

Interim Report

as of 31 March 2015

Board of Directors
of 14 May 2015



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KEY FIGURES OF THE IREN GROUP

| | First 3 months 2015 | First 3 months 2014 | Changes % |
|--|--------------------------------|--------------------------------|-----------|
| <i>Income statement figures (millions of euro)</i> | | | |
| Revenue | 919 | 903 | 1.8 |
| Gross operating profit (EBITDA) | 211 | 203 | 4.0 |
| Operating profit (loss) | 133 | 129 | 3.5 |
| Profit (loss) before tax | 102 | 100 | 1.6 |
| Profit (loss) for the period - Group and non-controlling interests | 63 | 55 | 14.6 |
| <i>Statement of financial position figures(millions of euro)</i> | | | |
| | At 31/03/2015 | At 31/12/2014 | |
| Net invested capital | 4,228 | 4,279 | (1.2) |
| Shareholders' equity | 2,055 | 1,994 | 3.1 |
| Net financial position | (2,172) | (2,286) | (5.0) |
| Financial/economic indicators | | | |
| | <i>First 3 months 2015</i> | <i>First 3 months 2014</i> | |
| GOP/Revenue | 23.0% | 22.5% | |
| | <i>At 31/03/2015</i> | <i>At 31/12/2014</i> | |
| Debt/Equity | 1.06 | 1.15 | |
| Technical and commercial figures | | | |
| | <i>First 3 months 2015</i> | <i>First 3 months 2014</i> | |
| Electricity sold (GWh) | 3,412 | 3,387 | 0.7 |
| Thermal energy produced (GWh _t) | 1,286 | 1,256 | 2.4 |
| District heating volume (mln m ³) | 80.3 | 78.9 | 1.8 |
| Gas sold (mln m ³) | 958 | 901 | 6.3 |
| Water distributed (mln m ³) | 35 | 37 | (5.2) |
| Waste collected (tonnes) | 172,237 | 171,503 | 0.4 |
| Waste disposed of (tonnes) | 209,492 | 151,043 | 38.7 |

Iren is a multiutility company listed on the Italian Stock Exchange and was established on 1 July 2010 as a result of the merger of IRIDE and ENÌA. It operates in the sectors of electrical energy (production, distribution and sale), heat (production, carriage and sale), gas (distribution and sale), integrated water services, waste management services (collection and disposal of waste) and services for public administration.

Iren is structured as an industrial holding, with headquarters in Reggio Emilia and operating offices in Genoa, Parma, Piacenza and Turin, as well as companies responsible for the single business lines. The holding company handles strategic, development, coordination and control activities, while the five operating companies ensure the coordination and development of business lines as follows:

- Iren Acqua Gas operates in the integrated water cycle;
- Iren Energia operates in the electricity and thermal energy production and technological services sector;
- Iren Mercato manages the sale of electricity, gas and district heating;
- Iren Emilia operates in the gas distribution sector and manages local services.
- Iren Ambiente operates in the environmental hygiene business throughout the chain from the collection to disposal of waste as well as in the design and management of facilities for waste treatment and disposal.

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

Gas Distribution: through its network of more than 7,600 kilometres Iren serves approximately 719,000 users.

Electricity Distribution: with 7,283 kilometres of high, medium and low voltage networks, the Group distributes electricity to approximately 685,000 customers in Turin and Parma.

Integrated water cycle: with around 15,400 kilometres of aqueduct networks, over 9,100 kilometres of sewerage networks and 1,076 treatment plants, Iren provides services to more than 2,400,000 residents.

Environmental cycle: with 123 equipped ecological stations, 2 waste-to-energy plants, 1 landfill site, 11 treatment plants and 2 composting plants, the Group serves 116 municipalities for a total of around 1,139,000 residents and around 1,100,000 tonnes managed.

District heating: through 864 kilometres of dual-pipe underground networks the Iren Group supplies heating for an overall volume of around 79 million m³, equivalent to a population served of over 802,000 people.

Sales of gas, electricity and heat energy: in 2014 the Group sold over 2 billion m³ of gas, more than 11,000 GWh of electricity and 2,600 GWh_t of heat for the district heating networks.

