At 31 December, the short-term bank credit facilities used by the Parent totalled euro 692 million, of which euro 65 million committed.
The table below illustrates the nominal cash flows required to settle financial liabilities to banks:

thousands of euro

| Figures at 31/12/2010 in thousands of euro | Carrying amount | Contractual cash flows | within 12 months | 1-5 years | over 5 years |
|---|---|---|---|---|---|
| Mortgage and bond payables (*) | 1,958,867 | (2,323,649) | (175,732) | (1,329,232) | (818,685) |
| Hedging of interest rate risk | 24,076 | (20,110) | (14,308) | (12,090) | 6,288 |

(*) The carrying amount includes long-term and short-term mortgages, and does not include exchange rate differences

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

Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suitable to its needs, and the best market conditions.
In December, the facility of euro 100 million was used with the support of bank guarantees. This is a 15-year loan, granted by the European Investment Bank at end 2008 for a total amount of euro 200 million, euro 100 million of which has already been used at the end of 2009. In December 2010, a new medium-term loan, amounting to euro 100 million, granted by Cassa Depositi e Prestiti, was also entered and used. This loan replaced a facility of equal amount, entered into in 2009, with Cassa Depositi e Prestiti, for which the extension option was not exercised. Within the Group, in 2010, OLT Offshore LNG Toscana (consolidated at 41.71%) obtained a new facility from the shareholders Iren Mercato (financed by Iren within the Group cash pooling) and E.On, in equal portions and for a total amount of euro 470 million, used for the repayment of the USD 171 million bank loan obtained to cover the purchase of the gas carrier for the Livorno regasification terminal and in support of other investments. AES Torino (consolidated at 51%) obtained a bank medium-term loan of euro 25 million and Nichelino Energia obtained a medium-term loan of euro 5 million.

At 31 December 2010, 27% of the residual amount payable for mortgages was contractualised at a fixed interest rate and 73% 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 note that the clauses in Iren loan agreements do not contain critical elements.
For a number of Iren medium/long-term loan agreements, a commitment to observe financial covenants is envisaged (such as Debt-EBITDA, EBITDA-Financial expense). Checks are on an annual basis and limits were defined with adequate prudence criteria and have been met in full. Moreover, other covenants such as the Change of Control clause have been provided for, which sets forth that the Iren Group's should be kept under indirect or direct control of Local Authorities, as well as clauses concerning negative pledges, under which the company undertakes not to give collateral beyond a specific limit, and the Pari Passu clause, which reserves an equal treatment to lending banks with respect to the treatment for other unsecured creditors.
The medium/long-term loan agreements of certain Group companies also envisage the observance of financial covenants (Net Financial Position-EBITDA, Net Financial Position-Equity) which have been satisfied

### b) Currency risk

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

### c) Interest rate risk

The Iren Group is exposed to fluctuations in interest rates above all for financial charges regarding indebtedness. Iren Group's objective is to limit its exposure to interest rate increases while maintaining acceptable borrowing costs.
The risks associated with the increase in interest rates are monitored non-speculatively and, if necessary, reduced or eliminated by signing hedging swap and collar contracts with high credit standing financial counterparties, with the sole purpose of cash flow hedges. With the exception of certain marginal positions, at 31 December 2010 all contracts to limit exposure to risk from fluctuating interest rates were classified as cash flow hedges in that they satisfy requisites for the application of hedge accounting.
The overall fair value of the above-mentioned interest rate hedges was a negative euro 24,076 thousand at 31 December 2010.
The hedging contracts agreed, together with fixed-rate loans, hedge approximately 65% of net financial indebtedness against interest rate risk, in line with the Iren Group target of maintaining a balance between floating rate loans and fixed rate loans or in any case hedged against significant increases in interest 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 to changes in interest rates. This analysis was performed on the basis of reasonable assumptions as follows:

- an increase and a reduction of 100 basis points in the Euribor interest rates over the year was applied to the net financial indebtedness;
- in any existing hedge, interest rate shock was applied to both the debt position and related hedge with an extremely limited net effect on the income statement;
- the change in interest rates was also applied on the share of interest expense capitalised during the year;
- with regard to existing hedges at year end, a 100 basis points 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 2010.

thousands of euro

| | Financial expense | | Hedging Reserve | |
|---|---|---|---|---|
| | 100 bps increase | 100 bps decrease | 100 bps increase | 100 bps decrease |
| **Cash flow sensitivity (net)** | | | | |
| Net financial indebtedness (including hedges) | 4,184 | (4,183) | - | - |
| **Change in fair value** | | | | |
| Hedges (assessment components only) | (193) | 113 | 22,030 | (29,392) |
| **Total impact from sensitivity analysis** | **3,991** | **(4,070)** | **22,030** | **(29,392)** |

## 2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables that show no particular concentration since the credit exposure is spread across a large number of counterparties, since it is connected to the sale of electrical energy, district heating and gas to retail and business customers, public entities and the provision of water and environmental services (T.I.A. pursuant to Legislative Decree 22/97). In order to control credit risk, operating management of which is entrusted to individual regional functions, methodologies have been defined for monitoring and control of loans in addition to the definition of strategies for reduction of credit exposure including the management of legal disputes regarding the customer and the services provided.

The internal trade credit policy and ex ante assessment tools of creditworthiness, as well as monitoring and recovery activities differ in relation to the various categories of customers and the various consumption dimension levels.
Over the last few years, in order to strengthen the analysis and monitoring capacities, new tools have been introduced for the acquisition of commercial information and customer payment records, as well as operating management for the collection of overdue receivables, outsourcing the telephone inquiry activity for certain customer segments and the management of inbound telephone calls referring to written reminders.
Credit risk is hedged, for certain types of business customers, by appropriate forms of bank or insurance guarantees upon demand issued by first rate credit entities. For some business customers, with higher levels of electrical energy and gas consumption, a special credit insurance policy has been taken out to cover the risk of bad debts.
An interest-bearing guarantee deposit is provided for some types of services (water, natural gas, "protected customer" electrical energy) in compliance with regulations governing these activities. This deposit must be reimbursed if the customer adopts the payment through bank/post current accounts.
Generally applied payment terms are compliant with regulations in force and are consistent with market standards. In the event of non payment, interest in arrears will be debited to the extent indicated in the supply contracts and as set out by regulations in force.

Accruals to the allowance for impairment accurately reflect the actual credit risk. In fact, for a targeted quantification each receivable amount recorded on the database is analysed, also taking into account ageing, with subsequent accrual.
In regard to the ageing of receivables, around 48% consist of outstanding receivables that are not yet due, while the remaining 21% refer to receivables overdue before 60 days. This division mainly results from the concentration of massive invoicing in the second half of 2010 regarding the electricity, water and waste disposal services. The cluster of receivables that have been outstanding for over 120 days (four months) is in line with the Group experience and is influenced by the effects of the economic and financial crisis as well as by the consolidation of corporate conduct after merger.

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

## 3. ENERGY RISK

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

With a term over the first four months and the last three months of 2010, two average rate forward contracts (Average FX Option), amounting to USD 110,000 thousand, were agreed upon as an energy portfolio hedge to reduce the risk. In December 2010, two commodity forward contracts (Commodity swap on Gas Relase 07 rate) were agreed upon as an energy portfolio hedge for 2011, for a total notional amount of 1 TWh and an average rate forward contract was agreed upon for USD 142,777 thousand.

For 2010, the Iren Group signed Electrical Energy purchase contracts for 1,078 GWh (of which 692 GWh with GSE and 386 GWh with Tirreno Power). These hedge the parties against the risk of excessive volatility in the price of electrical energy and do not involve energy trading. In 2010, facility agreements were also signed for Energy (e.g. ITEC, Itmix, BINE) and Power (PUN), for a total of 44 GWh (with annual term) and 223 GWh (of which 175 GWh with annual term and 48 GWh traded on IDEX with monthly/quarterly term), mainly to cover individual purchases and sales and with the aim of margin-setting. Following the merger with Enìa, facility agreements, for a total of 110 GWh, were also signed. New facility agreements were also entered for 2001 on IDEX, for a total of 55 GWh.
The fair value of agreements that were still in force on 31 December 2010 is in aggregate negative of euro 1,622 thousand.

### Recognition of derivatives

Derivatives are measured at fair value, determined based on market values or, if unavailable, according to an internal measurement technique.
The Group makes derivative transactions having only the purpose of hedging specific currency, rate or price risks.
In order to recognise derivatives, within these transactions it is necessary to distinguish between transactions that abide by all of the IAS 39 requirements in order to reckon them in compliance with the hedge accounting rules and transactions that do not abide by all of the above-mentioned requirements.

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

The transferred amount deferred in equity and the ineffective component are classified in the income statement based on the type of underlying instrument. Therefore, in the case of commodity derivatives they are recognised in the gross operating profit/loss, whereas in the case of interest rate risk hedges, they are recognised in financial income and charges.

*Transactions not recognised in compliance with the hedge accounting rules*
The derivative is recognised at fair value in the statement of financial position.
The change of fair value of the derivative is recognised in the income statement and is classified based on the type of underlying instrument:

- in the case of commodity derivatives, in the gross operating profit/loss; specifically, the component realised is recognised to adjust the income or expense referred to and that derived from the measurement of the derivative at the end of the year amongst other expense or other income;
- in the case of interest rate risk hedges, in financial income or charges.

As regards the measurement of the derivative in the statement of financial position items, the fair value of the derivative is recognised in long-term loans and financial receivables if the related underlying is a medium/long term item. Conversely, the derivative is recorded in short-term loans and financial receivables if the underlying is settled within the reference period.

## Fair value

In addition to the carrying amount, the fair value along with the methods and major assumptions used to determine it must be disclosed for every class of assets and liabilities shown in the financial statements.
Fair value is determined as the sum of estimated future cash flows in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the forward curve of interest rates at year end.
In order to provide as complete disclosure as possible, the corresponding figure from the previous year is also indicated.

thousands of euro

| | 31/12/2010 | | 31/12/09 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Fin. rec. from joint ventures, non-current portion | - | - | 63,700 | 64,095 |
| Assets for hedging derivatives | 1,989 | 1,989 | 887 | 887 |
| Loans - non-current portion and bonds | (1,799,801) | (1,829,229) | (1,317,822) | (1,333,909) |
| Loans - current portion | (159,145) | (213,987) | (183,025) | (217,037) |
| Liabilities for hedging derivatives | (26,065) | (26,065) | (16,341) | (16,341) |
| **Total** | **(1,983,022)** | **(2,067,292)** | **(1,452,601)** | **(1,502,305)** |
| **Unrecognised profit / (loss)** | | **(84,270)** | | **(49,704)** |

"Financial receivables from joint ventures, non-current portion" at 31 December 2009 includes receivables for loans granted to AES Torino, proportionally consolidated, with maturity term in 2011. This receivable at 31 December 2010 was restated under Current financial receivables.

*Fair value hierarchy*

The following table shows the financial instruments recognised at fair value, based on the measurement technique used. The various levels were defined as shown hereunder:
- Level 1: prices quoted (not adjusted) on active markets for similar assets or liabilities
- Level 2: input data different from prices quoted, as per Level 1, which are observable for assets or liabilities, both directly (as per prices), and indirectly (or derived from prices)
- Level 3: input data related to assets or liabilities, which are not based on observable market data (non observable data).

thousands of euro

| 31 December 2010 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale financial assets | | 137 | 268,424 | 268,561 |
| Financial assets designated at fair value through profit or loss | | | | - |
| Financial assets held for trading | | | | - |
| Derivative financial assets | | 2,423 | | 2,423 |
| **Total assets** | **-** | **2,560** | **268,424** | **270,984** |
| Derivative financial liabilities | | (29,349) | | (29,349) |
| **Gross total** | **-** | **(26,789)** | **268,424** | **241,635** |

thousands of euro

| 31 December 2009 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale financial assets | - | 2,141 | - | 2,141 |
| Financial assets designated at fair value through profit or loss | - | - | - | - |
| Financial assets held for trading | - | - | - | - |
| Derivative financial assets | - | 1,037 | - | 1,037 |
| **Total assets** | **-** | **3,178** | **-** | **3,178** |
| Derivative financial liabilities | - | (18,260) | - | (18,260) |
| **Gross total** | **-** | **(15,082)** | **-** | **(15,082)** |

All Group hedging financial instruments feature a fair value which can be classified at level 2. This level is measured based on the valuation techniques, which take as a reference parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different than quotations of the financial instruments, or however that do not require a significant adjustment based on data which cannot be observed on the market.
Moreover, no transfers occurred amongst the various Levels of the fair value hierarchy.
In addition to CESI, for an amount of euro 590 thousand, the investment in Delmi, amounting to euro 267,834 thousand, is included in level 3. Although essentially based on the Business Plan of the Edison Group (see Note 6 and related comments), its value also reflects negotiations for the transformation of the investment in industrial assets. As regards the above, no sensitivity analysis is applicable and therefore is not submitted..

## 4. OPERATIONAL RISKS

This category includes all the risks not included in the previous categories, which may influence the achievement of operational targets, i.e. relating to the effectiveness and efficiency of business transactions, including the levels of performance, profitability and protection of the resources against losses. The Enterprise Risk Management model, which will be extended throughout the Iren Group, including on the basis of the models implemented in the former IRIDE and Enìa, focused on the integrated and synergic management of risks, and it implements a management process that consists of the following stages:

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

Each process stage is performed in accordance with standards and references defined at Group level.
The operating part of the process is managed by local Risk Managers, who are responsible for specific areas in coordination with a central structure providing orientation and supervision.
The operational risk management process also aims at optimizing the Group's insurance profiles in the key "property" and "liability" areas.

### A. Legislation and regulatory risks

The legislation and regulatory framework is subject to possible future changes, and therefore is a potential risk. For this purpose, the Iren Group set up internal structures in charge of the continuous monitoring of reference legislation, in order to assess and, as far as possible, mitigate its impact. Therefore, operating risks also include risks related to expiration of outstanding concessions. For further details, reference is made to Attachment I of the Directors' Report.

### B. Strategic Risks

The local utilities sector is experiencing a phase of important development and consolidation. Deregulation and liberalisation mean companies have been forced to adopt a more decisive approach to competitive pressure, taking advantage of the opportunities for external and internal corporate growth offered by the new market scenarios.

The strategic development plan of the Iren Group provides for significant investments, from the development of joint ventures of important regasification plants for the gas supply, to the construction or upgrading of cogeneration plants to complete the district heating extension plan, as well as to the upgrading of the hydroelectric plants, and the consolidated presence in the electrical energy and gas distribution sectors, and water sector.
The above interventions entail an exposure of the Group to regulatory, technical, commercial, economic and financial risks (obtaining of licences, application of new technologies, compliance with commercial schedules, analysis of competition, etc.), which the Group has to tackle through specific processes and structures, focused on covering all phases, from assessment, to authorisation and realization of such project.

### c. Plant-related risks

As regards the compliance of Group production plants, the plant-related risks are managed with the above-mentioned approach in order to correctly allocate resources in terms of control and preventive measures (preventive/predictive maintenance, control and supervisory systems, emergency and continuity plans, etc.).
Insurance instruments, specially created based on the specific needs, were also created to further safeguard each single plant.

### d. IT Risks

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

## Capital management

The capital management policies of the Board of Directors involves maintaining a high level of capital to uphold relations of trust with investors, creditors and the market, and also allowing future business development.
The Board of Directors monitors the return on capital and the level of dividends for distribution to ordinary shareholders, and aims to maintain a balance between achieving extra yield by recourse to indebtedness and the benefits and security offered by a solid equity position.

## VI. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries and related parties are ruled by a transparent and fair approach. A good part of these transactions concern services provided to the customers in general (gas, water, electricity, heat, etc.) and are governed by contract rules normally applicable to these situations.
Where they do not concern present services, the transactions are governed by specific contracts, whose terms are established in accordance with normal market terms. If these references are not available or significant, the various profiles will be defined in consultation with independent experts or professionals.

### Transactions with subsidiaries and associates

*Intercompany Services* - In order to make best use of the organisational synergies arising from the merger of IRIDE and Enìa, the Iren structure was designed in accordance with a "light" 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.
These activities are governed by special supply contracts at arms' 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, medium/long-term loans are taken out from financial institutions by Iren, whereby the funds are subsequently transferred to the Group's companies to support the investments made by these companies based on intercompany facility agreements.
The Board of Directors approved the regulation of financial transactions between the Parent and the First-level Companies, regarding both the cash pooling of the resources available within the Group for day to day requirements (working), and for the management of the resources needed to support medium/long term investments. The conditions of infragroup contracts, signed based on the above regulation, were defined according to the conditions at which the Parent procures on the financial market.

*Tax consolidation scheme* - Starting from 2007, IRIDE S.p.A., now Iren S.p.A., adopted the tax consolidation scheme pursuant to art. 117 et seq. of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recorded by the individual consolidated companies, properly adjusted for the consolidation changes.
For 2010, all financial and legal transactions between the parties were governed by the specific Infragroup agreement between the companies involved and the parent, IRIDE S.p.A., now Iren S.p.A..
The merged ENIA S.p.A. initially adhered, as parent, to the tax consolidation scheme, together with other Group companies.
Following the favourable outcome of the request made to the Tax Office to continue the tax consolidation scheme with the new parent Iren, as from 1 July 2010 the companies being part of the Group tax consolidation scheme of the former ENIA S.p.A. (merged into IRIDE S.p.A. that was renamed Iren S.p.A) could adhere to the above-mentioned tax consolidation scheme.
The new scope of the tax consolidation scheme therefore includes, in addition to the parent Iren S.p.A., the following companies: AEM Torino Distribuzione, CELPI, IRIDE SERVIZI, AEMNET, Iren Acqua Gas, Iren MERCATO, Iren ENERGIA, CAE AMGA Energia, AGA, AES Torino, Mediterranea delle Acque, Zeus, Immobiliare delle Fabbriche, Nichelino Energia, ENIA Parma, ENIA Piacenza, ENIA Reggio Emilia, Tecnoborgo, Iren Ambiente and Iren Emilia.
In particular, this contract covers the way in which the IRES taxable amounts are transferred and the related remuneration charge, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.
Italian Law 244 of 24 December 2007 (2008 Finance Law), with effect starting from the 2008 tax period, radically changed the group taxation rules. It abolished all consolidation adjustments provided for by art. 122 of the Consolidated Income Tax Act, abrogated the rules regarding infragroup transfers pursuant to art. 123 of the Consolidated Income Tax Act and introduced the possibility, under certain conditions, to deduct from the consolidated income surplus interest expense of the participating companies that may have accrued due to the new interest expense deductibility provisions set forth in art. 96 of the Consolidated Income Tax Act.

As a result of the regulatory modifications mentioned above, the parties agreed on the need to update the previous Regulation in effect, in conformity with the provisions of art. 22 of the Regulation. The update protects the principles stated above.
After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay to the parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.
The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the parent is able to determine the total group Income for IRES purposes.
The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to art. 127 paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.

*Group VAT option* - Both the Iride group and the Enia group opted for the Group VAT settlement in 2010. Due to the fact that the merger occurred in the year, two settlements were performed for the new Iren S.p.A, still kept well divided until the end of the 2010 tax year. In 2011, the two items were unified and a new entry was created as per law.
In terms of procedures, for 2010, the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding settlements and VAT periodic payments.
The companies that took part in the settlement procedure of former IRIDE S.p.A. are the parent Iren S.p.A. and the following companies: Iren Energia S.p.A., Iride Servizi S.p.A., Iren Acqua Gas S.p.A., Iren Mercato S.p.A., AEM Torino Distribuzione S.p.A., AEM NET S.p.A., CAE AMGA Energia S.p.A., AES Torino S.p.A., CELPI, GENOVA RETI GAS. The companies included in the non-recurring transaction of Group VAT settlement are: ENIA Reggio Emilia S.p.A., ENIA Parma S.p.A., ENIA Piacenza S.p.A., Iren AMBIENTE S.p.A., Iren EMILIA S.p.A., ENIA SOLARIS S.p.A..

Furthermore, in 2010, Iren Mercato operations continued through a gas supply contract entered with the associate Plurigas. This allowed the company to supply not only to the Genoa catchment area, but also to some trading companies belonging to the Iren Group.

The Group, through Iren Mercato, has a share of energy deriving from Edipower power plants through tolling contracts.

### Transactions with shareholder Municipalities-related parties

Iren S.p.A. provides a series of services to Finanziaria Sviluppo Utilities S.r.l. (in the legal, administrative, financial and tax areas) in accordance with specific agreements that provide for fair compensation for the services.
Specifically, an agreement was signed through which FSU S.r.l assigned management of temporary cash surpluses to Iren S.p.A., through the creation of an infragroup current account.

Furthermore, special attention is paid to the local authorities on whose territory Iren is active through its subsidiaries. The above is with special reference to the Municipalities of Turin and Genoa, as direct shareholders of Iren S.p.A. and the Municipalities of Reggio Emilia, Parma and Piacenza.

Through IRIDE Servizi, Iren S.p.A. provides various services to the Municipality of Turin in support of its activities for the administered community, such as street lighting and traffic light services, maintenance of municipal buildings or buildings used to provide services to the community, global services and similar. The services rendered by IRIDE Servizi are governed by specific long-term agreements.

Iren Mercato supplies the Municipalities of Turin, Genoa, Reggio Emilia, Parma and Piacenza with electrical energy and the Municipalities of Genoa, Reggio Emilia and Parma also with gas, at conditions similar to those applied to the other customers. Its subsidiary, CAE S.p.A., provides services relating to the management of air conditioning systems in public buildings and to the management of technological systems at sports and public service facilities to the Municipality of Genoa, based on long-term contracts.

Iren Acqua Gas, through its subsidiary Mediterranea delle Acque S.p.A., provides the offices and facilities of the municipality of Genoa and directly the Municipalities of Reggio Emilia and Parma with drinking water and sewers based on supply contracts similar to those signed with the other customers.

Iren Emilia provides the Municipality of Reggio Emilia, Parma and Piacenza with the waste collection and disposal services at terms similar to those applied to the other customers. The Municipality of Parma is also supplied with public lighting services and maintenance of public parks and snow removal. The company supplies the Municipality of Piacenza with maintenance of public parks, snow removal and cemetery services.

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

### Transactions with Directors

Lastly, and regarding top managers, the following should be noted:
a) the Chairman of Iren S.p.A. (Mr. Bazzano) is also CEO and Managing Director of Iren Acqua Gas;
b) the CEO of Iren S.p.A. (Mr. Garbati) is also CEO and Managing Director of Iren Energia;
c) the Managing Director of Iren S.p.A. (Mr. Viero) is also CEO and Managing Director of Iren Emilia and CEO of Iren Ambiente.
Any interests that these authorised bodies have in operations between the Parent and the First-level Companies will be declared when they are being approved by the respective Boards of Directors.

Reference should be made to the annexes for more details on the statement of financial position and income statement balances with related parties and for more details on the fees received by directors and statutory auditors.

## VII. SUBSEQUENT EVENTS

**Transformation of San Giacomo S.r.l. into a joint-stock company and renaming of the company in Mediterranea delle Acque S.p.A.**

By virtue of the resolution taken by the shareholdersof San Giacomo S.r.l. in their meeting on 28 December 2010, effective on 5 January 2011, San Giacomo was transformed from a limited liability company into a joint-stock company. Concurrently, the company was renamed Mediterranea delle Acque S.p.A., thus adopting the name of the merged company.

## VIII. OTHER INFORMATION

*CONSOB COMMUNICATION no. DEM/6064293 of 28 July 2006*

### Significant non-recurring events and transactions

During 2010, the Group was not involved in significant non-recurring events and/or transactions, as defined in the Communication, i.e. events or transactions that are non-recurring, or transactions or events that are not frequent in the ordinary conduct of business. In 2009, the non-recurring event is related to the recovery of the alleged State aid in favour of former AEM Torino S.p.A. and former AMGA S.p.A, which generated a non-recurring charge, including tax, equal to euro 103,062 thousand. More specifically, the charge referred as for euro 38,749 thousand to the principal and as for euro 64,312 thousand to interest expense.

### Positions or transactions deriving from atypical and/or unusual transactions

In 2010, the Group was not involved in atypical and/or unusual transactions, as defined in the Communication, i.e. transactions that may, due to their significance/relevance, nature of the counterparties, subject of the transaction, methods for determining the transfer price and timing of the event (near year end), give rise to concerns about: the correctness/completeness of the financial statements disclosures, conflict of interest, safeguard of the company's assets, protection of minority shareholders.

### Publication of the Financial Statements

The Financial Statements were authorised for publication by Iren S.p.A.'s Board of Directors during the meeting held on 24 March 2011. The Board of Directors authorised the Chairman and CEO and the Managing Director to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders.
The shareholders' meeting to be called to approve the separate financial statements of the Parent has the right to request amendments to the aforementioned consolidated financial statements.

## IX. NOTES TO THE STATEMENT OF FINANCIAL POSITION

Unless otherwise stated, the following tables are in thousands of euro. In the following tables, the column named "increases through business combinations" includes variations deriving from divestments of the former Enìa, and therefore from branches that became part of other Group companies, included Iren S.p.A.. The column "variation in the consolidation scope" describes the contribution of the companies that, by effect of the merger, entered the Iren Group.

## *ASSETS*

### Non-current assets

### *Note 1_Property, plant and equipment*

The breakdown of Property, plant and equipment, divided between historical cost, accumulated depreciation and net value, is shown in the following table:

thousands of euro

| | Cost at 31/12/2009 | Acc. deprec. at 31/12/2009 | Net value at 31/12/2009 | Cost at 31/12/2010 | Acc. deprec. at 31/12/2010 | Net value at 31/12/2010 |
|---|---|---|---|---|---|---|
| Land | 21,756 | - | 21,756 | 74,147 | (1,510) | 72,637 |
| Buildings | 180,832 | (50,571) | 130,261 | 329,690 | (96,110) | 233,580 |
| Leased buildings | 5,079 | (1,060) | 4,019 | 6,740 | (1,625) | 5,115 |
| **Land and buildings** | **207,667** | **(51,631)** | **156,036** | **410,577** | **(99,245)** | **311,332** |
| Plant and machinery | 1,639,764 | (419,982) | 1,219,782 | 2,667,371 | (1,017,747) | 1,649,624 |
| Leased plant and machinery | 693 | (189) | 504 | 1,011 | (476) | 535 |
| **Plant and machinery** | **1,640,457** | **(420,171)** | **1,220,286** | **2,668,382** | **(1,018,223)** | **1,650,159** |
| Industrial and commercial equipment | 17,116 | (11,574) | 5,542 | 77,522 | (45,217) | 32,305 |
| Leased industrial and commercial equipment | - | - | - | - | - | - |
| **Industrial and commercial equipment** | **17,116** | **(11,574)** | **5,542** | **77,522** | **(45,217)** | **32,305** |
| Other assets | 40,879 | (31,706) | 9,173 | 115,318 | (89,137) | 26,181 |
| Other leased assets | 1,606 | (1,261) | 345 | 1,606 | (1,384) | 222 |
| **Other assets** | **42,485** | **(32,967)** | **9,518** | **116,924** | **(90,521)** | **26,403** |
| **Assets under construction and payments on account** | **301,065** | **-** | **301,065** | **622,332** | **-** | **622,332** |
| **Total** | **2,208,790** | **(516,343)** | **1,692,447** | **3,895,737** | **(1,253,206)** | **2,642,531** |

The most significant variation between balances at 31 December 2009 and 31 December 2010 refers to the merger of Enìa into Iride and the following change of both the consolidation scope and the assets directly conferred by Enìa to the former Iride Group, as described in the variation of the historical cost described hereunder:

thousands of euro

| | Opening balance | Increases | Decreases | Restatements | Increases through business combinations | Changes in the consolidation scope | Closing balance |
|---|---|---|---|---|---|---|---|
| Land | 21,756 | 2,401 | (792) | 6,370 | 3,578 | 40,834 | 74,147 |
| Buildings | 180,832 | 4,830 | (11,497) | (669) | 23,569 | 132,625 | 329,690 |
| Leased buildings | 5,079 | - | (60) | - | - | 1,721 | 6,740 |
| **Land and buildings** | **207,667** | **7,231** | **(12,349)** | **5,701** | **27,147** | **175,180** | **410,577** |
| Plant and machinery | 1,639,764 | 41,442 | (7,400) | 27,454 | 411,560 | 554,551 | 2,667,371 |
| Leased plant and machinery | 693 | - | - | - | - | 318 | 1,011 |
| **Plant and machinery** | **1,640,457** | **41,442** | **(7,400)** | **27,454** | **411,560** | **554,869** | **2,668,382** |
| Industrial and commercial equipment | 17,116 | 4,039 | (1,400) | 470 | 3,906 | 53,391 | 77,522 |
| Leased equipment | - | - | - | - | - | - | - |
| **Industrial and commercial equipment** | **17,116** | **4,039** | **(1,400)** | **470** | **3,906** | **53,391** | **77,522** |
| Other assets | 40,879 | 8,615 | (5,554) | 1,721 | 1,522 | 68,135 | 115,318 |
| Other leased assets | 1,606 | - | - | - | - | - | 1,606 |
| **Other assets** | **42,485** | **8,615** | **(5,554)** | **1,721** | **1,522** | **68,135** | **116,924** |
| **Assets under construction and payments on account** | **301,065** | **293,359** | **(7,870)** | **(38,234)** | **12,127** | **61,885** | **622,332** |
| **Total** | **2,208,790** | **354,686** | **(34,573)** | **(2,888)** | **456,262** | **913,460** | **3,895,737** |

The balance in the restatements column, equal to euro 2,888 thousand, refers to the historical cost of property, plant and equipment at 1 January 2010 of Aquamet, which was transferred to Assets held for sale.
The variation in the accumulated depreciation is shown in the following table

thousands of euro

| | Opening balance | Depreciation over the year | Decreases | Restatements | Increases through business combinations | Changes in the consolidation scope | Closing balance |
|---|---|---|---|---|---|---|---|
| Accumulated depreciation, land | - | - | 131 | - | - | (1,641) | (1,510) |
| Accumulated depreciation, buildings | (50,571) | (7,381) | 3,360 | 477 | (6,950) | (35,045) | (96,110) |
| Accumulated depreciation, leased buildings | (1,060) | (178) | - | - | - | (387) | (1,625) |
| **Accumulated depreciation, buildings** | **(51,631)** | **(7,559)** | **3,491** | **477** | **(6,950)** | **(37,073)** | **(99,245)** |
| Acc. depreciation, plant and machinery | (419,982) | (94,476) | 4,799 | 156 | (194,285) | (313,959) | (1,017,747) |
| Acc. depreciation, leased plant and machinery | (189) | (58) | - | - | - | (229) | (476) |
| **Acc. depreciation, plant and machinery** | **(420,171)** | **(94,534)** | **4,799** | **156** | **(194,285)** | **(314,188)** | **(1,018,223)** |
| Acc. depreciation, ind. and comm. equipment | (11,574) | (3,636) | 479 | 296 | (2,014) | (28,768) | (45,217) |
| Acc. depreciation, leased ind. and comm. equip. | - | - | - | - | - | - | - |
| **Acc. depreciation, ind. and comm. equip.** | **(11,574)** | **(3,636)** | **479** | **296** | **(2,014)** | **(28,768)** | **(45,217)** |
| Accumulated depreciation of other assets | (31,706) | (5,784) | 2,921 | 373 | (25) | (54,916) | (89,137) |
| Acc. depreciation of other leased assets | (1,261) | (123) | - | - | - | - | (1,384) |
| **Accumulated depreciation of other assets** | **(32,967)** | **(5,907)** | **2,921** | **373** | **(25)** | **(54,916)** | **(90,521)** |
| **Total** | **(516,343)** | **(111,636)** | **11,690** | **1,302** | **(203,274)** | **(434,945)** | **(1,253,206)** |

The balance in the restatements column, equal to euro 1,302 thousand, refers to the accumulated depreciation of property, plant and equipment at 1 January 2010 of Aquamet, which was transferred to Assets held for sale.

*Land and buildings*

This item primarily includes industrial buildings connected with Group plants, owned buildings used as headquarter and branch offices and related land.

*Plant and machinery*

This item refers to costs for electrical energy production plants, heat production plants, electrical energy distribution networks, gas distribution networks, heat distribution networks and plants related to waste disposal services. Freely transferable assets are included in assets of electrical energy production plants.

Investments for the year, equal to euro 41,442 thousand, mainly refer to:

- enlargement of the district heating network of the municipalities of Turin Nichelino and Emilia, totalling euro 15,192 thousand;
- installation of new electronic meters for end customers and new connections to the distribution network of electrical energy, totalling euro 9,271 thousand;
- building of the hydroelectric plant of Baiso, amounting to euro 5,123 thousand.

*Industrial and commercial equipment*

This item includes costs related to the purchase of supplementary or auxiliary assets for plants and machinery, such as rubbish bins, laboratory and other equipment.

*Other assets*

This item refers to costs for the purchase of office furniture and machines and vehicles.

Investments for the year, equal to euro 8,615 thousand, mainly refer to the purchase of new vehicles (euro 5,071 thousand).

*Assets under construction and payments on account*

Assets under construction and payments on account include the various charges borne for investments under construction and not working yet. Investments for the year, equal to euro 293,359 thousand, mainly refer to:

- building of the "Torino Nord" cogeneration plant, amounting to euro 134,683 thousand;
- repowering of plants in Valle Orco, amounting to euro 25,565 thousand;
- development of the heat transportation and distribution network, amounting to euro 18,835 thousand;
- implementation of the Polo Ambientale Integrato (Integrated Environmental Hub) project for the Emilia region, amounting to euro 20,137 thousand;
- transformation of the gas carrier Golar Frost, purchased by OLT Offshore, into a regasification plant, within the construction project of the Livorno regasification terminal (OLT project), amounting to euro 43,971 thousand.

Ordinary depreciation for 2010, totalling euro 111.7 million, were calculated based on the rates previously indicated and held to represent the residual useful life of the relevant asset.

The Group holds assets acquired through finance leases, for a total amount of euro 5,872 thousand (euro 4,868 thousand at 31 December 2009), mainly related to industrial buildings.

Lastly, no assets are granted to guarantee liabilities.

For further information on investments for the year, reference is made to the pertaining section in the Directors' Report.

## Note 2_Investment property

The following table highlights the breakdown of the item under valuation:

thousands of euro

| | Cost at 31/12/2009 | Acc. depreciation at 31/12/2009 | Net value at 31/12/2009 | Cost at 31/12/2010 | Acc. depreciation at 31/12/2010 | Net value at 31/12/2010 |
|---|---|---|---|---|---|---|
| Land | 409 | - | 409 | 446 | - | 446 |
| Buildings | 2,537 | (734) | 1,803 | 3,494 | (1,253) | 2,241 |
| **Total** | **2,946** | **(734)** | **2,212** | **3,940** | **(1,253)** | **2,687** |

The amounts indicated refer to investments property of the subsidiary Mediterranea delle Acque, amounting to euro 296 thousand, the portion of the investment property of Acque Potabili, proportionally consolidated (equal to euro 2,391 thousand) and mainly refer to buildings held to obtain lease payments.

## Note 3_Intangible Assets With A Finite Useful Life

Intangible assets, broken down between historical cost and accumulated amortisation, are shown in the following table:

thousands of euro

| | Cost at 31/12/2009 | Acc. amortisation at 31/12/2009 | Net value at 31/12/2009 | Cost at 31/12/2010 | Acc. amortisation at 31/12/2010 | Net value at 31/12/2010 |
|---|---|---|---|---|---|---|
| Development costs | - | - | - | 524 | (424) | 100 |
| Ind. patents and similar rights | 1,054 | (819) | 235 | 38,451 | (23,006) | 15,445 |
| Licences, trademarks and similar rights | 1,020,426 | (358,541) | 661,885 | 1,502,879 | (462,714) | 1,040,165 |
| Other intangible assets | 52,634 | (39,401) | 13,233 | 66,763 | (50,711) | 16,052 |
| Assets under development and payments on account | 40,610 | - | 40,610 | 96,696 | - | 96,696 |
| **Total** | **1,114,724** | **(398,761)** | **715,963** | **1,705,313** | **(536,855)** | **1,168,458** |

The most significant portion of the change between balances at 31 December 2009 and 31 December 2010 refers to the merger of Enia into Iride.

The variation in the historical cost of intangible assets is shown in the following table:

thousands of euro

| | Opening balance | Increases | Decreases | Restatements | Impairment losses for the year | Increases through business combinations | Changes in the consolidation scope | Closing balance |
|---|---|---|---|---|---|---|---|---|
| Development costs | - | 98 | - | - | - | - | 426 | 524 |
| Ind. patents and similar rights | 1,054 | 2,050 | (4) | (333) | - | - | 35,684 | 38,451 |
| Licences, trademarks and similar rights | 1,020,426 | 92,026 | (6,846) | (26,911) | - | 327,660 | 96,524 | 1,502,879 |
| Other intangible assets | 52,634 | 9,267 | (16) | 236 | (277) | 1,636 | 3,283 | 66,763 |
| Assets under development and payments on account | 40,610 | 32,012 | (1,109) | (33,374) | - | 37,180 | 21,377 | 96,696 |
| **Total** | **1,114,724** | **135,453** | **(7,975)** | **(60,382)** | **(277)** | **366,476** | **157,294** | **1,705,313** |

The balance in the restatements column, equal to euro 60,382 thousand, refers to the historical cost of intangible assets at 1 January 2010, including assets recognised in application of IFRIC 12 standard and relating to the natural gas distribution activities of Aquament, which were transferred to Assets held for sale.

Changes in the accumulated amortisation are shown in the following table:

thousands of euro

| | Opening balance | Amortisation over the year | Decreases | Restatements | Increases through business combinations | Changes in the consolidation scope | Closing balance |
|---|---|---|---|---|---|---|---|
| Acc. amortisation, dev. costs | - | (56) | - | - | - | (368) | (424) |
| Acc. amort. of ind. patents and similar rights | (819) | (2,832) | 1 | 314 | - | (19,670) | (23,006) |
| Acc. amort. of licences, trademarks and similar rights | (358,541) | (43,277) | 5,246 | 19,055 | (68,621) | (16,576) | (462,714) |
| Acc. amort. of other int. assets | (39,401) | (7,223) | 71 | 47 | (1,143) | (3,062) | (50,711) |
| **Total** | **(398,761)** | **(53,388)** | **5,318** | **19,416** | **(69,764)** | **(39,676)** | **(536,855)** |

The balance in the restatements column, equal to euro 19,416 thousand, refers to the accumulated amortisation of intangible assets at 1 January 2010, including assets recognised in application of IFRIC 12 related to the natural gas distribution of Aquamet, transferred to Assets held for sale

*Industrial patents and similar rights*

This item mainly relates to the total of costs borne for the purchase of corporate and management software and the acquisition of rights for the exclusive use of technical studies on the statistical trend of network losses, amortised over five years.

*Licences, trademarks and similar rights*

This item is primarily composed of:
- assets recognised in application of IFRIC 12, related to the business sectors of natural gas distribution, the Integrated Water Service and, marginally, district heating;
- the right of use aqueduct networks by virtue of the concessions granted by the municipality of Genoa and other neighbouring municipalities;
- concessions for the use of the IT network of third party operators.

*Other intangible assets*

This item is primarily composed of:
- costs incurred for in-house customisation of licensed software applications;
- expense for the ordinary maintenance of electrical systems and special installations of the Turin municipal authorities, capitalised and amortised over the term of the fifteen-year agreement;
- costs for the commercial development of customers.

*Assets under development and payments on account*

This item mainly consists of investments for concession services governed by Ifric 12, in addition to software licences and related implementation costs.

## Note 4_Goodwill

Goodwill totals euro 132,117 thousand (31 December 2009: euro 104,745 thousand) and mainly refers to:
- the majority of Acqua Italia S.p.A. (now Mediterranea delle Acque), where the positive difference between the purchase cost and fair value of acquired and identifiable assets and liabilities was recognised as goodwill for euro 23,202 thousand;
- ENEL's acquisition of the business branch related to the distribution and sale of electricity to non-eligible customers in the Municipality of Turin, in which the positive difference between the purchase cost and fair value of acquired and identifiable assets and liabilities was recognised as goodwill for euro 64,608 thousand;
- the corporate branch purchased from ENEL at the end of 2000 and referred to electric facilities of the town of Parma, for an amount of euro 10,441 thousand;
- shares in Enìa Energia, acquired by Sat Finanziaria S.p.A. and Edison, for an amount of euro 16,731 thousand.

The increase is primarily due to the merger of Enìa into Iride and refers to goodwill of the business branch related to electric facilities of the town of Parma and the above-mentioned shares in Enìa Energia.

Goodwill is referred to as an intangible asset with an indefinite useful life. Therefore, it is not amortised, but tested for impairment to check whether the carrying amount is still recoverable.

The Iren Group tests for impairment is organised on two levels:
- Cash-generating Units, corresponding to the above-mentioned business sectors included in the Business Plan approved by the BoD on 10 December 2010 and introduced on the market on 13 December 2010. This method allows for a more effective disclosure of goodwill and future investment plans and supplies a homogeneous analysis of information communicated to the market. In particular, the cash-generating units are represented by Energy Infrastructures, Generation, Market, Integrated Water Service, Waste Collection, Other (residual).
- For First-level companies, as previously described upon the occurrence of specific impairment triggers with special reference to goodwill, assets and value recoverability of their equity investments.

Within the assessments made, the recoverable amount was determined by calculating the value in use of an asset or referring to fair value. In order to obtain the best estimate of the value in use, as-

sessment was made by using pre-tax operating cash flows, which derive from the most recent and thorough economic and financial projections over a five-year period, or a longer period according to the type of business, as well as pre-tax value terminal, calculated by using the perpetual yield, if applicable, and by verifying the same according to implied multiples (the final value should range between 6 and 8 times EBITDA output).
The discount rate is defined by the pre-tax weighted average cost of capital (WACC) and it is included in the 6.03 – 7.45% range, according to the specific business line.
In general, and prudentially, the "g" growth rate was used to calculate the terminal value equal to zero at real values. In the event of standalone plans used at nominal values, the "g" growth rate used was equal to inflation.

The impairment test performed at 31 December 2010 did not indicate any impairment.

### Note 5_Investments accounted for using the equity method

Investments accounted for using the equity method are those in associates owned by the Group, and amount to Euro 324,106 thousand (31 December 2009: Euro 308,218 thousand).

The companies measured using the equity method, belonging to the Group at 31 December 2010, are shown in an annex.

Changes for the year are shown in the following table:

thousands of euro

| | Balance at 31/12/2009 | Changes in the consolidation scope | Purchases/ (Sales) | Reversals of impairment losses /(impairment losses) and value adjustments | Dividends and measurements with direct effect on equity | Restatement and other variations | Balance at 31/12/2010 |
|---|---|---|---|---|---|---|---|
| A2A ALFA | 337 | - | - | 407 | - | - | 744 |
| ABM NEXT | 351 | - | - | - | (51) | - | 300 |
| ACIAM | - | 315 | - | - | - | - | 315 |
| Acos Energia | 442 | - | - | (76) | (89) | - | 277 |
| Acos S.p.A. | 6,513 | - | - | 352 | - | - | 6,865 |
| ACQUAENNA | - | 1,380 | - | - | - | - | 1,380 |
| ACQUEINFORMA | 5 | - | - | - | - | - | 5 |
| Aguas de San Pedro | - | 3,130 | - | 1,017 | 113 | - | 4,260 |
| AIGA | 252 | - | - | 56 | - | - | 308 |
| ALEGAS | 1,400 | - | - | (19) | - | - | 1,381 |
| AMAT | 5,589 | - | - | 30 | - | - | 5,619 |
| AMAT ENERGIA | 3 | - | - | (1) | - | - | 2 |
| AMTER | 531 | - | - | 148 | - | - | 679 |
| ASA S.p.A. | 5,084 | - | 7,112 | (371) | 58 | - | 11,883 |
| ASMT Servizi Industriali | 6,013 | - | - | (126) | - | - | 5,887 |
| ASTEA | 19,415 | - | - | - | - | (19,415) | - |
| Atena | 8,325 | - | - | 9 | - | - | 8,334 |
| BT Enìa Tlc | - | 6,487 | - | 347 | - | - | 6,834 |
| CASTEL | 433 | - | - | - | - | - | 433 |
| CEPPO | 254 | - | - | - | - | - | 254 |
| CONSORZIO SERVIZI INTEGRATI | 50 | - | - | - | - | - | 50 |
| DOMUS ACQUA | 28 | - | - | - | - | - | 28 |
| EDIPOWER | 217,309 | - | - | 5,299 | (2,099) | - | 220,509 |
| FINGAS | - | - | - | (23) | - | 8,216 | 8,193 |
| GAS ENERGIA | 789 | - | - | (54) | - | - | 735 |
| GESAM GAS | 6,648 | - | - | 537 | (229) | - | 6,956 |
| GICA | 539 | - | 70 | (663) | 185 | - | 131 |
| GLOBALE SERVICE | - | 6 | - | - | - | - | 6 |
| Il Tempio | - | 40 | - | (8) | - | - | 32 |

thousands of euro

| | Balance at 31/12/2009 | Changes in the consolidation scope | Purchases/ (Sales) | Reversals of impairment losses /(impairment losses) and value adjustments | Dividends and measurements with direct effect on equity | Restatement and other variations | Balance at 31/12/2010 |
|---|---|---|---|---|---|---|---|
| Iniziative Ambientali | - | 438 | - | - | - | - | 438 |
| LIVORNO HOLDING | 8 | - | - | (2) | - | - | 6 |
| MESTNI PLINOVODI | 8,919 | - | - | 308 | - | - | 9,227 |
| MONDO ACQUA | 142 | - | - | - | - | - | 142 |
| PLURIGAS | 17,672 | - | - | 5,596 | (4,099) | - | 19,169 |
| Rio Riazzone | - | 229 | - | - | - | - | 229 |
| S.M.A.G. | 17 | - | 27 | (44) | - | - | - |
| SALERNO ENERGIA VENDITE | 941 | - | - | 395 | (172) | - | 1,164 |
| SEA POWER & FUEL | 3 | - | - | - | - | - | 3 |
| Sinergie Italiane | - | 1,688 | - | (2,606) | (2,434) | 3,352 | - |
| Sosel | - | 490 | - | 18 | - | - | 508 |
| TIRANA ACQUE | 47 | - | - | - | - | - | 47 |
| Undis | - | 166 | (166) | - | - | - | - |
| VALLE DORA ENERGIA | - | - | 498 | - | - | - | 498 |
| VEA ENERGIA E AMBIENTE | 159 | - | - | 115 | - | - | 274 |
| **TOTAL** | **308,218** | **14,369** | **7,541** | **10,641** | **(8,817)** | **(7,847)** | **324,105** |

Edipower is considered an associate, even though the investment percentage is less than 20%. Indeed, Iride holds a significant influence considering the agreements and tolling agreements currently in place between the shareholders.

Astea was reclassified under assets held for sale, as described in Note 16, while Fingas was reclassified in this item from "Other investments".

## Note 6_Other investments

This item relates to investments in companies over which the Group has neither control nor significant influence. Since their fair value could not be reliably determined, these investments, except for Delmi, were maintained at cost, adjusted for any impairment losses.
At 31 December 2009, other investments were presented under Non-current financial assets. To this regard, the corresponding figures have been reclassified.
The list of other investments at 31 December 2010 is shown in an annex.

Changes for the year are shown in the following table:

thousands of euro

| | At 31/12/09 | Increases through business combinations | Changes in the consolidation scope | Reclassifications | Direct changes to equity | Purchases/ (Sales) | At 31/12/2010 |
|---|---|---|---|---|---|---|---|
| Acque Potabili Siciliane | 20 | - | - | - | - | - | 20 |
| Agenzia Parma Energia | - | - | 3 | - | - | - | 3 |
| Alagaz | 3 | - | - | - | - | (3) | - |
| AMG | 8 | - | - | (8) | - | - | - |
| Astea Energia | 7 | - | - | - | - | - | 7 |
| Atena Patrimonio | 12,030 | - | - | - | - | - | 12,030 |
| ATO2 Acque società consortile | 10 | - | - | - | - | - | 10 |
| Autostrade Centro Padane | - | - | 1,248 | - | - | - | 1,248 |
| BCC Battipaglia | 2 | - | - | (2) | - | - | - |
| C.R.P.A. | - | - | 52 | - | - | - | 52 |
| CESI | 93 | - | - | (93) | - | - | - |
| Consorzio Gazel | - | - | - | - | - | - | - |

thousands of euro

| | At 31/12/09 | Increases through business combinations | Changes in the consolidation scope | Reclassifications | Direct changes to equity | Purchases/ (Sales) | At 31/12/2010 |
|---|---|---|---|---|---|---|---|
| Consorzio Leap | - | - | 10 | - | - | - | 10 |
| Consorzio Prometeo | 2 | - | - | - | - | - | 2 |
| Consorzio Topix | 5 | - | - | - | - | - | 5 |
| Cosme | 1 | - | - | - | - | 1 | 2 |
| CSP Innovazione nelle ICT | 28 | - | - | - | - | - | 28 |
| Delmi | - | 281,585 | - | - | (13,751) | - | 267,834 |
| Edilmet DOO | 10 | - | - | (10) | - | - | - |
| Energia Italiana | 12,928 | - | - | - | - | - | 12,928 |
| Environment Park | 396 | - | - | - | - | - | 396 |
| Fingas | 7,917 | - | - | (7,917) | - | - | - |
| Mediterranea | 25 | - | - | (25) | - | - | - |
| Nord Ovest Servizi | 780 | - | - | - | - | - | 780 |
| RE Innovazione | - | - | 8 | - | - | - | 8 |
| Rupe | 10 | - | - | - | - | - | 10 |
| Sarmato Energia | - | 777 | - | - | - | - | 777 |
| SDB società di biotecnologie | 20 | - | - | - | - | (7) | 13 |
| SI.RE | 15 | - | - | - | - | - | 15 |
| Sogea | 2 | - | - | - | - | - | 2 |
| Stadio di Albaro | 27 | - | - | - | - | - | 27 |
| T.I.C.A.S.S. | - | - | - | - | - | 4 | 4 |
| CONAI | - | - | - | - | - | - | - |
| CFR SPA | - | - | 13 | - | - | - | 13 |
| IAM SPA | - | - | 25 | - | - | - | 25 |
| **TOTAL** | **34,339** | **282,362** | **1,359** | **(8,055)** | **(13,751)** | **(5)** | **296,249** |

As highlighted in the previous note, the main reclassification regards Fingas.

With reference to the calculation of fair value in the investment in Delmi S.p.A., the Directors of Iren show the following:

- Delmi, classified as available for sale, is not quoted on an active market. As previously indicated, Delmi S.p.A. jointly controls with WGRM Holding 4 S.p.A. (wholly-owned by Electricité de France S.A.), Transalpina di Energia (hereinafter TdE), which, in its turn, holds 61.28% of Edison. The carrying amount of Delmi therefore does not only depend on the performance of Edison, which is however significant, but a number of agreed conditions and governance terms exist both in TdE and in Delmi, which identify autonomous situations in the above-mentioned vehicles, with a subsequent contribution to the definition of the fair value model.
- As a consequence of the above and in relation to the various statements released on the media on various M&A scenarios for Edison and its control chain, in 2010 Iren's Directors, together with other reference stakeholders, and following the expressions of interest made by possible counterparties, started a series of actions aimed at defining short and medium-term strategies on the consolidation of the industrial value of Delmi, and not merely financial, through the conversion of the equity investment into production assets.
- The Directors' willingness to define a fair value model which confirms the industrial destination of the investment is strengthened by the merger that generated Iren. On the one hand, in fact, the Group owns the technical know-how to manage hydroelectric and CCGT plants, on the other hand, the Group intends to consider Delmi and Edipower transactions univocally.
- Thus, the executive committee and the Board of Directors of Iren elected to assign special offices to industrial and financial advisors in order to identify targets for Delmi's shareholders aimed at increasing the value of their equity investments, discussing a preliminary economic assessment and a possible review of the industrial and corporate setting of Edison and its controal chain of Delmi, as well as at defining an implementation program for the specific transaction.
- In light of the above, Iren's Directors deem it suited to use such information to define a fair value calculation model that better reflects the allocation of the investment in Delmi and medium-term strategic objectives.

- In particular, it seems suited to use a fair value calculation model mainly based on the Business Plan of the Edison Group, as performed in TdE, which carried out this analysis with the help of an independent expert, by using cash flows referred to the 2011 Budget for the subsidiary Edison, approved by Edison Spa's Board of Directors on 14 January 2011, as well as based on estimates made by Edison's corporate management included in the "2011-2018 Business Plan". In fact, this document reflects the best estimates made by the Top Management on the main assumptions underlying corporate operations (macro-economic and price trends, operating expectations of production assets and business development). These assumptions and the corresponding financials are deemed as suited for impairment testing. The expert checked the assumptions included in the document, referring to external sources. He also asked management to develop analyses and simulations to supplement the "2011-2018 Business Plan", also through evaluations and estimates different from those included in the "2011-2018 Business Plan". The expert has also examined the 2010-2017 Plan previously approved by the Board of Directors of Edison Spa.
- The independent directors of Edison also required an analysis to check assumptions made by the expert. These checks, assigned to Goldman Sachs, highlighted no significant remarks and the analysis made by the expert was confirmed.
- As regards the calculation of the recoverable amount of each business segment, the value in use was estimated taking account of both the operating cash flow present value, gross of tax (as expressly set out by regulations) pertaining to the sector and referred to the business plan period (extended until 2018), and the terminal value at the end of the plan term, consistently with the nature of investments and Edison's operating segments. A terminal value was calculated for both business segments, by defining an operating cash flow, normalised to obtain conditions of regular corporate operations and considering a growth rate ranging between 0 and 2% annual nominal amount. To calculate the terminal value, the flows related to the electrical energy business segment take into consideration the fact that the impact, resulting from the expiration of CIP 6/92 agreements, will cease starting from 2016. As regards the terminal value of the hydrocarbon business segment, the cash flows were normalised to cancel, inter alia, the effect of renegotiations of the long-term contracts for gas imports pertaining to 2010. Discount rates, consistent with the above-described flows, were estimated by determining the weighted average cost of capital.
- By applying the above-mentioned method, a reduction of euro 8,564 thousand is recorded with respect to the initial figure, equal to euro 276,399 thousand. Furthermore, the reduction in the reserve is equal to euro 13,751 thousand, compared to the last carrying amount, equal to euro 281,585 thousand. This amount, net of deferred tax liabilities, equal to euro 189 thousand, has a balancing entry in a specific reserve in equity.
- The Directors of Iren, in fact, deem that this impairment might be temporary by virtue of the fact that Edison's flows are linked to variables subject to strong fluctuations due to future evolution of energy markets. On the one hand, in fact, the current situation, featuring a non completely recovered economy and lower energy consumption, results in a production overcapacity scenario which, related to gas supply contracts of the take or pay type (purchase obligations exceeding the amounts sold), reduces, also remarkably, the margins of productions from non-cogeneration combined cycle plants. On the other hand, the macroeconomic scenario which is being outlined, characterised by the North-African and Middle-Eastern crisis that influenced oil prices, as well as by a greater uncertainty and possible increase in costs connected with nuclear energy and a reduction in incentives granted to renewable sources, accompanied to an economic recovery in most industrialised countries, shows positive indicators for energy producers using high-efficient natural gas power plants.
- Iren's Directors therefore think that, to date, there is no objective evidence for impairment regarding Delmi, also considering the fact that valuations made with other control methods resulted in a higher fair value, although in line with the above-mentioned indications. The above-mentioned impairment loss is therefore recorded in other charges of the Statement of comprehensive income, in addition to a reduction of the related reserve in equity.

## Note 7_Non-current financial assets

The item, equal to euro 88,388 thousand (31 December 2009: euro 279,333 thousand), refers to securities other than equity investments, financial receivables and fair value of derivatives.

*Securities other than investments*

This item contains securities that are measured pursuant to the provisions of IAS 39 - Financial Instruments: Recognition and Measurement, as held for sale or as investments held to maturity.

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| "Maestrale" closed-end mutual fund | 137 | 141 |
| Securities as collateral with bodies | 38 | 38 |
| **Total** | **175** | **179** |

The "Maestrale" closed-end mutual fund includes available-for-sale securities, deposited with Banca Passadore in Genoa, and measured at fair value with changes in fair value recognized in equity.
Securities as collateral with bodies are classified as held-to-maturity investments, and are measured at amortised cost.

*Financial receivables and fair value of derivatives*

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Long-term financial receivables - Joint ventures | 45 | 63,700 |
| Long-term financial receivables - Associates | 1,027 | 1,068 |
| Long-term financial receivables - Other | 3,362 | 12,443 |
| Financial receivables from shareholders - related parties | 81,289 | 200,211 |
| Financial receivables for leases due after 12 months | 501 | 845 |
| FV of derivative contracts (long term) | 1,989 | 887 |
| **Total** | **88,213** | **279,154** |

Financial receivables due from joint ventures refer to receivables due from Società Acque Potabili. At 31 December 2009, they were related to a loan granted by the Parent Iren S.p.A. to AES Torino, proportionally consolidated, with maturity in 2011 and therefore at 31 December 2010 reclassified to current financial assets.

Financial receivables due from associates, amounting to euro 1,027 thousand, refer to receivables due from AIGA, ABM Next, il Ceppo and Acquaenna, with insignificant individual amounts.

The receivables due from shareholders - related parties regard receivables due from the Municipality of Turin on which interest accrues for the Group, and concern the classification of the medium/long-term share of receivables on the current account that governs the trading and financial transactions between the subsidiary IRIDE Servizi S.p.A. and the Municipality of Turin.
These receivables total euro 248,474 thousand, and are divided amongst various statement of financial position items according to their classificationby type and maturity: Trade receivables (Note 11) and Current financial assets – financial receivables from Parents (Note 14), as shown in the following table.

thousands of euro

| Receivables due from the Municipality of Turin | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Trade receivables for services on invoices issued | 29,686 | 30,275 |
| Trade receivables for services on invoices to be issued | 1,709 | 2,867 |
| Trade receivables for electrical energy and other supplies | 9,450 | 15,961 |
| Allowance for impairment | (6,750) | (6,750) |
| **Total trade receivables** | **34,095** | **42,353** |
| Financial receivables in current account - non-current | 81,289 | 200,211 |
| **Total non-current financial receivables** | **81,289** | **200,211** |
| Financial receivables in current account - current | 118,000 | 46,000 |
| Financial receivables for interest invoiced | 11,753 | 9,930 |
| Financial receivables for interest to be invoiced | 3,337 | 5,746 |
| **Total current financial receivables** | **133,090** | **61,676** |
| **Total** | **248,474** | **304,240** |

Over the year 2010, the impairment losses on receivables due from the Municipal Authority were constantly monitored by the company and Authority representatives with a view to adopting appropriate measures to ensure gradual repayment.
Also in relation to the above, this item shows an overall positive trend. The balance of trade receivables from the Municipality of Turin has decreased by around euro 8,258 thousand (net of the allowance for impairment) and the balance of current and non-current financial receivables has decreased by euro 47,508 thousand. The Iren Group's total exposure from the Municipality of Turin has therefore decreased by euro 55,766 thousand since 31 December 2009. From a Directors' assessment based on average payments over the last twelve months, it is estimated that around euro 81,289 thousand of these receivables is due after one year. The above division of receivables is consistent with the actions aimed at reducing the amount of receivables that the Company intends to perform over 2011.
The reduction of the above financial assets is associated to actions performed in accordance with the agreements between Iride Servizi S.p.A. and the Municipality of Turin during 2010, which set out the following:

- credit stability by achieving a substantial equality of invoicing and related payment flows;
- progressive reduction of the stock of payables of the Municipality through ordinary and extraordinary interventions performed by the Town Council.

IFinancial receivables due from lease companies relate to a finance lease agreed in 2004 for the sale of the Lingotto refrigeration plant located in Turin. This contract has a term of 9 years. The non-current portion amounts to euro 501 thousand (31 December 2009: euro 845 thousand), while the current portion, included in current financial assets amounts to euro 344 thousand (31 December 2009: euro 319 thousand).

The non-interest bearing loan for the future share capital increase, paid to Nord Ovest Servizi, is included in Receivables due from others. At 31 December 2009, the portion of the amount paid by OLT Offshore as a guarantee of the contract entered into with SAIPEM, amounting to euro 10,428 thousand, was included. At 31 December 2010, this amount totalled euro 4,171 thousand and is disclosed under Current financial assets.

The fair value of derivatives amounts to euro 1,989 thousand (31 December 2009: euro 887 thousand) and the related description is included in section "Risk Management", chapter V.

## *Note 8_Other non-current assets*

These are detailed in the following table:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Guarantee deposits | 7,663 | 6,770 |
| Tax assets after 12 months | 1,990 | 2,083 |
| Other non-current assets | 5,652 | 3,607 |
| Non-current prepayments and accrued income | 14,158 | 11,302 |
| **Total** | **29,463** | **23,762** |

Tax assets after 12 months include IRPEF advances on post-employment benefits and were made in accordance with Law no. 140/1997. In accordance with the relevant legislation, this amount has been recovered since 1 January 2000 and is revalued annually on the basis of the same criteria used to revalue the post-employment benefits.

Prepayments mainly include the long-term prepaid portion, relating to energy service contracts signed by the subsidiary CAE AMGA Energia S.p.A.

### Note 9_Deferred tax assets

This item amounts to euro 134,046 thousand (31 December 2009: euro 88,212 thousand) and refers to deferred tax assets arising from costs deductible in future years. They also include the advanced tax effect on adjustments made on IFRS first-time adoption.

Reference should be made to the income statement, Note 42 "Income tax expense", for further details.

## Current Assets

### Note 10_Inventories

Inventories primarily comprise consumables intended for maintenance and construction of the Group plants. The measurement criteria used, as described in the introduction, is the weighted average cost.
The summary of the changes occurred over the reference year is as follows:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Raw materials | 44,214 | 38,111 |
| Provision for the write-down of inventories | (2,531) | (1,292) |
| **Net value** | **41,683** | **36,819** |
| Contract work in progress | 3,544 | 2,198 |
| **Total** | **45,227** | **39,017** |

The provision for the write-down of inventories, the increase of which is mainly due to the non-recurring transaction resulting in Iren, was set up in order to cover obsolete and slow-moving inventory items. At 31 December 2010, there are no inventories earmarked to guarantee liabilities.

### Note 11_Trade receivables

These are detailed in the following table:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Receivables from customers | 904,817 | 566,358 |
| Allowance for impairment | (73,884) | (47,067) |
| **Receivables from customers** | **830,933** | **519,291** |
| Trade receivables from joint ventures | 10,934 | 113 |
| Trade receivables from associates | 144,582 | 39,284 |
| Trade receivables from other Group companies | 37,957 | 43,974 |
| Receivables from shareholders - related parties | 101,107 | 78,142 |
| Allowance for impairment - receivables from shareholders - related parties | (10,278) | (8,250) |
| **Total** | **1,115,235** | **672,554** |

At 31 December 2009, this caption also included advances to suppliers paid by the Group companies and amounting to euro 3,233 thousand, now reclassified under "Other receivables and other current assets".

*Receivables from customers*

These mainly relate to receivables due for electrical energy, gas, water and heat supplies, waste disposal services and sundry services. The balance takes into account the allowance for impairment of euro 73,884 thousand (euro 47,067 thousand at 31 December 2009).

*Receivables from joint ventures*

This item includes receivables from the Group joint ventures, proportionally consolidated. They relate to normal trade transactions performed at market conditions. For further details, reference is made to the table of transactions with related parties shown in the annex.

*Receivables from associates*

They relate to normal trade transactions performed at market conditions. For further details, reference is made to the table of transactions with related parties shown in the annex.

*Receivables from other Group companies*

They relate to receivables from certain non-consolidated Group companies, relating to ordinary trading transactions performed at market conditions.

*Receivables from related parties*

Receivables from shareholders - related parties refer to trading transactions performed at arm's length with territorial authorities (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and, marginally, with FSU. The balance takes into account the allowance for impairment of euro 10,278 thousand (euro 8,250 thousand at 31 December 2009). For further details, reference is made to the table of transactions with related parties shown in the annex.

The allowance for impairment at 31 December 2010 amounts to euro 84,162 thousand and shows the trends indicated hereunder:

thousands of euro

| | Opening balance | Uses | Provisions of the year | Decreases | Changes in consolidation scope | Closing balance |
|---|---|---|---|---|---|---|
| Allowance for impairment | 47,067 | (12,140) | 15,531 | (1,154) | 24,580 | 73,884 |
| Allowance for impairment of receivables from shareholders - related parties | 8,250 | - | 2,028 | - | - | 10,278 |
| **Total** | **55,317** | **(12,140)** | **17,559** | **(1,154)** | **24,580** | **84,162** |

The allowance was used to cover impairment losses due, for significant amounts, to one-off situations. The provisions of the year take into consideration the usual and thorough analyses as well as the current economic situation.

## Note 12_Current tax assets

They amount to euro 5,755 thousand (31 December 2009: euro 3,712 thousand) and include receivables for IRES and IRAP advances made by the Group companies to the Tax Authorities. At 31 December 2009, "current tax assets" was called "tax assets" and included receivables for withholding taxes and sundry tax receivables amounting to euro 4,130 thousand, now reclassified under "Other receivables and other current assets".

## Note 13_Other receivables and other current assets

These are detailed in the following table:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Receivables for revenue tax/UTIF | 6,856 | 14,735 |
| VAT credit | 8,829 | 7,273 |
| Other tax assets | 3,743 | 4,130 |
| **Tax assets due within 12 months** | **19,428** | **26,138** |
| Receivables from CCSE | 57,463 | 47,357 |
| Green certificates | 73,717 | 73,016 |
| Advances to suppliers | 1,347 | 3,233 |
| Receivables for Group tax consolidation and VAT | 2,081 | 26,702 |
| Other current assets | 38,413 | 4,012 |
| **Other current assets** | **173,021** | **154,320** |
| Prepayments and accrued income | 17,055 | 18,634 |
| **Total** | **209,504** | **199,092** |

In 2010, advances to suppliers and other tax assets were included in sundry receivables and other current assets, unlike items at 31 December 2009, which included these amounts under trade receivables and tax assets, respectively. To this regard, the corresponding figures have been reclassified.

### *Note 14_Current financial assets*

All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.
The details of current financial assets including derivatives are provided below:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Available-for-sale financial assets | 590 | 2,000 |
| Financial receivables from related party Municipalities | 133,090 | 61,676 |
| Other financial receivables | 8,529 | 1,642 |
| Financial receivables from Group companies | 234,638 | 119,110 |
| Receivables for derivatives | 434 | 150 |
| **Total** | **377,281** | **184,578** |

*Available-for-sale financial assets*

Investments and securities included in this category are measured at fair value, and their variations are taken to equity.
The item, amounting to euro 590 thousand, refers to the equity investment in CESI, which will be sold during 2011. The value is disclosed at the fair value of the transaction, the sale price of which has already been agreed upon with the counterparty. At 31 December 2009, this amount was included under other investment in non-current assets.

*Financial receivables from related parties*

They regard receivables on which interest accrues for the Group, and amount to euro 133,090 thousand (euro 61,676 thousand at 31 December 2009). They refer to the short-term balance of the current account which governs the trade and financial transactions between IRIDE Servizi S.p.A. and the Municipality of Turin, as already described in Note 7, to which reference is made for further details.
The Directors calculated the amount on the basis of an estimate that identifies the part of the receivables reasonably due within the year; the remaining part of the financial receivables from the Municipality was therefore classified under "non-current financial receivables – receivables from related party shareholders" (euro 81,289 thousand).

*Financial receivables from Group companies*

These amount to euro 234,638 thousand (euro 119,110 thousand at 31 December 2009) and refer, as for euro 89,277 thousand (euro 37,579 thousand at 31 December 2009), to receivables from AES Torino, proportionally consolidated, for a loan and centralised treasury management and interest; as for euro 137,378 thousand (euro 67,426 thousand at 31 December 2009), to receivables from OLT Offshore, a proportionally consolidated joint venture, for the loan obtained from Iren Mercato; as for euro 6,614 thousand (unchanged compared to 31 December 2009), to receivables from the associate ASA, for the loan granted by Iren Mercato; and as for euro 960 thousand (nil at 31 December 2009), for receivables from ACIAM. The remaining portion refers to receivables from associates for non significant individual amounts. For further details, reference is made to the schedule of transactions with related parties shown in the annex.
At 31 December 2009, euro 7,491 thousand was also recorded as receivables from the associate ASA for the loan received from AGA.

*Other financial receivables*

These amount to euro 8,529 thousand (31 December 2009: euro 1,642 thousand). They include the portion of the amount paid by OLT Offshore as guarantee of the contract entered into with SAIPEM, the short-term portion of finance lease receivables, prepayments and accrued income of a financial nature and other financial receivables.

*Receivables for derivatives*

These amount to euro 434 thousand (31 December 2009: euro 150 thousand) and refer to the positive fair value of a commodities derivatives contract signed by Iren Mercato.

## NOTE 15_CASH AND CASH EQUIVALENTS

Cash and cash equivalents may be analysed as follows:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Cash and cash equivalents: bank and postal accounts | 144,113 | 39,474 |
| Cash and cash equivalents: cash-in-hand and cash equivalents | 430 | 896 |
| Other cash and cash equivalents | 5 | 3 |
| **Total** | **144,548** | **40,373** |

Cash equivalents represent short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

## NOTE 16_ASSETS HELD FOR SALE

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They amount to euro 77,857 thousand (euro 5,837 thousand at 31 December 2009).

The amount of euro 50,074 thousand refers to the subsidiary Aquamet, for which a "preliminary share transfer agreement" was signed, under which Iren Acqua Gas S.p.A. is committed to the sale of its investment to Mediterranea Energia S.c.a.r.l., which has expressed an interest as buyer. The transaction will be concluded in the first half of 2011. Details are shown in the following table:

thousands of euro

| Assets held for sale | |
|---|---|
| Property, plant and equipment | 1,638 |
| Intangible assets | 42,255 |
| Non-current financial assets including derivatives | 45 |
| **Total non-current assets** | **43,938** |
| Trade receivables | 3,135 |
| Other current assets | 2,309 |
| Cash and cash equivalents | 692 |
| **Total current assets** | **6,136** |
| **TOTAL ASSETS** | **50,074** |

This transaction refers to assets, amounting to euro 19,974 thousand, of the subsidiary Consorzio GPO, mainly composed (euro 19,415 thousand) by the 21.32% investment in the share capital of ASTEA.

The total includes euro 3,294 thousand (euro 4,319 thousand at 31 December 2009) real estate assets of the subsidiaries Mediterranea delle Acque S.p.A. (now San Giacomo) and Immobiliare delle Fabbriche S.p.A., for which negotiations are in progress with potential buyers for disposal of properties held for sale, now at sale price definition and finalisation stage.
These real estate assets are recognised taking into account the Group's commitment to sell. Therefore, the classification is based on the assumption that the carrying amount will be recovered through a transfer operation and not through the use in business operations. The amount recognised was determined at the lower of the carrying amount and fair value less costs to sell.
During the first half of 2010, the sales program of real estate properties was modified and therefore, with respect to 31 December 2009, some assets previously held for sale were reclassified to "Investment property". In accordance with IFRS 5, the reclassification involved the recovery of depreciation not carried out over the period in which the involved assets were classified as assets held for sale.

The amount, equal to euro 1,874 thousand (euro 1,518 thousand at 31 December 2009), refers to the amount concerning the Società Acque Potabili business units to water concessions held in the municipalities of the Lazio region in the province of Rome (Rocca di Papa, Olevano Romano, Capranica Prenestina, Gerano, Rocca Canterano, Canterano) and the water licence in the Municipality of Castrolibero, in the province of Cosenza, for which the sale is highly probable as a pre-agreement with the potential buyer was signed.

The amount of euro 1,499 thousand refers to assets of the subsidiary Tema S.c.a.r.l. which, starting from 15 October 2010, is no longer operating as it was put into liquidation.

The amount of euro 1,142 thousand refers to the associates Fata Morgana (euro 686 thousand) and Piana Ambiente (euro 456 thousand).

## *LIABILITIES*

### *Note 17_Equity*

Equity may be analysed as follows:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Share capital | 1,276,226 | 832,042 |
| Reserves | 432,700 | 412,945 |
| Profit for the year | 143,104 | 6,397 |
| **Equity attributable to owners of the parent** | **1,852,030** | **1,251,384** |
| Share capital and reserves attributable to non-controlling interests | 222,304 | 129,728 |
| Non-controlling interests | 7,286 | 5,491 |
| **Total consolidated equity** | **2,081,620** | **1,386,603** |

*Share capital*

The share capital amounts to euro 1,276,225,677 (euro 832,041,783 at 31 December 2009), fully paid up and consisting of 1,181,725,677 ordinary shares with a nominal amount of euro 1 each and 94,500,000 savings shares without voting rights with a nominal amount of euro 1 each. At 31 December 2009, it amounted to euro 832,041,783.

*Savings shares*

The 94,500,000 savings shares of Iren, held by Finanziaria Città di Torino, are not listed, have no voting rights and, except for a different order of priority in the allocation of net residual assets in case of company dissolution, they are subject to the same regulation as ordinary shares.
Lastly, in case of sale, the savings shares will be converted automatically, at par, into ordinary shares.

*Reserves*

The breakdown of this item is provided in the following table:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Share premium reserve | 105,102 | 105,102 |
| Legal reserve | 23,862 | 20,258 |
| Extraordinary reserve | 24,248 | 26,454 |
| Goodwill arising on share exchange | 56,793 | 94,319 |
| Contribution reserve | 7,555 | 7,555 |
| IFRS first-time adoption | (36,507) | (36,507) |
| Fair value reserve - Financial instruments | (8,119) | - |
| Hedging accounting reserve | (17,029) | (15,074) |
| Consolidation reserve | 181,843 | 210,838 |
| Other reserves | 94,952 | - |
| **Total reserves** | **432,700** | **412,945** |

*Legal reserve*

As provided by article 2430 of the Italian Civil Code, following the allocation of 5% of the 2009 profit, the legal reserve increased by euro 3,604 thousand and amounted to euro 23,862 thousand at 31 December 2010 (euro 20,258 thousand at 31 December 2009).

*Hedging reserve*
With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a balancing entry directly in equity under the hedging reserve. These contracts have been agreed to hedge exposure to the interest rate risk of variable rate loans and to the price risk with respect to electrical energy and gas purchase contracts.

*IFRS first-time adoption*
This reserve includes adjustments resulting from the first-time adoption of IFRS.

*Fair value reserve - financial instruments*
This reserve mainly includes the effects of the fair value measurement of the equity investment in Delmi. Following the merger of Enia into Iride, this reserve was reinstated by allocating euro 5,115 thousand. During the year, the carrying amount of Delmi was impaired, directly offsetting it against equity. Therefore, at 31 December 2010, the Fair value reserve - financial instruments is negative by euro 8,119 thousand. For further information, reference should be made to Note 6.

*Goodwill arising on share exchange*
This item amounts to euro 56,793 thousand (31 December 2009: euro 94,319 thousand). The balance at 31 December 2009 derives from the merger of AMGA into AEM Torino, as the difference between equity of AMGA (merged company) and the amount of the increase in share capital of AEM Torino (merging company). Consequently, the merger was accounted for with effect from 1 January 2006, the date that represented the reporting date closest to that in which the joint venture agreements between the Municipalities were signed, namely 30 January 2006.
During 2010, negative goodwill of euro 57,426 thousand resulted from the merger of Enìa into Iride, after the reinstatement of former Enìa fair value reserves of financial instruments (euro 5,115 thousand) and the hedging reserve (negative by euro 2,856 thousand). This amount, supplemented by that related to the previous merger, was used to comply with law obligations as for the reinstatement of reserves taxable on distribution of the merged company and amounting to euro 94,952 thousand.

*Share capital and reserves attributable to non-controlling interests*
The remarkable change in Share capital and reserves attributable to non-controlling interests is mainly due to the contribution of consolidated companies, not wholly-owned, and that, by effect of the merger with Enia, entered the Iren Group (euro 10,193 thousand), as well as to the variation in the investment held in San Giacomo (euro 83,459 thousand).

## Non-current liabilities

### Note 18_Non-current financial liabilities
These total euro 1,829,263 thousand (31 December 2009: euro 1,338,039 thousand), and consist of:

*Bonds*
They amount to euro 155,798 thousand (nil at 31 December 2009) and they refer to two puttable bonds issued in 2008 by Enia S.p.A. (now Iren S.p.A.), with expiration term in 2021.
The amount refers to the amortised cost, pursuant to IFRS, which amounted to euro 152,733 thousand at 31 December 2009.

*Non-current bank loans and borrowings*
Medium/long-term loans relate exclusively to the non-current portion of loans granted by banks and amount to euro 1,644,003 thousand (euro 1,317,822 thousand at 31 December 2009).
Medium-long term loans can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and expiry date, as shown in the following table:

thousands of euro

| | Min/max rate | Term | 2012 | 2013 | 2014 | 2015 | following | 31/12/2010 Total payables | 31/12/2009 Total payables |
|---|---|---|---|---|---|---|---|---|---|
| - fixed rate | 3.095% - 5.68% | 2012-2025 | 44,152 | 52,053 | 52,496 | 59,453 | 275,915 | **484,069** | **233,661** |
| - variable rate | 0.706% - 2.568% | 2012-2024 | 421,763 | 153,044 | 240,495 | 117,960 | 226,672 | **1,159,934** | **1,084,161** |
| **TOTAL** | | | **465,915** | **205,097** | **292,991** | **177,413** | **502,587** | **1,644,003** | **1,317,822** |

Loans are all denominated in euro, apart from a marginal portion in Yen with an exchange rate hedge to be paid by the Government (Law no. 956 of 9 December 1977).
The changes in medium/long-term loans during the year are summarised below.

thousands of euro

| | 31/12/2009 | | | | | 31/12/2010 |
|---|---|---|---|---|---|---|
| | Total payables | Enìa Group merger and changes in consolidation scope | Increases | Repayments | Exchange rate differen-ces and amortised cost adjustments | Total payables |
| - fixed rate | **233,661** | 182,939 | 100,000 | (32,524) | (7) | 484,069 |
| - variable rate | **1,084,161** | 167,950 | 117,750 | (209,707) | (220) | 1,159,934 |
| **TOTAL** | **1,317,822** | **350,889** | **217,750** | **(242,231)** | **(227)** | **1,644,003** |

Total medium-long term loans at 31 December 2010 increased compared to 31 December 2009 due to the following variations:

- increase of euro 350,889 thousand due to the merger of Enia S.p.A. into Iride S.p.A., now Iren S.p.A., occurred on 1 July 2010, and due to the following variation in the consolidation scope;
- euro 217,750 thousand increase due to the supply of new medium-long term loans. In particular, in December 2010, two credit facilities were entered into by the Parent, totalling euro 100 million with EIB, and euro 100 million with Cassa Depositi e Prestiti. Moreover, loans amounting to euro 25 million were granted to AES Torino (51% consolidated), and euro 5 million to Nichelino Energia;
- reduction, totalling euro 242,231 thousand, related to the reclassification as short-term payable of loans with maturity in the next 12 months and repayment, by the Parent, of a medium-long term loan with Cassa Depositi e Prestiti, replaced with the new disbursement mentioned above. Moreover, compared to 31 December 2009, there are no loans to Aquamet, which was classified under assets held for sale as it will be sold during 2011.

*Finance lease liabilities*

Finance lease liabilities relate to assets held by the Group under finance leases. These amount to euro 1,481 thousand (31 December 2009: euro 1,977 thousand).

Details of finance lease liabilities at 31 December 2010 are shown in the following table:

thousands of euro

| | Due within one year | 1 - 5 years | over 5 years |
|---|---|---|---|
| Recognised liabilities | 564 | 1,481 | - |
| Summary of instalments to be paid | 595 | 1,511 | - |
| Financial expense | 31 | 30 | - |

*Other financial liabilities*

They amount to euro 27,981 thousand (euro 18,241 thousand at 31 December 2009) and refer, for the amount of euro 26,065 thousand (euro 16,341 thousand at 31 December 2009) at fair value of derivatives agreed upon to cover the exposure to risk from fluctuating interest rates of floating rate loans (described in section "Risk management") and, for the amount of euro 1,917 thousand (euro 1,900 thousand at 31 December 2009) to sundry financial payables.

## Note 19_Employee benefits

In 2010, this caption recorded the following movements:

thousands of euro

| | |
|---|---|
| **At 31/12/2009** | **63,827** |
| Current service costs | 815 |
| Actuarial gains | 1,820 |
| Financial expense | 3,314 |
| Disbursements of the year | (6,322) |
| Advances | (253) |
| Changes deriving from business combinations and in consolidation scope | 30,983 |
| Other changes | 143 |
| **At 31/12/2010** | **94,327** |

Liabilities for employee benefits consist of:

*Post-employment benefits*

Post-employment benefits underwent the following movements during 2010:

| | thousands of euro |
|---|---|
| **Valore al 31/12/2009** | **46,915** |
| At 31/12/2009 | 341 |
| Current service costs | (392) |
| Actuarial loss | 2,329 |
| Financial expense | (4,490) |
| Disbursements of the year | (253) |
| Advances | 25,901 |
| Changes deriving from business combinations and in consolidation scope | (11) |
| **Other changes** | **70,341** |
| **At 31/12/2010** | |

*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 |
|---|---|
| **At 31/12/2009** | **2,630** |
| Current service costs | 157 |
| Actuarial gains | 160 |
| Financial expense | 149 |
| Disbursements of the year | (469) |
| Changes deriving from business combinations and in consolidation scope | 331 |
| Other changes | 165 |
| **At 31/12/2010** | **3,125** |

*Loyalty bonus*

| | thousands of euro |
|---|---|
| **At 31/12/2009** | **1,984** |
| Current service costs | 83 |
| Actuarial gains | 121 |
| Financial expense | 100 |
| Disbursements of the year | (359) |
| Changes deriving from business combinations and in consolidation scope | 1 |
| **At 31/12/2010** | **1,929** |

*Electricity discount*

| | thousands of euro |
|---|---|
| **At 31/12/2009** | **12,298** |
| Current service costs | 234 |
| Actuarial loss | 1,964 |
| Financial expense | 688 |
| Disbursements of the year | (883) |
| Changes deriving from business combinations and in consolidation scope | 3,520 |
| Other changes | (12) |
| **At 31/12/2010** | **17,808** |

*Premungas fund*

| | thousands of euro |
|---|---:|
| **At 31/12/2009** | - |
| Actuarial loss | (33) |
| Financial expense | 49 |
| Disbursements of the year | (122) |
| Changes deriving from business combinations and in consolidation scope | 1,229 |
| **At 31/12/10** | **1,123** |

*Actuarial valuations*

The above-mentioned liabilities are measured by independent actuaries.

The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.
Future service is estimated in order to define the present value of the obligations on the basis of the assumptions related to changes in both the total number of employees and employee remuneration.
These will be paid to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.
Actuarial projections of the probable discounts on electrical energy consumption due to current retirees or surviving spouses as well as current employees (and surviving spouses, if any) were taken into account in determining the amount of the electricity discount.
The following factors were considered in deciding which discount rate to adopt in the measurement approach provided by IAS 19:

- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the average weighted residual term of liabilities related to all benefits and all Group companies.
The other financial assumptions adopted in the calculations are the following:

- the nominal discount rate adopted in the current macro-economic situation is 4.5%.
- annual inflation rate: equal to 2% for the entire measurement period;
- annual revaluation rate for the amount of the electricity discount: equal to the annual inflation rate for the entire measurement period;
- annual rate of remuneration increase due to career development and contract renewals: equal to 3.5% for the entire period of valuation (a point and a half higher than the forecast annual rate of inflation); this assumption takes into account the likely trend of employee remuneration depending on the length of service and takes into account seniority increases, role changes within a category, promotions and future contractual increases until leaving the group of workers in service.

The main demographic assumptions adopted in the calculations are the following:

a) mortality of employees, both during and after employment, and family members, broken down by age and gender: ISTAT 2007 (source: ISTAT, 2009 Italian Statistics Yearbook);
b) rates of employee disability, broken down by age and gender, based on an actuarial study covering the period 1998-2009;
c) reduction of employees for sundry reasons (dismissal, resignation), broken down by age and gender, based on the company's history for the period 1998-2009;
d) rate of leaving a surviving spouse as calculated by ISTAT;
e) average age of the surviving spouse taken from the INPS projection model.

Assumptions on advances are the following:

- likelihood of request of a first advance, for a length of service of between 8 and 40 years, equal to 20% for each year of service;
- maximum number of advances that can be requested equal to one;
- amount of the advance of post-employment benefits: 50% the first time.

## *Note 20_Provisions for risks and charges*

These are detailed in the following table, and refer to both the current and non-current quotas:

thousands of euro

| | Opening balance | Increases | Decreases | (Profits)/ Charges to be discounted | Changes in the consolidation scope and for business combinations | Closing balance | Current portion |
|---|---|---|---|---|---|---|---|
| Provision for renewal of third party assets | 7,955 | 7,005 | (11,654) | 506 | 68,560 | 72,372 | 8,749 |
| Provisions for landfill post-closure | - | 1,625 | (1,083) | - | 29,188 | 29,730 | 3,155 |
| Provision for dismantling and restoring sites | - | - | (95) | (39) | 8,499 | 8,365 | 5,244 |
| Provision for CIG/CIGS | 22,225 | 5,205 | (140) | 2,276 | 9,791 | 39,357 | - |
| Provision for former employees | 1,258 | - | - | - | - | 1,258 | - |
| Provision for risks on investments | - | 3,352 | - | - | 44 | 3,396 | - |
| Other provisions for risks and charges | 74,660 | 12,722 | (15,721) | 1,531 | 3,269 | 76,461 | 18,659 |
| **Total** | **106,098** | **29,909** | **(28,693)** | **4,274** | **119,351** | **230,940** | **35,807** |

*Provision for renewal of third party assets*

The provision for the renewal of transferable assets reflects the measurement of the expense necessary to return the assets freely and in perfect working order at the end of the licence period.

*Provisions for landfill post-closure*

These are mainly provisions for future recovery expense, also including costs for the post-operating management until complete conversion of the involved areas to green areas. These costs are supported by special expertises. Accruals and decreases for the year were made to adjust the existing provisions to the estimated future costs to be borne and accrued at 31 December 2010. Decreases also refer to the uses of the provision to cover costs borne over the year regarding the disposal of leachate (related to closed lots of still operating landfills, both owned and under concession), as well as to the aggregate expense borne in the post-operating phase until the mineralization of waste and the conversion of landfills into green areas are completed.

*Provision for dismantling and restoring sites*

The "Provision for dismantling and restoring sites" partly refers to the prudential estimate of charges with respect to the future restoring of the AMNU site land, in which an incinerator was located. This provision also includes a prudential estimate of charges referring to the future dismantling of the plant in Reggio Emilia, the increase of which is exclusively due to the discounting of the liability under evaluation.

*Provision for CIG/CIGS*

The provision for risks mainly refers to the potential risk of greater charges relative to higher contributions to be paid to INPS for the ordinary and extraordinary redundancy and mobility.
The increases are largely due to the option of paying higher social security contributions for ordinary and extraordinary redundancy, and to the provision for estimated ICI tax calculated on the value of plant systems as envisaged in art. 1-quinquies of Italian Law Decree no. 44 of 31 March 2005.

*Provision for former employees*

The provision for former employees under Laws no. 610/52 and no. 336/73 is to cover the expense arising from the application of these two laws (sliding scale pensions and benefits for ex-servicemen and similar).

*Provision for risks on investments*
This item primarily refers to the investment in the associate Sinergie Italiane S.r.l..
The current portion referring to the provisions described above was reclassified under "provisions, current portion" (Note 26).