COMPANY OFFICERS

Board of Directors

| | |
|-------------------------|---|
| Chairperson | Francesco Profumo |
| Deputy Chairperson | Andrea Viero (*) |
| Chief Executive Officer | Vito Massimiliano Bianco ⁽¹⁾ |
| Directors | Franco Amato ⁽²⁾ |
| | Lorenzo Bagnacani |
| | Roberto Bazzano |
| | Tommaso Dealessandri |
| | Anna Ferrero |
| | Augusto Buscaglia ⁽³⁾ |
| | Alessandro Ghibellini ⁽⁴⁾ |
| | Fabiola Mascardi ⁽⁵⁾ |
| | Ettore Rocchi ⁽⁶⁾ |
| | Barbara Zanardi ⁽⁷⁾ |

Board of Statutory Auditors (**)

| | |
|---------------------|------------------------------------|
| Chairperson | Paolo Peveraro ⁽⁸⁾ |
| Standing auditors | Aldo Milanese ⁽⁸⁾ |
| | Annamaria Fellegara ⁽⁸⁾ |
| Substitute auditors | Alessandro Cotto ⁽⁸⁾ |
| | Emilio Gatto ⁽⁸⁾ |

Financial Reporting Manager

Massimo Levrino

Independent Auditors

PricewaterhouseCoopers S.p.A. ⁽⁸⁾

(*) The Deputy Chairperson Andrea Viero tendered his resignation with immediate effect on 30 April 2015. Also see the information in the paragraph on Significant events after the reporting period

(**) It should be noted that the Shareholders' Meeting of IREN SpA held on 28 April 2015 appointed the new members of the Board of Statutory Auditors. Also see the information in the paragraph on Significant events after the reporting period

⁽¹⁾ Coopted by the Board of Directors on 1 December 2014 to replace Mr Nicola De Sanctis, who had resigned, and at the same meeting appointed Chief Executive Officer with conferment of the related powers.

⁽²⁾ Chairperson of the Control and Risk Committee and member of the Committee for Transactions with Related Parties.

⁽³⁾ Appointed Director by the Shareholders' Meeting held on 18 June 2014 to replace Mr Roberto Walter Firpo. Member of the Remuneration Committee.

⁽⁴⁾ Member of the Control and Risk Committee.

⁽⁵⁾ Chairperson of the Remuneration Committee and member of the Committee for Transactions with Related Parties.

⁽⁶⁾ Member of the Remuneration Committee.

⁽⁷⁾ Chairperson of the Committee for Transactions with Related Parties and member of the Control and Risk Committee.

⁽⁸⁾ Appointed by the Ordinary Shareholders' Meeting of 14 May 2012 for the 2012-2014 three-year period.

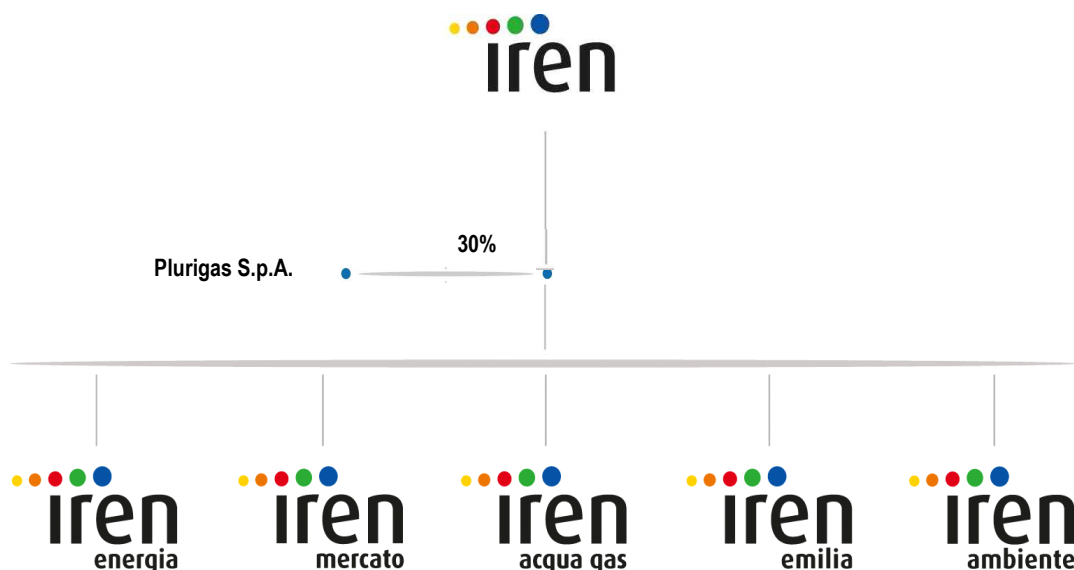
⁽⁸⁾ Appointment conferred by the Ordinary Shareholders' Meeting of 14 May 2012 for the 2012-2020 nine-year period.

MISSION AND VALUES OF THE IREN GROUP

The Iren Group's mission is to offer customers and residents service efficiency, effectiveness, economic convenience and high quality, operating with expertise and professionalism in full respect of the environment and offering safety in the energy, integrated water services, and waste management sectors, and on behalf of public administrations, contributing to the well-being of its staff and of the community, and guaranteeing its shareholders adequate profitability.



IREN GROUP: ORGANISATIONAL STRUCTURE



The shareholders' meeting of 27 March 2013 resolved to place Plurigas S.p.A. in voluntary liquidation. Note that this is the organisational structure for management purposes.

The flowchart illustrates the main investee companies of Iren Holding.