## Note 21_Deferred tax liabilities

Deferred tax liabilities of euro 106,806 thousand (31 December 2009: euro 102,337 thousand) arise from the temporary differences between the carrying amount and the amount recognised for taxation purposes of recognised assets and liabilities.
Deferred taxation is calculated with reference to the expected tax rates applicable in the year in which the differences will reverse.
Reference should be made to the income statement, Note 42 'Income tax expense', for further details.

## Note 22_Other payables and other non-current liabilities

This item consists of the following items:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Other payables due after more than one year | 11,234 | 7,263 |
| Deferred income for grants related to plant – non current | 132,867 | - |
| Non-current accrued expenses and deferred income | 4,283 | 4,677 |
| **Total** | **148,384** | **11,940** |

Deferred income relates to the portion of revenue falling due after the following year and arising from activities mainly requested by telecommunications users, invoiced in the year and in the previous years, but accruing in the future.
Other sums payable relate to advances paid by users to guarantee water supply.

## Current liabilities

## Note 23_Current financial liabilities

All financial payables recognised in this item are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.
Current financial liabilities can be analysed as follows:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Bank loans | 868,597 | 527,598 |
| Payables to related party shareholders | 3,906 | 3,893 |
| Other financial payables | 165,315 | 49,667 |
| Payables for current derivatives | 3,285 | 1,919 |
| **Total** | **1,041,103** | **583,077** |

*Bank loans*
Current bank loans may be analysed as follows:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Loans - current portion | 159,145 | 183,026 |
| Other current payables to banks | 707,980 | 342,511 |
| Accrued financial expenses and deferred financial income | 1,472 | 2,062 |
| **Total** | **868,597** | **527,599** |

*Payables to related party shareholders*
Financial payables to related party shareholders amount to euro 3,628 thousand (31 December 2009: euro 3,893 thousand) and relate to financial payables due to the parent FSU S.r.l. for the agreement regarding the assignment by FSU S.r.l. of management of temporary cash surpluses to Iren S.p.A., and amounts due for interest expense on financial transactions in the year.

*Finance lease liabilities*
These amount to euro 564 thousand (31 December 2009: euro 526 thousand).

*Other financial payables*
They total euro 165,030 thousand (31 December 2009: euro 49,141 thousand) and mostly refer to the proportional portion of OLT Offshore payables due to its shareholder E.On (around euro 98,019 thousand) in addition to the payable to UBI Factor (around euro 65,195 thousand) for the confirming operation signed by the subsidiary Iren Mercato.

*Other financial liabilities*
These amount to euro 3,285 thousand (euro 1,919 thousand at 31 December 2009) and refer to the negative fair value of commodities derivative contracts signed by Iren Mercato S.p.A..

## NOTE 24_TRADE PAYABLES

All trade payables are due within twelve months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| Accounts payable to creditors due within one year | 626,050 | 484,743 |
| Trade payables to Group companies | 285,793 | 68,906 |
| Trade payables to related party shareholders | 24,499 | 15,794 |
| Advances due within one year | 2,860 | 2,192 |
| Guarantee deposits due within one year | 15,093 | 15,080 |
| Charges to be reimbursed within one year | 1,382 | 1,382 |
| **Total** | **955,677** | **588,097** |

At 31 December 2009, this caption also included accrued expenses of euro 43 thousand, now reclassified under "Other payables and other current liabilities".

## NOTE 25_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

All payables recognised in this item are due within twelve months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---|---|
| VAT payable | 40,756 | 53,483 |
| Revenue tax/UTIF payable | 23,310 | 4,797 |
| IRPEF payable | 9,111 | 5,724 |
| Other tax liabilities | 11,951 | 13,158 |
| **Tax liabilities due within one year** | **85,128** | **77,162** |
| Payables to employees | 33,676 | 19,314 |
| Payables to C.C.S.E. | 63,064 | 37,937 |
| Other current liabilities | 55,390 | 22,946 |
| Accounts payable to social security institutions within one year | 13,367 | 7,657 |
| Payables for consolidation tax scheme | | 22,554 |
| **Other payables due within one year** | **165,496** | **110,408** |
| Accrued expenses and deferred income | 19,820 | 17,405 |
| **TOTAL OTHER CURRENT LIABILITIES** | **270,444** | **204,975** |

In 2010, accrued expenses, IRPEF tax payables and other tax liabilities were included in sundry payables and other current liabilities, unlike items at 31 December 2009, which included these amounts under trade payables and payables for current tax, respectively. To this regard, the corresponding figures have been reclassified.

### Note 26_Current tax liabilities

"Current tax liabilities", amounting to euro 12,560 thousand, includes IRES and IRAP. As previously described, the Group exercised the option, pursuant to Art. 118 of the new Consolidated Income Tax Act (TUIR), for tax consolidation. This option envisages that consolidated companies transfer their IRES payables/receivables to the parent Iren S.p.A., which will determine the IRES (Corporate Income Tax) tax on a taxable income, calculated as the total taxable profits and losses recorded by the individual consolidated companies. In return for the taxable income earned and transferred to the parent company, the consolidated company undertakes to pay the Parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.
At 31 December 2009, "current tax liabilities" were called "tax liabilities" and included IRPEF payables and sundry tax liabilities amounting to euro 18,882 thousand, now reclassified to "Other payables and other current liabilities".

### Note 27_Provisions for risks and charges - current portion

This item totals euro 35,807 thousand (31 December 2009: euro 47,730 thousand) and mainly refers to the portion of the provision for risk of euro 18,659 thousand (31 December 2009: euro 42,939 thousand) and of the provision for the renewal of third party assets of euro 8,749 thousand (31 December 2009: euro 4,791 thousand) expected to be used within one year.

### Note 28_Liabilities classified as held for sale

They amount to euro 22,329 thousand. At 31 December 2009, this item was nil.
They mainly refer to the reclassification of the liabilities of the subsidiary Aquamet S.p.A. for an amount equal to euro 21,095 thousand. The following table shows the details:

| | thousands of euro |
|---|---:|
| Liabilities held for sale | |
| Non-current financial liabilities | 12,092 |
| **Provisions and liabilities for deferred taxes** | **522** |
| Total non-current liabilities | 12,614 |
| Current financial liabilities | 4,618 |
| Trade payables | 2,007 |
| **Other current liabilities** | **1,856** |
| **Total current liabilities** | **8,481** |
| **TOTAL LIABILITIES** | **21,095** |

## Net financial indebtedness

Net financial indebtedness, calculated as the difference between current and non-current financial indebtedness and current and non-current assets, may be analysed as follows:

thousands of euro

| | BALANCE AT 31/12/10 | BALANCE AT 31/12/09 |
|---|---:|---:|
| Non-current financial assets | (88,388) | (279,153) |
| Non-current financial liabilities | 1,829,263 | 1,338,039 |
| **Net non-current financial liabilities** | **1,740,875** | **1,058,886** |
| Current financial assets | (521,828) | (222,949) |
| Current financial liabilities | 1,041,103 | 583,077 |
| **Net current financial indebtedness** | **519,275** | **360,128** |
| **Net financial indebtedness** | **2,260,150** | **1,419,014** |

Gross current financial indebtedness, following the 41.71% proportional consolidation of OLT, includes a financial payable of the latter to its Eon shareholder, totalling euro 98,018 thousand (31 December 2009: euro 48,246 thousand); therefore, if this amount is not considered,
gross current indebtedness would decrease to euro 943,085 thousand (31 December 2009: euro 534,831 thousand). This item also temporarily includes euro 49,112 thousand related to a loan of Mediterranea delle Acque which will be reclassified as a long-term loan.

*Net Financial Position regarding related parties*

Non-current financial assets refer as for euro 45 thousand (nil at 31 December 2009) to amounts due to the joint venture Società Acque Potabili, as for euro 81,289 thousand (31 December 2009: euro 200,211 thousand) to the non-current portion of the current account for trading and financial transactions between the subsidiary Iride Servizi and the Municipality of Turin, and as for euro 1,027 thousand (euro 1,068 thousand at 31 December 2009) to amounts due from associates and other group companies. Moreover, at 31 December 2009, they referred to receivables from the joint venture AES Torino, amounting to euro 63,700 thousand, proportionally consolidated.

Current financial assets refer as for euro 133,090 thousand (31 December 2009: euro 61,676 thousand) to the short position on the current account between the subsidiary Iride Servizi and the Municipality of Turin, as for euro 89,277 thousand (31 December 2009: euro 37,579 thousand) to receivables due from the proportionately consolidated joint venture AES Torino for a loan and centralised treasury management services as well as interest, as for euro 137,378 thousand (31 December 2009: euro 67,426 thousand) related to receivables from the proportionally consolidated joint venture OLT Offshore on a loan granted by Iren Mercato, as for euro 6,614 thousand (euro 14,105 thousand at 31 December 2009) to receivables from the associate ASA related to a loan granted by Iren Mercato and as for euro 960 thousand (nil at 31 December 2009) to receivables from the associate ACIAM. The remaining portion, equal to euro 406 thousand, refers to receivables from associates for non significant amounts. For further details reference is made to the schedule of transactions with related parties shown in the annex. At 31 December 2009, receivables were also due from the associate ASA, for euro 7,491 thousand, for a loan granted by AGA.

Current financial liabilities amount to euro 3,628 thousand (euro 3,893 thousand at 31 December 2008) and relate to financial payables due to the parent FSU s.r.l. for the agreement regarding assignment of temporary cash surplus management to Iren S.p.A., and amounts due for interest expense on financial transactions in the year.

Below is the net financial position as per the structure proposed by the CESR recommendation of 28 July 2006, which does not include long-term financial assets.

thousands of euro

| Net financial indebtedness | 31/12/2010 | 31/12/2009 |
|---|---|---|
| A. Cash | (144,548) | (40,373) |
| B. Other cash equivalents (details) | - | - |
| C. Securities held for trading | - | - |
| **D. Cash (A) + (B) + (C)** | **(144,548)** | **(40,373)** |
| **E. Current financial receivables** | **(377,281)** | **(182,576)** |
| F. Current bank payables | 709,452 | 344,573 |
| G. Current part of non-current indebtedness | 159,145 | 183,024 |
| H. Other current financial payables | 172,506 | 55,479 |
| **I. Current financial indebtedness (F)+(G)+(H)** | **1,041,103** | **583,076** |
| **J. Current net financial indebtedness (I) - (E) - (D)** | **519,274** | **360,127** |
| K. Non-current bank payables | 1,644,003 | 1,317,822 |
| L. Bonds issued | 155,798 | - |
| M. Other non-current payables | 29,462 | 20,217 |
| **N. Non-current financial indebtedness (K) + (L) + (M)** | **1,829,263** | **1,338,039** |
| **O. Net financial indebtedness (J) + (N)** | **2,348,537** | **1,698,166** |

## X. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousands of euro.
The comparison of financial amounts included in the financial statements at 31 December 2009 and 31 December 2010 is not significant as the first refer only to the Iride Group and do not include the contribution of the Enia Group which, starting from 1 July 2010, following the merger with Iride, entered the Iren Group.

For any remarks on the financial performance for 2010, reference is made to section "Financial position, results of operations and cash flows of Iren Group" of the Directors' Report which describes the economic analysis by business sector compared to the 2009 Group pro forma consolidated financial statements.

### *REVENUE*

#### *NOTE 29_REVENUE FROM GOODS AND SERVICES*
This item is equal to euro 2,600,075 thousand (euro 2,087,634 thousand in 2009).

#### *NOTE 30_CHANGE IN CONTRACT WORK IN PROGRESS*
They increased by euro 1,274 thousand (euro 339 thousand in 2009) and mainly refer to contract work in progress performed by Iren Emilia for the renewal of the road surface coating after damages caused by works.

#### *NOTE 31_OTHER REVENUE AND INCOME*
Other revenue and income includes:

*Grants*

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Grants related to plant | 2,722 | 1,210 |
| Other grants | 687 | 202 |
| **Total** | **3,409** | **1,412** |

The grants related to plant represent the portion pertaining to the grants related to plants, calculated in proportion to the depreciation rates of the relative assets to which they refer.

*Revenue from energy efficiency certificates*

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Revenue from Emission Trading | 21,963 | 20,873 |
| Revenue from Green Certificates | 106,769 | 74,375 |
| Revenue from White Certificates | 5,825 | 3,152 |
| **Total** | **134,557** | **98,400** |

The increased revenue from energy efficiency certificates is due to a large degree due to the green certificates accrued on hydroelectric energy and cogeneration combined with district heating, bearing in mind the sales made and the recent trend of the market of reference.

*Other income*

The item may be analysed as follows:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Revenue from service contracts | 20,559 | 13,196 |
| Revenues from rental income and leases | 1,976 | 97 |
| Revenue from optical fibre rental | 4,276 | 4,131 |
| Capital gains from the sale of goods | 3,195 | 789 |
| Revenue from previous years/Prior year income | 35,528 | 35,861 |
| Insurance recoveries | 277 | - |
| Sundry repayments | 6,526 | 4,158 |
| Other revenue_Derivative commodity FV income | - | 1,161 |
| Other revenue and income | 17,826 | 12,325 |
| **Total** | **90,162** | **71,718** |

Prior year income arises above all from the settlement of previous years' items with reference to the estimates made in prior years. The main amounts under this item are specified hereunder:

- euro 6,660 thousand, equalisation system on electrical energy distribution for previous years;
- euro 1,590 thousand, capital gains related to tax of previous years (lower Robin tax);
- euro 1,826 thousand regarding differences in sales estimates of green certificates;
- euro 5,935 thousand, disbursement of connection fees for electrical energy transferred from former Enia;
- euro 4,136 thousand for adjusted estimates on invoicing to Terna and CCSE.

## EXPENSE

### NOTE 32_PURCHASE OF RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

The item is broken down as follows:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Purchase of electrical energy | 488,509 | 472,973 |
| Purchase of gas | 752,860 | 583,021 |
| Purchase of heat | 113 | - |
| Purchase of other fuels | 33,828 | 50,301 |
| Purchase of water | 3,919 | 3,524 |
| Other raw materials (liquid gas, gas odoriser, chloridric acid...) | 21,503 | 17,928 |
| Sundry inventory mat. (including fuels and lubricants) | 23,865 | 15,068 |
| Emission Trading | 1,189 | 17,203 |
| Green certificates | 34,816 | 7,335 |
| White certificates | 2,074 | 1,555 |
| Variation in inventories | 8,133 | 1,107 |
| **Total** | **1,370,811** | **1,170,015** |

With reference to energy certificates, the following is highlighted:

The purchase of green certificates relates to obligations under art. 11, Legislative Decree no. 79/99, which envisages that producers and importers of electrical energy from non-renewable sources must distribute electricity from renewable sources to an extent equal to the electrical energy produced from non-renewable and non-cogenerated sources. The mandatory portion, initially set at 2%, in the period 2004-2006, was increased each year by 0.35 percentage points (art. 4, subsection 1, Legislative Decree 387/2003), whereas the annual increase for the period 2007-2012 was established as 0.75% by Law no. 244 of 24 December 2007 (2008 Finance Act). For further details, reference is made to the Directors' Report, section "Legislation - Green Certificates, Energy efficiency certificates and ETS".

The Emissions Trading Scheme, which came into force in the European Union on 1 January 2005, is part of the "flexible mechanisms" acknowledged by the Kyoto Protocol in order to reach greenhouse gas emission targets. The target for Italy is a 6.5% reduction in CO2 emissions by 2012 over 1990. The Group actively participates in the emission trading system to reduce the emission of greenhouse gases and contribute to reaching the Group's targets with respect to the domestic reduction plan. For further details, reference is made to the Directors' Report, section "Legislation - Green Certificates, Energy efficiency certificates and ETS".

The white certificates are provided for and regulated by the Legislative Decree 79/99 and the Legislative Decree 164/00 and following amendments. The latter introduced the obligation respectively for the distributors of electrical energy and gas to increase the energy efficiency of end uses of energy. For further details, reference is made to the Directors' Report, section "Legislation - Green Certificates, Energy efficiency certificates and ETS".

In 2009, changes in inventories were disclosed in a separate caption of the income statement "Variation in inventories". In 2010, this item was combined with "Purchase of raw materials, consumables, supplies and goods" and 2009 corresponding figures were reclassified.

### *Note 33_Services and use of third-party assets*

Costs for services are detailed in the following table:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Transport of electrical energy | 162,592 | 111,957 |
| Electrical system costs | 77,614 | 75,957 |
| Tolling fees | 65,049 | 66,557 |
| Gas carriage | 10,345 | 3,151 |
| Heat carriage | 31,224 | 29,624 |
| Third party works for networks, plants... | 148,895 | 111,716 |
| Collection and disposal, snow removal, public parks | 51,227 | 3,898 |
| Maintenance expense | 7,358 | 3,795 |
| Expenses related to personnel (canteen, training, travels) | 6,033 | 2,018 |
| Professional services (studies, design, analysis) | 8,282 | 6,157 |
| Technical and administration consulting | 14,219 | 12,389 |
| Trade and advertising expenses | 7,338 | 5,329 |
| Legal and notary fees | 8,162 | 5,223 |
| Insurance | 7,680 | 5,258 |
| Banking costs | 5,801 | 2,135 |
| Telephone costs | 4,657 | 4,101 |
| Costs related to service contracts | 19,909 | 11,944 |
| Reading and invoicing services | 5,859 | 5,321 |
| Remunerations of the Board of Statutory Auditors | 1,699 | 1,198 |
| Other costs for services | 40,888 | 32,256 |
| **Total** | **684,831** | **499,984** |

The tolling fees refer to amounts paid to Edipower under tolling contracts. Such contracts regulate Edipower's generation of electrical energy on behalf of the trading parents, which, besides paying the tolling fees, undertake to supply the fuel necessary for production.

Fees for heat carriage relate to the transport of heat by the proportionately consolidated company AES Torino S.p.A..

Tenders and works mainly relate to operating and maintenance costs for systems and networks.

Costs for the use of third-party assets amount to euro 28,297 thousand (2009: euro 12,352 thousand).

## NOTE 34_OTHER OPERATING EXPENSE

Other operating expense is shown in the following table:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| General expense | 8,301 | 7,820 |
| Instalments and initial down payments paid to obtain permits for shunts | 6,786 | 5,541 |
| Logistics expense | 2,075 | 2,372 |
| Taxes and duties | 14,553 | 11,245 |
| Prior year expense | 31,780 | 45,222 |
| Losses from the sale of goods | 1,642 | 1,883 |
| Other charges_Charges due to commodity derivative FV | 41 | 1,096 |
| Other sundry operating expense | 2,936 | 1,449 |
| **Total** | **68,114** | **76,628** |

Prior year expense mainly relates to differences on estimates made in previous years. They mainly refer to:

- delta estimates on green certificates, amounting to euro 8,621 thousand;
- leaves of personnel, amounting to euro 2,477 thousand;
- taxes for previous years, amounting to euro 374 thousand;
- equalisation system for previous years, amounting to euro 1,328 thousand;
- equalisation of gas invoicing for previous years, amounting to euro 1,719 thousand.

## NOTE 35_CAPITALISED EXPENSES FOR INTERNAL WORK

This item regards increases in assets recorded in the statement of financial position developed using internal resources. It amounts to euro 19,453 thousand (euro 19,737 thousand in 2009).

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Capitalised labour costs | 13,000 | 11,213 |
| Capitalised inventory materials | 6,454 | 8,524 |
| **Total** | **19,453** | **19,737** |

## NOTE 36_PERSONNEL EXPENSE

Personnel expense is made up as follows:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Gross remuneration | 141,682 | 100,307 |
| Social security charges payable | 45,118 | 31,893 |
| Post-employment benefits | 342 | 192 |
| Other long-term employee benefits | 474 | 329 |
| Other costs | 10,955 | 8,305 |
| Directors' fees | 1,899 | 1,657 |
| **Total** | **200,470** | **142,683** |

"Other costs" include the social security and recreational contribution to ADAEM, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds.

The personnel composition is shown in the following table.

| | 31/12/2010 | 31/12/2009 | AVERAGE FOR THE YEAR |
|---|---|---|---|
| Managers | 75 | 43 | 59 |
| Junior managers | 200 | 110 | 157 |
| White collars | 2,698 | 1,499 | 2,083 |
| Blue collars | 1,779 | 919 | 1,372 |
| **Total** | **4,752** | **2,571** | **3,670** |

## Note 37_Amortisation/depreciation

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Property, plant and equipment | 111,708 | 83,027 |
| Intangible assets | 53,387 | 36,784 |
| **Total** | **165,095** | **119,811** |

For further details on amortisation/depreciation, reference should be made to the tables of variations in property, plant and equipment and intangible assets in the annex.

## Note 38_Provisions

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Allowance for impairment | 20,309 | 12,215 |
| Provision for risks and renewal of third party assets | 24,873 | 22,878 |
| Releases | (2,218) | (5,200) |
| Impairment losses | 1,652 | - |
| **Total** | **44,616** | **29,443** |

The analysis of the provisions and variations therein are given in the comment to the Statement of financial position caption "Provisions for risks and charges". In particular, the accrual to the Allowance for impairment also includes an amount of euro 2,750 thousand, regarding the impairment of receivables for the reimbursement of instalments for shunts stated in "Sundry receivables and other current assets" (Note 12).
The releases of provisions refer to the release of the Allowance for impairment by euro 1,154 thousand and the release of the Provision for risks by euro 1,064 thousand.
Impairment losses mainly refer to the impairment of goodwill following adjustments and nettings due to the establishment of the Iren Group.

## NOTE 39_FINANCIAL INCOME AND EXPENSE

*Financial income*

The breakdown of financial income is provided in the following table:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Dividends | 186 | 5,070 |
| Bank interest income | 371 | 307 |
| Interest income from receivables/loans | 7,559 | 9,074 |
| Interest income from customers (default interest) | 3,512 | 2,821 |
| Fair value gains on derivatives | 783 | 112 |
| Income on derivatives | 1,119 | 3,299 |
| Gains from sale of financial assets | 288 | - |
| Exchange rate gains | 123 | 2,046 |
| Other financial income | 2,708 | 1,356 |
| **FINANCIAL INCOME** | **16,648** | **24,085** |

*Financial expense*

The breakdown of financial expense is provided in the following table:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Interest expense on loans | 36,756 | 30,735 |
| Interest expense on bond loans | 415 | - |
| Interest expense on bank current account | 7,322 | 9,926 |
| Other interest expense | 3,659 | 64,312 |
| Capitalised financial charges | (9,134) | (3,796) |
| Derivatives fair value charges | 20 | 184 |
| Charges on derivatives | 22,195 | 16,881 |
| Interest cost – Benefits to employees | 3,314 | 3,207 |
| Exchange rate losses | 314 | 2,083 |
| Other financial expense | 10,239 | 4,652 |
| **Total** | **75,100** | **128,184** |

Reference should be made to the note to the statement of financial position caption "Employee benefits" for details of financial expense on employee benefits.

For further information on the financial management, reference is made to the Directors' Report.

## NOTE 40_SHARE OF PROFIT OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The result is a profit of euro 11,052 thousand (positive euro 10,664 thousand in 2009) and is composed of reversals of impairment losses amounting to euro 15,054 thousand and impairment losses totalling euro 4,033 thousand.
Further details regarding these investments are set forth in Note 5 "Investments accounted for using the equity method".

## NOTE 41_ IMPAIRMENT LOSSES ON INVESTMENTS

They amount to euro 440 thousand. They mainly refer to the impairment loss of investments in GICA, held by Iren Mercato S.p.A..

## NOTE 42_INCOME TAX EXPENSE

The 2010 income taxes are estimated to be euro 90,206 thousand (euro 124,436 thousand in 2009) and is the result of the best estimate of the average rate expected for the entire year.
The Group tax rate for 2010 was equal to 38%, a strong decrease compared to 2009 (equal to 95%), which was affected by various non-recurring events, in particular:

i) Art. 56 of Italian Law no. 99 of 23 July 2009 envisaging a 1% increase in the additional IRES (the "Robin Hood Tax") for entities which, amongst other things, produce and market gas and electrical energy.
ii) The recovery of state aid notified to Iride Spa (now Iren SpA) by the tax authority. The company had an outlay of around euro 135 million, of which euro 71 million as recovery of alleged illegal State Aid, equal to taxes not paid during the so-called "tax exemption" and euro 64 million as interest.

In 2010, non-recurring and exceptional elements affecting the tax rate were:
i) The provision of art. 56, Italian Law no. 99 of 23 July 2009 envisaging a 1% increase in the additional IRES (the "Robin Hood Tax") for entities which, amongst other things, produce and market gas and electrical energy will not be applied on 2009 but on 2010. A gain was therefore generated.
ii) The use by some Group companies of the so-called "Tremonti ter" tax relief, as per Art. 5 of the Law Decree no. 78 of 1 July 2009, converted into law on 3 August 2009, envisaging a 50% deduction of the cost borne for investments made over the period between 1 July 2009 and 30 June 2010 for new machinery and equipment, included in division 28 of the 2007 Ateco Table.
The adjusted tax rate net of its non-recurring effects would therefore be 42 %..

*Recovery of State Aid*
With its Decision C 27/99 of 5 June 2002, the European Commission concluded the procedure related to the tax treatment provided for by subsections 69 and 70 of article 3 of Law no. 549 of 28 December 1995 (the so-called "tax exemption"). Such treatment granted a three-year tax exemption to joint stock companies in which the government has a majority interest set up in accordance with Law no. 142 of 8 June 1990.

On 29 July 2002, the Italian Government, the leading counsels of the former AEM Torino and the former AMGA and the companies affected by the judgement that have appealed against it before the Court of First Instance of the European Communities appealed against this judgement to the Court of Justice of the European Communities.
In its ruling of 19 May 2003, the Court of First Instance admitted AEM Torino's request to participate in the proceeding instituted by ACEA. AEM Torino and AMGA, now Iren S.p.A., avail themselves of the consulting and professionalism of external experts in its dealings with the European Commission.
During 2005, the recovery of the aid declared illegitimate by the Commission's decision 2003/193/EC of 5 June 2002 was provided for by article 27 of Law no. 62 of 18 April 2005, which governs the procedure.
In compliance with the above legislative framework, the former AEM Torino and the former AMGA lodged their tax return related to the periods in which the tax-exemption was applied. Inter alia, it specified that the recovery of the aid referred to in decision 2003/293/EC of 5 July 2002 is not applicable to revenue which did not come from activities carried out in the context of free competition or, in any case, in respect of which the benefit from the tax exemption did not impact exchanges within the EU. This is consistent with the Company's objections in relation to its position contained in the appeals lodged against the decision of the European Commission.
With respect to both the tax return lodged (which does not show any tax liability, thanks to the tax amnesty) and to the recognition of a provision for risks in this regard, the company also availed itself of an opinion of its consultants.
The above procedure (article 27 of Law no. 62 of 18 April 2005) has been modified by subsection 132, article 1 of Law no. 266 of 23 December 2005 (2006 Finance Act).
The changes made to article 27 by the 2006 Finance Act had above all the effect of deferring the issue of the first deed stating the formal inception of the recovery process (in the previous version, the notice of assessment that should have been issued by the competent Revenue Office within 11 January 2006).
Indeed, in the new version of article 27, the recovery process begins with the issuance of the Home Office Decree, for which, inter alia, no issuance date has been defined.

Subsequently, Decree Law no. 10 of 15 February 2007 provided for new methods of recovery of this state aid declared illegitimate, without introducing new obligations for the company.
In particular, recovery would be carried out by the Tax Authorities on the basis of the communications given by local bodies and the tax returns lodged by beneficiary companies. In this case, the Tax Authorities should have paid the tax with related interest, and recover the aid to the extent of

its actual use.
In the second half of 2007, the Tax Authorities notified Iride Spa (now Iren S.p.A., formerly AEM Torino Spa and merging company of AMGA Spa) about notices called "order communications" regarding alleged aid used in the exemption periods for the position of AEM Torino S.p.A. and AMGA S.p.A., based on aforesaid Italian Legislative Decree 10/2007.
For the position of the former AEM Torino, IRIDE S.p.A. (now Iren Spa) proposed recourse to the competent Provincial Tax Commission, and paid the amount requested as there were no conditions for obtaining its suspension, with the right of repetition in the case of a positive outcome of the disputes in progress. The Provincial Tax Commission rejected the appeals filed.
The order regarding the former AMGA S.p.A. has instead been annulled in self-defence with the documents produced to the competent office by the company.
With the provision of art. 24, Italian Law Decree 185 of 29 November 2008 - converted from Italian Law 2 of 28 January 2009 - new provisions oriented at recovering aid equivalent to the unpaid tax and its interest consequent to application of the tax exemption schemes provided for by art. 3, subsection 70, of Italian Law 549 of 28 December 1995 and art. 66, subsection 14, of Italian Decree Law 331 of 30 August 1993 converted, with modifications, from Italian Law 427 of 29 October 1993, were introduced; again, this is in implementation of European Commission Decision 2003/193/EC.
Based on the aforesaid provision, the recovery is implemented - taking into account the amount already paid pursuant to art. 1, subsection 2, of Italian Decree Law no. 10 of 15 February 2007 converted, with modifications, from Italian Law no. 46 of 6 April 2007 by the Tax Authorities - by way of an ascertainment aimed at determining the actual tax due within 120 days from 29 November 2008. The possibility of neither extension nor stay of payment is envisaged.
Pursuant to Art. 24 of the Italian Decree Law no. 185 of 29 November 2008, on 30 April 2009 the Tax Authorities sent IRIDE S.p.A. (now Iren Spa) six tax assessments (for a total of around euro 60 million) related to the recovery of state aid declared inconsistent with the Community regulations, regarding the position of the former AEM Torino and former AMGA of Genoa, during the so-called "tax moratorium" period (1996 through 1999).
On that occasion, the Tax Authorities proceeded to assessments in accordance with instructions supplied by the Central Assessment Authority.
Iride (now Iren) also provided for the payment of the claimed amounts and filed appeals against the above assessments at the competent Province Tax Commissions.
On 11 June 2009, the First Instance Court of the European Community issued an order regarding the proceedings started, amongst other, by the former AEM Torino and former AMGA of Genoa, while rejecting the appeals.
Iride (now Iren) appealed against the above order at the Court of Justice of the European Community, with reference to the positions of both AEM Torino and AMGA Genoa.
Based on art. 19 of the Italian Decree Law no. 135 of 25 September 2009, the Government intervened on the alleged State aid defining that only gains realised by the former "municipal–owned" companies are not subject to tax recovery.
Following the new proceeding, on 2 October 2009 the Tax Authorities sent further notices of assessment, totalling around euro 75 million, which Iride (now Iren) promptly paid to avoid further charges and interest.
On 11 January 2010, the appeal regarding the former AEM Torino for 1997 was discussed at the Province Tax Commission of Turin. On that date, the Commission issued an order of partial acceptance of the appeal filed in. In particular, the Commission deemed that the energy market, in those years, was not a free market regime. Therefore, the State aid granted, for that portion of activity, were deemed as legal.
On 10 February 2010, the appeals filed regarding the former AMGA for the years '96, '97, '98, '99 were discussed at the Province Tax Commission of Genoa. The Commission partially accepted the appeal filed in by Iride (now Iren) regarding the rate applied on the calculation of interest expense on the State aid deemed as illegal.
On 12 January 2011, the Tax Commission of Genoa resolved to appoint a Technical Consultant "(…) in order to quantify interest due in the event the "State aids cancellation and recognition of interest rates due" be accepted. On 16 March 2011, the technical consultant was sworn in.
On 14 March 2011, the Regional Tax Commission of Turin rejected the appeal filed in on tax assessments for years 1998 and 1999 for former AEM. In particular, they were assessment notices with which the Tax Authorities recovered the unpaid taxes during the years of "tax exemption", except for one-off taxes (electrical margin, dividends to Municipalities, capital gains).

The following table shows deferred tax assets and liabilities and their impact.

| | amount in euro 2010 | 2009 |
|---|---|---|
| **Deferred tax assets** | | |
| Directors' and statutory auditors' fees | 909,745 | 542,026 |
| Non deductible provisions | 57,933,156 | 37,830,633 |
| Taxable grants | 534,297 | 492,830 |
| Amort./deprec. statutory > tax | 46,601,550 | 26,400,403 |
| Other | 20,791,882 | 15,105,421 |
| IFRS - Assets | 1,451,370 | 2,255,739 |
| IFRS - Personnel expense | 1,141,904 | 106,192 |
| IFRS - Other | 4,681,948 | 5,479,080 |
| **Total** | **134,045,851** | **88,212,325** |
| **Deferred tax liabilities** | | |
| Amort./deprec. statutory > tax | 32,865,651 | 18,402,484 |
| Gains and reversal of impairment losses | 42,288,949 | 42,137,322 |
| Non-taxable grant related to assets | 438,002 | 292,612 |
| Allowance for impairment tax > statutory | 1,061,016 | 2,286,176 |
| Other | 5,289,058 | 3,446,055 |
| IFRS - Provision for personnel | 2,692,191 | 1,610,112 |
| IFRS - Accumulated depreciation | 17,536,890 | 27,634,194 |
| IFRS - Inventories | 650,960 | 379,608 |
| Other | 3,982,470 | 6,148,720 |
| **Total** | **106,805,187** | **102,337,283** |
| **IMPACT ON THE INCOME STATEMENT** | | |
| Deferred tax income | 12,529,312 | 12,800,768 |
| Deferred tax expense | (2,888,443) | (778,413) |
| **Net deferred taxes** | **15,417,755** | **13,579,182** |

## Note 43_Profit from discontinued operations

Pursuant to IFRS 5, this item shows a profit of euro 1,740 thousand and primarily refers to the result of Aquamet, stated as asset held for sale.

## Note 44_Profit attributable to non-controlling interests

Profit attributable to non-controlling interests, which amounts to euro 7,286 thousand (euro 5,495 thousand in 2009), relates to the share of profit of minority shareholders of companies that are consolidated but not wholly owned by the Group.

## Note 45_Earnings per share

In order to calculate the basic and diluted earnings per share the number of ordinary shares for 2010 is the weighted average, with an irrelevant effect, outstanding in the reference year based on provisions set out by IAS 33.20.

| | 2010 | 2009 |
|---|---|---|
| Profit for the year (thousands of euro) | 143,104 | 6,397 |
| Weighted average number of shares outstanding during the year (thousand) | 1,054,134 | 832,042 |
| **Basic earnings per share (euro)** | **0.14** | **0.01** |

Diluted earnings per share are calculated by dividing profit by the adjusted number of shares. The adjusted number of shares is calculated by assuming the conversion of the financial instruments that could potentially dilute the ordinary shares.

| | 2010 | 2009 |
|---|---|---|
| Profit for the year (thousands of euro) | 143,104 | 6,397 |
| Weighted average number of shares (thousand) | 1,054,134 | 832,042 |
| Weighted average number of shares to calculate the diluted earnings per share (thousand) | 1,054,134 | 832,042 |
| **Diluted earnings per share (euro)** | **0.14** | **0.01** |

### Note 46_Other comprehensive loss

The effective portion of changes in the fair value of cash flow hedges, negative by euro 433 thousand, refers to interest rate hedges and commodity price hedges (electrical energy and gas).
The portion of other profits/(losses) of companies measured using the equity method, positive by euro 2,516 thousand, refers to changes in the fair value of the cash flow and commodity hedging of associates.
The change in the fair value of available-for-sale financial assets, negative by euro 13,409 thousand, primarily refers to the measurement of Delmi.
The tax effect of other comprehensive income is a loss of euro 551 thousand.

## XI. GUARANTEES AND CONTINGENT LIABILITIES

These relate to:

a) Sureties for Group commitments of euro 469,109 thousand (31 December 2009: euro 226,384 thousand); the most significant items being sureties issued to:
- EIB, amounting to euro 200,000 thousand for mortgages supplied;
- Reggio Emilia Province, amounting to euro 110,411 thousand, for waste collection and operating and after closure management of plants subject to A.I.A. (Integrated Environmental Authorisation).
- SNAM Rete Gas, amounting to euro 66,120 thousand, of which euro 61,500 in the interest of OLT Offshore LNG Toscana with reference to the construction of a delivery point, euro 1,710 to guarantee upgrading of the supply point for the Moncalieri plant;
- Tax Authorities, amounting to euro 56,469 thousand, for Group VAT offsetting procedures;
- ENEL Distribuzione, amounting to euro 34,835 thousand, as a guarantee for the electrical energy transport service contract;
- the Customs Authority, amounting to euro 32,280 thousand, to guarantee the regular payment of revenue taxes and additional provincial duties on electrical energy consumption;
- the Electricity Market Operator (GME), amounting to euro 30,600 thousand, to guarantee the market participation contract;
- Terna, amounting to euro 27,424 thousand, to guarantee injection and withdrawal dispatching contract and to guarantee the electrical energy transport service contract;
- ENEL Trade, amounting to euro 21,670 thousand, to guarantee the obligations taken on as part of the Single Agreement and Master Agreements signed;
- CONSIP, amounting to euro 16,435 thousand, to guarantee the award of lots;
- Banca Intesa, amounting to euro 7,669 thousand, to guarantee the Mestni loan;
- Moncalieri municipal authorities, amounting to euro 2,949 thousand, to guarantee the construction of urbanisation works;
- Nichelino municipal authorities, amounting to euro 1,679 thousand, to guarantee soil occupation for installing district heating networks;
- Ministry of Public Works – Albanese Republic, amounting to euro 475 thousand, to guarantee works on Bovilla aqueducts;
- European Commission Delegation for Albania, amounting to euro 866 thousand, to guarantee construction of the sewer system;
- AZIENDA SVILUPPO MULTISERVIZI SETTIMO T.SE.(A.S.M.), amounting to euro 600 thousand, to guarantee the purchase offer for the gas sales business unit;
- the Municipality of Genoa, amounting to euro 1,662 thousand, to guarantee works on gas network;
- ITALGAS, amounting to euro 496 thousand, to guarantee the payment of natural gas supply;

- AMT, amounting to euro 229 thousand, to CAE for participation in a tender;
- ACEA, amounting to euro 341 thousand, to guarantee the electrical energy transport contract;
- AEM DISTRIBUZIONE MILANO, amounting to euro 328 thousand, to guarantee the energy transport contract.

b) Guarantees given on behalf of associates, amounting to euro 281,449 thousand, primarily to guarantee credit facilities;

c) Shares given in lien, totalling euro 144,130 thousand. These are Edipower shares (each with a nominal amount of euro 1) given in lien to banks.

The most important amounts, regarding the guarantees given on behalf of associates, refer to the associate Sinergie Italiane, for which actions were started including the sale of shares, expected after the financial statements of September 2011, the settlement of guarantees and the management of gas storage transfer.

### Commitments

With regard to the subsidiary S. Giacomo, a commitment within the framework Agreement with the F2i rete idrica S.p.A. shareholder is in place. Article 15 of this agreement envisages that Iren Acqua Gas is bound to pay damages in the event of liabilities, losses or damage suffered by F2i or S. Giacomo or its investees, resulting from incorrect or unfair statements included in the agreement, with specific reference to outstanding tax disputes among which the dispute with the Tax Authorities for the acknowledgement of amortisation deducted by Mediterranea delle Acque (S. Giacomo) regarding the water business sector transferred from Amga S.p.A. to the newly incorporated Genova Acque S.p.A. in December 1999 (then named Mediterranea delle Acque following the merger with Genoa private aqueducts).

Moreover, on 16 February 2010, Iren S.p.A. resolved to fully support the OLT project according to budget financial plans defined and approved to make the required resources available upon the company's request and until implementation of the project financing. To this purpose, the budget envisages for 2011 a commitment for the subsidiary Iren Mercato, equal to around euro 43 million.

### Contingent liabilities

*San Giacomo (Mediterranea delle Acque): Dispute with the Tax Authorities*

The tax dispute deriving from the tax inspection that started in January 2007 and was concluded with the preliminary assessment report drawn up in July of the same year, continued with the sending of briefs, with an Assessment Notice sent on 11 December 2008, referred to 2003 and the alleged elusion, pursuant of Art. 37 bis, par. 4, Presidential Decree 600/73, of the transfer of two business branches, occurred at the end of 1999, in favour of Genova Acque S.p.A. (now merged into Mediterranea delle Acque S.p.A., formerly San Giacomo S.r.l.) by the then parent Amga S.p.A., as indicated in the previous Interim Reports. The company promptly filed in an appeal at the Province Tax Commission of Genoa to cancel the above-mentioned Notice.
Always following the above-mentioned tax inspections, on 24 September 2009, the Tax Authorities of Genoa – Genova 1 Office, served the company with new Assessment Notices for the years 2004 and 2005, always in relation to the alleged elusion of the above-mentioned transactions.
The Company filed in an appeal at the Province Tax Commission of Genoa to cancel the Assessment Notices.
As already highlighted in the briefs and deed submitted by the Company, the alleged elusion as per Art. 37 bis of the Presidential Decree no. 600/73, to which Notices sent to the Company refer, is deemed as inconsistent with the matter case under evaluation.

With reference to the current dispute, the following is to be underlined:

a) The hearing of the appeal, filed in by the Company, against the assessment notice issued for 2003, was held on 10 June 2010 and the pronouncement was lodged on 1 July 2010. The pronouncement rejected the appeal of the Company, confirming the objected notice. Nevertheless, it was stated that fines were not due as "objective uncertainty conditions" of standards applicable to the case were acknowledged. The Company filed in an appeal against the pronouncement of the first instance Commission on 2 March 2011 at the Regional Tax Commission of Genoa. On 18 March 2011, the Company paid the amount set out by the notice sent on 19 January 2011, following the entry in cause list regarding 2/3 of the assessed tax, for a total of euro 1,281,193. This caption, due to the continuation of the dispute through an appeal lodged at the Second Instance Regional Tax Commission of Liguria, was entered in the accounts for 2011 under Receivables for disputes.

b) The hearing of the appeals filed in by the Company with respect to assessment notices, issued with reference to years 2004-2005, was held on 25 October 2010, and on 21 December 2010 the pronouncements rejecting the Company's appeal were lodged. The appealed notice was therefore confirmed, although the fines were stated as not due as the "conditions of objective uncertainty" of the regulations applicable to the case were acknowledged. The Company submitted a proposal of partial settlement to the Province Tax Commission of Genoa regarding minor aspects for 2004, and on 23 September 2010 paid the amount due of euro 291,000

The Company deems that the risk deriving from the dispute can be referred to the so-called contingent liabilities as per IAS 37 as this is a possible but unlikely expense: therefore, pursuant to provisions set out by the reference accounting standard, the matter was disclosed in the notes to the financial statements without accruing any provisions. This is based on the opinion that it is unlikely that the Company will have to pay any amount in relation to this obligations taking account of the strong defence raised during the proceedings.

The above-mentioned opinion was confirmed also by the company's legal consultants who examined the reasons of the first instance ruling: these reasons, in fact, seem to be incorrect under a logical and juridical point of view and the company deems that the ruling will be restated in the following judgement instances. The lawyers were therefore charged to draw up the appeal deed, which was lodged within due terms.

At this stage of proceedings, and for the above-mentioned reasons (duly motivated in other deeds issued during the proceedings), and based on reasons specified in the pronouncement related to the assessment notice, the Company deemed that the assessment notices are likely to be entirely accepted and cancelled. Therefore, the Company does not deem it necessary to accrue a specific provision as economic resources will be unlikely used to settle tax claims.

Pursuant to IAS 37.86, the following information regarding contingent liabilities is supplied:

a. in the event the proceeding outcome be different than expected by the Company, for all years still to open to tax assessment for income tax purposes, all amortisation/depreciation to be calculated by Mediterranea delle Acque on gains resulting from transfers from AGMA, at that time not subject to taxation and amounting to euro 104 million, should be considered by the Company as not deductible. This expense might involve the following:

- prior year expense, amounting to euro 12.5 million, due to higher taxes for the years from 2003 to 2010 (including interest totalling euro 0.9 million);
- a higher tax charge for 2010, equal to euro 1.2 million;
- the accrual to the provision for deferred tax liabilities, amounting to euro 19.2 million, due to higher taxes, to be calculated from this year to 2025.

b. if the outcome is unfavourable, it is however impossible to establish when the matter will turn to be unfavourable for the Company and when the above-mentioned amounts will be payable (also taking account of tax collection times that, although in the presence of a pending ruling, provide for a preliminary allocation of a portion of the assessed tax);

c. The Company deems it probable that resources will have to be used to fulfil tax obligations..