IREN ENERGIA

Cogenerative production of electricity and heat

Iren Energia's installed capacity (in electrical set-up), totals approximately 3,000 MW, of which around 2,800 MW is directly generated and around 200 MW through the investee Energia Italiana. Specifically, Iren Energia owns 25 electricity production plants: 19 hydroelectric plants, 6 thermoelectric cogeneration plants and 1 thermoelectric plant, for a total capacity of approximately 2,800 MW of electricity and 2,300 MW of heat, of which 900 MW through cogeneration. All primary energy sources used – hydroelectric and cogeneration – are completely eco-compatible. In particular, the hydroelectric production system plays an important role in environmental protection, as it uses a renewable and clean resource without the emission of pollutants. Hydroelectric energy reduces the need to make use of other forms of production that have a greater environmental impact. Environmental protection is a corporate priority for Iren Energia, which has always maintained that the development of hydroelectric production systems, in which it invests heavily each year, is one of the main ways to safeguard the local environment. 40% of total heat production capacity is generated by Group-owned cogeneration plants, while the remainder comes from conventional heat generators. Heat production was in the region of 1,286 GWht in the first quarter of 2015, with district heating volumes of approximately 80 million m³.

District heating

Since 1 July 2014, following the spin-off of AES Torino (previously 51% owned) Iren Energia has managed the district heating business directly, making use in the Piedmontese capital of the largest district heating network in Italy, with approximately 528 km of dual pipes.

Iren Energia also owns the district heating networks of Reggio Emilia, covering around 217 Km, Parma with roughly 91 Km, Piacenza which covers approximately 20 km, and Genoa with 10 km.

Lastly, Nichelino Energia, wholly owned by Iren Energia, aims at developing district heating in the town of Nichelino.

Electricity distribution

Through its subsidiary AEM Torino Distribuzione, Iren Energia distributes electricity to the entire metropolitan areas of Turin and Parma (around 1,094,000 residents); in the first three months of 2015 the electricity distributed was 999 GWh.

Services to Local Authorities and Global Service

Iren Servizi e Innovazione (formerly Iride Servizi) provides Turin with street and monument lighting services, the traffic light service, technological global service management of buildings and of renewable and alternative energies.

In addition, Iren Servizi e Innovazione builds plants for the generation of electricity, using renewables or similar sources such as tri-generation.

IREN MERCATO

Through Iren Mercato the Group sells electrical energy, gas and heat, supplies fuel to the Group, trades energy efficiency certificate (or white certificates), green certificate and emission trading, provides customer management services to Group companies and supplies heat services and sales heat through the district heating network.

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

Iren Mercato carries out the activities of programming, despatching and final accounting for electricity; it also handles the sale of the energy provided by the Group's various sources on the market represented by final customers, the Italian Power Exchange and other wholesale operators.

The Group's main power sources available for Iren Mercato operations are the thermoelectric and hydroelectric plants of Iren Energia S.p.A.

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

Lastly, Iren Mercato handles heat sales to district heating customers in Turin and the provincial capitals of Reggio Emilia, Piacenza and Parma, together with sales development in new district heating areas and in the urban district of Turin for its surrounding municipalities (Nichelino).

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

The Group also sells heat management services and global services both to private entities and public authorities. Development has focused on the management of air conditioning systems in buildings for residential and service use by means of energy service agreements, also through subsidiaries and investee companies. This contractual model guarantees long-term customer loyalty, with consequent maintenance of the natural gas supplies which constitute one of the core businesses of Iren Mercato.

Sale of Natural Gas

Total volumes of natural gas procured during the first three months of 2015 were approximately 958 million m³ of which 494 million m³ were sold to end customers outside the Group and 464 million m³ were used within the Iren Group both for electricity and thermal energy production and for the provision of heating services.

At 31 March 2015 gas customers managed directly by Iren Mercato totalled around 730,000, spread throughout the traditional Genoa catchment area and surrounding development areas, the Turin catchment area and the traditional Emilia Romagna catchment areas.

Sale of electricity

The volumes sold in the first three months of 2015 amounted to 3,412 GWh.

Electricity customers managed at the end of March 2015 were around 708,000, distributed mainly in the areas traditionally served, corresponding to Turin and Parma, and in the areas covered commercially by the company.

A cluster analysis of final customers is provided below.

Free market and power exchange

Total volumes sold to final customers and wholesalers amounted to 1,191 GWh, while the volumes used on the power exchange net of energy bought/sold amounted to 1,865 GWh.

Former non-eligible market

Total customers managed by Iren Mercato in the higher protection segment were 292,000 in the first three months of 2015. The total volumes sold amounted to 175 GWh.

Sale of heat through the district heating network

Iren Mercato manages heat sales to customers receiving district heating in the municipalities 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, customer relations management and the control and management of substations powering the heating systems of buildings served by the network. The heat sold to customers is supplied by Iren Energia S.p.A. under trading conditions that guarantee adequate remuneration.