## XII. SEGMENT REPORTING

Segment reporting, based on the Group's management and internal reporting structure, is given below in accordance with IFRS 8.
Given the nature of the activity carried out by Group companies, a geographical segment analysis is not relevant.

### Business segments

Following the above-described merger, the Iren Group operates in the following business segments:
- Production of Electricity and Heat (Hydroelectric energy, co-generation of electricity and heat, production from renewable sources);
- Market (Sale of electric energy, gas, heat);
- Energy Infrastructures (Distribution networks of electricity, distribution networks of gas, district heating networks, LNG regasification plants);
- Integrated Water Service (sale and distribution of water, water treatment and sewerage);
- Waste Collection (Waste collection and disposal);
- Other services (Telecommunications, Public Lighting, Global Services and other minor services).

These operating segments are disclosed pursuant to IFRS 8. Under this Standard, the disclosure about business segments should be based on the elements which the executive committee and the management use in taking operational and strategic decisions.
For a correct reading of the income statements on the single business segments, disclosed hereunder, it should be specified that revenue and costs referred to common assets were entirely allocated to business based on the effective use of services supplied or a technical-economic driver.
Given the fact that the Group mainly operates in the North-West area, the following segment disclosure does not include information broken down by geographical areas.

The main financial amounts, broken down by business segments at 31 December 2010 and 31 December 2009, are shown hereunder.
For any remarks on the performance of operating segments, reference is made to section "Financial position, results of operations and cash flows of Iren Group - Analysis by business segments".

### Financial position by segment at 31 December 2010

millions of euro

| | Generation | Market | Energy infrastructures | Wate cycle | Waste | Other services | Not allocatable | Total |
|---|---|---|---|---|---|---|---|---|
| Non-current assets | 1,223 | 61 | 1,494 | 982 | 261 | 71 | 474 | 4,566 |
| Net working capital | 61 | 35 | (23) | 57 | 6 | (23) | 23 | 137 |
| Other non-current assets and liabilities | (39) | 23 | (85) | (205) | (37) | (14) | (4) | (361) |
| **Net invested capital (NCI)** | **1,245** | **119** | **1,386** | **834** | **230** | **35** | **494** | **4,342** |
| Equity | - | - | - | - | - | - | - | 2,082 |
| Net financial position | - | - | - | - | - | - | - | 2,260 |
| **Own funds and net financial indebtedness** | | | | | | | | **4,342** |

## Financial position by segment at 31 December 2009

millions of euro

| | Generation | Market | Energy infrastructures | Water cycle | Waste | Other services | Not allocatable | Total pro forma | of which Enia Group | of which Iride Group |
|---|---|---|---|---|---|---|---|---|---|---|
| Non-current assets | 1,068 | 46 | 1,453 | 965 | 188 | 67 | 508 | 4,296 | 1,438 | 2,858 |
| Net working capital | 83 | 22 | 16 | 48 | (10) | (49) | 4 | 114 | 2 | 112 |
| Other non-current assets and liabilities | (45) | 10 | (108) | (218) | (42) | (13) | (16) | (434) | (270) | (164) |
| **Net invested capital (NCI)** | **1,107** | **78** | **1,361** | **794** | **135** | **5** | **496** | **3,976** | **1,170** | **2,806** |
| Equity | - | - | - | - | - | - | - | 1,920 | 533 | 1,387 |
| Net financial position | - | - | - | - | - | - | - | 2,056 | 637 | 1,419 |
| **Own funds and net financial indebtedness** | **-** | **-** | **-** | **-** | **-** | **-** | **-** | **3,976** | **1,170** | **2,806** |

## Results of operations by business segment for 2010

millions of euro

| | Generation | Market | Energy infrastructures | Water cycle | Waste | Other services | Netting and adjustments | Total pro forma | of which Enia Group 1st half 2010 | of which Netting and adjustments | of which Iren Group |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total revenue and income | 687 | 2,865 | 428 | 434 | 222 | 104 | (1,361) | 3,381 | 558 | (6) | 2,829 |
| Total operating expense | (516) | (2,816) | (214) | (326) | (178) | (87) | 1,360 | (2,777) | (451) | 7 | (2,333) |
| **Gross Operating Profit (EBITDA)** | **172** | **49** | **214** | **108** | **45** | **17** | **(1)** | **603** | **107** | **1** | **496** |
| Net am./depr. provisions and impairment losses | (73) | (18) | (72) | (70) | (27) | (6) | (0) | (265) | (55) | 0 | (210) |
| **Operating profit (EBIT)** | **99** | **31** | **142** | **38** | **18** | **11** | **(1)** | **339** | **52** | **1** | **286** |

## Results of operations by business segment for 2009

millions of euro

| | Generation | Market | Energy infrastructures | Water cycle | Waste | Other services | Netting and adjustments | Total pro forma | of which Enia Group | of which Netting and adjustments | of which Iride Group |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Total revenue and income | 672 | 2,823 | 399 | 398 | 212 | 102 | (1,331) | 3,273 | 1,047 | (33) | 2,259 |
| Total operating expense | (503) | (2,779) | (206) | (291) | (174) | (83) | 1,327 | (2,709) | (861) | 34 | (1,882) |
| **Gross Operating Profit (EBITDA)** | **168** | **44** | **192** | **106** | **38** | **19** | **(4)** | **564** | **186** | **1** | **377** |
| Net am./depr. provisions and impairment losses | (71) | (13) | (73) | (65) | (24) | (5) | 0 | (251) | (102) | 0 | (149) |
| **Operating profit (EBIT)** | **98** | **31** | **120** | **41** | **14** | **14** | **(4)** | **312** | **84** | **1** | **228** |

# XIII. ANNEXES TO THE CONSOLIDATED FINANCIAL STATEMENTS

# CONSOLIDATED COMPANIES

| Company | Registered office | Currency | Share/Quota capital | % of investment | Participating company |
|---|---|---|---|---|---|
| Iren Acqua Gas S.p.A. | Genoa | EUR | 359,659,568 | 100.00 | Iren |
| Iren Ambiente S.p.A. | Piacenza | EUR | 72,622,002 | 100.00 | Iren |
| Iren Emilia S.p.A. | Reggio Emilia | EUR | 196,832,103 | 82.50 | Iren |
| | | | | 17.50 | Iren Acqua Gas |
| Iren Energia S.p.A. | Turin | EUR | 777,679,968 | 100.00 | Iren |
| Iren Mercato S.p.A. | Genoa | EUR | 61,356,220 | 90.97 | Iren |
| | | | | 9.03 | Iren Acqua Gas |
| Iride Servizi S.p.A. | Turin | EUR | 52,242,791 | 93.78 | Iren Energia |
| | | | | 6.22 | Iren Emilia |
| Aemnet S.p.A. | Turin | EUR | 6,973,850 | 100.00 | Iride Servizi |
| SasterNet S.p.A. | Genoa | EUR | 7,900,000 | 85.00 | Iride Servizi |
| AEM Torino Distribuzione S.p.A. | Turin | EUR | 126,127,156 | 69.85 | Iren Energia |
| | | | | 30.15 | Iren |
| C.EL.PI. Scrl | Turin | EUR | 293,635 | 99.92 | Iren Energia |
| Nichelino Energia S.r.l. | Turin | EUR | 1,500,000 | 62.00 | Iren Energia |
| | | | | 33.00 | AES Torino |
| | | | | 5.00 | Iren Mercato |
| CAE Amga Energia S.p.A. | Genoa | EUR | 10,000,000 | 100.00 | Iren Mercato |
| O.C.Clim S.r.l. | Savona | EUR | 100,000 | 100.00 | CAE Amga Energia |
| Climatel S.r.l. | Savona | EUR | 10,000 | 100.00 | O.C.Clim |
| GEA Commarciale S.p.A. | Grosseto | EUR | 340,910 | 100.00 | Iren Mercato |
| Consorzio GPO | Genoa | EUR | 20,197,260 | 62.35 | Iren Emilia |
| AGA S.p.A. | Genoa | EUR | 11,000,000 | 99.64 | Iren Emilia |
| Zeus S.p.A. | Genoa | EUR | 20,320,000 | 100.00 | Iren Emilia |
| Enia Parma S.r.l. | Parma | EUR | 300,000 | 100.00 | Iren Emilia |
| Enia Piacenza S.r.l. | Piacenza | EUR | 3,300,000 | 100.00 | Iren Emilia |
| Enia Reggio Emilia S.r.l. | Reggio Emilia | EUR | 300,000 | 100.00 | Iren Emilia |
| Tema S.c.a.r.l. | Chieti | EUR | 100,000 | 51.00 | Iren Emilia |
| Eniatel S.p.A. | Piacenza | EUR | 3,350,000 | 100.00 | Iren Emilia |
| Undis Servizi S.r.l. | Sulmona | EUR | 20,000 | 100.00 | Iren Emilia |
| San Giacomo S.r.l. | Genoa | EUR | 19,203,411 | 60.00 | Iren Acqua Gas |
| Immobiliare delle Fabbriche | Genoa | EUR | 2,500,000 | 100.00 | San Giacomo S.r.l. |
| Idrotigullio S.p.A. | Chiavari (GE) | EUR | 979,000 | 66.55 | San Giacomo S.r.l. |
| Genova Reti Gas S.r.l. | Genoa | EUR | 1,500,000 | 100.00 | Iren Acqua Gas |
| GEA S.p.A. | Grosseto | EUR | 1,381,500 | 59.34 | Iren Acqua Gas |
| LIAG | Genoa | EUR | 186,534 | 73.13 | Iren Acqua Gas |
| Tecnoborgo S.p.A. | Piacenza | EUR | 10,379,640 | 50.50 | Iren Ambiente |
| | | | | 0.50 | Iren |
| Monte Querce | Reggio Emilia | EUR | 100,000 | 60.00 | Iren Ambiente |
| Iren Rinnovabili S.p.A. | Reggio Emilia | EUR | 119,000 | 100.00 | Iren Ambiente |
| Enia Solaris S.r.l. | Parma | EUR | 100,000 | 85.00 | Iren Rinnovabili |
| Bonifica Autocisterne | Piacenza | EUR | 595,000 | 51.00 | Iren Ambiente |

## COMPANIES CONSOLIDATED PROPORTIONATELY

| Company | Registered office | Currency | Share capital | % of investment | Participating company |
|---|---|---|---|---|---|
| AES Torino S.p.A. | Turin | EUR | 110,500,000 | 51.00 | Iren Energia |
| Olt Offshore Toscana LNG S.p.A. | Rome | EUR | 145,750,700 | 41.71 | Iren Mercato |
| Namtra Investments Ltd | Limassol (Cyprus) | EUR | 1,000 | 100.00 | Olt Offshore Toscana LNG |
| Acque Potabili S.p.A. | Turin | EUR | 3,600,295 | 30.86 | Iren Acqua Gas |
| Acquedotto Savona | Savona | EUR | 500,000 | 100.00 | Acque Potabili |
| Acquedotto Monferrato | Turin | EUR | 600,000 | 100.00 | Acque Potabili |
| Acque Potabili Siciliane | Palermo | EUR | 2,558,000 | 56.77 | Acque Potabili |
| | | | | 9.83 | Mediterranea Delle Acque |
| Acque Potabili Crotone | Turin | EUR | 100,000 | 100.00 | Acque Potabili |

## COMPANIES MEASURED USING THE EQUITY METHOD

| Company | Registered office | Currency | Share/quota capital/Consortium fund | % of investment | Participating company |
|---|---|---|---|---|---|
| Plurigas S.p.A. | Milan | EUR | 800,000 | 30.00 | Iren |
| Gas Energia S.p.A. | Turin | EUR | 3,570,000 | 20.00 | Iride Servizi |
| Valle Dora Energia Srl | Turin | EUR | 537,582 | 49.00 | Iren Energia |
| Edipower S.p.A. | Milan | EUR | 1,441,300,000 | 10.00 | Iren Energia |
| Salerno Energia Vendite* | Salerno | EUR | 2,447,526 | 38.00 | GEA Commarciale |
| Livorno Holding S.r.l.* | Rome | EUR | 10,000 | 44.57 | Iren Mercato |
| Sea Power & Fuel S.r.l. | Genoa | EUR | 10,000 | 50.00 | Iren Mercato |
| Acos Energia S.p.A.* | Novi Ligure (AL) | EUR | 150,000 | 25.00 | Iren Mercato |
| VEA Energia e Ambiente* | Marina di Pietrasanta (LU) | EUR | 96,000 | 37.00 | Iren Mercato |
| GICA s.a. | Paradiso (Switzerland) | CHF | 7,400,000 | 24.99 | Iren Mercato |
| Alegas S.r.l. | Alessandria | EUR | 1,810,000 | 20.00 | Iren Mercato |
| GESAM GAS S.p.A. | Lucca | EUR | 1,132,000 | 40.00 | Iren Mercato |
| A2A Alfa | Milan | EUR | 100,000 | 30.00 | Iren Mercato |
| AMAT Energia | Imperia | EUR | 20,000 | 20.00 | Iren Mercato |
| Sinergie Italiane S.r.l. | Milan | EUR | 3,000,000 | 27.60 | Iren Mercato |
| Consorzio Servizi Integrati | Genoa | EUR | 100,853 | 50.00 | Iren Mercato |
| Fingas | Milan | EUR | 16,422,000 | 50.00 | Iren Mercato |
| ASA S.p.A. | Livorno | EUR | 28,613,414 | 40.00 | AGA |
| Atena S.p.A. | Vercelli | EUR | 8,203,255 | 40.00 | Zeus |
| Acos S.p.A. | Novi Ligure (AL) | EUR | 17,075,864 | 25.00 | Iren Emilia |
| ASMT Serv. Ind.S.p.A. | Tortona (AL) | EUR | 3,856,240 | 44.75 | Iren Emilia |
| Global Service Parma | Parma | EUR | 20,000 | 30.00 | Iren Emilia |
| BT ENIA Telecomunicazioni S.p.A. | Parma | EUR | 4,226,000 | 40.46 | Iren Emilia |
| Il Tempio S.r.l. | Reggio Emilia | EUR | 110,000 | 45.50 | Iren Emilia |
| So. Sel. S.p.A. | Modena | EUR | 240,240 | 24.00 | Iren Emilia |
| Mestni Plinovodi (*) | Capodistria (Slovenia) | EUR | 15,952,479 | 49.88 | Iren Acqua Gas |
| Tirana Acque in liquidation (*) | Genoa | EUR | 95,000 | 50.00 | Iren Acqua Gas |
| Aiga S.p.A.(*) | Ventimiglia (IM) | EUR | 104,000 | 49.00 | Iren Acqua Gas |
| Acqueinforma | Grosseto | EUR | 15,000 | 34.00 | Iren Acqua Gas |
| Domus Acqua S.r.l.(*) | Domusnovas (CA) | EUR | 96,000 | 29.00 | Iren Acqua Gas |
| Acquaenna S.c.p.a.(*) | Enna | EUR | 3,000,000 | 46.00 | Iren Acqua Gas |
| Aguas de San Pedro S.A. de C.V. | S.Pedro Sula (Honduras) | EUR | 159,900 | 30.00 | Iren Acqua Gas |
| Mondo Acqua (*) | Mondovi (CN) | EUR | 800,000 | 38.50 | Iren Acqua Gas |
| Amat S.p.A.(*) | Imperia | EUR | 5,435,372 | 48.00 | Iren Acqua Gas |
| S.M.A.G. srl (ex In.Te.Gra. Clienti) | La Spezia | EUR | 100,000 | 30.00 | Iren Acqua Gas |
| Castel S.p.A.(*) | Cremona | EUR | 935,000 | 23.10 | Iren Acqua Gas |
| Amter S.p.A.(*) | Cogoleto (GE) | EUR | 404,263 | 49.00 | San Giacomo |
| Il Ceppo S.r.l.(*) | Massa Marina (GR) | EUR | 1,000,000 | 24.90 | GEA |
| ABM Next (*) | Bergamo | EUR | 26,000 | 45.00 | Acque Potabili |
| Iniziative Ambientali S.r.l. | Novellara (RE) | EUR | 100,000 | 40.00 | Iren Ambiente |
| Rio Riazzone S.p.A. | Rome | EUR | 103,292 | 44.00 | Iren Ambiente |
| Aciam S.p.A. | Avezzano (AQ) | EUR | 235,539 | 29.09 | Iren Ambiente |

(*) Figure related to the most recently approved financial statements (31/12/2009)

## INVESTMENTS IN OTHER COMPANIES

| Company | Registered office | Currency | Share/quota capital/Consortium fund | % of investment | Participating company |
|---|---|---|---|---|---|
| Delmi S.p.A. | Milan | EUR | 1,466,868,500 | 15.00 | Iren |
| Consorzio Topix | Turin | EUR | 1,655,000 | 0.30 | Aemnet |
| S.D.B. S.p.A. | Turin | EUR | 2,000,000 | 1.00 | Iride Servizi |
| Energia Italiana S.p.A. | Milan | EUR | 26,050,000 | 11.00 | Iren Energia |
| C.E.S.I. S.p.A. | Milan | EUR | 8,550,000 | 0.47 | Iren Energia |
| Consorzio Prometeo | Ivrea (TO) | EUR | 11,050 | 13.83 | Iren Energia |
| CSP Scrl | Turin | EUR | 52,000 | 6.10 | Iren Energia |
| Environment Park S.p.A. | Turin | EUR | 11,406,780 | 3.38 | Iren Energia |
| Sarmato Energia S.p.A. | Milan | EUR | 14,420,000 | 5.30 | Iren Energia |
| Stadio Albaro | Genoa | EUR | 1,230,000 | 2.00 | CAE Amga Energia |
| Consorzio GAZEL | | EUR | | 1.10 | Iren Mercato |
| Astea Energia S.r.l. | Ancona | EUR | 100,000 | 7.00 | Iren Mercato |
| Atena Patrimonio | Vercelli | EUR | 73,829,295 | 14.65 | Zeus |
| Agenzia Parma Energia S.r.l. | Parma | EUR | 35,000 | 8.57 | Iren Emilia |
| Autostrade Centro Padane S.p.A. | Cremona | EUR | 15,500,000 | 0.15 | Iren Emilia |
| C.R.P.A. S.p.A. | Reggio Emilia | EUR | 1,851,350 | 5.40 | Iren Emilia |
| Consorzio SI. RE.(*) | Savona | EUR | 100,000 | 15.00 | San Giacomo S.R.L. |
| Rupe S.p.A.(*) | Genoa | EUR | 3,057,898 | 0.39 | Immobiliare Delle Fabbriche |
| Nord Ovest Serv.(*) | Turin | EUR | 7,800,000 | 10.00 | Iren Acqua Gas |
| T.I.C.A.S.S.(*) | | EUR | 70,000 | 5.72 | Iren Acqua Gas |
| Sogea (*) | Genoa | EUR | 397,510 | 0.10 | Iren Acqua Gas |
| ATO2 Acque (*) | Biella | EUR | 80,000 | 12.50 | Iren Acqua Gas |
| RE innovazione | Reggio | EUR | 882,872 | 0.87 | Iren Ambiente |
| Consorzio L.E.A.P. | Piacenza | EUR | 1,055,000 | 0.95 | Iren Ambiente |

(*) Figure related to the most recently approved financial statements (31/12/2009)

## FINANCIAL STATEMENTS DATA OF THE MAIN CONSOLIDATED COMPANIES, COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS, PROPORTIONATELY AND USING THE EQUITY METHOD

| Company | Currency | Share/quota capital | Total assets | Equity | Total revenue | Profit (loss) for the year |
|---|---|---|---|---|---|---|
| **CONSOLIDATED COMPANIES** | | | | | | |
| Iren Energia | EUR | 777,679,968 | 2,202,023,278 | 1,159,677,485 | 654,468,602 | 79,423,394 |
| Iride Servizi | EUR | 52,242,791 | 294,159,451 | 84,522,974 | 80,702,664 | 6,480,128 |
| Aemnet S.p.A. | EUR | 6,973,850 | 10,799,297 | 6,860,538 | 3,001,087 | 242,430 |
| SasterNet S.p.A. | EUR | 7,900,000 | 22,661,488 | 16,833,053 | 4,585,967 | 1,729,981 |
| AEM TD S.p.A. | EUR | 126,127,156 | 504,634,462 | 206,788,456 | 134,871,716 | 22,422,113 |
| C.EL.PI. Scrl | EUR | 293,635 | 336,300 | 310,501 | 15,000 | -9,441 |
| Nichelino Energia S.r.l. | EUR | 1,500,000 | 12,585,528 | 1,447,559 | 1,039,698 | 12,730 |
| Iren Mercato | EUR | 61,356,220 | 1,371,821,716 | 106,465,395 | 2,461,404,978 | 14,844,425 |
| CAE Amga Energia | EUR | 10,000,000 | 63,583,987 | 25,412,582 | 39,565,111 | 1,265,500 |
| O.C.Clim S.r.l. | EUR | 100,000 | 10,117,315 | 3,162,323 | 10,767,722 | 529,436 |
| Climatel S.r.l. | EUR | 10,000 | 583,260 | 85,561 | 344,455 | 44,218 |
| GEA Commarciale S.p.A. | EUR | 340,910 | 11,803,712 | 1,286,441 | 18,028,456 | 438,100 |
| Iren Emilia | EUR | 196,832,103 | 831,637,140 | 336,233,353 | 261,818,816 | 9,056,151 |
| Consorzio GPO | EUR | 20,197,260 | 20,932,402 | 20,880,056 | 0 | 130,168 |
| AGA S.p.A. | EUR | 11,000,000 | 19,603,234 | 7,820,355 | 9,334 | -256,847 |
| Zeus S.p.A. | EUR | 20,320,000 | 20,956,020 | 20,908,321 | 102 | 13,424 |
| Enia Parma S.r.l. | EUR | 300,000 | 81,237,034 | 6,409,738 | 67,193,645 | -209,193 |
| Enia Piacenza S.r.l. | EUR | 300,000 | 47,123,920 | 1,707,643 | 34,460,720 | -418,222 |
| Enia Reggio Emilia S.r.l. | EUR | 300,000 | 84,513,348 | 1,673,013 | 64,500,903 | -302,841 |
| Terna S.c.a.r.l. | EUR | 100,000 | 1,498,589 | 148,033 | 0 | -168,877 |
| Eniatel S.p.A. | EUR | 3,350,000 | 6,778,155 | 4,816,812 | 1,303,924 | 60,781 |
| Undis Servizi S.r.l. | EUR | 20,000 | 1,537,335 | 53,817 | 481,503 | 33,817 |
| Iren Acqua Gas | EUR | 359,659,568 | 1,080,680,388 | 570,063,178 | 114,117,972 | 72,348,038 |
| San Giacomo S.r.l. | EUR | 19,203,411 | 659,143,223 | 448,516,522 | 146,352,802 | 10,967,606 |
| Immobiliare delle Fabbriche | EUR | 2,500,000 | 11,972,512 | 10,445,132 | 49,903 | -313,828 |
| Idrotigullio S.p.A. | EUR | 979,000 | 32,999,269 | 8,347,054 | 18,828,915 | 952,635 |
| Genova Reti Gas S.r.l. | EUR | 1,500,000 | 48,609,066 | 10,576,331 | 79,064,862 | 7,688,700 |
| GEA S.p.A. | EUR | 1,381,500 | 16,432,331 | 12,147,500 | 6,016,678 | 2,031,030 |
| LIAG | EUR | 186,534 | 4,858,904 | 1,315,780 | 5,563,433 | 282,594 |
| Iren Ambiente | EUR | 72,622,002 | 205,314,755 | 97,682,662 | 58,247,947 | 7,657,859 |
| Tecnoborgo S.p.A. | EUR | 10,379,640 | 41,178,087 | 16,819,564 | 12,711,494 | 1,276,072 |
| Iren Rinnovabili S.p.A. | EUR | 119,000 | 17,164,473 | 5,987,630 | 5,339,766 | 336,685 |
| Enia Solaris S.r.l. | EUR | 100,000 | 25,272,015 | 4,752,290 | 0 | -64,138 |
| Monte Querce | EUR | 100,000 | 102,288 | 100,000 | 0 | 0 |
| Bonifica Autocisterne | EUR | 595,000 | 874,551 | 521,914 | 558,501 | -6,653 |

## Proportionately-consolidated companies

| Company | Currency | Share/quota capital | Total assets | Equity | Total revenue | Profit (loss) for the year |
|---|---|---|---|---|---|---|
| **PROPORTIONATELY-CONSOLIDATED COMPANIES** | | | | | | |
| AES Torino S.p.A. | EUR | 110,500,000 | 590,789,705 | 296,119,645 | 145,419,311 | 55,658,629 |
| Olt Offshore Toscana LNG S.p.A. | EUR | 145,750,700 | 639,871,470 | 138,812,596 | 72,918 | -2,127,704 |
| Acque Potabili S.p.A. | EUR | 1,110,871 | 100,803,826 | -34,204,659 | 31,504,353 | -550,527 |
| Acquedotto Savona | EUR | 500,000 | n.a. | 6,021,000 | n.a. | 272,000 |
| Acquedotto Monferrato | EUR | 600,000 | n.a. | 2,804,000 | n.a. | -263,000 |
| Acque Potabili Siciliane | EUR | 2,558,000 | n.a. | 1,732,000 | n.a. | -8,393,000 |
| Acque Potabili Crotone | EUR | 100,000 | n.a. | 4,281,000 | n.a. | -639,000 |

## Companies measured using the equity method

| Company | Curren-cy | Share/quota capital | Total assets | Equity | Total revenue | Profit (loss) for the year |
|---|---|---|---|---|---|---|
| **COMPANIES MEASURED USING THE EQUITY METHOD** | | | | | | |
| Plurigas S.p.A. | Euro | 800,000 | 383,140,472 | 61,753,163 | 1,626,764,721 | 18,675,801 |
| Gas Energia S.p.A. | EUR | 3,570,000 | 20,489,476 | 3,968,221 | 13,223,906 | -270,817 |
| Valle Dora Energia Srl | EUR | 537,582 | 554,930 | 509,645 | 0 | -27,937 |
| Edipower S.p.A. | EUR | 1,441,300,000 | 3,856,923,775 | 2,080,752,021 | 1,041,726,087 | 44,895,000 |
| Salerno Energia Vendite* | EUR | 2,447,526 | 21,602,436 | 3,258,814 | 39,236,901 | 459,240 |
| Livorno Holding S.r.l.* | EUR | 10,000 | 18,391 | 13,766 | 0 | 0 |
| Sea Power & Fuel S.r.l. | EUR | 10,000 | 6,152 | 5,852 | 0 | -621 |
| Acos Energia S.p.A.* | EUR | 150,000 | 11,827,972 | 1,377,806 | 24,787,404 | 274,164 |
| VEA Energia e Ambiente* | EUR | 96,000 | 2,969,649 | 477,607 | 5,929,935 | 107,958 |
| GICA s.a. | CHF | 7,400,000 | 3,631,860 | 2,348,245 | 1,661,622 | -1,253,141 |
| Alegas S.r.l.* | EUR | 1,810,000 | 25,370,557 | 2,222,649 | 39,575,140 | 141,656 |
| GESAM GAS S.p.A.* | EUR | 1,132,000 | 15,822,247 | 2,379,543 | 42,683,717 | 686,641 |
| A2A Alfa | EUR | 100,000 | 1,432,688 | 1,380,769 | 0 | -84,576 |
| AMAT Energia* | EUR | 20,000 | 20,053 | 10,145 | 5,938 | -4,510 |
| Sinergie Italiane S.r.l. | EUR | 3,000,000 | 425,852,067 | 8,183,013 | 1,177,593,102 | 5,020,621 |
| Consorzio Servizi Integrati* | EUR | 100,853 | 53,563,939 | 100,853 | 41,150,991 | 0 |
| Fingas | EUR | 16,422,000 | 16,248,854 | 16,237,740 | 0 | -46,792 |
| ASA S.p.A. * | EUR | 21,507,344 | 180,629,284 | 23,410,163 | 79,422,070 | 892,166 |
| Atena S.p.A. * | EUR | 8,203,255 | 42,181,979 | 10,562,214 | 38,768,576 | -79,913 |
| Acos S.p.A. * | EUR | 17,075,864 | 31,909,928 | 22,442,774 | 9,481,645 | 500,044 |
| ASMT Serv. Ind.S.p.A. * | EUR | 3,856,240 | 19,583,313 | 5,309,770 | 12,037,667 | 274,272 |
| Global Service Parma * | EUR | 20,000 | 4,752,466 | 19,998 | 5,283,619 | 0 |
| BT ENIA Telecomunicazioni S.p.A. | EUR | 4,226,000 | 34,067,491 | 19,649,995 | -21,516,372 | 1,402,775 |
| Il Tempio S.r.l. * | EUR | 110,000 | 4,085,378 | 18,767 | 132,427 | -67,383 |
| So. Sel. S.p.A. * | EUR | 240,240 | 7,855,070 | 1,591,917 | 11,237,472 | 118,525 |
| Mestni Plinovodi (*) | EUR | 15,952,479 | 33,508,499 | 905,750 | 9,739,745 | 372,712 |
| Tirana Acque in liquidation (*) | EUR | 95,000 | n.a. | n.a. | n.a. | n.a. |
| Aiga S.p.A.(*) | EUR | 104,000 | 4,658,729 | 605,821 | 2,436,715 | -758,021 |
| Acqueinforma in liquidation | EUR | n.a. | n.a. | n.a. | n.a. | n.a. |
| Domus Acqua S.r.l.(*) | EUR | 96,000 | 762,385 | 157,009 | 380,719 | 34,722 |
| Acquaenna S.c.p.a.(*) | EUR | 3,000,000 | 45,349,750 | 3,000,000 | 17,182,401 | - |
| Aguas de San Pedro S.A. de C.V. | EUR | 159,900 | 605,755 | 200,477 | 423,482 | 54,390 |
| Mondo Acqua (*) | EUR | 800,000 | 5,015,734 | 950,082 | 4,191,181 | 15,659 |
| Amat S.p.A.(*) | EUR | 5,435,372 | 36,992,813 | 6,034,986 | 9,697,920 | 39,422 |
| S.M.A.G. srl (1) | EUR | 10,000 | 1,962,177 | 11,883 | 2,416,557 | 577 |
| Castel S.p.A.(*) | EUR | 935,000 | 1,490,800 | 1,121,711 | 424,363 | 908 |
| Amter S.p.A.(*) | EUR | 404,263 | 4,297,965 | 1,129,115 | 3,913,826 | 57,155 |
| Iniziative Ambientali S.r.l. | EUR | 100,000 | 14,718,665 | 1,153,776 | 0 | 59,172 |
| Rio Riazzone S.p.A. | EUR | 103,292 | 1,248,467 | 499,431 | 148,901 | -20,223 |
| Aciam S.p.A. | EUR | 235,539 | 15,646,794 | 959,810 | 8,171,413 | 80,572 |

(1): figures refer to the most recently-approved financial statements; in 2010, however, the Share Capital increased to euro 100,000.
(*) Figure referring to the most recently-approved financial statements (31/12/2009)

## DEFERRED TAX ASSETS AND LIABILITIES

| | 2010 | | | | |
|---|---|---|---|---|---|
| | differences | | | | |
| | opening | Enia contribution | accrual | revers. | residual |
| **Deferred tax assets** | | | | | |
| Directors' fees | 1,027,860 | 111,276 | 659,864 | 599,400 | 1,199,600 |
| Independent Auditors' fees | 934,262 | 165,434 | 1,575,130 | 732,986 | 1,941,839 |
| Entertainment expenses | 69,831 | 4,393 | 5,401 | 50,405 | 29,219 |
| Provision for risks | 60,719,942 | 28,457,516 | 28,344,899 | 18,407,186 | 99,115,171 |
| Provision for long-service bonus | 3,697,342 | 3,782 | 529,530 | 717,115 | 3,513,538 |
| Provision for restoration and maint. | 8,040,773 | - | 2,350,000 | 3,423,671 | 6,967,101 |
| Allowance for impairment | 31,817,963 | 12,628,978 | 27,278,476 | 85,301 | 71,640,115 |
| Write-down of inventory | 8,108,423 | 349,541 | 1,704,635 | 2,012,446 | 8,150,153 |
| Taxable grants | 1,305,209 | 191,345 | 22,845 | 53,396 | 1,466,003 |
| Greater amort/depr. | 81,328,354 | 29,494,050 | 50,766,716 | 6,590,548 | 154,998,571 |
| Other | 45,896,022 | 5,253,952 | 31,961,318 | 17,450,337 | 65,660,956 |
| IFRS adjustments | 302,873 | 252,475 | 18,124 | 1,322 | 572,151 |
| Start-up and capital costs | - | 17,648 | - | 4,412 | 13,236 |
| Reversal of impairment losses on non-current assets | 4,818,214 | 46,791 | 1,008,143 | 611,450 | 5,261,699 |
| Provision for risks | 58,037 | - | - | 1,030,402 | (972,365) |
| Derivatives | 21,094,310 | (2,423,275) | 835,881 | 1,244,467 | 18,262,449 |
| Provisions for personnel | 377,776 | 226,450 | 5,198,358 | 1,650,206 | 4,152,378 |
| Amortisation/depreciation | 4,131 | 3,187 | - | 4,888 | 2,430 |
| **total taxable base/deferred tax assets** | **269,601,320** | **74,783,544** | **152,259,317** | **54,669,937** | **441,974,244** |

| | 2010 | | | | |
|---|---|---|---|---|---|
| | differences | | | | |
| | opening | Enia contribution | accrual | revers. | residual |
| **Deferred tax liabilities** | | | | | |
| Greater depreciation/amortisation | 28,048,491 | 38,056,398 | 1,451,725 | 32,514,509 | 35,042,105 |
| Deferred portion of gains | 429,661 | 1,386,777 | 1,044,880 | 615,013 | 2,246,304 |
| Grants related to plant | 1,179,839 | 2,002,741 | - | 36,751 | 3,145,829 |
| Allowance for impairment | 6,499,427 | 43,649,268 | - | - | 50,148,695 |
| Merger | 112,749,801 | (1) | - | - | 112,749,800 |
| Other | (632,432) | 18,920,338 | 12,921,981 | 5,412,799 | 25,797,088 |
| Adjustment to the provision for post-employment benefits | 6,581,190 | 2,012,184 | 3,170,473 | 2,400,325 | 9,363,522 |
| Revaluation of inventories | 740,160 | 289,051 | 786,784 | 85,168 | 1,730,827 |
| Previous depreciation of land/buildings | 13,926,448 | 3,737,805 | 3,043 | 205,461 | 17,461,835 |
| Other amortisation/depreciation | 45,972,171 | (2,003,959) | - | 45,836,293 | (1,868,081) |
| Revaluation of impairment losses on investment property | 3,436,356 | (1) | - | 275,644 | 3,160,712 |
| Finance lease | 1,808,716 | 451,841 | 908,260 | 567,391 | 2,601,427 |
| Goodwill | 21,536,145 | 722,970 | 4,084,593 | - | 26,343,708 |
| Other | 15,966,829 | (5,870,752) | 3,615,089 | 7,876,999 | 5,834,167 |
| Derivatives | 1,652,973 | 328 | 368,449 | 4,435,479 | (2,413,729) |
| **total taxable base/deferred tax liabilities** | **259,895,774** | **103,354,988** | **28,355,278** | **100,261,831** | **291,344,209** |
| **TAX LOSSES carried forward indefinitely** | **6,327,274** | **449,066** | **211,545** | **47,627** | **6,940,258** |
| **Net deferred tax assets (liabilities)** | **16,032,820** | **(28,122,378)** | **124,115,584** | **(45,544,267)** | **157,570,293** |

amounts in euro

| 2010 | | | | |
|---|---|---|---|---|
| taxes | | | | |
| taxes to IS | taxes To E | IRES | IRAP | total |
| 6,124 | 1,768 | 336,586 | 7,177 | 343,763 |
| 214,254 | - | 548,030 | 17,951 | 565,982 |
| (13,855) | 104 | 7,374 | 1,133 | 8,507 |
| 1,564,487 | 90,125 | 27,688,255 | 2,132,274 | 29,820,528 |
| (62,742) | - | 1,053,187 | - | 1,053,187 |
| (406,922) | - | 2,368,814 | 271,717 | 2,640,531 |
| 3,789,115 | 3,924,056 | 21,898,841 | - | 21,898,841 |
| (43,932) | - | 2,324,001 | 196,067 | 2,520,068 |
| (20,094) | - | 478,402 | 55,895 | 534,297 |
| 9,466,817 | 1,364,367 | 44,041,745 | 2,559,805 | 46,601,550 |
| (376,349) | 104,892 | 19,517,792 | 571,252 | 20,129,555 |
| (994) | 1,047 | 60,295 | 9,480 | 69,775 |
| (1,385) | - | 3,640 | - | 3,640 |
| (142,981) | 203,182 | 1,446,967 | - | 1,446,967 |
| (330,330) | - | (310,598) | - | (310,598) |
| (653,556) | (2,045,558) | 4,922,771 | - | 4,922,771 |
| (926,070) | - | 1,141,904 | - | 1,141,904 |
| (3,224) | - | 668 | 95 | 763 |
| **12,058,364** | **3,643,983** | **127,569,187** | **5,822,844** | **133,392,031** |

| 2010 | | | | |
|---|---|---|---|---|
| taxes | | | | |
| taxes to IS | taxes To E | IRES | IRAP | total |
| (1,142,827) | - | 30,258,420 | 2,607,311 | 32,865,651 |
| (78,396) | - | 276,962 | 12,687 | 289,649 |
| (11,539) | - | 388,869 | 49,133 | 438,002 |
| - | - | 1,061,016 | - | 1,061,016 |
| - | - | 37,214,713 | 4,784,587 | 41,999,300 |
| 460,167 | 6,960 | 5,091,205 | 197,852 | 5,289,058 |
| 129,004 | 34,886 | 2,692,191 | - | 2,692,191 |
| 271,352 | - | 583,458 | 67,502 | 650,960 |
| (595,474) | (7,671,791) | 2,893,843 | 699,775 | 3,593,697 |
| (1,148,977) | - | 4,832,435 | 802,784 | 5,635,219 |
| (84,030) | - | 904,368 | 118,184 | 1,022,552 |
| 125,175 | - | 857,551 | 80,157 | 937,708 |
| 1,311,961 | - | 7,306,450 | 1,001,525 | 8,307,974 |
| (939,512) | (70,569) | 1,567,553 | 221,042 | 1,788,594 |
| (1,185,347) | 68,084 | 223,311 | 10,304 | 233,615 |
| **(2,888,443)** | **(7,632,430)** | **96,152,344** | **10,652,843** | **106,805,187** |
| **470,948** | **-** | **653,821** | **-** | **653,821** |
| **15,417,755** | **11,276,413** | **32,070,664** | **(4,829,999)** | **27,240,664** |

| | 2009 | | | |
|---|---|---|---|---|
| | differences | | | |
| | opening | formation | revers. | residual |
| **Deferred tax assets** | | | | |
| Directors' fees | 1,156,667 | 575,326 | 704,132 | 1,027,860 |
| Independent Auditors' fees | 924,576 | 777,477 | 767,792 | 934,261 |
| Entertainment expenses | 111,774 | 38,934 | 80,878 | 69,830 |
| Provision for risks | 63,651,408 | 9,272,279 | 12,203,746 | 60,719,941 |
| Provision for long-service bonus | 2,981,243 | 1,092,780 | 376,681 | 3,697,342 |
| Provision for restoration and maint. | 7,401,743 | 2,525,000 | 1,885,970 | 8,040,772 |
| Allowance for impairment | 32,565,776 | 12,867,208 | 13,615,022 | 31,817,962 |
| Write-down of inventories | 4,197,079 | 4,321,208 | 409,863 | 8,108,423 |
| Taxable grants | 1,257,930 | 47,278 | - | 1,305,209 |
| Greater amort/depr. | 63,076,582 | 23,935,788 | 5,684,016 | 81,328,354 |
| Other | 15,304,122 | 41,511,474 | 10,919,573 | 45,896,022 |
| IFRS adjustments | 129,945 | 3,335 | - | 133,284 |
| Reversal of impairment losses on non-current assets | 4,818,214 | - | - | 4,818,214 |
| Provision for risks | 351,929 | 58,036 | 351,929 | 58,036 |
| Derivatives | 9,140,441 | 6,821,717 | - | 15,962,159 |
| Provision for long-service bonus | 8,378 | - | 45,360 | 191,219 |
| Provisions for personnel | 178,383 | 18,620 | 5,784 | 191,219 |
| Amortisation/depreciation | 750,254 | - | 236,865 | 4,130 |
| Provision for post-employment benefits | 9,609,601 | 2,580,512 | 12,003,558 | 186,556 |
| Other fair value | 3,277,448 | 1,917,550 | 62,848 | 5,132,150 |
| Other | 511,274 | 242,401 | 584,086 | 169,588 |
| **total taxable base/deferred tax assets** | **221,404,776** | **108,606,930** | **59,938,109** | **269,792,539** |

| | 2009 | | | |
|---|---|---|---|---|
| | differences | | | |
| | opening | formation | revers. | residual |
| **Deferred tax liabilities** | | | | |
| Greater depreciation/amortisation | 44,072,323 | 1,484,727 | 17,508,560 | 28,048,490 |
| Deferred portion of gains | 881,508 | - | 451,847 | 429,660 |
| Grants related to plant | 1,206,306 | 45,172 | 71,639 | 1,179,839 |
| Allowance for impairment | 6,410,977 | 2,710,040 | 2,621,591 | 6,499,426 |
| Merger | 133,755,732 | - | 21,005,932 | 112,749,800 |
| Other | (8,679,962) | 8,482,107 | 434,576 | (632,432) |
| Adjustment to the provision for post-employment benefits | 4,564,553 | 2,465,447 | 448,811 | 6,581,189 |
| Revaluation of inventories | 794,950 | 31,298 | 86,088 | 740,160 |
| Previous depreciation of land/buildings | 2,303,171 | 15,778,876 | 4,155,600 | 13,926,448 |
| Other amortisation/depreciation | 51,973,391 | - | 10,864,184 | 45,387,552 |
| Revaluation of impairment losses on investment property | 4,218,573 | - | 782,217 | 3,436,356 |
| Impairment losses on assets | 3,072,548 | 140,629 | - | 3,213,177 |
| Reversal of impairment losses on contributions | (2,628,558) | - | - | (2,628,558) |
| Finance lease | 1,814,798 | 874,129 | 880,211 | 1,808,716 |
| Goodwill | 17,946,787 | 3,589,357 | - | 21,536,144 |
| Other | 16,308,005 | 111,937 | 414,068 | 15,966,829 |
| Derivatives | 3,863,708 | 199,562 | 2,410,297 | 1,652,973 |
| **total taxable base/deferred tax liabilities** | **281,878,814** | **35,913,286** | **62,135,626** | **259,895,774** |
| **Tax losses carried forward indefinitely** | **6,327,274** | **-** | **-** | **6,327,274** |
| **Net deferred tax assets (liabilities)** | **(54,146,764)** | **72,693,643** | **(2,197,517)** | **16,224,039** |