In the first three months of 2015 the total district heating volume reached 80.3 million m³, up on the previous year (+1.4 million m³).

Heat service management

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

IREN ACQUA GAS

Integrated Water Services

Iren Acqua Gas manages the water services in the provinces of Genoa, Parma, Reggio Emilia and Piacenza, both directly and through the operating subsidiaries Mediterranea delle Acque and Idrotigullio and through the investee Am.Ter. In particular, from July 2004 it assumed the role of market operator for the Genoa ATO [Ambito Territoriale Ottimale], and from 1 July 2010 management of the water division for the Reggio Emilia and Parma areas was granted to Iren Acqua Gas as part of the Iride-Enia merger.

From 1 October 2011, as a result of transfer of the water division from Iren Emilia, Iren Acqua Gas extended its management to the Piacenza ATO.

Through its own organisation, Iren Acqua Gas reaches a total of 177 municipalities serving over 2 million residents through its managed ATOs (Genoa, Reggio Emilia, Parma and Piacenza).

In the first three months of 2015, Iren Acqua Gas, directly and through its subsidiaries, sold approximately 35 million m³ of water in the areas managed, through a distribution network of over 14,100 km. With regard to waste water, the company manages a sewerage network spanning approximately 8,000 km.

Gas distribution

Through its subsidiary Genova Reti Gas, Iren Acqua Gas distributes natural gas in the municipality of Genoa and in another 19 surrounding municipalities, for a total of around 350,000 final customers. The distribution network comprises about 1,657 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 7 interconnected natural gas 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 to residents to a minimum.

Through its subsidiary Genova Reti Gas, Iren Acqua Gas distributed a total of 173 million m³ of gas during the first three months of 2015.

Special technological services/research

Through its Saster and SasterPipe Divisions, Genova Reti Gas is able to offer network engineering services to the market (IT, modelling, simulation) and upgrading of technological networks with no-dig technologies, of which the company has exclusive know-how. In order to specifically promote and organise scientific and cultural initiatives to safeguard the environment and water resources and to provide optimum network management services, in 2003 the Fondazione AMGA Onlus was also created. The foundation promotes and implements research, training and information projects, and provides support for initiatives implemented by other entities in relation to environmental protection and the organisation of public utility services.

IREN EMILIA

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

Iren Emilia manages natural gas distribution for 72 of the 140 municipalities in the provinces of Reggio Emilia, Parma and Piacenza. The company manages a total of 5,955 km of high, medium and low pressure distribution networks with a designed maximum withdrawal capacity of 862,195 SMC/h.

Up to 30 June 2014 Iren Emilia carried on its business in the waste management service sector in the provinces of Piacenza, Parma and Reggio Emilia for a total 116 municipalities in these areas.

Iren Emilia also carries out operational management of the integrated water cycle (pipelines, treatment and sewerage) in the provinces of Parma, Piacenza and Reggio Emilia. This activity involves a total network of 12,275 km of pipeline networks, 7,010 km of sewerage networks, 477 waste water pumping systems and 798 treatment plants, both biological treatment plants and Imhoff tanks, distributed across 109 Municipalities.

The operational 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 330 km that serves a total volume of 19.7 million m³.

Iren Emilia also runs the district heating plants through the management, extraordinary maintenance and operation of heat energy plants and cogeneration plants owned by Iren Energia in the three provinces of Parma, Reggio Emilia and Piacenza.

Operational management of the electrical energy distribution network is carried out in the city of Parma and concerns 2,413 km of network and just less than 125,000 delivery points to end customers.

IREN AMBIENTE

Waste Management segment

Whether directly or through investees, Iren Ambiente performs the treatment, disposal, storage, recovery and recycling of urban and special waste, energy recovery (heat and electricity) through waste-to-energy (WtE) transformation and the operation of plants for the production of biogas in the provinces of Parma, Reggio Emilia and Piacenza.

Following the acquisition of the “waste collection” business unit sold by Iren Emilia with effect from 1 July 2014, Iren Ambiente S.p.A. also performs the waste collection and road sweeping business as well as other collateral services.

This extraordinary operation made it possible to optimise management of the street-cleaning and collection activities and to concentrate in a single subject the entire management of the economic and industrial cycle of waste.

As a consequence of the aforesaid operation, Iren Ambiente therefore operates in the waste management service sector in the Piacenza, Parma and Reggio Emilia provinces, serving a total 116 municipalities and approximately 1,139,000 inhabitants in these areas at 31/12/2014.

The growing attention to environmental protection and sustainable development, has led to ever-increasing implementation of widespread separate waste collection systems which, also through the management of 123 fully-equipped ecological stations, has allowed the area served to achieve 64% in terms of total separate collection.

Iren Ambiente S.p.A. also manages a significant customer portfolio to which it provides services for the disposal of special waste and it performs the treatment, selection, recovery and final disposal of urban waste.

The non-separated portion of waste collected is disposed of in various ways as part of research into the best use of waste through an industrial process involving mechanical selection to reduce the percentage destined for WtE conversion and disposal in landfills.

Iren Ambiente S.p.A. manages around 1,150,000 tonnes of waste per year, making use of 17 treatment, selection and storage plants, 2 waste-to-energy plants (Piacenza and Parma), 1 landfill site (Poiatica - Reggio Emilia) and 2 composting plants (Reggio Emilia). The new Integrated Environmental Centre (IEC), a waste selection and waste-to-energy plant in the province of Parma, came into full operation in April 2014.

IREN GROUP WORKFORCE

At 31 March 2015 the Iren Group had 6,263 employees due to the entry of AMIAT into the Group; with the same perimeter as 31.12.2014, there was a slight reduction comparing the current 4,505 employees to the previous 4,524. The table below provides a breakdown of personnel at 31 March 2015, divided into Holding and First-level companies (with related subsidiaries).

| Company | Workforce at 31.03.2015 | Workforce at 31.12.2014 |
|---------------------------------|-------------------------|-------------------------|
| Iren S.p.A. | 362 | 254 |
| Iren Acqua Gas and subsidiaries | 878 | 898 |
| Iren Ambiente and subsidiaries | 2,369 | 608 |
| Iren Emilia and subsidiaries | 1,204 | 1,253 |
| Iren Energia and subsidiaries | 1,019 | 1,069 |
| Iren Mercato and subsidiaries | 431 | 442 |
| Total | 6,263 | 4,524 |

This situation is associated with:

- the entry into the Group, with effect from 1 January 2015, of AMIAT;
- the process of reorganising and centralising the staffs in Iren S.p.A. which will continue, during the year, with further entry into direct employment with the said Company of personnel currently allocated to other Group Companies.
- the launch of the voluntary retirement incentive process, pursuant to Art. 4 of Italian Law 92/2012, which, with the creation of a generational change, will in any case take into account the organisational need to guarantee the maintenance of the policy on the subject of limiting workforces.

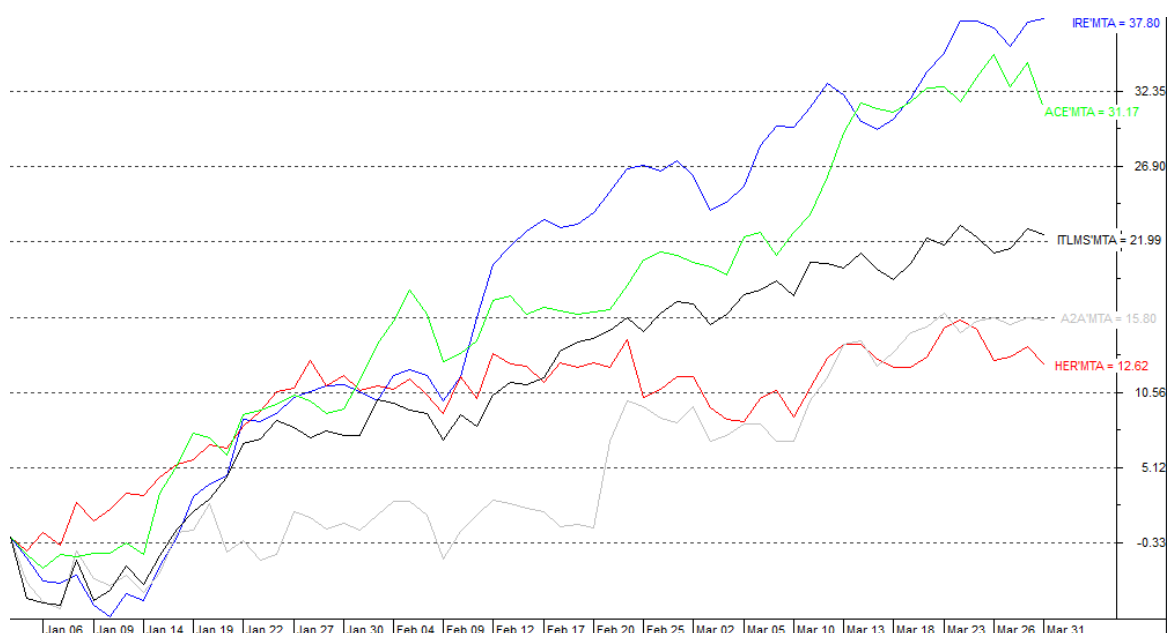
INFORMATION ON IREN STOCK IN THE FIRST THREE MONTHS OF 2015

Iren share performance on the Stock Exchange

In the first quarter of 2015 the Iren stock achieved the best performance in the sector, recording a rise of approximately 38% compared with an increase in the MTA index of approximately 22%.