amounts in euro

| 2009 | | | | |
|---|---|---|---|---|
| taxes | | | | |
| taxes to IS | taxes To E | IRES | IRAP | total |
| (38,243) | - | 265,587 | - | 265,587 |
| 26,928 | - | 272,582 | 3,856 | 276,438 |
| (14,872) | - | 20,256 | 3,153 | 23,409 |
| 231,267 | (1,095,903) | 18,065,521 | 1,603,756 | 19,669,277 |
| 213,245 | - | 1,115,605 | - | 1,115,605 |
| 316,210 | - | 2,733,863 | 313,590 | 3,047,453 |
| (361,970) | 254,137 | 11,414,261 | 81 | 11,414,342 |
| 1,243,361 | - | 2,267,727 | 316,228 | 2,583,955 |
| 28,654 | - | 443,771 | 49,059 | 492,830 |
| 5,984,242 | - | 24,698,705 | 1,701,697 | 26,400,402 |
| 9,341,907 | 1,000,117 | 14,568,277 | 100,188 | 15,082,012 |
| 1,322 | 1,047 | 56,228 | 9,480 | 65,708 |
| - | - | 1,243,266 | 176,318 | 1,419,584 |
| (94,012) | - | 19,732 | - | 19,732 |
| - | 2,204,779 | 4,389,594 | 769,376 | 5,158,970 |
| - | - | 2,304 | - | 2,304 |
| 3,530 | - | 52,585 | - | 52,585 |
| (56,458) | 3,267 | 84,551 | 11,992 | 96,543 |
| (3,075,883) | - | 51,303 | - | 51,303 |
| (24,220) | 739,612 | 652,537 | 87,075 | 739,612 |
| (142,990) | 6,064 | 29,079 | (12,564) | 234,670 |
| **13,582,018** | **3,113,120** | **82,447,336** | **5,133,285** | **88,212,324** |

| 2009 | | | | |
|---|---|---|---|---|
| taxes | | | | |
| taxes to IS | taxes To E | IRES | IRAP | total |
| (2,011,234) | - | 15,643,692 | 2,758,793 | 18,402,484 |
| (69,358) | - | 124,618 | 13,403 | 138,022 |
| (7,323) | - | 261,537 | 31,075 | 292,612 |
| 88,885 | - | 2,286,177 | - | 2,286,176 |
| - | - | 37,214,713 | 4,784,587 | 41,999,300 |
| 874,784 | - | 3,225,590 | 220,463 | 3,446,054 |
| 472,856 | 211,284 | 1,610,112 | - | 1,610,112 |
| (12,457) | - | 339,469 | 40,139 | 379,608 |
| 1,956,380 | - | 10,756,701 | 1,582,759 | 12,339,460 |
| (931,130) | 21,243 | 6,415,335 | 989,899 | 7,404,959 |
| (84,030) | - | 944,998 | 126,412 | 1,071,410 |
| 38,674 | - | 56,015 | - | 56,015 |
| - | - | - | - | - |
| 100,435 | (57,879) | 602,066 | 68,394 | 670,460 |
| 1,127,059 | - | 5,922,440 | 839,910 | 6,762,350 |
| (74,918) | 743 | 4,383,810 | 615,334 | 5,151,627 |
| - | (862,266) | 454,454 | 73,130 | 326,632 |
| **1,468,622** | **(686,874)** | **90,241,728** | **12,144,299** | **102,337,283** |
| **-** | **-** | **-** | **-** | **-** |
| **12,113,396** | **3,799,994** | **7,794,392** | **(7,011,013)** | **(14,124,958)** |

thousands of euro

| | Trade receivables | Financial receivables | Other receivables | Trade receivables | Financial receivables | Other receivables | Revenue and income | Operating expense | Financial income | Financial expense |
|---|---|---|---|---|---|---|---|---|---|---|
| Municipality of Genoa | 25,272 | - | - | 10,382 | - | - | 24,065 | 2,549 | - | - |
| Municipality of Parma | 21,904 | - | - | 2,384 | - | - | 5,121 | 41 | - | - |
| Municipality of Piacenza | 4,779 | - | - | 6,556 | - | - | 2,061 | 1,748 | - | - |
| Municipality of Reggio Emilia | 4,751 | - | - | 315 | - | 1,631 | 2,041 | 424 | - | - |
| Municipality of Turin | 34,095 | 214,379 | - | 4,857 | - | - | 63,236 | 8 | 3,337 | - |
| Finanziaria Sviluppo Utilities | 28 | - | - | 5 | 3,628 | - | 28 | - | - | 11 |
| AES Torino | 1,525 | 89,277 | 2,081 | 7,832 | - | - | 1,232 | 34,042 | 1,227 | - |
| OLT Offshore LNG | 520 | 137,378 | - | - | - | - | 399 | - | 2,361 | - |
| Namtra | - | - | - | - | - | - | - | - | - | - |
| Società Acque Potabili | 8,883 | 45 | - | - | - | - | 2,973 | 8 | - | - |
| Acquedotto Savona | 3 | - | - | - | - | - | 3 | - | - | - |
| Acquedotto Monferrato | 3 | - | - | - | - | - | 3 | - | - | - |
| Acque Potabili Crotone | - | - | - | - | - | - | - | - | - | - |
| Acque Potabili Siciliane | - | - | - | - | - | - | - | - | - | - |
| A2A Alfa | - | - | - | - | - | - | - | - | - | - |
| ABM Next | 9 | 100 | - | - | - | - | - | - | - | - |
| Aciam S.p.A. | 377 | 960 | - | 7 | - | - | 84 | 4 | 14 | - |
| Acos Energia S.p.A. | 4,435 | - | - | 132 | - | - | 17 | 26,825 | - | - |
| Acos S.p.A. | 56 | 82 | - | - | - | - | 64 | - | - | - |
| Acquaenna S.c.p.a. | 3,036 | 282 | - | 320 | - | - | 137 | - | - | - |
| Acqueinforma | - | - | - | - | - | - | - | - | - | - |
| Aguas de San Pedro S.A. | 479 | - | - | - | - | - | - | - | - | - |
| Aiga S.p.A. | 484 | 433 | - | - | - | - | 400 | - | 15 | - |
| Alegas S.r.l. | 7,447 | - | - | - | - | - | 24,568 | - | - | - |
| AMAT Energia | 78 | - | - | - | - | - | - | - | - | - |
| Amat S.p.A. | 97 | - | - | - | - | - | 494 | - | - | - |
| Amter S.p.A. | 1,585 | - | - | - | - | - | 702 | - | - | - |
| ASA S.p.A. | 8,781 | 6,614 | - | 116 | - | - | 557 | 56 | - | - |
| ASMT Serv. Ind.S.p.A. | 152 | - | - | 1 | - | - | 127 | 19 | - | - |

thousands of euro

| | Trade receivables | Financial receivables | Other receivables | Trade receivables | Financial receivables | Other receivables | Revenue and income | Operating expense | Financial income | Financial expense |
|---|---|---|---|---|---|---|---|---|---|---|
| ASTEA | 7,646 | 569 | - | 97 | - | - | 50,866 | 1,084 | 190 | - |
| Atena S.p.A. | 52 | - | - | 146 | - | - | 68 | 1,914 | - | - |
| BT Enia Telecomunicazioni | 764 | - | - | 2,688 | - | 1,555 | 805 | 1,132 | 23 | - |
| Castel S.p.A. | 16 | - | - | - | - | - | 21 | - | - | - |
| Consorzio Servizi Integrati | 17,738 | - | - | 4,926 | - | - | 16,985 | 9,209 | - | - |
| Domus Acqua S.r.l. | 27 | - | - | - | - | - | - | - | - | - |
| Edipower S.p.A. | 87,741 | - | - | 139,446 | - | - | 29,920 | 75,389 | - | - |
| Fata Morgana S.p.A. | 1 | - | - | - | - | - | - | - | - | - |
| Gas Energia S.p.A. | - | - | - | 73 | - | - | - | - | - | - |
| GESAM GAS S.p.A. | - | - | - | 9 | - | - | 8 | 8 | - | - |
| GICA s.a. | - | - | - | - | - | - | - | - | - | - |
| Global Service Parma | - | - | - | 1,609 | - | - | - | 1,414 | - | - |
| Il Ceppo S.r.l. | 29 | 218 | - | - | - | - | 12 | - | - | - |
| Il Tempio S.r.l. | - | 314 | - | - | - | - | - | - | 3 | - |
| Iniziative Ambientali S.r.l. | 26 | - | - | - | - | - | - | - | - | - |
| Livorno Holding S.r.l. | - | - | - | - | - | - | - | - | - | - |
| Mestni Plinovodi | 28 | - | - | - | - | - | 55 | - | - | - |
| Mondo Acqua | 227 | - | - | - | - | - | 392 | - | - | - |
| Piana Ambiente S.p.A. | 302 | - | - | 134 | - | - | - | - | - | - |
| Plurigas S.p.A. | 1,625 | - | - | 33,488 | - | - | 37,813 | 267,268 | - | - |
| Rio Riazzone S.p.A. | - | - | - | 19 | - | - | - | - | - | - |
| S.M.A.G. srl | 38 | - | - | - | - | - | 9 | 1,006 | - | - |
| Salerno Energia Vendite | 174 | - | - | - | - | - | 100 | - | - | - |
| Sea Power & Fuel S.r.l. | - | - | - | - | - | - | - | - | - | - |
| Sinergie Italiane S.r.l. | 80 | - | - | 84,606 | - | 201 | 117 | 126,780 | - | - |
| So. Sel. S.p.A. | 4 | - | - | 1,515 | - | - | 5 | 1,637 | - | - |
| Tirana Acque | - | - | - | - | - | - | - | - | - | - |
| Undis S.p.A. | 1 | - | - | - | - | - | - | - | - | - |
| Valle Dora Energia Srl | 15 | 7 | - | - | - | - | 15 | - | - | - |
| VEA Energia e Ambiente | 1,032 | - | - | 12 | - | - | 3,459 | 10 | - | - |

# RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB COMMUNICATION NO. 6064293 DATED 26 JULY 2006)

thousands of euro

| IFRS STATEMENT OF FINANCIAL POSITION | | RECLASSIFIED STATEMENT OF FINANCIAL POSITION | |
|---|---|---|---|
| Property, plant and equipment | 2,642,531 | | |
| Investment property | 2,687 | | |
| Intangible assets | 1,168,458 | | |
| Goodwill | 132,117 | | |
| Investments accounted for using the equity method | 324,106 | | |
| Other investments | 296,249 | | |
| **Total (A)** | **4,566,148** | **Non-Current Assets (A)** | **4,566,148** |
| Other non-current assets | 29,463 | | |
| Other payables and other non-current liabilities | (148,383) | | |
| **Total (B)** | **(118,920)** | **Other non-current assets (liabilities) (B)** | **(118,920)** |
| Inventories | 45,227 | | |
| Trade receivables | 1,115,235 | | |
| Current tax assets | 5,755 | | |
| Other receivables and other current assets | 209,504 | | |
| Trade payables | (955,677) | | |
| Other payables and other current liabilities | (270,444) | | |
| Current tax liabilities | (12,560) | | |
| **Total (C)** | **137,040** | **Net working capital (C)** | **137,040** |
| Deferred tax assets | 134,046 | | |
| Deferred tax liabilities | (106,805) | | |
| **Total (D)** | **27,241** | **Assets (Liabilities) for deferred tax liabilities (D)** | **27,241** |
| Employee benefits | (94,327) | | |
| Provisions for risks and charges | (195,133) | | |
| Provisions for risks and charges - current portion | (35,807) | | |
| **Total (E)** | **(325,267)** | **Provisions and employee benefits (E)** | **(325,267)** |
| Assets held for sale | 77,857 | | |
| Liabilities related to assets held for sale | (22,329) | | |
| **Total (F)** | **55,528** | **Assets (liabilities) held for sale (F)** | **55,528** |
| | | **Net invested capital (G=A+B+C+D+E+F)** | **4,341,770** |
| **Equity (H)** | **2,081,620** | **Equity (H)** | **2,081,620** |
| Non-current financial assets | (88,388) | | |
| Non-current financial liabilities | 1,829,263 | | |
| **Total (I)** | **1,740,875** | **Medium and long-term financial indebtedness (I)** | **1,740,875** |
| Current financial assets | (377,281) | | |
| Cash and cash equivalents | (144,547) | | |
| Current financial liabilities | 1,041,103 | | |
| **Total (L)** | **519,275** | **Short-term financial indebtedness (L)** | **519,275** |
| | | **Net financial indebtedness (M=I+L)** | **2,260,150** |
| | | **Own funds and net financial indebtedness (H+M)** | **4,341,770** |

## INDEPENDENT AUDITORS' FEES

Pursuant to art. 149-duodecies of the -Regulation implementing Italian Legislative Decree 58/1998, fees for the year due to KPMG S.p.A. can be summarised as follows:

thousands of euro

| Service | Service provider | To | Fees |
|---|---|---|---|
| Audit | Parent auditor | Parent | 114 |
| Attestation services (1) | Parent auditor | Parent | 169 |
| Tax consulting services | Parent auditor | Parent | - |
| Other services (2) | i) Parent auditor | Parent | 136 |
| | ii) Parent auditor network | Parent | - |
| Audit | i) Parent auditor | i) Subsidiaries | 876 |
| | ii) Parent auditor network | ii) Subsidiaries | - |
| Attestation services (3) | i) Parent auditor | i) Subsidiaries | 184 |
| | ii) Parent auditor network | ii) Subsidiaries | - |
| Tax consulting services | i) Parent auditor | i) Subsidiaries | 2 |
| | ii) Parent auditor network | ii) Subsidiaries | - |
| Other services (4) | i) Parent auditor | i) Subsidiaries | 133 |
| | ii) Parent auditor network | ii) Subsidiaries | - |
| | | **Total** | **1.614** |

(1) Attestation services regard the signing of the tax unified form and Modello 770 form, the check and the attestation of the unbundling financial statements and the performance of agree-upon procedures to check compliance with procedures of the Sustainability Report.
(2) Other services refer to translation of financial statements and methodology support for the preparation of the financial statements
(3) Attestation services regard the signing of the tax unified form and Modello 770 form, and the audit of annual separate financial statements.
(4) Other services regard the certification of data transmitted to AEEG as regards fees applications.

## STATEMENT REGARDING THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. The undersigned, Andrea Viero, Managing Director, and Massimo Levrino, Administration and Finance Director and Manager in charge of financial reporting of Iren S.p.A. hereby confirm, also in consideration of the provisions of art. 154-bis, subsections 3 and 4, Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in respect of the company's characteristics and
- the effective application during 2010 of administrative and accounting procedures in preparing the consolidated financial statements.

2. Furthermore, it is hereby declared that:

2.1 the consolidated financial statements:

a) are prepared in compliance with applicable IFRS endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002;

b) correspond with books and accounting records;

c) are suitable to give a true and fair view financial position and results of operations of the issuer and group of companies included in the consolidation scope.

2.2 the Directors' Report includes a reliable analysis of the operating performance and results, and of the issuer's situation and of the entirety of the companies included in the consolidation, together with the description of the major risks and uncertainties to which they are exposed.

Reggio Emilia, 24 March 2011

The Managing Director
Mr. Andrea Viero

Administration and Finance Director and
Manager in charge of financial reporting Law 262/05
Mr. Massimo Levrino

KPMG S.p.A.
Revisione e organizzazione contabile
Corso Vittorio Emanuele II, 48
10123 TORINO TO

Telefono +39 011 8395144
Telefax +39 011 8171651
e-mail it-fmauditaly@kpmg.it

**(Translation from the Italian original which remains the definitive version)**

# Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Iren S.p.A.

1 We have audited the consolidated financial statements of the Iren Group (formerly Iride Group) as at and for the year ended 31 December 2010, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

The consolidated financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the parent's directors restated some of the corresponding figures included in the prior year consolidated financial statements. We audited such financial statements and issued our report thereon on 13 April 2010. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the consolidated financial statements at 31 December 2010.

3 In our opinion, the consolidated financial statements of the Iren Group as at and for the year ended 31 December 2010 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Iren Group as at 31 December 2010, the results of its operations and its cash flows for the year then ended.

4 Following the merger of the Iride and Enia Groups which led, on 1 July 2010, to the merger of Enia S.p.A. into Iride S.p.A. (now Iren S.p.A.), the directors have prepared two reports on the corporate governance and ownership structure: the first report covers the

months of 2010 prior to the merger and refers to Iride S.p.A. (now Iren S.p.A.), while the second report covers the remaining months of 2010 and refers to Iren S.p.A..

The directors of Iren S.p.A. are responsible for the preparation of a directors' report on the financial statements and the above reports on the corporate governance and ownership structure, published in the Investor Relations section of Iren S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the above reports on the corporate governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the above reports on the corporate governance and ownership structure are consistent with the consolidated financial statements of the Iren Group as at and for the year ended 31 December 2010.

Turin, 9 April 2011

KPMG S.p.A.

(signed on the original)

Roberto Bianchi
Director of Audit

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

# Separate Financial Statements

at 31 December 2010

# STATEMENT OF FINANCIAL POSITION

Amounts in euro

| | Note | 31 December 2010 | of which related parties | 31 December 2009 | of which related parties |
|---|---|---|---|---|---|
| **ASSETS** | | | | | |
| Property, plant and equipment and investment property | (1) | 7,527,915 | | 8,037,490 | |
| Investments in subsidiaries, joint ventures and associates | (2) | 2,169,160,526 | | 1,579,436,556 | |
| Other investments | (3) | 267,834,208 | | 12,928,200 | |
| Non-current financial assets | (4) | 885,163,053 | 883,174,385 | 510,211,574 | 509,324,833 |
| Other non-current assets | (5) | 413,960 | | 325,428 | |
| Deferred tax assets | (6) | 17,943,274 | | 13,034,860 | |
| **Total non-current assets** | | **3,348,042,936** | | **2,123,974,108** | |
| Trade receivables | (7) | 14,098,041 | 14,075,457 | 4,749,890 | 4,627,850 |
| Tax assets | (8) | 663,448 | | 1,692,905 | |
| Other receivables and other current assets | (9) | 57,155,281 | 53,203,604 | 27,796,406 | 27,281,829 |
| Current financial assets including derivatives | (10) | 962,642,892 | 962,438,269 | 702,407,566 | 701,896,311 |
| Cash and cash equivalents | (11) | 43,571,059 | | 20,471,054 | |
| **Total current assets** | | **1,078,130,721** | | **757,117,821** | |
| **Assets classified as held for sale** | | - | | - | |
| **TOTAL ASSETS** | | **4,426,173,657** | | **2,881,091,929** | |

Amounts in euro

| | Note | 31 December 2010 | of which related parties | 31 December 2009 | of which related parties |
|---|---|---|---|---|---|
| **EQUITY** | | | | | |
| Share capital | | 1,276,225,677 | | 832,041,783 | |
| Reserves and Losses carried forward | | 253,845,224 | | 206,885,726 | |
| Profit for the year | | 102,689,657 | | 72,069,845 | |
| **TOTAL EQUITY** | (12) | **1,632,760,558** | | **1,110,997,354** | |
| **LIABILITIES** | | | | | |
| Non-current financial liabilities | (13) | 1,771,437,651 | | 1,259,334,403 | |
| Employee benefits | (14) | 9,806,349 | | 2,078,451 | |
| Provisions for risks and charges | (15) | 19,192,611 | | 1,381,889 | |
| Deferred tax liabilities | (16) | 2,421,988 | | 1,814,267 | |
| **Total non-current liabilities** | | **1,802,858,599** | | **1,264,609,010** | |
| Current financial liabilities | (17) | 907,336,479 | 116,011,137 | 478,588,161 | 21,811,799 |
| Trade payables | (18) | 32,412,727 | 9,697,467 | 8,718,913 | 984,820 |
| Other payables and other current liabilities | (19) | 47,384,121 | 39,428,914 | 8,240,329 | 2,114,100 |
| Tax liabilities | (20) | 3,421,173 | | 540,878 | |
| Provisions risks current portion | (21) | - | | 9,397,284 | |
| **Total current liabilities** | | **990,554,500** | | **505,485,565** | |
| **Liabilities related to assets held for sale** | | - | | - | |
| **TOTAL LIABILITIES** | | **2,793,413,099** | | **1,770,094,575** | |
| **TOTAL EQUITY AND LIABILITIES** | | **4,426,173,657** | | **2,881,091,929** | |

# INCOME STATEMENT

Amounts in euro

| | Note | 2010 | of which related parties | 2009 | of which related parties |
|---|---|---|---|---|---|
| **REVENUE** | | | | | |
| Revenue from goods and services | (22) | 10,359,243 | 10,359,243 | 4,760,132 | 4,760,132 |
| Other revenue and income | (23) | 4,509,812 | 668,663 | 967,400 | 513,824 |
| **TOTAL REVENUE** | | **14,869,055** | | **5,727,532** | |
| **OPERATING EXPENSE** | | | | | |
| Purchase of raw materials, consumables, supplies and goods | (24) | (9,085) | (348) | (14,677) | (22) |
| Services and use of third-party assets | (25) | (15,684,843) | (3,216,496) | (15,015,904) | (2,052,699) |
| Other operating expense | (26) | (2,606,835) | (316,381) | (1,354,736) | (199,900) |
| Personnel expense | (27) | (13,523,583) | | (6,485,859) | |
| **Total operating expense** | | **(31,824,346)** | | **(22,871,176)** | |
| **GROSS OPERATING LOSS** | | **(16,955,291)** | | **(17,143,644)** | |
| **AMORTISATION, DEPRECIATION, PROVISIONS AND IMPAIRMENT LOSSES** | | | | | |
| Amortisation/depreciation | (28) | (531,463) | | (395,923) | |
| Provisions and impairment losses | (29) | (243,604) | | 1,826,199 | |
| **Total amortisation, depreciation, provisions and impairment losses** | | **(775,067)** | | **1,430,276** | |
| **OPERATING LOSS** | | **(17,730,358)** | | **(15,713,368)** | |
| **FINANCIAL INCOME** | (30) | | | | |
| Financial income | | 177,650,961 | 176,112,210 | 238,579,927 | 234,671,709 |
| Financial expense | | (67,247,122) | (101,053) | (119,292,348) | (144,559) |
| *- of which non-recurring* | | - | | *(64,311,694)* | |
| **Net financial income** | | **110,403,839** | | **119,287,579** | |
| **PROFIT BEFORE TAX** | | **92,673,481** | | **103,574,211** | |
| Income tax expense | (31) | 10,016,176 | | (31,504,366) | |
| *- of which non-recurring* | | - | | *(38,749,979)* | |
| **PROFIT FOR THE YEAR FROM CONTINUING OPERATIONS** | | **102,689,657** | | **72,069,845** | |
| Profit from discontinued operations | | - | | - | |
| **PROFIT FOR THE YEAR** | | **102,689,657** | | **72,069,845** | |

# STATEMENT OF COMPREHENSIVE INCOME

| | Note | 2010 | 2009 |
|---|---|---|---|
| | | | Amounts in euro |
| **Profit for the year (A)** | | **102,689,657** | **72,069,845** |
| Other comprehensive income | | | |
| - effective portion of changes in fair value of cash flow hedges | (32) | (829,868) | (6,882,467) |
| - change in fair value of available-for-sale financial assets | (32) | (13,750,735) | - |
| Tax effect of other comprehensive income | (32) | 457,285 | 2,224,413 |
| **Total other comprehensive loss for the year, net of tax effect (B)** | | **(14,123,318)** | **(4,658,054)** |
| **Total comprehensive profit for the year (A)+(B)** | | **88,566,339** | **67,411,791** |

# STATEMENT OF CASH FLOWS

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| **A. Opening cash and cash equivalents including cash pooling balance** | **624,616** | **557,212** |
| **Cash flow from operating activities** | | |
| Profit for the year | 102,689 | 72,070 |
| Adjustments: | | |
| Amortisation of intangible assets and depreciation of property, plant and equipment and investment property | 531 | 396 |
| Net variation of post-employment benefits and other employee benefits | 2,130 | 94 |
| Net variation in provisions for risks and other charges | 1,662 | (1,632) |
| Profit/(loss) from the sale of discontinued operations, net of tax effects | - | - |
| Variation in deferred tax liabilities | (283) | (5,281) |
| Variation in other non-current liabilities | (89) | (71) |
| Dividends received | (113,650) | (134,554) |
| **B. Cash flows used in operations before variations in NWC** | **(7,010)** | **(68,978)** |
| Variation in trade receivables | (9,171) | 2,477 |
| Variation in tax assets and other current assets | (8,351) | (11,177) |
| Variation in trade payables | 21,103 | 3,760 |
| Variation in tax liabilities and other current liabilities | 4,209 | (18,258) |
| **C. Cash flow from/(used in) variations in NWC** | **7,790** | **(23,198)** |
| **D. Operating cash flows (B+C)** | **780** | **(92,176)** |
| **Cash flows from investing activities** | | |
| Investments in intangible assets, property, plant and equipment and investment property | (22) | - |
| Dividends received | 113,650 | 134,554 |
| **E. Total cash flows from investing activities** | **113,628** | **134,554** |
| **F. Free cash flows (D+E)** | **114,408** | **42,378** |
| **Cash flows from/(used in) financing activities** | | |
| Dividends paid | (70,724) | (70,724) |
| Other changes in equity | (509) | (4,658) |
| New loans | 200,000 | 545,000 |
| Repayment of loans | (279,523) | (253,565) |
| Variation in financial receivables | (362,233) | (59,741) |
| Variation in financial payables | 146,178 | (131,286) |
| Cash and cash equivalents acquired with the Iride-Enia merger | 32,965 | - |
| **G. Total cash flows from/(used in) financing activities** | **(333,846)** | **25,026** |
| **H. Cash flows for the year (F+G)** | **(219,438)** | **67,404** |
| **I. Closing cash and cash equivalents including cash pooling balance (A+H)** | **405,178** | **624,616** |
| **L. Cash-pooling balance with subsidiaries** | **(361,607)** | **(604,145)** |
| **M. Closing cash and cash equivalents (I+L)** | **43,571** | **20,471** |

# STATEMENT OF CHANGES IN EQUITY

| | Share capital | Share premium reserve | Legal reserve | Hedging reserve | Fair value reserve for available for-sale assets |
|---|---|---|---|---|---|
| **At 31/12/2008** | **832,042** | **105,102** | **17,936** | **(5,638)** | **-** |
| Allocation of profit for 2008 | | | | | |
| - Legal reserve | | | 2,322 | | |
| - Distribution of dividends | | | | | |
| - Extraordinary reserve | | | | | |
| Distribution of extraordinary dividend | | | | | |
| Total profit for the year | | | | (4,658) | |
| *of which:* | | | | | |
| *- Profit for the year* | | | | | |
| *- Other comprehensive loss* | | | | *(4,658)* | |
| **At 31/12/2009** | **832,042** | **105,102** | **20,258** | **(10,296)** | **-** |
| Allocation of the profit for 2009 | | | | | |
| - Legal reserve | | | 3,604 | | |
| - Distribution of dividends | | | | | |
| - Extraordinary reserve | | | | | |
| Distribution of extraordinary dividend | | | | | |
| **Merger of Enìa into IRIDE on 1 July 2010 and subsequent non-recurring contribution transactions** | | | | | |
| Increase in share capital as part of the share exchange relative to the merger with ENIA | 444,184 | | | | |
| Negative goodwill | | | | | |
| Reinstatement of the hedging reserve | | | | (2,856) | |
| Reinstatement of the fair value reserve for available-for-sale financial assets | | | | | 5,115 |
| Reinstatement of other reserves taxable on distribution | | | | | |
| Changes in equity for contributions | | | | | |
| Impairment losses on AFS investment | | | | | (13,562) |
| Total profit for the year | | | | (562) | |
| *of which:* | | | | | |
| *- Profit for the year* | | | | | |
| *- Other comprehensive loss* | | | | *(562)* | |
| **At 31/12/2010** | **1,276,226** | **105,102** | **23,862** | **(13,714)** | **(8,447)** |

thousands of euro

| Extraordinary reserve | Contribution reserve | Negative goodwill from share exchange | Other reserve | Reserve from transition to IFRS | Total reserves and retained earnings (losses carried forward) | Profit (Loss) | Total |
|---|---|---|---|---|---|---|---|
| **53,054** | **7,555** | **94,319** | **-** | **(36,507)** | **235,821** | **46,446** | **1,114,309** |
| | | | | | | | |
| | | | | | 2,322 | (2,322) | - |
| | | | | | | (44,098) | (44,098) |
| 26 | | | | | 26 | (26) | - |
| (26,626) | | | | | (26,626) | | (26,626) |
| | | | | | (4,658) | 72,070 | 67,412 |
| | | | | | | | |
| | | | | | | *72,070* | *72,070* |
| | | | | | *(4,658)* | | *(4,658)* |
| **26,454** | **7,555** | **94,319** | **-** | **(36,507)** | **206,885** | **72,070** | **1,110,997** |
| | | | | | | | |
| | | | | | 3,604 | (3,604) | - |
| | | | | | - | (68,227) | (68,227) |
| 239 | | | | | 239 | (239) | - |
| (2,496) | | | | | (2,496) | | (2,496) |
| | | | | | | | |
| | | | | | | | 444,184 |
| | | 57,426 | | | 57,426 | | 57,426 |
| | | | | | (2,856) | | (2,856) |
| | | | | | 5,115 | | 5,115 |
| | | (94,952) | 94,952 | | - | | - |
| 52 | | | | | 52 | | 52 |
| | | | | | (13,562) | | (13,562) |
| | | | | | (562) | 102,689 | 102,127 |
| | | | | | | | |
| | | | | | | *102,689* | *102,689* |
| | | | | | *(562)* | | *(562)* |
| **24,249** | **7,555** | **56,793** | **94,952** | **(36,507)** | **253,845** | **102,689** | **1,632,760** |

# NOTES TO THE FINANCIAL STATEMENTS

## INTRODUCTION

Iren S.p.A. is an Italian multiutility company, listed on the Italian Stock Exchange (Borsa Italiana). It was established on 1 July from the merger of Iride and Enìa.

On 1 July 2010, the merger of Enìa into Iride was concluded, with the legal effect of the merger of the Iride and Enìa Groups, as explained in the Information Document drawn up in accordance with art. 70 of the Issuer Regulation provided to the shareholders and the market on 28 June 2010.

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

- the merging company Iride was renamed Iren S.p.A.;
- the ordinary shares of Iren S.p.A. (formerly Iride) were exchanged with the shares held by the shareholders of Enìa at a ratio of 4.2 ordinary shares of Iren S.p.A. for each ordinary share of Enìa. The Iren shares are listed starting from 1 July, while the Enìa shares were delisted;
- a capital increase in Iren S.p.A., amounting to euro 444,183,894.00 was decided and at 31 December 2010 it totalled euro 1,276,225,677.00, subscribed and fully paid, divided in 1,181,725,677 ordinary shares and 94,500,000 unlisted, savings shares.

Through its subsidiaries, Iren S.p.A. operates in the segments of electrical energy (production, distribution and sale), thermal energy for district heating (production and sale), gas (distribution and sale), integrated water cycle, waste (waste collection and disposal) and services for public administrations.

Iren was structured after the model of an industrial holding, with headquarters in Reggio Emilia, Via Nubi di Magellano no. 30, and operating offices in Genoa, Parma, Piacenza and Turin, as well as companies heading the single business lines.

In comparing the balances of the statement of financial position, the Income statement and the statement of cash flows included in the financial statements at 31 December 2009 and 31 December 2010, it must be kept into consideration that the first refer only to Iride S.p.A. and do not include the contribution of Enìa.

In order to make the financial statements of the two Companies comparable, some reclassifications were required to the schedules at 31 December 2009. The most significant reclassifications are described in these notes.

## IRIDE-ENIA MERGER – ACCOUNTING ASPECTS

For accounting purposes, the business combination that resulted in the formation of Iren did not feature the elements suited for a "Business Combination". IFRS 3 was therefore deemed as not applicable. Based on this standard, "one single entity, the acquirer, obtains control of one or more businesses, the acquiree".
In the case of Iren, the obligation set forth by IFRS 3 to identify one (single) acquirer seems in contrast with the willingness, expressed by the subjects taking part in the business combination, to adopt, in an extremely complex context, joint measures from which the existence of a controlling company with respect to the others cannot be inferred.
Therefore, the business combination is substantially connectable to the formation of a joint venture, as provided for by IAS 31.
The IFRS do not set out a specific accounting policy that a joint venture should adopt regarding assets and liabilities that are jointly controlled by the venturers. As regards the above-mentioned transactions, the international practice has developed two alternative approaches:

- Fair value: in this case, assets and liabilities of the subjects taking part in the merger are recognised in the newly incorporated entity at their fair value determined at the date of merger.

- Historical cost: assets and liabilities from subjects taking part in the merger are recognised in the newly incorporated entity with a pooling of interest method as regards the carrying amounts recognised in the accounts of the companies taking part in the merger, before the transaction.

In this case, the Directors, in charge of defining an accounting policy to disclose the transactions in accounting terms, deem that the most suited accounting policy to disclose the transaction is the pooling of interest method, also taking account of the methods used by the Iride Group in similar transactions previously carried out.

For further information about the above-mentioned merger, reference should be made to the documentation prepared in accordance with the relevant legislation and the applicable provisions of CONSOB (the Italian commission for listed companies and the stock exchange), as made available in accordance with the terms of the legislation itself.

## I. CONTENT AND STRUCTURE OF THE SEPARATE FINANCIAL STATEMENTS

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

In compliance with European Regulation no. 1606 of 19 July 2002, the Iride Group, starting from 2005, has adopted the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") in the preparation of its consolidated financial statements. Based on the national implementation legislation for the aforementioned Regulation, the separate financial statements of the Parent Iride S.p.A. have been prepared in accordance with the IFRS starting from 2006.

In drawing up these financial statements, the same accounting policies were used as those adopted for the Financial Statements at 31 December 2009, with the exceptions highlighted in section "Accounting policies and interpretations applied in 2010".

The separate financial statements at 31 December 2010 consist of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

As from 1 January 2009, the Company applied "IAS 1 Revised", which introduces supplementary information with reference to the so-called "Statement of comprehensive income". This supplementary statement includes items on profits pertaining to equity, such as variations in the hedging reserve, the share of other investments in other associates and profit/loss of other available-for-sale financial assets accrued over the year. The changes in these items were previously included and disclosed in the statement of changes in equity.

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

For a better exposure of figures, "Non-current financial assets including derivatives" was divided in "Investments in subsidiaries, joint ventures and associates", "Other investments" and "Non-current financial assets". "Tax assets" was changed in "Current tax assets" and "Current financial assets including derivatives" was changed in "Current financial assets".

In equity, "Retained earnings (losses carried forward)" was included in "Reserves", and the caption was changed in "Reserves and retained earnings (losses carried forward)".

"Provisions" was changed in "Provisions for risks and charges", "Tax liabilities" was changed in "Current tax liabilities", and "Provisions for current portion" was changed in "Provisions for risks and charges – current portion".

The income statement is classified on the basis of the nature of costs. In addition to the operating profit, the income statement also shows the gross operating profit obtained by deducting total operating expense from total revenue.
The indirect method is used in the cash flow statement.

The separate financial statements have been drawn up based on the historical cost principle, except for certain financial instruments measured at fair value. The financial statements have also been drawn up on the assumption of the company ability to continue as a going concern. The company in fact considered that, even though there is a difficult economic and financial context, there are no significant uncertainties (as defined in IAS 1.25) regarding the going concern assumption.

These separate financial statements are stated in euro, the company's functional currency. Data included in the notes are expressed in thousands of euro.

Finally, in accordance with Consob Resolution no. 15519 of 27 July 2006 regarding the format of financial statements, specific additional columns have been added to the Income Statement and the Statement of Financial Position to highlight significant transactions with related parties.

## II. ACCOUNTING POLICIES

The policies applied in the preparation of the financial statements of Iren S.p.A. at 31 December 2010 are set out below.

### Property, plant and equipment

*- Property, plant and equipment*

Property, plant and equipment are recognised at contribution, purchase or internal construction cost. This cost includes all costs directly attributable to bringing the asset to the location and condition necessary for it to be available for use (including, when relevant and the company has the related present obligation, the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located), net of trade discounts and rebates.
Financial expense related to the purchase of items of property, plant and equipment is capitalised for the part of the cost of the asset until it becomes operative.
When significant components of property, plant and equipment have different useful lives, they are accounted for separately.
In particular, according to this policy, land and buildings located on the land is to be recognised separately; therefore, only the buildings are depreciated, while the carrying amount of land is impaired, as described in the following section "Impairment losses".
Ordinary maintenance expenditure is expensed in full. Maintenance 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. Such expenditure includes expenditure that reasonably leads to an increase in future economic benefits, such as the lengthening of useful life, increase in production capacity, improvement in product quality and adoption of production processes that entail a significant reduction in production costs.
Assets under construction include expenditure related to the construction of plants incurred until the reporting date. These investments are depreciated once the asset becomes operative.
Property, plant and equipment are depreciated systematically on a straight-line basis annually using economic-technical rates determined in line with their residual useful lives.
The rates applied are set out in the following table:

| Item | Min. rate | Max. rate |
|---|---|---|
| Buildings | 3.0% | 3.0% |
| Auxiliary systems of buildings | 5.0% | 10.0% |

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

*- Assets under finance lease*

Assets held under finance leases are recognised as property, plant and equipment using the financial method with a balancing entry under payables of the same amount, as provided for by IAS 17 which, while reflecting the economic substance of operations, compares these operations to purchase and facility agreements. Based on the above-mentioned method, property, plant and equipment are recognised at the lease principal upon subscription of the financial 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 amortisation plan, in addition to amortisation 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 receivable is recognised under Statement of financial position assets. It decreases over time in line with the collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the amortisation 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.
Expenses incurred after the purchase or completion of a property intended as an investment property increase the initial cost of the asset, if the company is likely to obtain higher future benefits than those previously estimated, thanks to these expenses. Otherwise, such costs are charged to the income statement.
Investment property is depreciated systematically annually on a straight-line basis using rates held to represent the residual useful life of the relevant asset.

### Intangible assets

Intangible assets are recognised in the Statement of financial position when it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably. They are recognised at contribution, acquisition or production cost, including any directly attributable costs.
Intangible assets with finite useful lives are amortised on a systematic basis over their useful lives so that the carrying amount at year end matches their residual life or recoverable amount based on the company's plans to develop production. Amortisation begins when the asset is available for use.
Development costs are capitalised if all of the following features can be demonstrated:

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

If even one of these requirements is not met, the cost is fully recognised in the period in which it is incurred.
Amortisation begins when the asset is available for use, in other words, when it is able to operate as intended by the company's management. Amortisation expires on the later of either the date in which the asset is classified as held for sale (or included in a disposal group classified as held for sale), pursuant to IFRS 5, or the date in which the asset is derecognised.
Intangible assets under development and payments on account relate to internal and external costs referring to intangible assets for which the company has not yet acquired the right to and has not started to use in production. These investments are amortised from the date when they begin to be used in production.
Under IAS 36, intangible assets under development and payments on account are tested for impairment annually, or whenever there is any indication of impairment, so as to check that the carrying amount matches the recoverable amount.

### Goodwill

Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the fair value of the identifiable assets, liabilities and contingent liabilities acquired. If, after this restatement, current values of assets and liabilities and contingent

values exceed the acquisition cost, the difference is recognised immediately in the income statement. Any goodwill deriving from the acquisition of an associate is included in the carrying amount of the investment.
The Group has decided not to retrospectively apply IFRS 3 - Business combinations - to acquisitions that took place before 1 January 2004 on IFRS first-time adoption. Therefore, goodwill on acquisitions made before the transition date has been maintained at its amount determined under Italian GAAP after testing for impairment.
Goodwill is allocated to one or more cash-generating units and is not amortised, but is tested annually for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on "Impairment losses").

### Non-current assets held for sale

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

### Impairment losses

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

### Financial instruments

*- Investments in subsidiaries and associates*

Investments in subsidiaries and associates are measured at cost. In the event of impairment, the carrying amount of the investment is written down. The impairment loss is recognised in the income statement.

*- Other investments*

Investments in other companies, classified as available for sale (AFS), are measured at fair value. Profits and losses from changes in fair value are taken directly to equity (Fair value reserve) until they are sold or impaired. In this case, the total loss is reversed from equity and taken to the income statement for an amount equal to the difference between the acquisition cost and the current fair value. If the fair value cannot be reliably determined, investments are measured at cost adjusted for impairment losses, the effect of which is recognised in the income statement.
The risk deriving from losses which exceed the carrying amount of the investment is provided for in a provision for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

*- Financial assets held for trading*

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

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

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

*- Available-for-sale financial assets*

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

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

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

*- Hedging*

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

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

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

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

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

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

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

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

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

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

*- Other financial assets and liabilities*

Loans and receivables are initially recognised at fair value, adjusted by any directly attributable transaction costs. They are subsequently measured at amortised cost.

Securities held until maturity are initially recognised at cost, increased by transaction costs borne for the acquisition of the financial asset. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, net of impairment losses.

*- Trade receivables and payables*

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

*- Cash and cash equivalents*

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

Cash and cash equivalents, including ancillary charges, are measured at fair value.

Cash on hand and revenue stamps are measured at their nominal amount.

### Equity

Share capital, including the various categories of shares, is stated at its nominal amount less share capital proceeds to be received.

The purchase cost of treasury shares is recognised as a reduction in equity.

Costs directly attributable to share capital transactions of the parent are offset against equity.

Dividends are recognised as payables when they are approved by the Shareholders.

### Employee benefits

Post-employment benefits are defined according to plans which, based on their characteristics, are separated into "defined contribution" and "defined benefit" plans.

In defined contribution plans, the company obligation, limited to the payment of State contributions or to a separate fund, is calculated on the basis of contributions due. For Iren this category includes Post-Employment Benefits accrued since 1 January 2007, payable to the Inps (the Italian Social Security Institute) fund and the share paid to the additional pension funds.

The liability relating to the defined benefits plans, net of any plan assets, is calculated according to actuarial assumptions. For Iren, 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 electricity discount for employees and former employees, additional monthly salaries (art. 47, national labour agreement for the sector) and the loyalty bonus paid to employees.

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

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

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

Profits and losses deriving from the actuarial calculations are taken to income statement.

### Provisions for risks and charges

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

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

Risks for which the related liability is only potential are disclosed in the notes to the financial statements, and no provision is made.
No additional information is provided for events that are remote, i.e. where it is very unlikely they will arise, and no provision is made.
The provisions are recognised at the amount representing the best estimate of the total that the company would pay to settle the obligation, or transfer it to third parties at year end. If the discounting effect on the value of money is significant, the provisions are calculated by discounting future cash flows expected at a pre-tax discount rate that reflects the current market assessment of the time value of money.
On discounting, the time-related increase in the provision is recognised as financial expense.

### Revenue

Revenue is measured at fair value with respect to the amount received or due, taking account of any commercial discounts and reductions connected with quantity.
Revenue from the sale of goods is recognised when:
- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When an uncertainty arises about the collectability of an amount already recognised, the uncollectible amount must be recognised as an expense, rather than as an adjustment of the income originally recognised.
Revenue from services is recognised when:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the stage of completion of the transaction at the reporting date can be measured reliably;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

### Grants related to assets and grants related to income

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

### Other revenue

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

### Costs for the purchase of goods and services

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

### Financial income and expense

Income arising from the use by others of company assets yielding interest and dividends is recognised when:
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the amount of revenue can be measured reliably.

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

When an uncertainty arises about the collectability of an amount already recognised, the uncollectible amount is recognised as an expense, rather than as an adjustment of the amount of income originally recognised.
Financial expense is recognised in the year in which it is incurred. Financial expense that is directly attributable to the acquisition, construction or production of a plant is capitalised as part of the cost of that asset when:
- it is likely that it will result in future economic benefits to the company
- it can be reliably measured.

### Income tax expense
Income taxes comprise all the taxes calculated on the company's taxable income.
Current and deferred taxes are recognised as income or expense and included in the profit or loss for the year, except to the extent that the tax arises from a transaction or event that is recognised, in the same or a different year, directly in equity.
Current tax is the expected tax payable on the taxable income for the year, applying the tax legislation enacted or substantially enacted at the reporting date. Deferred tax liabilities are calculated based on the temporary differences between the carrying amounts of assets and liabilities in the separate financial statements and the amounts used for taxation purposes.
Deferred tax assets are recognised only when their recovery is probable.
Deferred tax liabilities are calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.

The option for the Group tax consolidation scheme was exercised pursuant to art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A.. The latter then calculates IRES on the sum of taxable profits/losses of each company taking part in the tax consolidation scheme.
In return for the taxable income earned and transferred to the parent, the consolidated company commits to pay the parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.