This positive performance is linked, on the one hand, to the new governance defined by the new Chief Executive Officer, Mr. Massimiliano Bianco who took office in early December 2014, and, on the other, to the easing of tensions on the financial markets thanks to the actions of stimulus associated with the ECB intervention which have had a positive impact on equities.

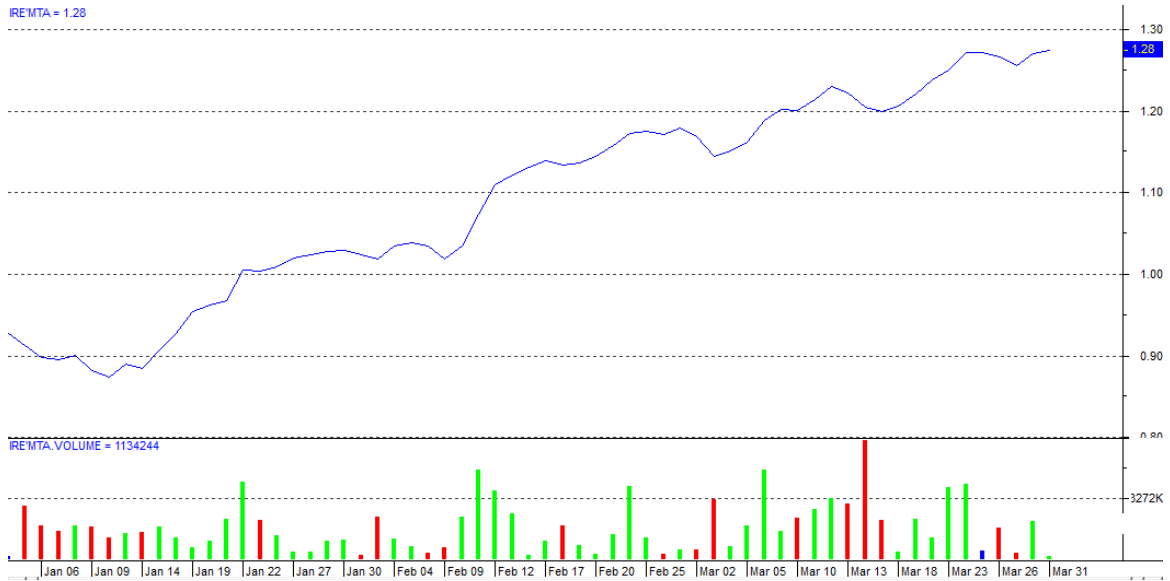
PERFORMANCE OF IREN STOCK vs. COMPETITORS



At the end of March 2015, the Iren stock stood at Euro 1.27 per share, with average trading volumes since the start of the year of around 2.2 million units per day.

During the first quarter of the year, the average share price was Euro 1.09, peaking at Euro 1.27 on 31 March and bottoming out at Euro 0.87 on 12 January.

PRICE TREND AND TRADING VOLUME OF IREN



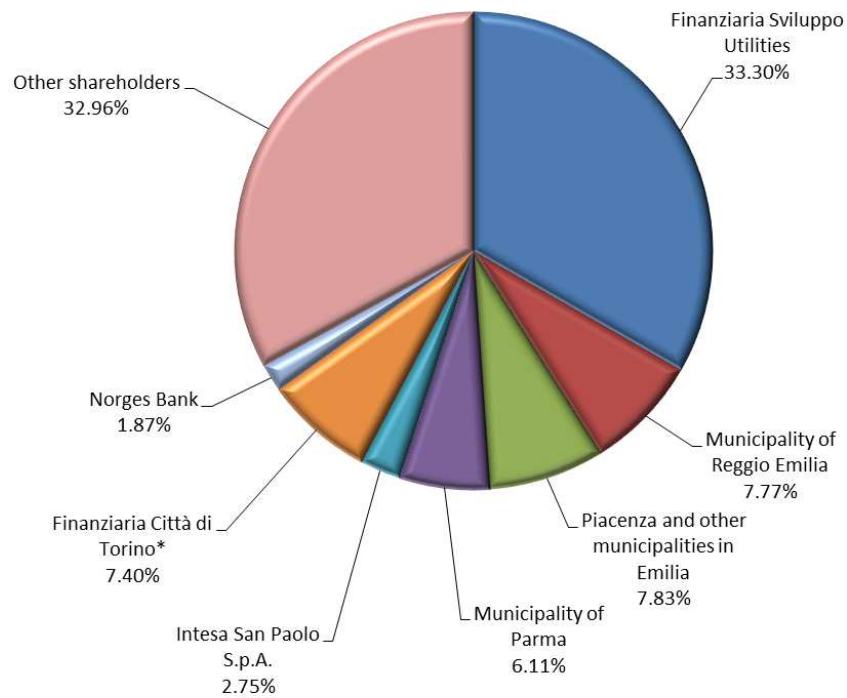
Stock coverage

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

Shareholding structure

At 31 March 2015, based on available information, the shareholding structure of IREN was as follows:

Shareholders of Iren S.p.A (% of total share capital)



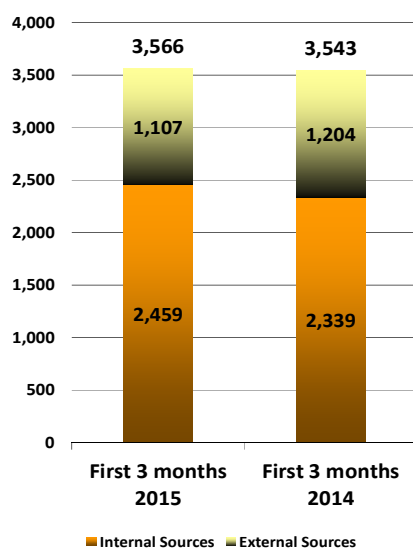
(*) savings shares without voting rights

OPERATING DATA

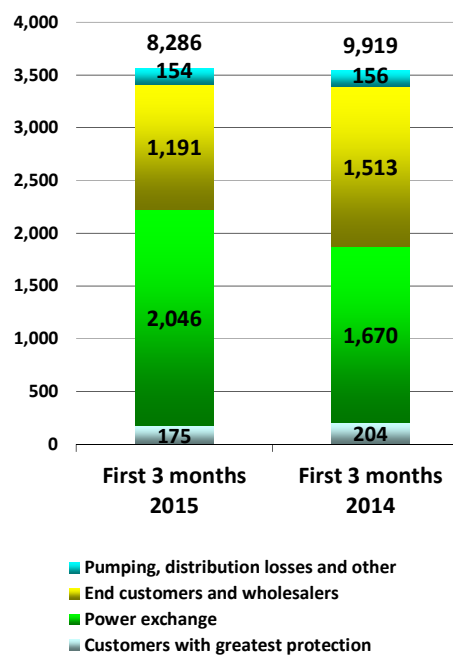
Electrical energy balance sheet

| GWh | First 3 months 2015 | First 3 months 2014 | Changes % |
|---|---------------------|---------------------|------------|
| SOURCES | | | |
| The Group's gross production | 2,459 | 2,339 | 5.1 |
| <i>a) Hydroelectric</i> | 263 | 245 | 7.3 |
| <i>b) cogeneration</i> | 1,813 | 1,721 | 5.3 |
| <i>c) Thermoelectric</i> | 269 | 292 | -7.9 |
| <i>d) Production from WTE plants and landfills</i> | 114 | 81 | 40.7 |
| Purchases from <i>Acquirente Unico</i> [Single Buyer] | 184 | 214 | -14.0 |
| Energy purchased on the Power Exchange | 415 | 477 | -13.0 |
| Energy purchased from wholesalers and imports | 508 | 513 | -1.0 |
| Total Sources | 3,566 | 3,543 | 0.6 |
| USES | | | |
| Sales to protected customers | 175 | 204 | -14.2 |
| Sales on the Power Exchange | 2,046 | 1,670 | 22.5 |
| Sales to eligible final customers and wholesalers | 1,191 | 1,513 | -21.3 |
| Pumping, distribution losses and other | 154 | 156 | -1.3 |
| Total Uses | 3,566 | 3,543 | 0.6 |

Composition of Sources



Composition of uses

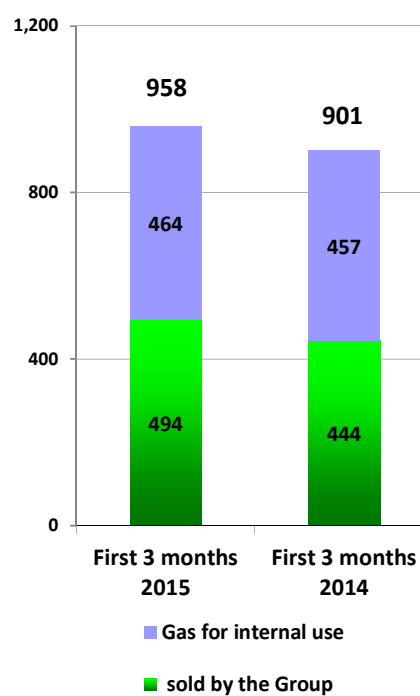
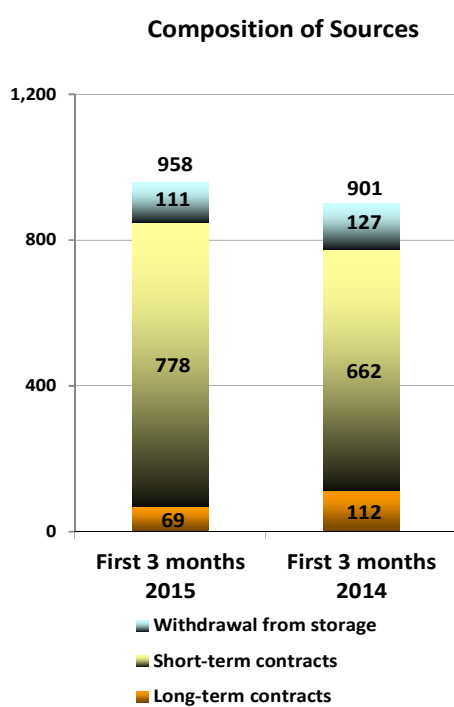