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

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

### Energy efficiency certificates
Strictly related to activities performed, some energy efficiency certificates were assigned to the Group, strictly connected with the performance of specific energy saving activities. In particular, the Group received:
- Trade certificates from the Network Operator (GRTN) certifying the annual production of electrical energy from renewable sources (Green Certificates). The Group is the owner of such certificates thanks to the production of electrical energy through hydroelectric plants, the waste

to energy plant in Tecnoborgo, biogas plants, as well as to the use of cogeneration plants connected with district heating;
- Trade certificates (TEE) from the Authority for electrical energy and gas (AEEG) which certify the adoption of energy saving measures (White Certificates).

For accounting purposes, these Energy Certificates are considered as follows:
- Green Certificates deriving from the annual production of electrical energy from renewable sources are recognised on an accrual basis;
- White Certificates are accounted for in a slightly different way according to the fact that the company is bound or not bound to return the TEEs. The entities that are bound to return the TEEs shall recognise both the grant related to the year, only for the TEEs (accrued and/or purchased) that they actually own at the reporting date, and the cost of TEEs purchased to meet obligations. If the purchased certificates exceed the requested number, the exceeding certificates are rediscounted.

## ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS FROM 1 JANUARY 2010

- IFRIC 12 "Service Concession Arrangements" defines the recognition and measurement criteria to be adopted in arrangements between public and private sectors related to development, financing, management and maintenance of infrastructures under concession. In particular, should the grantor control the infrastructure by regulating and controlling the characteristics of the services supplied and the applicable prices, as well as by maintaining a residual interest in the activity, the operator shall purchase either the right to use said infrastructure, or the financial asset, or both, according to agreements made. Following the issue of the above-mentioned interpretation, the operators that are included in the above cases, cannot recognise the assets used to supply 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. The adoption of this interpretation has had no impact on the financial position or results of operations of the company.

- IAS 27 - Revised - relates to the measurement of changes in investments. If changes in investment ownership occur but control is still maintained, the effect shall be recognised in equity; conversely, if the change results in a non-controlling investment, the residual investment shall be measured at fair value. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- Amendments to IFRS 2, as regards the accounting of cash-settled share-based payment transactions within a Group and repeal of IFRIC 8 and IFRIC 11. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- IFRS 3 - Revised - introduces changes in the presentation of business combinations. Amongst these changes, the following is to be noted: in the business combinations achieved in stages, the entire investment must be re-measured at fair value. Transactions carried out with third parties after acquisition of control, and on the assumption that such control will be maintained, must be accounted for in equity; costs borne for the acquisition shall be immediately charged to income statement; changes in "contingent consideration" are taken to the income statement. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- IFRS 5 "Non-current assets held for sale and discontinued operations": the amendment, applicable as from 1 January 2010 prospectively, clarified that IFRS 5 and the other IFRS, which specifically refer to non-current assets (or groups of assets), classified as available for sale or as discontinued operations, provide all the information required for this kind of assets or operations. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- IFRS 8 "Operating Segments": this amendment, applicable starting from 1 January 2010, requires that all companies disclose the value of all assets for each single reportable segment, if such amount is periodically provided to the chief operating decision maker. This disclosure was previously required also if the above-mentioned condition did not occur. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- IFRIC 9 "Reassessment of Embedded Derivatives": under the amendment, embedded derivatives in contracts acquired as part of business combinations when joint-ventures are formed, are excluded from the application scope of IFRIC 9. The adoption of this interpretation has had no impact on the financial position or results of operations of the company.

- IFRIC 15 "Agreements for the Construction of Real Estate": this interpretation specifies the recognition criteria of revenue and costs related to the signing of an agreement for the construction of real estate, and provides guidance on how to determine whether provisions set forth either by IAS 11 "Construction Contracts" or by IAS 18 "Revenue" are to be applied. It also regulates the accounting treatment to be applied to revenue deriving from additional services rendered for the real estate under construction. The adoption of this interpretation has had no impact on the financial position or results of operations of the company.

- IFRIC 16 "Hedges of a Net Investment in a Foreign Operation": this interpretation applies to an entity that hedges the currency risk arising from its net investments in foreign operations and wishes to qualify for hedge accounting in accordance with IAS 39. The adoption of this revised interpretation has had no impact on the financial position or results of operations of the company.

- IFRIC 17 "Distribution of Non-cash Assets to Owners": in particular, this interpretation clarifies when a dividend payable should be recognised, as well as how the same should be measured and how, when the dividend is paid, the entity should recognise the difference between the carrying amount of the net assets distributed and the carrying amount of the dividend paid. The adoption of this revised interpretation has had no impact on the financial position or results of operations of the company.

- IFRIC 18 "Transfers of Assets from Customers": this interpretation regards the way of recognising transfers of assets from customers, i.e. of cash, for the connection to a distribution network. IFRIC 18 should be only applied to entities that are not bound to apply IFRIC 12. The adoption of this interpretation has had no impact on the financial position or results of operations of the company.

- IAS 1 – "Presentation of Financial Statements": with this amendment, the definition of current liabilities, included in IAS 1, is modified. The previous definition required that liabilities, which might be settled at any moment through the issue of equity instruments, be stated under current liabilities. This involved the recognition of liabilities related to convertible bonds and that might be converted at any moment into shares of the issuer under current liabilities. Following the amendment, for the purposes of the current/non-current classification of a liability, the presence of a conversion option currently exercisable in equity instruments becomes insignificant. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- IAS 7 "Statement of Cash Flows": the amendment is applicable as from 1 January 2010 and sets out that only cash flows arising from expenses due to the recognition of an asset in the statement of financial position, can be included in the statement of cash flows as deriving from investing activities, while cash flows, such as for promotion and advertising or staff training costs, shall be classified as deriving from operating activities. The adoption of this revised standard has had no impact on the statement of cash flows of the company.

- IAS 17 - "Leases": the amendment sets out that, when measuring a lease agreement, which includes both land and buildings, the portion regarding land is considered as a finance lease if the land in question has an indefinite useful life; like in this case, the significant risks and rewards associated to its use for the term of the agreement can be considered as transferred to the lessee, although no formal transfer document was signed. This amendment is applicable as from 1 January 2010 and, at the day of adoption, all pieces of land under lease already in force and not yet expired, shall be measured separately, with a possible retrospective recognition of a new lease accounted for as the related agreement were of a financial nature. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- IAS 36 "Impairment of assets": this amendment, applicable prospectively starting on 1 January 2010, sets out that each operating unit, or group of operating units, on which the goodwill is allocated for impairment test, has a size not greater than an operating segment, as set out in IFRS 8.5, before the aggregation allowed for by paragraph 12 of the same IFRS, based on similar economic characteristics or other comparative elements. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- IAS 38 "Intangible assets": the revision of IFRS 3, carried out in 2008, sets out that, if a business combination is separable or results from contract or legal rights, enough information is available to measure the fair value of an intangible asset acquired during a business combination. IAS 38 was therefore adjusted accordingly to reflect this amendment to IFRS 3. Moreover, the measurement techniques to be used to determine the fair value of intangible assets, for which there is no reference active market, have also been clarified. In particular, these techniques include, alternatively, the estimate of discounted net cash flows generated from the assets, the estimate of costs that the company avoided by virtue of the fact that it owned the asset and the latter is not used under a licence agreement, and the estimate of costs required to recreate or replace the asset (as in the so-called cost method). This amendment is applicable prospectively on 1 January 2010. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- IAS 39 "Financial Instruments: Recognition and Measurement": the amendment restricts the non-applicability exception, provided for in IAS 39.2g, to forward contracts between purchaser and shareholder seller in order to sell a company transferred to a business combination to a future acquisition date if the completion of a business combination is not due to further actions of one of the two parties, but only due to the elapsing of a reasonable amount of time. The amendment clarifies that option contracts (whether they are exercisable or not), which permit that one of the two parties has the control on the realisation of future events and the exercise of such contracts would result in the control of a company, fall under the application of IAS 39. Moreover, the amendment envisages that implicit penalties for the early settlement of loans, the amount of which is a reimbursement for the lender of the loss of further interest, must be considered as strictly related to the financing contract that provides for such loans, and therefore they must be recognised separately. Finally, it is also sets out that profits or losses resulting from a hedged financial instrument must be reclassified from equity to income statement in the period in which the expected hedged cash flow has an impact on the income statement. This amendment is applicable prospectively on or after 1 January 2010. The adoption of this revised standard has had no impact on the financial position or results of operations of the company.

- IAS 32 Financial Instruments: presentation: the amendment must be applied retrospectively on or after 1 January 2011 and regards the recognition of issue of rights (rights, options or warrants) denominated in currencies other than the issuer currency. These rights were previously recorded as liabilities from derivative financial instruments. The amendment sets out, instead, that under special conditions, these rights must be classified to equity, independently from the currency at which the exercise price is denominated.

- IAS 24 Related party disclosures: this standard refers to the simplification of the type of disclosure required in transactions with related parties controlled by the Government and clarifies the definition of related parties. This amendment must be applied to periods beginning 1 January 2011.

- IFRS 9 Financial Instruments: published by IASB on 12 November 2009 and then amended on 28 October 2010. The standard, effective 1 January 2013, is the first part of a process developed in stages which aims at replacing IAS 39 in full and introduces the new criteria for the classification and measurement of financial assets and liabilities and the derecognition of financial assets.
  At the reporting date, the competent bodies of the European Union have not yet concluded the endorsement process necessary for its application.

- IFRIC 14 Prepayments of Minimum Funding Requirements: it allows the companies which pay advance payments as part of minimum funding requirements, to recognise these amounts as assets. This amendment must be applied on and after 1 January 2011.

- IFRIC 19 Extinguishing Financial Liabilities with Equity Instruments: provides guidance on how to recognise the extinguishment of a financial liability by the issue of equity instruments. This interpretation sets out that, when an entity renegotiates the terms of a financial liability with its creditor and the creditor agrees to accept the entity's shares or other equity instruments to settle the financial liability, then the shares issued by the company become part of the price paid for the settlement of the financial liability and must be measured at fair value. The difference between the carrying amount of the settled financial liability and the initial value of equity instruments issued must be charged to income statement for the year. This interpretation must be applied on and after 1 January 2011.

### Use of estimates

In order to prepare the financial statements in compliance with IFRS, estimates and related assumptions are based on previous experience and other case factors which are deemed reasonable and were adopted to define the carrying amount of assets and liabilities to which they refer. Estimates have been used to measure property, plant and equipment, investment property and intangible assets subject to impairment, as well as to recognise provisions, amortisation and depreciation and impairment losses on assets, employees benefits, to determine the fair value of derivatives and available-for-sale financial assets, taxes and other provisions for risks. These estimates and assumptions are regularly reviewed. Any changes deriving from the revision of accounting estimates are recognised in the year in which they are revised, if the revision refers only to the year 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 years.

## III. RISK MANAGEMENT

The management of business risks is an essential component of the Internal Control System of corporate governance in a listed company, and the Code of Conduct set forth by Borsa Italiana assigns specific responsibilities as regards this aspect. The enterprise risk management model, in place within the Group, is being implemented and adjusted to the new Iren. The model includes the methodological approach to the integrated identification, assessment and management of Group risks.
For each of the following risk types:
- Financial risk (interest rate, currency, spread);
- Credit risk;
- Energy risk (risk factors associated to energy and/or financial markets, such as market variables or pricing choices);
- Operational risk (risk factors associated with the ownership of assets, involvement in business activities, processes, procedures and information flows, and with the group's image);

specific "policies" were defined with the primary goal of fulfilling strategic guidelines, organisational-managerial principles, macro processes and techniques necessary for the active management of related risks.
This model also regulates the roles of the various parties involved in the risk management process, which is governed by the Group Board of Directors. The document requires the creation of a Group Risk Committee and specific Risk Commissions, which shall take more hands-on action regarding specific management models for each of the following types of risk.
The "Risk Management" department, reporting to the CEO, was set up within the Iren Group. This function is formally entrusted with the following activities:
- coordinating the integrated management process of the Group's risks;
- signing and managing insurance policies, with the cooperation of the Legal department.

A summary of the risk management models is shown hereunder.

### Liquidity risk

Liquidity risk is the risk that financial resources available to the company are insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.
The table below illustrates the expected outflows (within 12 months, in 1-5 years and over 5 years). The flows indicated are undiscounted future nominal cash flows, with the most updated market scenario, measured according to residual contractual expiry dates, on both principal and interest. Undiscounted nominal cash flows relating to interest rate hedges are also shown.

thousands of euro

| Figures at 31/12/2010 | Carrying amount | Contractual cash flows | within 12 months | 1-5 years | over 5 years |
|---|---|---|---|---|---|
| Mortgage and bond payables (*) | 1,846,176 | (2,196,060) | (159,888) | (1,263,461) | (772,711) |
| Hedging of interest rate risk (**) | 21,014 | (19,621) | (13,489) | (11,501) | 5,370 |

(*) The carrying amount of "Mortgage and bond payables" includes the nominal amount of mortgages and bonds (both current and non-current portion). Exchange rate differences on mortgages totalled under "Other bank loans" are excluded.
(**) The carrying amount of "Hedging of interest rate risk" includes the fair value of hedges (both positive and negative).

Cash flows required to settle other financial liabilities, different from those to banks, do not differ significantly from the recognised carrying amount.
For details of the liquidity risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

### Interest rate risk

For a more complete understanding of the interest rate risks, a sensitivity analysis was performed on net financial charges to changes in interest rates. This analysis was performed on the basis of reasonable assumptions as follows:
- an increase and a reduction of 100 basis points in the Euribor interest rates over the year was applied to the net financial indebtedness;

- in any existing hedge, interest rate shock was applied to both the debt position and related hedge with an extremely limited net effect on the income statement;
- with regard to existing hedges at year end, a 100 basis points translation increase and decrease were applied to the forward curve of interest rates used to measure the fair value of the hedges.

The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2010.

thousands of euro

| | Financial expense | | Hedging Reserve | |
|---|---|---|---|---|
| | 100 bps increase | 100 bps decrease | 100 bps increase | 100 bps decrease |
| **Cash flow sensitivity (net)** | | | | |
| Net financial indebtedness (including hedges) | (372) | 372 | - | - |
| **Change in fair value** | | | | |
| Hedges (assessment components only) | (193) | 114 | 21,433 | (28,763) |
| **Total impact from sensitivity analysis** | **(565)** | **486** | **21,433** | **(28,763)** |

## Fair value

Fair value is determined as the sum of estimated future cash flows expected in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the forward curve of interest rates at year end. In order to provide as complete disclosure as possible, the corresponding figure from the previous year is also indicated.

For each recognised asset and liability class, the following table provides both the carrying amount and related fair value.

thousands of euro

| | At 31.12.10 | | At 31.12.09 | |
|---|---|---|---|---|
| | Carrying amount | Fair value | Carrying amount | Fair value |
| Non-current loans to related parties | 883,174 | 932,914 | 509,325 | 523,622 |
| Hedges - long-term assets | 1,989 | 1,989 | 887 | 887 |
| Non-current bank loans and borrowings | (1,748,435) | (1,778,340) | (1,243,382) | (1,258,452) |
| Hedges - long-term liabilities | (23,003) | (23,003) | (15,952) | (15,952) |
| Loans - current portion | (97,820) | (148,974) | (175,490) | (208,121) |
| **Total** | **(984,095)** | **(1,015,414)** | **(924,612)** | **(958,016)** |
| **Unrecognised profit / (loss)** | | **(31,319)** | | **(33,404)** |

## Fair value hierarchy

The following table shows the financial instruments recognised at fair value, based on the measurement technique used. The various levels were defined as shown hereunder:

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

thousands of euro

| 31 December 2010 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale financial assets | | | 267,834 | 267,834 |
| Financial assets designated at fair value through profit or loss | - | - | - | - |
| Financial assets held for trading | - | - | - | - |
| Derivative financial assets | - | 1,989 | - | 1,989 |
| **Total assets** | **-** | **1,989** | **267,834** | **269,823** |
| Derivative financial liabilities | - | (23,003) | - | (23,003) |
| **Gross total** | **-** | **(21,014)** | **267,834** | **246,820** |

thousands of euro

| 31 December 2009 | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Available-for-sale financial assets | | | | |
| Financial assets designated at fair value through profit or loss | - | - | - | - |
| Financial assets held for trading | - | - | - | - |
| Derivative financial assets | - | 887 | - | 887 |
| **Total assets** | **-** | **887** | **-** | **887** |
| Derivative financial liabilities | - | (15,952) | - | (15,952) |
| **Gross total** | **-** | **(15,065)** | **-** | **(15,065)** |

All Group hedging financial instruments feature a fair value which can be classified at level 2. This level is measured based on the valuation techniques, which take as a reference parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different than quotations of the financial instruments, or however that do not require a significant adjustment based on data which cannot be observed on the market. Exception is made for the investment, acquired in Delmi upon merger with Enìa. Although essentially based on the Business Plan of the Edison Group, approved and disclosed to the market, its value also reflects negotiations for the transformation of the investment in industrial assets. As regards the above, no sensitivity analysis is applicable and therefore is not submitted.
Moreover, no transfers occurred amongst the various Levels of the fair value hierarchy.

### Credit risk

Iren S.p.A. is not particularly exposed to credit risk as it mainly provides professional services to the First-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.

For details of the credit risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

*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

Transactions between the Company and its subsidiaries and related parties are ruled by a transparent and fair approach. A good part of these transactions concern services provided to the customers in general (gas, water, electricity, heat, etc.) and are governed by contract rules normally applicable to these situations.
Where they do not concern present services, the transactions are governed by specific contracts, whose terms are established in accordance with normal market terms. If these references are not available or significant, the various profiles will be defined in consultation with independent experts or professionals.

### Transactions with related parties

Iren S.p.A. provides a series of services to Finanziaria Sviluppo Utilities S.r.l. (in the legal, administrative, financial and tax areas) in accordance with specific agreements that provide for fair remuneration for the services.
Specifically, an agreement was signed through which FSU S.r.l assigned management of temporary cash surpluses to Iren S.p.A., through the creation of an infragroup current account.

### 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 "light" 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. These activities are governed by special supply contracts at arms' 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, medium/long-term loans are taken out from financial institutions by Iren, whereby the funds are subsequently transferred to the Group's companies to support the investments made by these companies based on intercompany facility agreements.
The Board of Directors approved the regulation of financial transactions between the Parent and the First-level Companies, regarding both the cash pooling of the resources available within the Group for day to day requirements (working), and for the management of the resources needed to support medium/long term investments. The conditions of infragroup contracts, signed based on the above regulation, were defined according to the conditions at which the Parent procures on the financial market.

*Tax consolidation scheme* - Starting from 2007, Iride S.p.A., now Iren S.p.A., adopted the tax consolidation scheme pursuant to art. 117 et seq., of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recorded by the individual consolidated companies, properly adjusted for the consolidation changes.
For 2010, all financial and legal transactions between the parties were governed by the specific Infragroup agreement between the companies involved and the parent, Iride S.p.A., now Iren S.p.A..
The merged Enia S.p.A. initially adhered, as parent, to the tax consolidation scheme, together with other Group companies.
Following the favourable outcome of the request made to the Tax Office to continue the tax consolidation scheme with the new parent Iren, as from 1 July 2010 the companies being part of the Group tax consolidation of the former Enia S.p.A. (merged into Iride S.p.A. that was renamed Iren S.p.A) could adhere to the above-mentioned tax consolidation scheme.
The new scope of the tax consolidation scheme therefore includes, in addition to the parent Iren S.p.A., the following companies: AEM Torino Distribuzione, CELPI, Iride Servizi, AEMNET, Iren Acqua Gas, Iren Mercato, Iren Energia, CAE AMGA Energia, AGA, AES Torino, Mediterranea delle Acque, Zeus, Immobiliare delle Fabbriche, Nichelino Energia, Enia Parma, Enia Piacenza, Enia Reggio Emilia, Tecnoborgo, Iren Ambiente and Iren Emilia.

In particular, this contract covers the way in which the IRES taxable amounts are transferred and the related remuneration charge, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.
Italian Law 244 of 24 December 2007 (2008 Finance Law), with effect starting from the 2008 tax period, radically changed the group taxation rules. It abolished all consolidation adjustments provided for by art. 122 of the Consolidated Income Tax Act, abrogated the rules regarding infragroup transfers pursuant to art. 123 of the Consolidated Income Tax Act and introduced the possibility, under certain conditions, to deduct from the consolidated income surplus interest expense of the participating companies that may have accrued due to the new interest expense deductibility provisions set forth in art. 96 of the Consolidated Income Tax Act.
As a result of the regulatory modifications mentioned above, the parties agreed on the need to update the previous Regulation in effect, in conformity with the provisions of art. 22 of the Regulation. The update protects the principles stated above.
After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay the parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.
The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the parent is able to determine the total group Income for IRES purposes.
The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to art. 127 paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.

*Group VAT option* – Both the Iride group and the Enia group opted for the Group VAT settlement in 2010. Due to the fact that the merger occurred in the year, two settlements were performed for the new Iren S.p.A, still kept well divided until the end of the 2010 tax year. In 2011, the two items were unified and a new caption was created as per law.
In terms of procedures, for 2010, the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding settlements and VAT periodic payments.
The companies that took part in the settlement procedure of former Iride S.p.A. are the parent Iren S.p.A. and the following companies: Iren Energia S.p.A., Iride Servizi S.p.A., Iren Acqua Gas S.p.A., Iren Mercato S.p.A., AEM Torino Distribuzione S.p.A., AEM NET S.p.A., CAE AMGA Energia S.p.A., AES Torino S.p.A., CELPI, Genova Reti Gas. The companies included in the non-recurring transaction of Group VAT settlement are: Enia Reggio Emilia S.p.A. , Enia Parma S.p.A., Enia Piacenza S.p.A., Iren Ambiente S.p.A., Iren emilia S.p.A., Enia Solaris S.p.A..

### Transactions with Directors

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

a) the Chairman of Iren S.p.A. (Mr. Bazzano) is also CEO and Managing Director of Iren Acqua Gas;
b) the CEO of Iren S.p.A. (Mr. Garbati) is also CEO and Managing Director of Iren Energia;
c) the Managing Director of Iren S.p.A. (Mr. Viero) is also CEO and Managing Director of Iren Emilia and CEO of Iren Ambiente.

Any interests that these authorised bodies have in operations between the Parent and the First-level Companies will be declared when they are being approved by the respective Boards of Directors.

A breakdown of the amounts involved in transactions with related parties is provided among the annexes to the separate financial statements.

## V. 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

| | BALANCE AT 31/12/2009 | Increases | Depreciation | Disposals and other changes | BALANCE AT 31/12/2010 |
|---|---|---|---|---|---|
| Land | 559 | - | - | - | 559 |
| Buildings | 7,478 | 22 | (531) | - | 6,969 |
| **Total** | **8,037** | **22** | **(531)** | **-** | **7,528** |

Furthermore, there are no guarantees for significant amounts on the assets.

### *Note 2 _Investments in subsidiaries, joint ventures and associates*

*Investments in subsidiaries and joint ventures*

The list of investments in subsidiaries at 31 December 2010 is annexed.
Changes in investments in subsidiaries during the year are as follows:

thousands of euro

| Company | BALANCE AT 31/12/2009 | Increases (Decreases) for the year | Impairment losses | BALANCE AT 31/12/2010 |
|---|---|---|---|---|
| AEM Torino Distribuzione S.p.A. | - | 62,368 | - | 62,368 |
| AES Torino S.p.A. | 113,871 | (113,871) | - | - |
| Iren Acqua Gas S.p.A. | 442,371 | 87,145 | - | 529,516 |
| Iren Ambiente S.p.A. | - | 97,189 | - | 97,189 |
| Iren Emilia S.p.A. | - | 283,027 | - | 283,027 |
| Iren Energia S.p.A. | 676,183 | 433,116 | - | 1,109,299 |
| Iren Mercato S.p.A. | 62,437 | 24,898 | - | 87,335 |
| Iride Servizi S.p.A. | 70,668 | (70,668) | - | - |
| Tecnoborgo S.p.A. | - | 186 | - | 186 |
| **TOTAL** | **1,365,530** | **803,390** | **-** | **2,168,920** |

Increases for the year are due to the acquisition of investments following the non-recurring transactions aimed at reorganising the Iren Group, carried out as part of the merger with Enia. In particular, the increases result from the contributions of business activities, part of the former Enia S.p.A., to Iren subsidiaries; decreases are due to the contribution to Iren Energia of the business activity consisting in investments held by Iren in AES Torino, Iride Servizi, Edipower and Energia Italiana.
Investments in AEM Torino Distribuzione and Tecnoborgo are indirectly controlled by effect of quotas held by Iren Energia and Iren Ambiente, respectively.

In December, the First-level companies, Iren Acqua Gas, Iren Energia, Iren Mercato, Iren Ambiente and Iren Emilia made an extraordinary distribution, drawing on the available reserves, amounting to euro 99,377 thousand (euro 70,343 thousand in 2009). As regards this distribution, the Directors underline that they checked that there are no impairment indicators so as to require the recognition of an impairment loss pursuant to provisions set out by IAS 36.

*Investments in associates*
The list of investments in associates at 31 December 2010 is provided in an annex.

Changes in investments in associates during the year are as follows:

thousands of euro

| Company | BALANCE AT 31/12/2009 | Increases (Decreases) for the year | Impairment losses | BALANCE AT 31/12/2010 |
|---|---|---|---|---|
| Edipower S.p.A. | 213,666 | (213,666) | - | - |
| Plurigas S.p.A. | 240 | - | - | 240 |
| **TOTAL** | **213,906** | **(213,666)** | **-** | **240** |

Within the reorganisation transactions due to the merger between Iride and Enìa, the equity investment in Edipower was contributed to Iren Energia.

## Note 3_Other investments

This item relates to investments in companies over which Iren S.p.A. has neither control nor significant influence. Since their fair value could not be reliably determined, these investments were recognised at cost, adjusted for any impairment losses.
At 31 December 2009, other investments were presented under Non-current financial assets. To this regard, the corresponding figures have been restated.

The list of other investments at 31 December 2010 is provided in an annex.

The changes occurred in other investments during the year are as follows:

thousands of euro

| Company | BALANCE AT 31/12/2009 | Increases (Decreases) for the year | Imp. Losses to equity | BALANCE AT 31/12/2010 |
|---|---|---|---|---|
| Delmi S.p.A. | - | 281,585 | 13,751 | 267,834 |
| Energia Italiana S.p.A. | 12,928 | (12,928) | - | - |
| **TOTAL** | **12,928** | **268,657** | **13,751** | **267,834** |

Within the reorganisation transactions due to the merger between Iride and Enìa, the equity investment in Energia Italiana was contributed to Iren Energia.

With reference to the calculation of fair value in the investment in Delmi S.p.A., the Directors of Iren show the following:

Delmi, classified as available for sale, is not quoted on an active market. As previously indicated, Delmi S.p.A. jointly controls with WGRM Holding 4 S.p.A. (wholly owned by Electricité de France S.A.), Transalpina di Energia (hereinafter TdE), which, in its turn, holds 61.28% of Edison. The carrying amount of Delmi therefore does not only depend on the performance of Edison, which is however significant, but a number of agreed conditions and governance terms exist both in TdE and in Delmi, which identify autonomous situations in the above-mentioned vehicles, with a subsequent contribution to the definition of the fair value model.

As a consequence of the above and in relation to the various statements released on the media on various M&A scenarios for Edison and its control chain, in 2010 Iren's Directors, together with other reference stakeholders and following the expressions of interest made by possible counterparties, started a series of actions aimed at defining short and medium-term strategies on the consolidation of the industrial value of Delmi, and not merely financial, through the conversion of the equity investment into production assets.

The Directors' willingness to define a fair value model which confirms the industrial destination of the investment is strengthened by the merger that generated Iren. On the one hand, in fact, the Group owns the technical know-how to manage hydroelectric and CCGT plants, on the other hand, the Group intends to consider Delmi and Edipower transactions univocally.
Thus, the executive committee and the Board of Directors of Iren elected to assign special offices to industrial and financial advisors in order to identify targets for Delmi's shareholders aimed at increasing the value of their equity investments, discussing a preliminary economic assessment and a possible review of the industrial and corporate setting of Edison and its control chain of Delmi, as well as at defining an implementation program for the specific transaction.

In light of the above, Iren's Directors deem it suited to use such information to define a fair value calculation model that better reflects the allocation of the investment in Delmi and medium-term strategic objectives.

In particular, it seems suited to use a fair value calculation model mainly based on the Business Plan of the Edison Group, as performed in TdE, which carried out this analysis with the help of an independent expert, by using cash flows referred to the 2011 Budget for the subsidiary Edison, approved by Edison Spa's Board of Directors on 14 January 2011, as well as based on estimates made by Edison's corporate management included in the "2011-2018 Business Plan". In fact, this document reflects the best estimates made by the Top Management on the main assumptions underlying corporate operations (macro-economic and price trends, operating expectations of production assets and business development). These assumptions and the corresponding financials are deemed as suited for impairment testing. The expert checked the assumptions included in the document, referring to external sources. He also asked management to develop analyses and simulations to supplement the "2011-2018 Business Plan", also through evaluations and estimates different from those included in the "2011-2018 Business Plan". The expert has also examined the 2010-2017 Plan previously approved by the Board of Directors of Edison S.p.A..
The independent directors of Edison also required an analysis to check assumptions made by the expert. These checks, assigned to Goldman Sachs, highlighted no significant remarks and the analysis made by the expert was confirmed.
As regards the calculation of the recoverable amount of each business segment, the value in use was estimated taking account of both the operating cash flow present value, gross of tax (as expressly set out by regulations) pertaining to the sector and referred to the business plan period (extended until 2018), and the terminal value at the end of the plan term, consistently with the nature of investments and Edison's operating segments. A terminal value was calculated for both business segments, by defining an operating cash flow, normalised to obtain conditions of regular corporate operations and considering a growth rate ranging between 0 and 2% annual nominal amount. To calculate the terminal value, the flows related to the electrical energy business segment take into consideration the fact that the impact, resulting from the expiration of CIP 6/92 agreements, will cease starting from 2016. As regards the terminal value of the hydrocarbon business segment, the cash flows were normalised to cancel, inter alia, the effect of renegotiations of the long-term contracts for gas imports pertaining to 2010. Discount rates, consistent with the above-described flows, were estimated by determining the weighted average cost of capital.

By applying the above-mentioned method, a reduction of euro 8,564 thousand is recorded with respect to the initial figure, equal to euro 276,399 thousand. Furthermore, the reduction in the reserve is equal to euro 13,751 thousand, compared to the last carrying amount, equal to euro 281,585 thousand. This amount, net of deferred tax liabilities, equal to euro 189 thousand, has a balancing-entry in a specific reserve in equity.

The Directors of Iren, in fact, deem that this impairment might be temporary by virtue of the fact that Edison's flows are linked to variables subject to strong fluctuations due to future evolution of energy markets. On the one hand, in fact, the current situation, featuring a non completely recovered economy and lower energy consumption, results in a production overcapacity scenario which, related to gas supply contracts of the take or pay type (purchase obligations exceeding the amounts sold), reduces, also remarkably, the margins of productions from non-cogeneration combined cycle plants. On the other hand, the macroeconomic scenario which is being outlined, characterised by the North-African and Middle-Eastern crisis that influenced oil prices, as well as by a greater uncertainty and possible increase in costs connected with nuclear energy and a reduction in incentives granted to renewable sources, accompanied to an economic recovery in most industrialised countries, shows positive indicators for energy producers using high-efficient natural gas power plants.

Iren's Directors therefore think that, to date, there is no objective evidence for impairment regarding Delmi, also considering the fact that valuations made with other control methods resulted in a higher fair value, although in line with the above-mentioned indications. The above-mentioned impairment loss is therefore recorded in other charges of the Statement of comprehensive income, in addition to a reduction of the related reserve in equity.

## Note 4_Non-current financial assets

*Non-current financial receivables*

These are detailed in the following table:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Due from subsidiaries and join ventures | 882,204 | 508,355 |
| Due from associates and other Group companies | 970 | 970 |
| **Total** | **883,174** | **509,325** |

Financial receivables from subsidiaries and joint ventures refer to receivables from IREN Energia, for euro 430,000 thousand (euro 230,000 thousand at 31 December 2009), receivables from AEM Distribuzione, for euro 110,000 thousand (euro 130,000 thousand at 31 December 2009), receivables from Iren Acqua Gas, for euro 145,000 thousand (euro 11,000 thousand at 31 December 2009), receivables from Iren Mercato, for euro 80,000 thousand (31 December 2009: nil), receivables from Iren Emilia, for euro 110,000 thousand (31 December 2009: nil) and receivables from Idrotigullio, for euro 7,204 thousand (euro 7,355 at 31 December 2009). Moreover, at 31 December 2009, receivables from AES Torino amounted to euro 130,000 thousand.

Financial receivables from other Group companies refer to a non-interest bearing capital injection into Nord Ovest Servizi.

*Other non-current financial assets*

These amount to euro 1,989 thousand (euro 887 thousand at 31 December 2009) and relate to the fair value of derivatives. Reference should be made to the section on "Risk management" in chapter III for comments.

## Note 5_Other non-current assets

These are euro 414 thousand (31 December 2009: euro 325 thousand) and are made up of receivables due from personnel for the non-current share of loans granted to employees and guarantee deposits paid.

## Note 6_Deferred tax assets

This item amounts to euro 17,943 thousand (31 December 2009: euro 13,035 thousand) and refers to deferred tax assets arising from costs deductible in future years.
Reference should be made to the income statement, Note 31 "Income tax expense", for further details.

## CURRENT ASSETS

### NOTE 7_TRADE RECEIVABLES

These are detailed in the following table:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Receivables from customers | 23 | 122 |
| Receivables from subsidiaries and joint ventures | 13,766 | 4,308 |
| Receivables from associates | 259 | 186 |
| Receivables from parents | 28 | 14 |
| Receivables from other Group companies | 22 | 120 |
| **Total** | **14,098** | **4,750** |

*Receivables from customers*

They mainly refer to receivables for energy unbalancing with respect to Terna and expense reimbursements. They amount to euro 23 thousand (euro 122 thousand at 31 December 2009).

*Receivables from subsidiaries and joint ventures*

Receivables from subsidiaries amount to euro 13,766 thousand (euro 4,308 thousand at 31 December 2009) and refer to normal sales transactions carried out at market conditions.
Details of receivables from subsidiaries are provided in the following table:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Acquedotto Monferrato | 5 | 5 |
| Acquedotto Savona | 5 | 5 |
| AEM Torino Distribuzione | 508 | 595 |
| AEMNET | 19 | 9 |
| AES Torino | 186 | 113 |
| AGA | 3 | 6 |
| CAE AMGA Energia | 25 | 2 |
| CELPI | 4 | 2 |
| Genova Reti Gas | 137 | 86 |
| Enia Parma | 48 | - |
| Enia Piacenza | 38 | - |
| Enia Reggio Emilia | 49 | - |
| Eniatel | 11 | - |
| Idrotigullio | 59 | 13 |
| Immobiliare delle Fabbriche | 1 | 1 |
| Iren Acqua Gas | 2,021 | 424 |
| Iren Ambiente | 756 | - |
| Iren Emilia | 2,500 | - |
| Iren Energia | 3,823 | 1,675 |
| Iren Mercato | 2,539 | 1,119 |
| Iren Rinnovabili | 36 | - |
| Iren Servizi | 687 | 182 |
| LIAG | 4 | 2 |
| Mediterranea delle Acque | 199 | 17 |
| Nichelino Energia | 15 | 7 |
| OLT Offshore LNG | 2 | - |
| Sasternet | 18 | 3 |
| Società Acque Potabili | 59 | 42 |
| Tema | 9 | - |
| **Total** | **13,766** | **4,308** |

*Receivables from associates*

Details of receivables from associates are provided in the following table:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| ACOS | 9 | 9 |
| ACIAM | 12 | - |
| AIGA | - | - |
| AMAT | - | 9 |
| AMTER | 19 | 11 |
| ASA | 166 | 126 |
| ASMT Servizi Industriali | - | 6 |
| Astea | 6 | 6 |
| ASTER | - | - |
| Domus Acqua | 12 | 8 |
| Fata Morgana | - | - |
| In.Te.Gra. Clienti | 14 | 11 |
| MACQUE | - | - |
| Mondo Acque | 2 | - |
| Piana Ambiente | 16 | - |
| Plurigas | - | - |
| Valle Dora Energia | 1 | - |
| FATA | 1 | - |
| Iniziative Ambientali | 1 | - |
| **Total** | **259** | **186** |

This item primarily refers to fees that may be charged back for offices performed by Iren's employees in the above companies, as well as to the repaid amount of insurance costs borne by the Parent.

*Receivables from related parties*

Receivables from shareholders - related parties recorded a balance of euro 28 thousand (euro 14 thousand at 31 December 2009) and refer to receivables for work performed for FSU.

*Receivables from other Group companies*

They amount to euro 22 thousand (euro 120 thousand at 31 December 2009) and refer to amounts due from Atena Patrimonio, totalling euro 22 thousand (unchanged with respect to 31 December 2009). They refer to fees that may be charged back for offices performed by Iren's employees in this company. At 31 December 2009, receivables due from LNG Med Gas amounted to euro 98 thousand.

## Note 8_Current tax assets

They amount to euro 663 thousand (euro 1,693 thousand at 31 December 2009) and refer to receivables for IRAP advances. At 31 December 2009, "Current tax assets" was named "Tax assets" and included receivables for withholding taxes on current accounts amounting to euro 19 thousand. This item was reclassified in 2010 under "Other receivables and other current assets".

## Note 9_Other receivables and other current assets

The breakdown of this item is provided in the following table:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Receivables from personnel | 56 | 36 |
| Receivables from subsidiaries for Group VAT | 33,554 | 5,408 |
| Receivables from subsidiaries for tax consolidation scheme | 19,650 | - |
| Receivables from FSU for tax consolidation scheme | - | 21,874 |
| VAT credit | 1,410 | - |
| Other receivables | 1,122 | 267 |
| Tax assets | 847 | 19 |
| Prepayments | 516 | 193 |
| **Total** | **57,155** | **27,797** |

The option for Group tax consolidation 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.; at 31 December 2009, the tax consolidation scheme was headed by FSU S.r.l..

In 2010, other tax assets were included under Sundry receivables and other current assets, unlike the financial statements at 31 December 2009 that disclosed them under Tax assets. To this regard, the corresponding figures have been reclassified.
Receivables from personnel include receivables for loans granted to employees, advances on pensions, wages and salaries and travel expenses.

## Note 10_Current financial assets

All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.
Current financial receivables relate to:

*Loans to subsidiaries and joint ventures*

These amount to euro 962,438 thousand (euro 701,896 thousand at 31 December 2009) and are broken down as per the following table:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| For invoices issued | 2,335 | - |
| For invoices to be issued | 21,811 | 9,298 |
| For loans granted | 365,000 | - |
| For centralised treasury management and cash pooling | 473,908 | 622,255 |
| For dividends to be received | 99,384 | 70,343 |
| **Total** | **962,438** | **701,896** |

"Loans granted" includes a loan disbursed to AES Torino, amounting to euro 130,000 thousand and a loan to Iren Mercato, which, in its turn, financed the OLT Offshore within the agreements with the other shareholder Eon, totalling euro 235,000 thousand.

"Dividends to be received" refers to an extraordinary distribution decided by the Shareholders of the five First-level companies in December 2010. On 31 December 2010, these dividends were still unpaid.

*Other financial receivables*
Details are provided in the following table:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Other financial receivables | 26 | 296 |
| Accrued financial income | 23 | 23 |
| Financial prepayments | 155 | 192 |
| **Total** | **204** | **511** |

## NOTE 11_CASH AND CASH EQUIVALENTS
They are broken down as follows:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Bank and postal accounts | 43,252 | 20,145 |
| Cash-in-hand and cash equivalents | 319 | 326 |
| **Total** | **43,571** | **20,471** |

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, whose original maturity, i.e. upon purchase, is max. 90 days.

# LIABILITIES

## NOTE 12_EQUITY
Equity is detailed in the following table:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Share capital | 1,276,226 | 832,042 |
| Reserves: | | |
| *- Share premium reserve* | *105,102* | *105,102* |
| *- Legal reserve* | *23,862* | *20,258* |
| *- Hedging reserve* | *(13,714)* | *(10,296)* |
| *- Negative goodwill* | *56,793* | *94,319* |
| *- Other reserves* | *118,309* | *34,009* |
| Total reserves | 290,352 | 243,392 |
| Losses carried forward | (36,507) | (36,507) |
| Profit for the year | 102,690 | 72,070 |
| **Total equity** | **1,632,761** | **1,110,997** |

*Share capital*
The share capital amounts to euro 1,276,225,677 (euro 832,041,783 at 31 December 2009), fully paid up and consisting of 1,181,725,677 ordinary shares with a nominal amount of euro 1 each and 94,500,000 savings shares without voting rights with a nominal amount of euro 1 each. The share capital increase, amounting to euro 444,183,894 is due to the merger with Enìa S.p.A..

*Savings shares:*
The 94,500,000 savings shares of Iren, held by Finanziaria Città di Torino, are not listed, have no voting rights and, except for a different order of priority in the allocation of net residual assets in case of company dissolution, they are subject to the same regulation as ordinary shares.
Lastly, in case of sale, the savings shares will be converted automatically, at par, into ordinary shares.

*Share premium reserve*
The share premium reserve amounts to euro 105,102 thousand (unchanged compared to 31 December 2009).

*Legal reserve*
As provided for by article 2430 of the Italian Civil Code, following the allocation of 5% of the 2009 profit, the legal reserve increased by euro 3,604 thousand and amounted to euro 23,862 thousand at 31 December 2010 (euro 20,258 thousand at 31 December 2009).

*Hedging reserve*
With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a balancing entry directly in equity under the hedging reserve. These contracts were signed to hedge the the interest rate risk of variable rate loans.
The amount of this reserve at 31 December 2010, net of the tax effect, is euro -13,714 thousand (31 December 2009: euro - 10,296 thousand).

*Negative goodwill*
It amounts to euro 56,793 thousand (31 December 2009: euro 94,319 thousand). The balance at 31 December 2009 derives from the merger of AMGA into AEM Torino, as the difference between equity of AMGA (merged company) and the amount of the increase in share capital of AEM Torino (merging company). Consequently, the merger was accounted for with effect from 1 January 2006, the date that represented the closest reporting date to that in which the joint venture agreements between the Municipalities were signed, namely 30 January 2006.
During 2010, a difference of euro 57,426 thousand resulted from the merger of Enìa into Iride, after the reinstatement of former Enìa fair value reserves of financial instruments (euro 5,115 thousand) and the hedging reserve (negative by euro 2,856 thousand). This amount, supplemented by that related to the previous merger, was used to comply with law obligations as for the reinstatement of reserves taxable on distribution, of the merged company and amounting to euro 94,952 thousand.

*Other reserves*
These include:

*Extraordinary reserve*
This item is made up of the difference, generated by 1996 operations, between the closing equity of Azienda Energetica Municipale at 31 December 1996 and that indicated by the independent expert at 31 December 1995 for an amount of euro 23,001 thousand, comprising the portions of 2002 profit (euro 7,487 thousand), 2003 profit (euro 3,518 thousand), 2004 profit (euro 23,247 thousand), 2005 profit (euro 33,572 thousand), 2006 profit (euro 12,877 thousand) and 2008 profit (euro 26 thousand), and reclassification of the accumulated amortisation/depreciation for euro 10,075 thousand in 2004. This reserve was used in 2008 by the sum of euro 60,723 thousand and by euro 26,626 thousand in 2009 for the distribution of extraordinary dividends. In 2010, this item increased following the profit allocation for 2009, amounting to euro 239 thousand and the sale of business activities, totalling euro 51 thousand. A decrease was also recorded due to the payment of the extraordinary dividend in April, amounting to euro 2,496 thousand. At 31 December 2010, this item amounted to euro 24,248 thousand (31 December 2009: euro 26,454 thousand).

*Contribution reserve*
This item amounts to euro 7,555 thousand (unvaried with respect to 31 December 2009) and refers to gains from the contribution in 1999 of the electrical energy transmission business activity to AEM Trasporto Energia, based on the values of the expert appraisal.

*Fair value reserve - financial instruments*

This reserve includes the effects of the fair value measurement of the equity investment in Delmi S.p.A., which was reinstated following the merger with Enìa and the subsequent impairment loss. It amounts to euro 8,447 thousand (31 December 2009: nil).

*Losses carried forward*

This item, of euro -36,507 thousand (unchanged since 31 December 2009), includes the differences arising from the transition from application of Italian GAAP to IFRS.
In addition, pursuant to art. 109, subsection 4, paragraph b) of the Consolidated Income Tax Act (TUIR), the distribution of equity reserves and profit for the year, increased by deferred taxes corresponding to the amount distributed, form the income, if and to the extent that the total of remaining equity reserves and remaining profits carried forward proves lower than the excess amortisation/depreciation, impairment losses and provisions deducted against those recognised in the income statement. The amount of this excess is euro 515 thousand.

*Dividends*

On 28 April 2009, in their Ordinary Meeting, the Shareholders of Iride S.p.A. resolved the distribution of an ordinary dividend, equal to euro 0.053 per share and the distribution of an extraordinary dividend equal to euro 0.032 per share. The dividend amounting to euro 70,724 thousand was paid from 25 June 2009.
With respect to this year, the Board of Directors proposed the distribution of an ordinary dividend of euro 0.085 per share to the shareholders, during the meetings held on 30 April and 6 May 2011, on first and second call respectively. This dividend is subject to approval of the Annual Shareholders' Meeting.

## Non-current liabilities

### *Note 13_Non-current financial liabilities*

These total euro 1,771,438 thousand (31 December 2009: euro 1,259,334 thousand), and consist of:

*Bonds*

They amounted to euro 155,798 thousand (nil at 31 December 2009) and they refer to two puttable bonds issued in 2008 by Enìa S.p.A. (now Iren S.p.A.), with expiration term in 2021.
The amount refers to the amortised cost, pursuant to IFRS, which amounted to euro 152,733 thousand at 31 December 2009.

*Non-current bank loans and borrowings*

Medium/long-term loans relate exclusively to the non-current portion of loans granted by banks and amount to euro 1,592,637 thousand (euro 1,243,382 thousand at 31 December 2009).
Medium-long term loans can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and expiry date, as shown in the following table:

thousands of euro

| | | | | | | | | 31/12/2010 | 31/12/2009 |
|---|---|---|---|---|---|---|---|---|---|
| | Min/max rate | Term | 2012 | 2013 | 2014 | 2015 | beyond | Total payables | Total payables |
| *- fixed rate* | *3.095% - 5.68%* | *2012-2025* | *44,152* | *52,053* | *52,496* | *59,453* | *275,915* | ***484,069*** | ***233,661*** |
| *- variable rate* | *0.706% - 2.568%* | *2012-2024* | *413,843* | *145,644* | *227,835* | *107,735* | *213,511* | ***1,108,568*** | ***1,009,721*** |
| **TOTAL** | | | **457,995** | **197,697** | **280,331** | **167,188** | **489,426** | **1,592,637** | **1,243,382** |

Loans are all denominated in euro, apart from a marginal portion in Yen with an exchange rate hedge to be paid by the Government (Law no. 956 of 9 December 1977).

The changes in medium/long-term loans during the year are summarised below:

thousands of euro

| | 31/12/2009 | | | | | 31/12/2010 |
|---|---|---|---|---|---|---|
| | Total payables | Enìa S.p.A. merger | Increases | Decreases | Exchange rate differences and amortised cost adjustments | Total payables |
| *- fixed rate* | *233,661* | *182,939* | *100,000* | *(32,524)* | *(6)* | ***484,069*** |
| *- variable rate* | *1,009,721* | *140,128* | *100,000* | *(141,188)* | *(94)* | ***1,108,568*** |
| **TOTAL** | **1,243,382** | **323,067** | **200,000** | **(173,713)** | **(100)** | **1,592,637** |

Total medium-long term loans at 31 December 2010 increased compared to 31 December 2009 due to the following variations:

- increase of euro 323,067 thousand due to the merger of Enia S.p.A. into Iride S.p.A., now Iren S.p.A., occurred on 1 July 2010;
- increase of euro 200 million for two new medium-long term loans, granted by the EIB for the amount of euro 100 million and by Cassa Depositi e Prestiti for euro 100 million, both signed in December 2010;
- reduction, totalling euro 173,713 thousand, related to the reclassification as short-term payable of loans with maturity in the next 12 months and repayment of a medium-long term loan with Cassa Depositi e Prestiti, replaced with the new disbursement mentioned above.
- secondary variations in amortised cost and exchange rate differences.

*Other non-current financial liabilities*

These amount to euro 23,003 thousand (euro 15,952 thousand at 31 December 2009) and refer to the fair value of derivative contracts entered into by Iren as hedging against the interest rate risk on floating rate mortgage (reference should be made to paragraph "Risk management" for comments).

## Note 14_Employee benefits

Changes in this item in 2010 were as follows:

thousands of euro

| | |
|---|---|
| **Amount at 31 December 2009** | **2,078** |
| Current service costs | 116 |
| Financial expense | 212 |
| Releases and withdrawals | (384) |
| Actuarial losses | (118) |
| Merger and other changes | 7,902 |
| **Amount at 31 December 2010** | **9,806** |

Liabilities for employee benefits consist of:

*Post-employment benefits*

Post-employment benefits underwent the following movements during 2010:

thousands of euro

| | |
|---|---|
| **Amount at 31 December 2009** | **1,778** |
| Current service costs | - |
| Financial expense | 144 |
| Releases and withdrawals | (116) |
| Actuarial losses | (165) |
| Merger and other changes | 2,479 |
| **Amount at 31 December 2010** | **4,120** |

*Other benefits*
The other defined benefit plans may be analysed as follows:

*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 December 2009** | **122** |
| Current service costs | 8 |
| Financial expense | 8 |
| Disbursements/releases | - |
| Actuarial losses | (31) |
| Merger and other changes | 178 |
| **Amount at 31 December 2010** | **285** |

*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 December 2009** | **106** |
| Current service costs | 5 |
| Financial expense | 5 |
| Disbursements/releases | (17) |
| Actuarial losses | (2) |
| Merger and other changes | 82 |
| **Amount at 31 December 2010** | **179** |

*Electricity discount*
The Company gives its employees hired before and on 31 July 1979 an electrical energy discount of 80% on the first 7,500 kW consumed per annum. For employees hired between 1 August 1979 and 8 July 1996, the Company gives an 80% discount on a maximum of 2,500 kW consumed per annum. This benefit is not recognised to employees hired since 9 July 1996.
In addition to employees currently in service, the electrical energy discount is recognised to all those eligible, including retired employees, and this right is transferable to surviving spouses.
Movements of the year are shown in the following table:

| | thousands of euro |
|---|---|
| **Amount at 31 December 2009** | **72** |
| Current service costs | 103 |
| Financial expense | 6 |
| Disbursements/releases | (129) |
| Actuarial gains | 113 |
| Merger and other changes | 3,934 |
| **Amount at 31 December 2010** | **4,099** |

*Premumgas*
The Premumgas 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 December 2009** | **-** |
| Current service costs | - |
| Financial expense | 49 |
| Disbursements/releases | (122) |
| Actuarial losses | (33) |
| Merger and other changes | 1,229 |
| **Amount at 31 December 2010** | **1,123** |

*Actuarial valuations*

The liability related to defined benefit plans is measured on the basis of actuarial assumptions and is recognised on an accruals basis in line with the service necessary to obtain the benefits. The liability is measured by independent actuaries.

Future service is estimated in order to define the present value of the obligations on the basis of the assumptions related to changes in both the total number of employees and employee remuneration. These will be paid to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.

Actuarial projections of the probable discounts on electrical energy consumption due to current retirees or surviving spouses as well as current employees (and surviving spouses, if any) were taken into account in determining the amount of the electricity discount.

The following factors were considered in deciding which discount rate to adopt in the measurement approach provided by IAS 19:

- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the average weighted residual term of liabilities related to all benefits and all Group companies.

The other financial assumptions adopted in the calculations are the following:

- the nominal discount rate adopted in the current macroeconomic situation is 4.5%.
- annual inflation rate: equal to 2% for the entire measurement period;
- annual revaluation rate for the amount of the electricity discount: equal to the annual inflation rate for the entire measurement period;
- annual rate of increase for remuneration due to career development and contract renewals: equal to 3.5% for the entire period of valuation (a point and a half higher than the forecast annual rate of inflation); this assumption takes into account the likely trend of employee remuneration depending on the length of service and takes into account seniority increases, role changes within a category, promotions and future contractual increases until leaving the group of workers in service.

The main demographic assumptions adopted in the calculations are the following:

a) mortality of employees, both during and after employment, and family members, broken down by age and gender: ISTAT 2007 (source: ISTAT, 2009 Italian Statistics Yearbook);
b) rates of employee disability, broken down by age and gender, based on an actuarial study covering the period 1998-2009;
c) reduction of employees for sundry reasons (dismissal, resignation), broken down by age and gender, based on the company's history for the period 1998-2009;
d) rate of leaving a surviving spouse as calculated by ISTAT;
e) average age of the surviving spouse taken from the INPS projection model.

Assumptions on advances are the following:

- likelihood of request of a first advance, for a length of service of between 8 and 40 years, equal to 20% for each year of service;
- maximum number of advances that can be requested equal to one;
- amount of the advance of post-employment benefits: 50% the first time.

## Note 15_Provisions for risks and charges

Provisions for risks and charges amount to euro 19,193 thousand (31 December 2009: euro 1,381 thousand) for the non-current portion. Due to the extension of terms required to settle disputes to which the provision is referred, in 2010, the euro 9,397 thousand allocated in the provision was reclassified from current to non-current. The provision for risks and charges, including the current portion, is shown in the following table:

thousands of euro

| Provisions for risks and charges | BALANCE AT 31/12/2009 | Reclassifications | Increases | Decreases | BALANCE AT 31/12/2010 |
|---|---|---|---|---|---|
| Non-current portion of provisions for risks | 1,368 | 9,397 | 8,428 | - | 19,193 |
| Current portion of provision for risks | 9,397 | (9,397) | - | - | - |
| Provision for former employees | 14 | - | - | (14) | - |
| **Total provisions** | **10,779** | **-** | **8,428** | **(14)** | **19,193** |

The euro 6,766 thousand increase is mainly due to the merger of Enia S.p.A., while decreases for euro 14 thousand are due to the contributions to Iren Energia.

The provision for risks mainly refers to the potential risk of greater charges relative to higher contributions to be paid to INPS for the ordinary and extraordinary redundancy, mobility and risks relating to various disputes.

## Note 16_Deferred tax liabilities

Deferred tax liabilities of euro 2,422 thousand (31 December 2009: euro 1,814 thousand) arise from the temporary differences between the carrying amount and the amount recognised for taxation purposes of recognised assets and liabilities.

Deferred taxation is calculated with reference to the expected tax rates applicable in the year in which the differences will reverse.

Reference should be made to the income statement, note 31 "Income tax expense", for further details.

# Current liabilities

## Note 17_Current financial liabilities

All financial payables recognised in this item are due within twelve months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Bank loans | 791,314 | 456,764 |
| Financial payables to subsidiaries | 112,383 | 18,136 |
| Financial payables to related party shareholders | 3,628 | 3,676 |
| Other financial payables | 12 | 12 |
| **Total** | **907,337** | **478,588** |

### Bank loans

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Loans - current portion | 97,820 | 175,490 |
| Other current payables to banks | 692,025 | 279,721 |
| Accrued financial expenses and deferred financial income | 1,469 | 1,553 |
| **Total** | **791,314** | **456,764** |

Financial payables to subsidiaries

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| For invoices to be received | 83 | 26 |
| For cash-pooling | 112,300 | 18,110 |
| **Total** | **112,383** | **18,136** |

*Payables to related party shareholders*

These amount to euro 3,628 thousand (3,676 at 31 December 2009) and refer to payables to FSU for the agreement regarding the handover from FSU S.r.l. to Iren S.p.A. of management of the temporary cash surplus and interest expense on financial movements.

*Other financial payables*

These amount to euro 12 thousand (unchanged compared to 31 December 2009) and refer to payables due to Monte Titoli.

## Note 18_Trade payables

All trade payables are due within twelve months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Accounts payable to creditors | 22,715 | 7,734 |
| Payables to subsidiaries | 6,302 | 985 |
| Payables to associates | 979 | - |
| Paybles to related parties | 2,417 | - |
| **Total** | **32,413** | **8,719** |

## Note 19_Other payables and other current liabilities

All payables recognised in this item are due within twelve months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Social security charges payable | 1,455 | 490 |
| Amounts payable to subsidiaries for tax consolidation scheme | 4,945 | - |
| Payables to subsidiaries for group VAT | 34,485 | 2,114 |
| VAT payable | - | 3,218 |
| IRPEF payable | 994 | 298 |
| Sums payable to personnel | 3,279 | 1,021 |
| Other payables | 2,227 | 1,099 |
| **Total** | **47,385** | **8,240** |

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.; at 31 December 2009 the tax consolidation scheme was headed by FSU S.r.l..

## Note 20_Current tax liabilities

They refer to IRES and IRAP tax payables and amount to euro 3,421 thousand (31 December 2009: euro 541 thousand).

At 31 December 2009, this item was called "tax payables" and included payables for IRPEF amounting to euro 298 thousand, now reclassifited under "Other payables and other current liabilities".

## *Note 21_Provisions for risks and charges - current portion*

At 31 December 2010, this item was nil. At 31 December 2009, this item amounted to euro 9,397 thousand and referred to the portion of the provision for risks expected to be used within the year.

*Net financial indebtedness*

Net financial indebtedness, calculated as the difference between current and non-current financial assets and liabilities, amounts to euro 787,397 thousand (31 December 2009: euro 504,832 thousand), and may be analysed as follows:

thousands of euro

| | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| Non-current financial assets | (885,165) | (510,211) |
| Non-current financial liabilities | 1,771,438 | 1,259,334 |
| **Net non-current financial liabilities** | **886,273** | **749,123** |
| Current financial assets | (1,006,213) | (722,879) |
| Current financial liabilities | 907,337 | 478,588 |
| **Net current financial assets** | **(98,876)** | **(244,291)** |
| **Net financial indebtedness** | **787,397** | **504,832** |

*Net Financial Position regarding related parties*

Non-current financial assets were euro 883,175 thousand (euro 509,325 thousand at 31 December 2009) and concern loans granted to subsidiaries and other group companies.
Current financial assets were euro 962,438 thousand (euro 701,896 thousand at 31.12.2009) and concerned financial receivables due in relation to the centralised treasury management, loans granted and receivables for dividends to be received.
Current financial liabilities amounted to euro 116,011 thousand (euro 21,812 thousand at 31 December 2009) and relate to financial payables to subsidiaries for the centralised treasury management and financial payables to FSU for the agreement regarding the handover from FSU S.r.l. to Iren S.p.A. of management of the temporary cash surplus and interest expense on financial movements.
For additional information, see the annexed tables on transactions with related parties.

Below is the net financial position as per the structure proposed by the CESR recommendation of 10 July 2005, which does not include non-current financial assets.

thousands of euro

| Net financial indebtedness | BALANCE AT 31/12/2010 | BALANCE AT 31/12/2009 |
|---|---|---|
| A. Cash | (43,571) | (20,471) |
| B. Other cash equivalents (details) | - | - |
| C. Securities held for trading | - | - |
| **D. Cash (A) + (B) + (C)** | **(43,571)** | **(20,471)** |
| **E. Current financial receivables** | **(962,642)** | **(702,407)** |
| F. Current bank payables | 693,494 | 281,274 |
| G. Current portion of non-current indebtedness | 97,820 | 175,490 |
| H. Other current financial payables | 116,023 | 21,824 |
| **I. Current financial indebtedness (F)+(G)+(H)** | **907,337** | **478,588** |
| **J. Current net financial indebtedness (I) - (E) - (D)** | **(98,876)** | **(244,290)** |
| K. Non-current bank payables | 1,592,637 | 1,243,382 |
| L. Bonds issued | 155,798 | - |
| M. Other non-current payables | 23,003 | 15,952 |
| **N. Non-current financial indebtedness (K) + (L) + (M)** | **1,771,438** | **1,259,334** |
| **O. Net financial indebtedness (J) + (N)** | **1,672,562** | **1,015,044** |

# VI. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousands of euro.

## *REVENUE*

### *Note 22_Revenue from goods and services*

Revenue from services may be analysed as follows:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Services to related party shareholders | 28 | 28 |
| Services to subsidiaries and associates | 10,151 | 4,732 |
| Services to other companiess | 180 | 367 |
| **Total** | **10,359** | **5,127** |

Revenue from services provided to related party shareholders refers to services provided to FSU.

Revenue from services provided to subsidiaries and investees of euro 10,151 thousand (euro 4,732 thousand in 2009) relates to the administrative and technical services provided in accordance with a specific contract and may be analysed as follows:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| AEM Torino Distribuzione | 353 | 349 |
| AEMNET | 11 | 9 |
| AES Torino | 61 | 70 |
| Celpi | 4 | 4 |
| Genova Reti Gas | - | 51 |
| Iren Acqua Gas | 1,855 | 703 |
| Iren Ambiente | 381 | - |
| Iren Emilia | 2,018 | - |
| Iren Energia | 2,586 | 1,092 |
| Iren Mercato | 2,310 | 1,900 |
| Iren Rinnovabili | 35 | - |
| Iride Servizi | 525 | 183 |
| LNG Med GAS | - | - |
| Nichelino Energia | 11 | 4 |
| OLT Offshore LNG | - | - |
| Valle Dora Energia | 1 | - |
| **Total** | **10,151** | **4,365** |

2009 revenue from services to LNG Med Gas, amounting to euro 367 thousand, was reclassified to Revenue from services to other companies.

Revenue from services to other companies, totalling euro 180 thousand, refers to administration and technical services supplied according to a specific agreement.

### Note 23_Other revenue and income

This item was composed as follows:

| | 2010 | 2009 |
|---|---|---|
| | | thousands of euro |
| Prior year revenue | 3,108 | 447 |
| Sundry repayrments | 1,402 | 520 |
| **Total** | **4,510** | **967** |

Prior year revenue mainly derives from the settlement of prior items with reference to estimates made in previous years and adjustments to prior years' invoices.
Sundry repayments include fees which were paid to IREN Directors and employees and may be re-charged to Group companies.

## EXPENSE

### Note 24_Purchase of raw materials, consumables, supplies and goods

This amounts to euro 9 thousand (euro 15 thousand in 2009) and mainly refers to purchases of printed material and stationery.

### Note 25_Services and use of third-party assets

A breakdown of costs for services is provided below:

| | 2010 | 2009 |
|---|---|---|
| | | thousands of euro |
| Professional services | 5,010 | 6,889 |
| Personnel travel expenses for business, courses or conferences | 224 | 127 |
| Statutory auditors' fees and reimbursements | 181 | 182 |
| Insurance | 285 | 68 |
| Advertising and entertainment expenses | 4,038 | 3,815 |
| Telephone and postal communications | 43 | 113 |
| Canteen and meal vouchers | 41 | 20 |
| Banking and postal costs | 1,733 | 1,276 |
| Supply of electrical energy from Iren Mercato | 249 | 245 |
| Supply of water | 17 | 19 |
| Services from subsidiaries and Group companies | 2,343 | 1,707 |
| Other costs for services | 1,391 | 454 |
| **Total** | **15,555** | **14,915** |

Costs for the use of third-party assets amount to euro 130 thousand (euro 101 thousand in 2009) and include vehicle hire and sundry rents.
For clarification purposes, it should be noted that costs regarding the Directors' fees and amounting to euro 637 thousand (31 December 2009: euro 547 thousand) were reclassified under Personnel expense.

## NOTE 26_OTHER OPERATING EXPENSE

Other operating expense is detailed in the following table:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Membership fees | 850 | 713 |
| Taxes and duties | 614 | 255 |
| Donations | 63 | 5 |
| Prior year expense | 919 | 335 |
| Prior year taxes | 21 | 3 |
| Other sundry operating expense | 140 | 44 |
| **Total** | **2,607** | **1,355** |

Taxes and duties mainly refer to other taxes paid such as ICI (local property tax) and stamp duty.
Prior year expense mainly refers to difference on estimates.

## NOTE 27_PERSONNEL EXPENSE

Personnel expense is made up as follows:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Wages and salaries | 9,321 | 4,248 |
| Social security charges payable | 2,689 | 1,268 |
| Defined benefit plans - other | 116 | 14 |
| Other costs | 761 | 409 |
| Directors' fees | 637 | 547 |
| **Total** | **13,524** | **6,486** |

"Other costs" include the social security and recreational contribution, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds.
Directors' fees, equal to euro 637 thousand (2009: 547 thousand), was classified under Services provided in the previous financial statements.

The following table shows the average number of employees and their number at the beginning and end of the year:

| Company | At 31.12.2010 | At 31.12.2009 | Average number in 2010 |
|---|---|---|---|
| Managers | 21 | 11 | 16 |
| Junior managers | 47 | 19 | 33 |
| White collars | 202 | 44 | 124 |
| **Total** | **270** | **74** | **173** |

## NOTE 28_AMORTISATION/DEPRECIATION

These amount to euro 531 thousand (euro 396 thousand in 2009) and refer to the depreciation of company-owned buildings.

## Note 29_Provisions and impairment losses

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Provisions for risks | 212 | 94 |
| Allowance for impairment | 32 | - |
| Releases | - | (1,920) |
| **Total** | **244** | **(1,826)** |

Starting from 2006, provisions have been recognised net of any releases.
The analysis of the provisions and variations therein are given in the comment to the Statement of financial position item "Provisions for risks and charges".

## Note 30_Financial income and expense

### *Financial income*

The breakdown of financial income is provided in the following table:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Income from investments | 142,690 | 204,897 |
| Bank interest income | 59 | 70 |
| Interest income from group companies | 33,422 | 29,774 |
| Interest income on interest rate hedges | 1,119 | 3,299 |
| Actuarial gains on employee benefits measurement | 231 | 6 |
| Fair value gains on derivatives | 65 | 112 |
| Other financial income | 64 | 421 |
| **Total** | **177,650** | **238,579** |

Income from investments include the extraordinary distribution made by companies leading the business segments Iren Acqua Gas, Iren Energia, Iren Mercato, Iren Emilia and Iren Ambiente by using available reserves for a total amount of euro 99,384 thousand.

### *Financial expense*

The breakdown of financial expense is provided in the following table:

thousands of euro

| | 2010 | 2009 |
|---|---|---|
| Bank interest expense on loans | 35,350 | 28,782 |
| Bank interest expense on credit facilities | 6,582 | 8,426 |
| Interest expense on interest rate hedging derivatives | 21,660 | 16,909 |
| Interest expense from tax exemption | 210 | 64,312 |
| Interest expense to subsidiaries | 90 | 111 |
| Financial expense to related party shareholders | - | 33 |
| Employee benefits | 212 | 97 |
| Financial expense related to the discounting of the provision for risks | 1,464 | 610 |
| Financial expense on derivatives | 1,564 | 12 |
| Actuarial loss in measuring benefits to employees | 113 | - |
| Other financial expense | 2 | - |
| **Total** | **67,247** | **119,292** |

Reference should be made to the note to "Employee benefits" in the Statement of financial position for details of financial expense on employee benefits.

## NOTE 31_INCOME TAX EXPENSE

Income taxes amount to euro 10,016 thousand (euro 31,504 thousand in 2009) and may be analysed as follows:

- current tax of euro 9,957 thousand (2009: euro 21,874 thousand);
- in 2009, charges deriving from non-recurring negative events, totalling euro 56,436 thousand, referred to illegitimate state aids used during the period of the so-called tax moratorium (for more information, please see the paragraph below, "Recovery of state aids");
- net deferred taxes of euro 59 thousand (euro 3,058 thousand in 2009).

The 2008 Finance 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 SpA, the new regulations set forth under Art. 96 of the Consolidated Income Tax Act involved forming surpluses of non-deductible interest expense totalling euro 32,286 thousand that, however, the company was able to fully offset with the GOP surpluses accrued within the Group thanks to Iren's decision to use group taxation and pursuant to existing consolidated taxation agreements. The ensuing benefit in terms of lower IRES tax was euro 8,879 thousand.

Pursuant to the consolidated taxation agreements, in consideration of the fact that, to date, the existing GOP surpluses cannot be used individually, no remuneration is owed by the companies with surpluses of non-deductible interest expense surpluses to the group companies that transferred their GOP surpluses.

*Recovery of State Aid*

With its Decision C 27/99 of 5 June 2002, the European Commission concluded the procedure related to the tax treatment provided for by subsections 69 and 70 of article 3 of Law no. 549 of 28 December 1995 (the so-called "tax exemption"). Such treatment granted a three-year tax exemption to joint stock companies in which the government has a majority interest set up in accordance with Law no. 142 of 8 June 1990.

On 29 July 2002, the Italian Government, the leading counsels of the former AEM Torino and the former AMGA and the companies affected by the judgement that have appealed against it before the Court of First Instance of the European Communities appealed against this judgement to the Court of Justice of the European Communities.

In its ruling of 19 May 2003, the Court of First Instance admitted AEM Torino's request to participate in the proceeding instituted by ACEA. AEM Torino and AMGA, now iren S.p.A., avail themselves of the consulting and professionalism of external experts in its dealings with the European Commission.

During 2005, the recovery of the aid declared illegitimate by the Commission's decision 2003/193/EC of 5 June 2002 was provided for by article 27 of Law no. 62 of 18 April 2005, which governs the procedure.

In compliance with the above legislative framework, the former AEM Torino and the former AMGA lodged their tax return related to the periods in which the tax-exemption was applied. Inter alia, it specified that the recovery of the aid referred to in decision 2003/293/EC of 5 July 2002 is not applicable to revenue which did not come from activities carried out in the context of free competition or, in any case, in respect of which the benefit from the tax exemption did not impact exchanges within the EU. This is consistent with the Company's objections in relation to its position contained in the appeals lodged against the decision of the European Commission.

With respect to both the tax return lodged (which does not show any tax liability, thanks to the tax amnesty) and to the recognition of a provision for risks in this regard, the company also availed itself of an opinion of its consultants.

The above procedure (article 27 of Law no. 62 of 18 April 2005) has been modified by subsection 132, article 1 of Law no. 266 of 23 December 2005 (2006 Finance Act).

The changes made to article 27 by the 2006 Finance Act had above all the effect of deferring the issue of the first deed stating the formal inception of the recovery process (in the previous version, the notice of assessment that should have been issued by the competent Revenue Office within 11 January 2006).

Indeed, in the new version of article 27, the recovery process begins with the issuance of the Home Office Decree, for which, inter alia, no issuance date has been defined.

Subsequently, Decree Law no. 10 of 15 February 2007 provided for new methods of recovery of this state aid declared illegitimate, without introducing new obligations for the company.
In particular, recovery would be carried out by the Tax Authorities on the basis of the communications given by local bodies and the tax returns lodged by beneficiary companies. In this case, the Tax Authorities should have paid the tax with related interest, and recover the aid to the extent of its actual use.
In the second half of 2007, the Tax Authorities notified Iride S.p.A. (now Iren, formerly AEM Torino S.p.A. and merging company of the company AMGA S.p.A.) about notices called "order communications" regarding alleged aid used in the exemption periods for the position of AEM Torino S.p.A. and AMGA S.p.A., based on aforesaid Italian Legislative Decree 10/2007.
For the position of the former AEM Torino, Iride S.p.A. (now Iren) proposed recourse to the competent Provincial Tax Commission, and paid the amount requested as there were no conditions for obtaining its suspension, with the right of repetition in the case of a positive outcome of the disputes in progress. The Provincial Tax Commission rejected the appeals filed.
The order regarding the former AMGA S.p.A. has instead been annulled in self-defence with the documents produced to the competent office by the company.
With the provision of art. 24, Italian Law Decree 185 of 29 November 2008 - converted from Italian Law 2 of 28 January 2009 - new provisions oriented at recovering aid equivalent to the unpaid tax and its interest consequent to application of the tax exemption schemes provided for by art. 3, subsection 70, of Italian Law 549 of 28 December 1995 and art. 66, subsection 14, of Italian Law-Decree 331 of 30 August 1993 converted, with modifications, from Italian Law 427 of 29 October 1993, were introduced; again, this is in implementation of European Commission Decision 2003/193/EC.
Based on the aforesaid provision, the recovery is implemented - taking into account the amount already paid pursuant to art. 1, subsection 2, of Italian Decree Law no. 10 of 15 February 2007 converted, with modifications, from Italian Law no. 46 of 6 April 2007 by the Tax Authorities - by way of an ascertainment aimed at determining the actual tax due within 120 days from 29 November 2008. The possibility of neither extension nor stay of payment is envisaged.
Pursuant to Art. 24 of the Italian Decree Law no. 185 of 29 November 2008, on 30 April 2009 the Tax Authorities sent Iride S.p.A. (now Iren) six tax assessments (for a total of around euro 60 million) related to the recovery of state aid declared inconsistent with the Community regulations, regarding the position of the former AEM Torino and former AMGA of Genoa, during the so-called "tax moratorium" period (1996 through 1999).
On that occasion, the Tax Authorities proceeded to assessments in accordance with instructions supplied by the Central Assessment Authority.
Iride (now IREN) also provided for the payment of the claimed amounts and filed appeals against the above assessments at the competent Province Tax Commissions.
On 11 June 2009, the First Instance Court of the European Community issued an order regarding the proceedings started, amongst other, by the former AEM Torino and former AMGA of Genoa, while rejecting the appeals.
Iride S.p.A. (now IREN) appealed against the above order at the Court of Justice of the European Community, with reference to the positions of both AEM Torino and AMGA.
Based on Art. 19 of the Italian Decree Law no. 135 of 25 September 2009, the Government intervened on the alleged State aid defining that only gains realised by the former municipal companies are not subject to tax recovery.
Following the new proceeding, on 2 October 2009 the Tax Authorities sent further notices of assessment, totalling around euro 75 million, which Iride (now Iren) promptly paid to avoid further charges and interest.

On 11 January 2010, the appeal regarding the former AEM Torino for 1997 was discussed at the Province Tax Commission of Turin. On that date, the Commission issued an order of partial acceptance of the appeal filed in. In particular, the Commission deemed that the energy market, in those years, was not a free market regime. Therefore, the State aid granted, for that portion of activity, were deemed as legal.
On 10 February 2010, the appeals filed regarding the former AMGA for the years '96, '97, '98, '99 were discussed at the Province Tax Commission of Genoa. The Commission partially accepted the appeal filed in by Iride regarding the rate applied on the calculation of interest expense on the State aid deemed as illegal.
On 12 January 2011, the Tax Commission of Genoa resolved to appoint a Technical Consultant "(...) in order to quantify interest due in the event the "State aids cancellation and recognition of interest rates due" be accepted. On 16 March 2011, the technical consultant was sworn in.

On 14 March 2011, the Regional Tax Commission of Turin rejected the appeal filed in on tax assessments for years 1998 and 1999 for former AEM. In particular, they were assessment notices with which the Tax Authorities recovered the unpaid taxes during the years of "tax exemption", except for one-off taxes (electrical margin, dividends to Municipalities, capital gains).

The following table shows the reconciliation between the theoretical and effective IRES tax rates. The reconciliation between ordinary and effective IRAP rate was not significant.
The table shows current tax only, thus excluding deferred taxes. Therefore, variations to the theoretical tax refer to both temporary and final variations.

## IRES

figures in euro

| | 2010 | 2009 |
|---|---|---|
| A) Profit before tax | 92,673,481 | 103,574,211 |
| B) Theoretical tax charge (27.5 rate) | 25,485,207 | 28,482,908 |
| C) Temporary differences taxable in future years | - | - |
| *Allowance for impairment - tax assets* | | |
| D) Temporary differences deductible in future years | 3,803,889 | 17,783,691 |
| *Fees to independent auditors and directors* | *210,285* | *206,949* |
| *Amortisation of gains/losses* | *338,470* | *75,728* |
| *Provisions and interest expense* | *1,958,840* | *16,998,304* |
| *Other* | *1,296,294* | *502,711* |
| E) Transfer of prior year temporary differences | -91,920,769 | -73,520,907 |
| *Dividends not received over the year* | *-90,890,549* | *-70,343,375* |
| *Use of provisions* | *-394,915* | *-2,384,137* |
| *Fees to independent auditors and directors* | *-128,885* | *-287,615* |
| *Other* | *-506,420* | *-505,780* |
| F) Differences not recoverable in future years | -40,764,172 | -127,377,766 |
| *Non-taxable share of dividends (95%) received at 31/12* | *-41,148,013* | *-127,826,207* |
| *Prior year items* | *78,245* | *142,048* |
| *Other* | *305,596* | *306,392* |
| G) Taxable income (A)+C)+D)+E)+F)) | -36,207,570 | -79,540,771 |
| H) Current taxes for the year | -9,957,082 | -21,873,712 |
| *Income from consolidation* | *-9,957,082* | *-21,873,712* |
| M) Rate | 0% | 0% |

### *Note 32_Other comprehensive loss*

The effective portion of changes in the fair value of cash flow hedges was negative by euro 830 thousand (31 December 2009: euro 6,882 thousand) on interest rate hedges. The related tax effect is positive by euro 457 thousand (31 December 2009: euro 2,224 thousand).

## VII. GUARANTEES AND CONTINGENT LIABILITIES

### Guarantees

Personal guarantees given amount to euro 774,682 thousand (31 December 2009: euro 12,716 thousand) to be divided as follows:

- euro 404,962 thousand of bank and insurance guarantees given to various Banks, primarily regarding works and waste collection, in addition to guarantees given for loans, including euro 200,000 thousand to the EIB and euro 7,669 thousand to guarantee the Mestni loan
- euro 88,271 thousand of guarantees given on behalf of subsidiaries, primarily to guarantee credit facilities
- euro 281,449 thousand related to guarantees given on behalf of associates, primarily to guarantee credit facilities, including euro 231,930 thousand to sundry banks for Sinergie Italiane S.r.l.. As regards the latter, actions were started regarding not only the sale of shares, expected after the interim financial statements of September 2011, but also the recovery of guarantees given and the definition of the management of gas storage transfer.

Contractual commitments include the contribution, equal to euro 241,712 thousand of the aggregate assets related to the water cycle object of the spin-off occurred in 2005 in favour of three beneficiary companies involved in the spin-off and in the integrated water cycle: Agac infrastrutture S.p.A., Parma Infrastrutture S.p.A. and Piacenza Infrastrutture S.p.A.. As provided for by art. 113, subsection 13 of the T.U.E.L., Enìa concluded special agreements with these three companies, entirely public owned, to regulate the licence through the lease of these assets.

Moreover, on 16 February 2010, the Board of Directors resolved to fully support the OLT project according to budget financial plans defined and approved to make the required resources available upon the subsidiary's request and until implementation of the project financing. To this purpose, the budget envisages for 2011 a commitment for the subsidiary Iren Mercato, equal to around euro 43 million.

## VIII. OTHER INFORMATION

### Consob Communication no. Dem/6064293 of 28 July 2006

*Significant non-recurring events and transactions*

During 2010, the company was not involved in significant non-recurring events and/or transactions, as defined in the Communication, i.e. events or transactions that are non-recurring, or transactions or events that are not frequent in the ordinary conduct of business. In 2009, the non-recurring event is related to the recovery of the alleged State aid in favour of former AEM Torino S.p.A. and former AMGA S.p.A, which generated a non-recurring charge, including tax, equal to euro 103,062 thousand. More specifically, the charge referred as for euro 38,749 thousand to the principal and as for euro 64,312 thousand to interest expense.

*Positions or transactions deriving from atypical and/or unusual transactions*

In 2010, the company was not involved in atypical and/or unusual transactions, as defined in the Communication, i.e. transactions that may, due to their significance/relevance, nature of the counterparties, subject of the transaction, methods for determining the transfer price and timing of the event (near year end), give rise to concerns about: the correctness/completeness of the financial statements disclosures, conflict of interest, safeguard of the company's assets, protection of minority shareholders.

*Treasury shares*

At 31 December 2010, the company did not hold treasury shares.

*Publication of the financial statements*

The Financial Statements were authorised for publication by Iren S.p.A.'s Board of Directors during the meeting held on 24 March 2011. The Board of Directors authorised the Chairman, the CEO and the Managing Director to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders.

The Shareholders' Meeting to be called to approve the separate financial statements of the Parent has the right to request amendments to the aforementioned separate financial statements.

## IX. SUBSEQUENT EVENTS

### Transformation of San Giacomo S.r.l. into a joint-stock company and renaming of the company in Mediterranea delle Acque S.p.A.

By virtue of the resolution taken by the shareholders of San Giacomo S.r.l., a subsidiary through Iren Acqua Gas, in their meeting on 28 December 2010, effective on 5 January 2011, San Giacomo was transformed from a limited liability company into a joint-stock company. Concurrently, the company was renamed Mediterranea delle Acque S.p.A., thus adopting the name of the merged company.

# X. ANNEXES TO THE SEPARATE FINANCIAL STATEMENTS

LIST OF INVESTMENTS

STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

DEFERRED TAX ASSETS AND LIABILITIES 2010 TRANSACTIONS WITH RELATED PARTIES

RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS

FEES OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS

INDEPENDENT AUDITORS' FEES

## LIST OF INVESTMENTS

| Company | Registered office | Currency | Share capital | % of investment |
|---|---|---|---|---|
| **SUBSIDIARIES** | | | | |
| Iren Acqua Gas S.p.A. | Genoa - Via SS. Giacomo e Filippo 7 | euro | 359,659,568 | 100.00 |
| Iren Ambiente S.p.A. | Piacenza - Strada Borgoforte 22 | euro | 72,622,002 | 100.00 |
| Iren Emilia S.p.A. | Reggio Emilia - Via Nubi di Magellano 30 | euro | 196,832,103 | 82.50 |
| Iren Energia S.p.A. | Turin - C.so Svizzera 95 | euro | 777,679,968 | 100.00 |
| Iren Mercato S.p.A. | Genoa - Via SS. Giacomo e Filippo 7 | euro | 61,356,220 | 90.97 |
| AEM Torino Distribuzione S.p.A. | Turin - Via Bertola 48 | euro | 126,127,156 | 30.15 |
| Tecnoborgo | Piacenza - Strada Borgoforte 22/34 | euro | 10,379,640 | 0.50 |
| **ASSOCIATES** | | | | |
| Plurigas S.p.A. | Milan - Corso Porta Vittoria, 4 | euro | 800,000 | 30.00 |
| **OTHER COMPANIES** | | | | |
| Delmi S.p.A. | Milan - Corso Porta Vittoria, 4 | euro | 1,466,868,500 | 15.00 |

## STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

| Nature/description | Amount 31/12/2010 | Amount 31/12/2009 | Amount 31/12/2008 |
|---|---|---|---|
| SHARE CAPITAL | 1,276,225,677 | 832,041,783 | 832,041,783 |
| EQUITY-RELATED RESERVE | | | |
| Share premium reserve (1) | 105,102,206 | 105,102,206 | 105,102,206 |
| Negative goodwill | 56,792,947 | 94,319,015 | 94,319,015 |
| INCOME-RELATED RESERVE | | | |
| Legal reserve | 23,861,884 | 20,258,391 | 17,936,101 |
| Other reserves: | | | |
| Extraordinary reserve | 24,248,108 | 26,453,544 | 53,053,584 |
| Contribution reserve | 7,555,032 | 7,555,032 | 7,555,032 |
| Fair value reserve | (8,446,663) | - | - |
| Other reserves taxable on distribution | 94,952,422 | - | - |
| Hedging reserve | (13,713,966) | (10,295,716) | (5,637,663) |
| Losses carried forward | (36,506,746) | (36,506,746) | (36,506,746) |
| **TOTAL** | **1,530,070,901** | **1,038,927,509** | **1,067,863,312** |
| Unavailable portion | 1,405,189,767 | 998,450,140 | 998,450,140 |
| Remaining available portion | 124,881,134 | 40,477,369 | 69,413,172 |

(1) Distributable to shareholders when the legal reserve has reached one fifth of the share capital.

KEY:
A: share capital increase
B: coverage of losses
C: dividend distribution

| Amount 31/12/2007 | Possible use | Available portion | Summary of amounts used In three previous years | |
|---|---|---|---|---|
| | | | Coverage of losses | Other reasons |
| 825,135,669 | B | 1,276,225,677 | | |
| | | | | |
| 105,102,206 | A, B | 105,102,206 | | |
| 94,319,015 | A, B, C | 56,792,947 | | |
| | | | | |
| 17,434,012 | B | 23,861,884 | | |
| | | | | |
| 113,776,598 | A, B, C | 24,248,108 | | 89,844,476 |
| 7,555,032 | A, B, C | 7,555,032 | | |
| - | A, B | (8,446,663) | | |
| | | | | |
| - | A, B, C | 94,952,422 | | |
| 2,759,884 | | - | | |
| (36,506,746) | A, B, C | (36,506,746) | | |
| **1,129,575,670** | | | | |
| 990,162,803 | | 1,405,189,767 | | |
| 139,412,867 | | 124,881,134 | | |

## DEFERRED TAX ASSETS AND LIABILITIES

| | 2010 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Difference | | | | Taxe | | | | |
| | Opening | Accrual | Revers. | Residual | Taxes to IS | Taxes to E | IRES 27.5% | IRAP 4.82% | Total |
| **Deferred tax assets** | | | | | | | | | |
| **ITALIAN** | | | | | | | | | |
| Directors' fees | 380,210 | 82,712 | 12,225 | 450,697 | 8,466 | - | 123,942 | - | 123,942 |
| Independent Auditors' fees | 160,029 | 256,276 | 116,660 | 299,644 | 13,919 | - | 82,402 | 4,290 | 86,692 |
| Entertainment expenses 01/05 | 2,135 | 4,821 | - | 6,956 | - | - | 1,913 | 335 | 2,248 |
| Provision for risks: IRES IRAP | 1,431,729 | - | - | 1,431,729 | - | - | 393,726 | 69,009 | 462,735 |
| Provision for IRES risks | 9,370,091 | 7,316,331 | - | 16,686,422 | 456,728 | - | 4,588,766 | - | 4,588,766 |
| Provision for long-service bonus | 113,631 | 18,664 | 100,047 | 32,248 | (14,794) | - | 8,799 | - | 8,799 |
| Provision for personnel | (12,498) | - | - | (12,498) | 3,437 | - | - | - | - |
| Other | 16,743,350 | 3,478,973 | 506,420 | 19,715,903 | 217,216 | - | 4,960,158 | 81,157 | 5,041,316 |
| **IFRS** | | | | | | | | | |
| Provision for risks | - | - | - | - | - | - | - | - | - |
| Derivatives | 15,962,159 | 829,868 | - | 16,792,027 | (69,863) | 268,213 | 4,279,731 | 809,376 | 5,089,107 |
| Provision for long-service bonus | 8,378 | - | - | 8,378 | (2,304) | - | - | - | - |
| Provisions for personnel | 191,219 | 5,007,950 | 483,542 | 4,715,628 | (8,526) | - | 1,338,371 | - | 1,338,371 |
| Other | - | 4,368,352 | - | 4,368,352 | - | 117,761 | 1,201,297 | - | 1,201,297 |
| Total taxable base/deferred tax assets | 44,350,432 | 21,363,947 | 1,218,894 | 64,495,486 | 604,279 | 385,974 | 16,979,106 | 964,167 | 17,943,273 |
| **Deferred tax liabilities** | | | | | | | | | |
| **ITALIAN** | | | | | | | | | |
| Amortisation/depreciation exceeding IRES tax | 637,229 | - | - | 637,229 | - | - | 175,238 | - | 175,238 |
| Amortisation/depreciation exceeding IRAP tax | 617,801 | - | 19,428 | 598,373 | (936) | - | - | 27,905 | 27,905 |
| Grants related to plant | - | - | - | - | - | - | - | - | - |
| Allowance for impairment | 44,158 | - | - | 44,158 | - | - | 12,143 | - | 12,143 |
| Dividends not received | 3,517,169 | 4,968,827 | 3,517,169 | 4,968,827 | 399,211 | - | 1,366,432 | - | 1,366,432 |
| Gains from sale of assets - IRES | - | 908,299 | 294,924 | 613,375 | (81,024) | - | 168,678 | - | 168,678 |
| Gains from sale of assets - IRAP | - | 43,546 | 43,546 | - | (2,099) | - | - | - | - |
| **IFRS** | | | | | | | | | |
| Adjustment to post-employment benefits | 315,276 | 172,116 | 23,851 | 463,541 | 4,339 | - | 127,474 | - | 127,474 |
| Previous depreciation of land/buildings | 760,127 | - | - | 760,127 | - | - | 209,035 | 36,638 | 245,673 |
| Other | - | 259,316 | 259,316 | - | | (71,312) | - | - | - |
| Provision for long-service bonus | 88 | - | - | 88 | - | - | 24 | - | 24 |
| Derivatives | 886,740 | - | - | 886,740 | - | - | 276,290 | 10,304 | 286,594 |
| Provision for risks | 36,592 | - | - | 36,592 | - | - | 10,063 | 1,764 | 11,827 |
| Total taxable base/deferred tax liabilities | 6,815,178 | 6,352,104 | 4,158,234 | 9,009,048 | 319,491 | (71,312) | 2,345,377 | 76,612 | 2,421,988 |
| **TAX LOSSES** | - | - | - | - | - | - | - | - | - |
| Net deferred tax assets | 37,535,254 | 15,011,843 | (2,939,340) | 55,486,437 | 284,788 | 457,286 | 14,633,730 | 887,555 | 15,521,285 |

figures in euro

2009

| Difference | | | | Taxe | | | | |
|---|---|---|---|---|---|---|---|---|
| Opening | Accrual | Revers. | Residual | Taxes to IS | Taxes to E | IRES 27.5% | IRAP 4.82% | Total |
| | | | | | | | | |
| 345,515 | 46,920 | 12,225 | 380,210 | 9,541 | - | 104,558 | - | 104,558 |
| 275,391 | 160,029 | 275,391 | 160,029 | (31,724) | - | 44,008 | - | 44,008 |
| 4,631 | - | 2,495 | 2,135 | (806) | - | 587 | 103 | 690 |
| 1,347,011 | 106,348 | 21,630 | 1,431,729 | 27,381 | - | 393,726 | 69,009 | 462,735 |
| 10,698,457 | 597,839 | 1,926,206 | 9,370,091 | (365,301) | - | 2,576,775 | - | 2,576,775 |
| 102,184 | 11,535 | 88 | 113,631 | 3,148 | - | 31,249 | - | 31,249 |
| (3,782) | - | 8,716 | (12,498) | (2,397) | - | (3,437) | - | (3,437) |
| 489,100 | 16,716,825 | 462,575 | 16,743,350 | 4,469,919 | - | 4,604,421 | - | 4,604,421 |
| | | | | | | | | |
| 351,929 | - | 351,929 | - | (113,744) | - | - | - | - |
| 9,140,442 | 6,821,717 | - | 15,962,159 | - | 2,204,779 | 4,389,594 | 769,376 | 5,158,970 |
| 8,378 | - | - | 8,378 | - | - | 2,304 | - | 2,304 |
| 178,383 | 18,620 | 5,784 | 191,219 | 3,530 | - | 52,585 | - | 52,585 |
| - | - | - | - | - | - | - | - | - |
| 22,937,639 | 24,479,833 | 3,067,039 | 44,350,432 | 3,999,547 | 2,204,779 | 12,196,370 | 838,488 | 13,034,858 |
| | | | | | | | | |
| 712,957 | - | 75,728 | 637,229 | (20,825) | - | 175,238 | - | 175,238 |
| 712,957 | - | 95,156 | 617,801 | (4,587) | - | - | 28,841 | 28,841 |
| - | - | - | - | - | - | - | - | - |
| 44,158 | - | - | 44,158 | - | - | 12,143 | - | 12,143 |
| - | 3,517,169 | - | 3,517,169 | 967,221 | - | 967,221 | - | 967,221 |
| - | - | - | - | - | - | - | - | - |
| - | - | - | - | - | - | - | - | - |
| | | | | | | | | |
| 357,932 | 40,709 | 83,365 | 315,276 | (11,730) | - | 86,701 | - | 86,701 |
| 760,127 | - | - | 760,127 | - | - | 209,035 | 36,638 | 245,673 |
| - | - | - | - | - | - | - | - | - |
| - | 5,540 | 5,452 | 88 | 24 | - | 24 | - | 24 |
| 947,490 | - | 60,750 | 886,740 | - | (19,634) | 243,853 | 42,741 | 286,594 |
| - | 64,243 | 27,652 | 36,592 | 11,827 | - | 10,063 | 1,764 | 11,827 |
| 3,535,619 | 3,627,662 | 348,103 | 6,815,178 | 941,930 | (19,634) | 1,704,278 | 109,984 | 1,814,262 |
| - | - | - | - | - | - | - | - | - |
| 19,402,019 | 20,852,171 | 2,718,936 | 37,535,254 | 3,057,617 | 2,224,413 | 10,492,092 | 728,504 | 11,220,596 |

## 2010 TRANSACTIONS WITH RELATED PARTIES

Amounts shown in the following tables are in thousands of Euro.

### A) Transactions with related party shareholders

#### Commercial transactions

thousands of euro

| Company | Receivables | Payables | Revenue from services | Expenses |
|---|---|---|---|---|
| Municipality of Parma | - | 2,362 | - | - |
| Municipality of Turin | - | 49 | - | - |
| Finanziaria Sviluppo Utilities | 28 | 5 | 28 | - |

#### Financial transactions

Amounts in thousands of Euro

| Company | Receivables | Payables | Income | Charges |
|---|---|---|---|---|
| Finanziaria Sviluppo Utilities | - | 3,628 | - | 11 |

### B) Transactions with subsidiareis and joint ventures

#### Commercial transactions

thousands of euro

| Company | Receivables | Payables | Revenue from services | Other revenue and income | Costs for services and use of third-party assets | Other expense |
|---|---|---|---|---|---|---|
| Acquedotto Monferrato S.p.A. | 5 | - | - | 5 | - | - |
| Acquedotto Savona S.p.A. | 5 | - | - | 5 | - | - |
| AEM Torino Distribuzione S.p.A. | 508 | - | 353 | 37 | - | 25 |
| AEMNET S.p.A. | 19 | - | 11 | 6 | - | - |
| AES Torino S.p.A. | 187 | - | 61 | 103 | - | 10 |
| AGA S.p.A. | 3 | - | - | 3 | - | - |
| CAE AMGA Energia S.p.A. | 25 | - | - | - | - | - |
| CELPI S.c.r.l. | 4 | - | 4 | - | - | - |
| Enia Parma S.r.l | 48 | - | - | - | - | - |
| Enia Piacenza S.r.l | 38 | - | - | 2 | - | - |
| Enia Reggio Emilia S.r.l. | 49 | - | - | - | - | - |
| Enia Tel S.p.A. | 11 | 1,656 | - | - | - | - |
| Genova Reti Gas S.r.l. | 137 | - | - | - | - | - |
| Idrotigullio S.p.A. | 59 | - | - | - | - | - |
| Immobiliare delle Fabbriche | 1 | - | - | 1 | - | - |
| Iren Acqua Gas S.p.A. | 2,021 | 339 | 1,855 | 38 | 205 | - |
| Iren Ambiente S.p.A. | 756 | 870 | 381 | 227 | 588 | - |
| Iren Emilia S.p.A. | 2,499 | 1,448 | 2,018 | 13 | - | - |
| Iren Energia S.p.A. | 3,823 | 563 | 2,586 | 16 | 648 | 273 |
| Iren Mercato S.p.A. | 2,539 | 350 | 2,310 | 32 | 366 | 8 |
| Iren Rinnovabili S.p.A. | 36 | - | 35 | - | - | - |
| Iride Servizi S.p.A. | 687 | 1,076 | 525 | 39 | 1,409 | - |
| Laboratori Iride Acqua Gas S.r.l. | 4 | - | - | - | - | - |
| Mediterranea delle Acque S.p.A. | 199 | - | - | - | - | - |
| Nichelino Energia S.r.l. | 15 | - | 11 | - | - | - |
| OLT Offshore Toscana LNG | 2 | - | - | 2 | - | - |
| SasterNet S.p.A. | 18 | - | - | 2 | - | - |
| Società Acque Potabili S.p.A. | 59 | - | - | 59 | - | - |
| Tema S.c.a.r.l. | 9 | - | - | - | - | - |

## Financial transactions

thousands of euro

| Company | Receivables | Payables | Income | Charges | Dividends |
|---|---|---|---|---|---|
| AEM Torino Distribuzione S.p.A. | 144,854 | 14 | 4,749 | 20 | - |
| AEMNET S.p.A. | - | 5,188 | - | 13 | - |
| AES Torino S.p.A. | 182,197 | - | 2,503 | - | 24,456 |
| CELPI S.c.r.l. | - | 88 | - | - | - |
| Idrotigullio S.p.A. | 7,240 | - | 73 | - | - |
| Iren Acqua Gas S.p.A. | 228,741 | - | 3,213 | - | 32,145 |
| Iren Ambiente S.p.A. | 7,281 | - | - | - | 7,281 |
| Iren Emilia S.p.A. | 127,719 | 15 | 1,515 | 15 | 5,953 |
| Iren Energia S.p.A. | 707,102 | - | 13,022 | - | 57,987 |
| Iren Mercato S.p.A. | 323,541 | 107,078 | 6,507 | 42 | 4,021 |
| Iride Servizi S.p.A. | 115,020 | - | 1,814 | - | 1,916 |
| Nichelino Energia S.r.l. | 933 | - | 26 | - | - |
| Tecnoborgo S.p.A. | 7 | - | - | - | 15 |

## Other transactions

thousands of euro

| Company | Group VAT receivables | Group VAT payables | Receivables - TAX CONS | Payables - TAX CONS |
|---|---|---|---|---|
| AEM Torino Distribuzione S.p.A. | 303 | - | - | 751 |
| AEMNET S.p.A. | 113 | - | - | - |
| AES Torino S.p.A. | 907 | - | 3,339 | - |
| AGA S.p.A. | - | - | - | 10 |
| CAE AMGA Energia S.p.A. | - | 504 | 221 | - |
| CELPI S.c.r.l. | - | - | - | 5 |
| Enia Parma S.r.l | 4,714 | - | 61 | 59 |
| Enia Piacenza S.r.l | 2,979 | - | 55 | - |
| Enia Reggio Emilia S.r.l. | 5,506 | - | 4 | - |
| Enia Solaris S.r.l. | - | 16 | - | - |
| Enia Tel S.p.A. | - | - | - | 15 |
| Genova Reti Gas S.r.l. | - | 2,798 | - | - |
| Immobiliare delle Fabbriche | - | - | - | 44 |
| Iren Acqua Gas S.p.A. | - | 2,643 | 3,318 | - |
| Iren Ambiente S.p.A. | 4,408 | - | 3,158 | - |
| Iren Emilia S.p.A. | - | 18,728 | 4,454 | - |
| Iren Energia S.p.A. | - | 9,796 | - | 3,518 |
| Iren Mercato S.p.A. | 11,551 | - | 3,263 | - |
| Iride Servizi S.p.A. | 3,073 | - | - | 418 |
| Mediterranea delle Acque S.p.A. | - | - | 1,777 | - |
| Tecnoborgo S.p.A. | - | - | - | 108 |
| Zeus S.p.A. | - | - | - | 16 |

## C) Transactions with associates

### Commercial transactions

thousands of euro

| Company | Receivables | Payables | Revenue from services | Other revenue and income | Charges |
|---|---|---|---|---|---|
| Aciam | 12 | - | - | - | - |
| Acos | 9 | - | - | 9 | - |
| Amter | 20 | - | - | - | - |
| ASA | 166 | - | - | 39 | - |
| Astea | 6 | - | - | 6 | - |
| BT Enia Telecomunicazioni | - | 970 | - | - | - |
| Domus Acqua | 11 | - | - | - | - |
| Fata Morgana | 1 | - | - | - | - |
| Mondo Acqua | 3 | - | - | - | - |
| Piana Ambiente | 16 | - | - | - | - |
| S.M.A.G S.r.l. (In.Te.Gra Clienti) | 14 | - | - | 3 | - |
| So. Sel. | - | 9 | - | - | - |
| Valle Dora Energia S.r.l. | 1 | - | 1 | - | - |

### Financial transactions

thousands of euro

| Company | Receivables | Payables | Income | Charges | Dividends |
|---|---|---|---|---|---|
| Edipower | - | - | - | - | 3,517 |
| Plurigas | - | - | - | - | 5,400 |
| Valle Dora Energia S.r.l. | 7 | - | - | - | - |

# RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB COMMUNICATION NO. 6064293 DATED 26 JULY 2006)

thousands of euro

| | IFRS STATEMENT OF FINANCIAL POSITION | | RECLASSIFIED STATEMENT OF FINANCIAL POSITION |
|---|---|---|---|
| Property, plant and equipment | 7,528 | | |
| Investments in subsidiaries, joint ventures and associates | 2,169,160 | | |
| Other investments | 267,834 | | |
| **Total (A)** | **2,444,522** | **Non-Current Assets (A)** | **2,444,522** |
| Other non-current assets | 414 | | |
| Other payables and other non-current liabilities | - | | |
| **Total (B)** | **414** | **Other non-current assets (liabilities) (B)** | **414** |
| Trade receivables | 14,098 | | |
| Current tax assets | 663 | | |
| Other receivables and other current assets | 57,156 | | |
| Trade payables | (32,413) | | |
| Other payables and other current liabilities | (47,384) | | |
| Current tax liabilities | (3,421) | | |
| **Total (C)** | **(11,301)** | **Net working capital (C)** | **(11,301)** |
| Deferred tax assets | 17,943 | | |
| Deferred tax liabilities | (2,422) | | |
| **Total (D)** | **15,521** | **Deferred tax assets (liabilities) (D)** | **15,521** |
| Employee benefits | (9,806) | | |
| Provisions for risks and charges | (19,193) | | |
| Provisions for risks and charges - current portion | - | | |
| **Total (E)** | **(28,999)** | **Provisions and employee benefits (E)** | **(28,999)** |
| Assets held for sale | - | | |
| Liabilities related to assets held for sale | - | | |
| **Total (F)** | **-** | **Assets (liabilities) held for sale (F)** | **-** |
| | | **Net invested capital (G=A+B+C+D+E+F)** | **2,420,157** |
| **Equity (H)** | **1,632,760** | **Equity (H)** | **1,632,760** |
| Non-current financial assets | (885,163) | | |
| Non-current financial liabilities | 1,771,438 | | |
| **Total (I)** | **886,275** | **Non-current financial indebtedness (I)** | **886,275** |
| Current financial assets | (962,643) | | |
| Cash and cash equivalents | (43,571) | | |
| Current financial liabilities | 907,336 | | |
| **Total (L)** | **(98,878)** | **Current financial indebtedness (L)** | **(98,878)** |
| | | **Net financial indebtedness (M=I+L)** | **787,397** |
| | | **Own funds and net financial indebtedness (H+M)** | **2,420,157** |

## FEES OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS

Pursuant to article 78 of Consob regulation no. 11971 of 14 May 1999, as amended, the following table shows the fees paid to members of Boards of Directors and Board of Statutory Auditors by the company and its subsidiaries. Iren S.p.A. does not employ any key managers.
The members of the Board of Directors and the fees paid to them, including expense reimbursements, are shown below:

thousands of euro

| Name | Office held | Term of office since | Term of office to | Expiration of term (*) | Fees for the office in the company which prepares the financial statements | Non-monetary benefits | Bonuses and other incentives | Other fees | Total |
|---|---|---|---|---|---|---|---|---|---|
| Roberto Bazzano | Chairman | 01.01.10 | 31.12.10 | 31.12.2012 | 152 | | | 380 (1) | 532 |
| Roberto Garbati | CEO | 01.01.10 | 31.12.10 | 31.12.2012 | 127 | | | 380 (2) | 507 |
| Luigi Giuseppe Villani | Director | 31.08.10 | 31.12.10 | 31.12.2012 | 8 | | | | 8 |
| Luigi Giuseppe Villani | Deputy Chairman | 31.08.10 | 31.12.10 | 31.12.2012 | 33 | | | | 33 |
| Andrea Viero | Director | 01.05.10 | 30.08.10 | | 8 | | | | 8 |
| Andrea Viero | General manager | 31.08.10 | 31.12.10 | 31.12.2012 | 4 | | | 127 (3) | 131 |
| Paolo Cantarella | Director | 01.01.10 | 31.12.10 | 31.12.2012 | 23 | | | 12 (4) | 35 |
| Gianfranco Carbonato | Director | 01.01.10 | 31.12.10 | 31.12.2012 | 23 | | | 8 (4) | 31 |
| Franco Debenedetti | Director | 01.01.10 | 30.08.10 | | 15 | | | | 15 |
| Carla Ferrari | Director | 01.01.10 | 30.08.10 | | 15 | | | | 15 |
| Loic Hennekinne | Director | 01.01.10 | 30.08.10 | | 15 | | | | 15 |
| Mario Margini | Director | 01.01.10 | 30.08.10 | | 15 | | | | 15 |
| Giovanni Quaglia | Director | 01.01.10 | 30.08.10 | | 15 | | | | 15 |
| Alcide Rosina | Director | 01.01.10 | 31.12.10 | 31.12.2012 | 23 | | | 8 (4) | 31 |
| Stefano Zara | Director | 01.01.10 | 30.08.10 | | 15 | | | | 15 |
| Ernesto Lavatelli | Director | 01.01.10 | 31.12.10 | 31.12.2012 | 23 | | | 16 (4) | 39 |
| Alberto Clò | Director | 31.08.10 | 31.12.10 | 31.12.2012 | 8 | | | 8 (4) | 16 |
| Ettore Rocchi | Director | 31.08.10 | 31.12.10 | 31.12.2012 | 8 | | | | 8 |
| Marco Elefanti | Director | 31.08.10 | 31.12.10 | 31.12.2012 | 8 | | | 12 (4) | 20 |
| Franco Amato | Director | 31.08.10 | 31.12.10 | 31.12.2012 | 8 | | | 8 (4) | 16 |
| Enrico Salza | Director | 31.08.10 | 31.12.10 | 31.12.2012 | 8 | | | 12 (4) | 20 |
| **TOTAL** | | | | | **554** | | | **971** | **1,525** |

(*) The mandate will expire on the Shareholders' Meeting held to approve the financial statements at the year end on the specified date.

(1) Fee to the Managing Director of Iren Acqua Gas S.p.A. (Euro 380 thousand). Also included are fees that may be charged back to Iren S.p.A. for the office of CEO of Iren Mercato S.p.A. (Euro 11 thousand) and of Iren Acqua Gas S.p.A. (Euro 15 thousand).
(2) Fee to the Managing Director of Iren Energia S.p.A. (Euro 380 thousand). Also included are fees that may be charged back to Iren S.p.A. for the office of CEO of Iren Energia S.p.A. (Euro 15 thousand) and of Iride Servizi S.p.A. (Euro 14 thousand) and for the office of Chairman of the BoD of Aes S.p.A. (Euro 103 thousand).
(3) Fee to the Managing Director of Iren S.p.A. (Euro 127 thousand). Also included are fees that may be charged back to Iren S.p.A. for the office of CEO of Iren Emilia S.p.A. (Euro 7 thousand) and of Iren Ambiente S.p.A. (Euro 7 thousand).
(4) Fees for the participation on the Internal Control Committee and the Remuneration Committee.

The members of the board of statutory auditors and the fees paid to them, including expense reimbursements, are shown below.

thousands of euro

| Name | Office held | Term of office | | Expiration of term (*) | Fees for the office in the company which prepares the financial statements | Non-monetary benefits | Bonuses and other incentives | Other fees | Total |
|---|---|---|---|---|---|---|---|---|---|
| | | dal | al | | | | | | |
| Aldo Milanese | Chairman | 01.01.10 | 31.12.10 | 31.12.2012 | 74 | | | 31 (1) | 105 |
| Lorenzo Ginisio | Standing auditor | 01.01.10 | 31.12.10 | 31.12.2012 | 49 | | | 15 (2) | 64 |
| Giuseppe Lalla | Standing auditor | 01.01.10 | 31.12.10 | 31.12.2012 | 49 | | | 74 (3) | 123 |
| **TOTAL** | | | | | **172** | | | **120** | **292** |

(*) The mandate will expire on the Shareholders' Meeting held to approve the financial statements at the year end specified.

(1) Fee as Chairman of the Board of statutory auditors of AEM Torino Distribuzione S.p.A.. (Euro 31 thousand).
(2) Fees as Statutory Auditor of Aes S.p.A (Euro 15 thousand).
(3) Fees as Statutory Auditor of Iren Mercato S.p.A. (Euro 22 thousand), of Mediterranea delle Acque S.p.A. (Euro 52 thousand).

## INDEPENDENT AUDITORS' FEES

Pursuant to art. 149-duodecies of the enactment regulation of Italian Legislative Decree 58/1998, fees for the year due to KPMG S.p.A. can be summarised as follows:

thousands of euro

| Service | Service provider | To | Fees |
|---|---|---|---|
| Audit | Parent auditor | Parent | 114 |
| Attestation services (1) | Parent auditor | Parent | 169 |
| Tax consulting services | Parent auditor | Parent | - |
| Other services (2) | i) Parent auditor | Parent | 136 |
| | ii) Parent auditor network | Parent | - |
| | | **Total** | **419** |

(1) Attestation services regard the signing of the tax unified form and Modello 770 form, the check and the attestation of the unbundling financial statements and the performance of agree-upon procedures to check compliance with procedures of the Sustainability Report.
(2) Other services refer to translation of financial statements and methodology support for the preparation of the consolidated financial statements as well as the check of information document prepared for the merger with Enìa.

# STATEMENT REGARDING THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. The undersigned, Andrea Viero, Managing Director, and Massimo Levrino, Finance Director and Manager in charge of financial reporting of Iren S.p.A. hereby confirm, also in consideration of the provisions of art. 154-bis, subsections 3 and 4, Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in respect of the company's characteristics and
- the actual application during 2010 of administrative and accounting procedures in preparing the separate financial statements.

2. Furthermore, it is hereby declared that:

2.1 the separate financial statements:

a) are prepared in compliance with applicable IFRS endorsed by the European Community pursuant to EC Regulation 1606/2002 of the European Parliament and Council dated 19 July 2002;
b) correspond with books and accounting records;
c) are suitable to give a true and fair view financial position and results of operations of the issuer and group of companies included in the consolidation scope.

2.2 the Directors' Report includes a reliable analysis of the operating performance and results, and of the issuer's situation and of the entirety of the companies included in the consolidation, together with the description of the major risks and uncertainties to which they are exposed.

Reggio Emilia, 24 March 2011

The Managing Director
Mr. Andrea Viero

Administration and Finance Director and
Manager in charge of financial reporting Law 262/05
Mr. Massimo Levrino

KPMG S.p.A.
**Revisione e organizzazione contabile**
Corso Vittorio Emanuele II, 48
10123 TORINO TO

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**(Translation from the Italian original which remains the definitive version)**

# Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Iren S.p.A.

1 We have audited the separate financial statements of Iren S.p.A. (formerly Iride S.p.A.) as at and for the year ended 31 December 2010, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

The separate financial statements present the prior year corresponding figures for comparative purposes. As disclosed in the notes, the company's directors restated some of the corresponding figures included in the prior year separate financial statements. We audited such separate financial statements and issued our report thereon on 13 April 2010. We have examined the methods used to restate the prior year corresponding figures and related disclosures for the purposes of expressing an opinion on the separate financial statements at 31 December 2010.

3 In our opinion, the separate financial statements of Iren S.p.A. as at and for the year ended 31 December 2010 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Iren S.p.A. as at 31 December 2010, the results of its operations and its cash flows for the year then ended.

4 Following the merger of the Iride and Enia Groups which led, on 1 July 2010, to the merger of Enia S.p.A. into Iride S.p.A. (now Iren S.p.A.), the directors have prepared two reports on the corporate governance and ownership structure: the first report covers the

months of 2010 prior to the merger and refers to Iride S.p.A. (now Iren S.p.A.), while the second report covers the remaining months of 2010 and refers to Iren S.p.A..

The directors of Iren S.p.A. are responsible for the preparation of a directors' report on the financial statements and the above reports on the corporate governance and ownership structure, published in the Investor Relations section of Iren S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the above reports on the corporate governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the above reports on the corporate governance and ownership structure are consistent with the separate financial statements of Iren S.p.A. as at and for the year ended 31 December 2010.

Turin, 9 April 2011

KPMG S.p.A.

(signed on the original)

Roberto Bianchi
Director of Audit

# REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING (PURSUANT TO ARTICLE 153 OF THE ITALIAN LEGISLATIVE DECREE NO. 58/1998 AND ARTICLE 2429 OF THE ITALIAN CIVIL CODE)

Dear Shareholders,

Over the year ended 31 December 2010, the Board of Statutory Auditors has performed its supervisory tasks in compliance with the prevailing regulations in accordance with the duties set forth in Article 149 of the Italian Legislative Decree 58/1998 (Finance Consolidation Act) and regulations included in the Legislative Decree no. 39 of 27 January 2010 in compliance with the code of conduct recommended by the Italian Accounting Profession.
This report refers to the performance of the year and describes the activities carried out in fulfilment of our duties, as required by Article 2429 of the Italian Civil Code and in compliance with Article 153 of the Finance Consolidation Act, taking into account the Consob (the Italian Commission for Listed Companies and the Stock Exchange) Communications relating to corporate controls.
As it is known, the merger of Enìa into Iride SpA became effective on 1 July 2010. The resulting company was named Iren SpA. Therefore, the activities of the Board of Statutory Auditors refer to both periods before and after the merger, reflecting the current corporate structure. In some cases, the Board had to refer to the activities performed by the Board of Statutory Auditors of the merged company in the first half of the year.
Our activities were carried out, amongst other, by:

- taking part in the Shareholders' Meetings, in the fifteen meetings of the Board of Directors, in the six meetings of the Internal Control Committee and in the twelve meetings of the Executive Committee;
- holding fifteen meetings of the Board of Statutory Auditors which, when necessary, were attended by the CEO, the representatives of the Independent auditors, the Manager in charge of financial reporting, the Chairman of the Supervisory Body and the Heads of internal audit and internal control;
- receiving information and exchanging opinions with KPMG, the Independent Auditors, the Manager in charge of financial reporting, the Internal Control Committee and the Heads of various company departments, including internal audit in particular;
- constantly monitoring the activities to perform the merger, resolved by the Shareholders in their meeting of 30 April 2009;
- receiving information on administration and control systems and the general performance of Subsidiaries, pursuant of Art. 151 of T.U.F. (Finance Consolidation Act), directly or through the presence of Iren S.p.A.'s Statutory Auditors in the Boards of some important group companies.

The group structure and its governance were modified due to the merger, in compliance with provisions set out in the Merger Plan and following supplementary information made available to the public.
Iren Spa operates in various business sectors, in its role as Parent, through five First-level companies over which it exercises the activity of direction and coordination, in accordance with the provisions of Articles 2497, and following, of the Italian Civil Code. Pursuant to Iren Spa's Articles of Association, the Board of Directors and the Executive Committee are vested with the powers to approve the most important transactions regarding the above-mentioned companies.
Much of the information that the Board has provided in this report is therefore included in the Notes to the consolidated financial statements, with reference to the activities carried out by the individual companies included in the consolidation scope.

As part of the supervisory activities carried out in the manner described above, the Board would like to note the following, in accordance with that indicated in Consob communication DEM/1025564 of 6 April 2001 as amended.

1. *Main transactions with an impact on the financial statements*
   As regards the activities directly performed by the Parent or the First-level companies, the most important group transactions with an impact on the financial statements, performed over the year and after year end, were reported by Iren Spa in the group Directors' Report. Special importance is given to the incorporation of Iren Spa, the take-over bid on Mediterranea delle Acque Spa by San Giacomo and the approval of the 2011-2015 Business Plan.

2. *Atypical or unusual transactions*
   No atypical or unusual transactions were carried out either with third parties, related parties or infragroup.

3. *Ordinary infragroup transactions and transactions with related parties*

The Notes and related tables attached to the separate Financial Statements provide an adequate description of the transactions with subsidiaries, associates and related Directors and Shareholders, by showing the extent of the financial, commercial or other transactions between Iren S.p.A. and the various parties. These transactions regard services rendered to Iren Spa or the management of some primary general services to the benefit of the main investees. The service agreements that govern the above-mentioned transactions are being updated due to the new group structure.

Additional information, regarding the afore-mentioned transactions, is provided in the comments to the various financial statements items, the financial position and transactions between the consolidated companies.

In accordance with the provisions of IFRS, all related party transactions have also been described in the Notes to the consolidated financial statements. The Board of Statutory Auditors deems these to be in the Company's interest and, as things stand, it considers that the related decision-making and operational processes, adopted by the Company and its Subsidiaries in accordance with the criteria set out in the Directors' Report, in any case, ensure the proper conduct of the activities that complement the mutual relations.

As regards the remark included in last year's Report on the receivable due from the investee Iride Servizi to the Municipality of Turin, the Board acknowledged the decrease in the amount due, compared to the previous year end, and that initiatives are being carried out aimed at further reducing it. Special attention was given by the management and control bodies to receivables arising from transactions with other local entities that are shareholders in the company's share capital.

Moreover, the Board also acknowledged that, pursuant to Consob resolution no. 17221 of 12 March 2010 on the adoption of regulation set out by Art. 2391-bis of the Italian Civil Code, having consulted the Internal Control Committee, on 30 November 2010, the Company's Board of Directors adopted the "Internal Regulation on the procedures to be adopted for transactions with related parties", in effect since 1 January 2011. The Board authorised its publication. Pursuant to the above-mentioned Regulations, the independent directors for the Internal Control Committee were also appointed.

4. *Compliance with the principles of correct management practices*

The Board, independently or through specific meetings with the Senior Management, has informed itself of the dynamics of the company's processes and received information on the general performance of the business and on the most significant transactions performed by the Company and its subsidiaries.

Based on the information received and the analyses performed, the Board can reasonably affirm that the actions resolved were implemented in compliance with the law and the articles of association, in accordance with the principles of correct management practices, and were not manifestly imprudent, risky or potentially in conflict of interest and capable of compromising the integrity of the Company's assets.

The Board of Statutory Auditors also acknowledged that the Board of Directors, in accordance with the recommendations contained in the joint document Consob-Isvap-Banca d'Italia no. 4 of 3 March 2010, approved the impairment test procedures applied by the Company for the measurement of goodwill, equity investments and securities available for sale, while recognising the results for a correct disclosure of such assets in the financial statements.

5. *Adequacy of the organisational structure*

The Board has examined and monitored the adequacy, to the extent of its remit, of the Company's organisational structure by receiving information from the heads of the company departments or the competent Bodies and by consulting the internal documentation, where necessary. These guidelines are being updated due to the required adjustment to the new group structure. The main subsidiaries applied Iren S.p.A. guidelines to guarantee the adequacy of their organisational and internal control structures. The Board also referred to the minutes of the meetings prepared by Enìa Spa's Board of Statutory Auditors in the first half of the year. As regards the application of the above-mentioned guidelines by the involved companies, the Board also acknowledged the results of Internal Audit activities performed in the year. No problems or deficiencies were found that could hinder the proper conduct of the company business.

6. *Adequacy of the internal control system*

The Board has supervised the internal control system by attending the meetings of the Internal

Control Committee and obtained information from the Head of internal control.
The Organisational, Management and Control Model, as per Italian Legislative Decree 231/2001 was adopted by Iren Spa and the majority of the First-level companies and their subsidiaries. The adoption of this Model is being extended or adjusted to other Company. The Supervisory Body, which underwent a change in composition during the year, carried out regular checks through the Internal Audit department, and reported on the contents and results of its audits to the Board of Directors every six months.
As far as the Board of Statutory Auditors is concerned, the internal control system, in general, has not highlighted problems, defects and deficiencies which might hinder the positive performance of the company activities. The remark is supported by the resolutions taken on this matter by the Board of Directors and the Internal Control Committee.

7. *Administrative/accounting system*
The Board has supervised the adequacy of the administrative/accounting system for the correct representation of the operational events, by obtaining information from the heads of administrative departments and by analysing the results of the work carried out by the Independent Auditors. During the meetings held pursuant to Article 150, subsection 3, of the Finance Consolidation Act, the Statutory Auditors were not notified, in relation to the Company and its Subsidiaries, of any censurable events and situations or inefficiencies worthy of note.
The Board has no particular remarks to make on this subject.

8. *Adequacy of the instructions issued by the Company to its Subsidiaries, pursuant to Article 114, subsection 2, of the Italian Legislative Decree no. 58/1998*
The sending to the Parent by the Subsidiaries of the information necessary to comply with the public disclosure requirements established by the law is ensured by the transmission of the resolutions adopted by the respective Boards of Directors, as well as the attendance, by Directors of the Parent, to the Boards of the First-level companies and main group companies, as well as by the provision, included in the subsidiaries' articles of association, setting out the prior approval by the Parent of significant transactions. The company also approved the Regulation for Internal Management and the communication of confidential and/or privileged information, applicable to all group companies.

9. *Claims or reports pursuant to Article 2408 of the Italian Civil Code*
The day before the Shareholders' Meeting held on 27 August 2010, the shareholder Pier Luigi Zola submitted a claim to the Board, pursuant to art. 2408 of the Italian Civil Code, as he deemed as censurable event some facts regarding the merger procedure between Iride SpA and Enìa Spa, due to the time elapsed between the merger resolution and the signing of the related deed. To this purpose the Board, that partly expressed its opinion during the same Shareholders' Meeting but reserved the right to report herein, confirms that the events recalled by the Shareholder are not censurable. To this purpose, the market received thorough information, as requested by Consob.
No claims or complaints have been made by third parties.

10. *Opinions issued during the year*
During the year, the Board issued opinions on the occasion of resolutions regarding the remuneration of Directors performing special duties, the post-merger confirmation of the office of the Manager in charge of financial reporting, the extended mandate to the Independent Auditors and the amendments to the articles of association.

11. *Information on the assignment of any additional tasks to the Independent Auditors or parties connected to it through ongoing relationships and related costs*
Pursuant to Art. 17, subsection 9, letter a) of Legislative Decree no. 39 of 27/1/2010, the Independent Auditors KPMG S.p.A. transmitted a letter confirming its independent status. With further notice, it supplied the list of non-audit services rendered by the Company, also through its network:
    - signing of the 2010 unified tax form, 2010 Irap form, 770/2010 form;
    - performing agree-upon procedures to check compliance with procedures of the Sustainability Report of Iride S.p.A. and Enìa S.p.A. and Gap Analysis on the reporting process compared to the sector supplement of GRI guidelines;
    - checking the translation into English of the annual and half-yearly financial statements and the sustainability report;

- auditing the annual separate financial statements and checking the pro forma accounting schedules at 31 December 2009;
- assisting with the identification of differences between adopted criteria and IFRIC 12.

The total amount for these services, outside the scope of audit and attestation activities, as per the proposal examined by the Shareholders' Meeting, was around Euro 268 thousand.
According to the information obtained, no other offices have been assigned to the directors, the members of the control bodies and the employees of the Independent Auditors or the companies within its network.

12. *Adherence by the Company to the Code of Conduct of the Committee for Corporate Governance of listed companies issued by Borsa Italiana S.p.A.*

Following the adoption of the Code of Conduct issued by Borsa Italiana S.p.A., the Board of Directors has drawn up the Report on the corporate governance and ownership structure, pursuant to Art. 123-bis of the Finance Consolidation Act, in compliance with disclosure obligations to Shareholders and the market and the format issued in February 2010. Taking account of the merger carried out with effect 1 July 2010, the above-mentioned Report was developed in three parts regarding Iride and Enìa before the merger and Iren Spa in the second half.
Based on information owned by the Board, the above Report provides a detailed description of the provisions of the Code that the Company implemented during the year, in relation to which the Board has not identified any reasons to make any remarks.

13. *Remarks and proposals regarding the separate and the consolidated financial statements*

The separate financial statements at 31 December 2010 and the consolidated financial statements at the same date have been drawn up applying the IFRS that the Directors have duly described in the Notes to the financial statements.
Checking the accounting records and the technical correctness of the separate and the consolidated financial statements is the duty and responsibility of the Independent Auditors KPMG S.p.A., which have engaged in accordance with Articles 155 and 156 of the Finance Consolidation Act. KPMG S.p.A. has issued an unqualified opinion in today's report, in which it states that the separate financial statements were clearly stated and give a true and fair view of the financial position of the Company, the results of its operations and its cash flows.
The Board, having verified the process for the preparation of the consolidated financial statements and the related opinion issued by KPMG S.p.A., does not have any remarks to make concerning the technical correctness of the financial statements.
When it was deemed useful, the Board expressed indications and recommendations aimed at enhancing the methods and tools used in running the company, as well as the correct application of regulations in force.
The activities carried out in the fulfilment of its duties did not reveal any censurable events, omissions or irregularities that require reporting, nor was it necessary to submit any remarks or proposals to the Shareholders' Meeting.
In view of the above, the Board acknowledges that the information provided by the Board of Directors was complete and adequate, and was consistent with the figures shown in the financial statements. It makes no remarks and proposals as regards the approval of the financial statements and the allocation of the profit for the year.

Turin, 9 April 2011

For the Board of Statutory Auditors
(Aldo Milanese, chairman)

Aldo Milanese

The list of offices held in the companies, as per Art. 144-quinquiesdecies of the Consob Issuer Regulation is attached herewith.

# LIST OF OFFICES HELD IN THE COMPANIES PURSUANT TO ART. 144 -QUINQUIESDECIES OF THE CONSOB ISSUER REGULATION

## Mr. Aldo Milanese – Chairman of the Board of Statutory Auditors

| Company name | Office | Office term |
|---|---|---|
| Teksid S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| Pegaso Investimenti Campioni di Impresa S.p.A. | Standing auditor | 31/12/2012 |
| Iren S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2011 |
| Magneti Marelli S.p.A. | Standing auditor | 31/12/2012 |
| UniManagement S.r.l. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| AEM Torino Distribuzione S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2010 |
| Centro Estero per l'Internazionalizzazione S.C.P.A. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| Pronto Assistance S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2011 |
| Azimut Holding S.p.A. | Director | 31/12/2012 |
| Gemina S.p.A. | Director | 31/12/2012 |
| Infratrasporti. To S.r.L. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| FinecoBank S.p.A. | Standing auditor | 31/12/2010 |

## Mr. Giuseppe Lalla – Standing auditor

| Company name | Office | Office term |
|---|---|---|
| Grosseto Energia Ambiente S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2011 |
| Utilitatis Pro Acqua Energia Ambiente | Standing auditor | 30/11/2012 |
| SARAT S.r.l. | Director | To cancellation |
| Attilio Carmagnani AC S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2010 |
| Iride Mercato S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| Metachem S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2010 |
| API S.p.A. | Standing auditor | 31/12/2011 |
| Iren S.p.A. | Standing auditor | 31/12/2011 |
| Aquamet S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2010 |
| Plurigas S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| R.STAHL S.r.l. | Standing auditor | 31/12/2011 |
| K-MATT S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2011 |
| Analisi & Controlli S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2010 |

## Mr. Lorenzo Ginisio – Standing auditor

| Company name | Office | Office term |
|---|---|---|
| Aeroporti Holding S.p.A. | Standing auditor | 31/12/2011 |
| Azienda Energia e Servizi AES Torino S.p.A. | Standing auditor | 31/12/2012 |
| Banco di Napoli S.p.A. | Standing auditor | 31/12/2011 |
| Coindas S.r.l. | Sole Director | Resignation/ Cancellation |
| Eutekne S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2011 |
| Fideuram Vita S.p.A. | Standing auditor | 31/12/2012 |
| I.C. Service S.r.l. | Chairman of the Board of Statutory Auditors | 31/12/2011 |
| I.P.B. S.r.l. | Sole Director | Resignation/ Cancellation |
| Iren S.p.A. | Standing auditor | 31/12/2011 |
| Italconsult S.r.l. | Standing auditor | 31/12/2011 |
| Lextel S.p.A. | Standing auditor | 31/12/2011 |
| Motul Italia S.r.l. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| Musso Paolo S.p.A. | Standing auditor | 31/12/2011 |
| S.A.G.A.T. S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| Sagat Handling S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| Tensiter S.p.A. | Standing auditor | 31/12/2010 |
| Tensister Centro S.r.l. | Chairman of the Board of Statutory Auditors | 31/12/2010 |
| T.R.M. S.p.A. | Chairman of the Board of Statutory Auditors | 31/12/2012 |
| Unaservizi S.r.l. | Chairman of the Board of Statutory Auditors | 31/12/2010 |

# SUMMARY OF RESOLUTIONS PASSED BY THE SHAREHOLDERS' MEETING

The shareholders who met on second call on 6 May 2011, made the following decisions:

## EXTRAORDINARY MEETING

Acknowledging the proposal set forth by the Board of Directors, the shareholders in their extraordinary ' meeting

*resolve*

1) to approve the amendments to the following articles of the articles of association: articles 10 (Shareholding ceilings), 11 (Calling of shareholders' meetings), 12 (Notice of call), 13 (Participation in the shareholders' meeting), 14 (Representation), 16 (Establishment of shareholders' meetings and validity of resolutions), 17 (Shareholders' meeting minutes), 20 (Procedures and criteria for the submission of lists), 25 (Resolutions of the board of directors), 32 (Procedures and criteria for the submission of lists), and 41 (Transitional provisions);
2) to adopt a new text of the articles of association to replace the one currently in force, on the basis of the amendments which have been approved;
3) to grant the Chairman of the Board of Directors all suitable powers in order to include any possible amendment, exclusion and/or addition to this resolution which are deemed useful and/or appropriate, provided they are not substantial;
4) to grant the Chairman of the Board of Directors all suitable powers in order to fulfil any formalities required for the resolution implemented to be registered in the Register of Companies.

## ORDINARY MEETING

The shareholders in their ordinary meeting:

- having analysed the annual financial statements at 31 December 2010 and the Directors' report;
- acknowledging the statutory auditors' report;
- acknowledging the report of the independent auditors, KPMG S.p.A.';
- acknowledging the consolidated financial statements at 31 December 2010 and the report of the independent auditors thereon,

*resolve*

1) to approve the annual financial statements of Iren S.p.A. at 31 December 2010 and the accompanying Directors' report;
2) to allocate the profit for the yearcoming at Euro 102,689,656.80, as follows:
   - Euro 5,134,482.84, totalling 5% of the profit for the year, to the legal reserve;
   - Euro 97,503,641.72 to be paid as dividend, corresponding to Euro 0.0764 for each of the 1,181,725,677 ordinary shares and the 94,500,000 savings shares;
   - the remaining amount, Euro 51,532.24, to the extraordinary reserve;
3) to also approve the distribution of Euro 10,975,540.82, drawn from the Extraordinary Reserve, as a dividend, corresponding to Euro 0.0086 for each of the 1,181,725,677 ordinary shares and the 94,500,000 savings shares;
4) to consequently assign to each of the 1,181,725,677 ordinary shares and the 94,500,000 savings shares with a nominal amount of euro 1 the overall unit dividend of euro 0.085 - for a total of euro 108,479,182.54 - to be paid starting from 26 May 2011, with the detachment date of coupon no. 12 for ordinary shares and no. 5 for savings shares in the stock exchange on 23 May 2011.

*Coordinamento grafico*
Vito Rotunno

*Progetto grafico*
Sunday, Torino

*Impaginazione e stampa*
Cooperativa Sociale Cabiria, Parma

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