Gas Production

| Gas Production Millions of m ³ | First 3 months 2015 | First 3 months 2014 | Changes % |
|---|---------------------|---------------------|------------|
| SOURCES | | | |
| Long-term contracts | 69 | 112 | -38.4 |
| Short-term contracts (annual and spot) | 778 | 662 | 17.5 |
| Gas in storage | 111 | 127 | -12.6 |
| Total Sources | 958 | 901 | 6.3 |
| USES | | | |
| Gas sold by the Group | 494 | 444 | 11.3 |
| Gas for internal use (1) | 464 | 457 | 1.5 |
| Total Uses | 958 | 901 | 6.3 |

(1) Internal use involved thermoelectric plants, use in the generation of heat services and internal consumption

Composition of Uses



Network services

| | First 3 months 2015 | First 3 months 2014 | Changes % |
|--|------------------------|------------------------|-------------|
| ELECTRICITY DISTRIBUTION | | | |
| Electricity distributed (GWh) | 999 | 996 | 0.3 |
| No. of electronic meters | 704,960 | 698,857 | 0.9 |
| GAS DISTRIBUTION | | | |
| <i>Gas distributed by Iren Acqua Gas (mln m³)</i> | <i>174</i> | <i>166.0</i> | <i>4.8</i> |
| <i>Gas distributed by Iren Emilia (mln m³)</i> | <i>401</i> | <i>352.0</i> | <i>13.9</i> |
| Total Gas distributed | 575 | 518.0 | 11.0 |
| DISTRICT HEATING | | | |
| District heating volume (mln m ³) | 80.3 | 78.9 | 1.8 |
| District heating network (Km) | 866 | 858.2 | 0.9 |
| INTEGRATED WATER SERVICE | | | |
| Water volume (mln m ³) | 35 | 37 | -5.4 |

MARKET CONTEXT

Macroeconomic performance

In the Eurozone, exogenous factors capable of potentially boosting the economic cycle – such as quantitative easing by the ECB, the drop in energy prices, exchange rate depreciation – are leading to an increase in the confidence of businesses and households. After a long period of recession, the first positive signs for the Italian economy seem to be emerging in a context, that is still, however, highly uncertain. The gradual improvement in confidence indicators for businesses and consumers are only partially reflected in the production volume figures for the first quarter. The trends in production appear uncertain especially in the manufacturing sector while there are signs of improvement in the services sector and partly in the construction industry.

The leading indicator of the Italian economy is still on a positive level, supporting the hypothesis of an improvement in GDP in the first quarter of 2015, which is expected to be positive, although only in the range of 0.1-0.2%.

National electricity scenario

In the period January - March 2015 the net production of electricity in Italy was 65,063 GWh, down by 0.7% compared with the same period in 2014. The demand for electricity, amounting to 78,117 GWh (down by 0.1%), was met for 83.9% from domestic production (-0.9%) and the remaining 16.1% from foreign production. At the national level, traditional thermoelectric production was 44,484 GWh, with an increase of 4.2% compared to 2014 and represented 68.4% of the production supply; hydroelectric production was 9,459 GWh (-26.1% compared to 2014) representing 14.5% while geothermal, wind and photovoltaic production was 11,120 GWh (+11.0%) covering 17.1% of supply.

Demand and supply of accumulated electricity

(GWh and changes in trends)

| | up to 31/03/2015 | up to 31/03/2014 | Change % |
|-------------------------|---------------------|---------------------|---------------|
| Demand | 78,117 | 78,193 | (0.1)% |
| - North | 35,934 | 36,223 | (0.8)% |
| - Centre | 23,293 | 23,501 | (0.9)% |
| - South | 11,639 | 11,303 | 3,0% |
| - Islands | 7,251 | 7,166 | 1,2% |
| Net production | 65,063 | 65,537 | (0.7)% |
| - Hydroelectric | 9,459 | 12,806 | (26.1)% |
| - Thermoelectric | 44,484 | 42,709 | 4,2% |
| - Geothermoelectric | 1,438 | 1,339 | 7,4% |
| - Wind and photovoltaic | 9,682 | 8,683 | 11,5% |
| Foreign balance | 13,504 | 13,392 | 0,8% |

Source: RIE processing of TERNA data

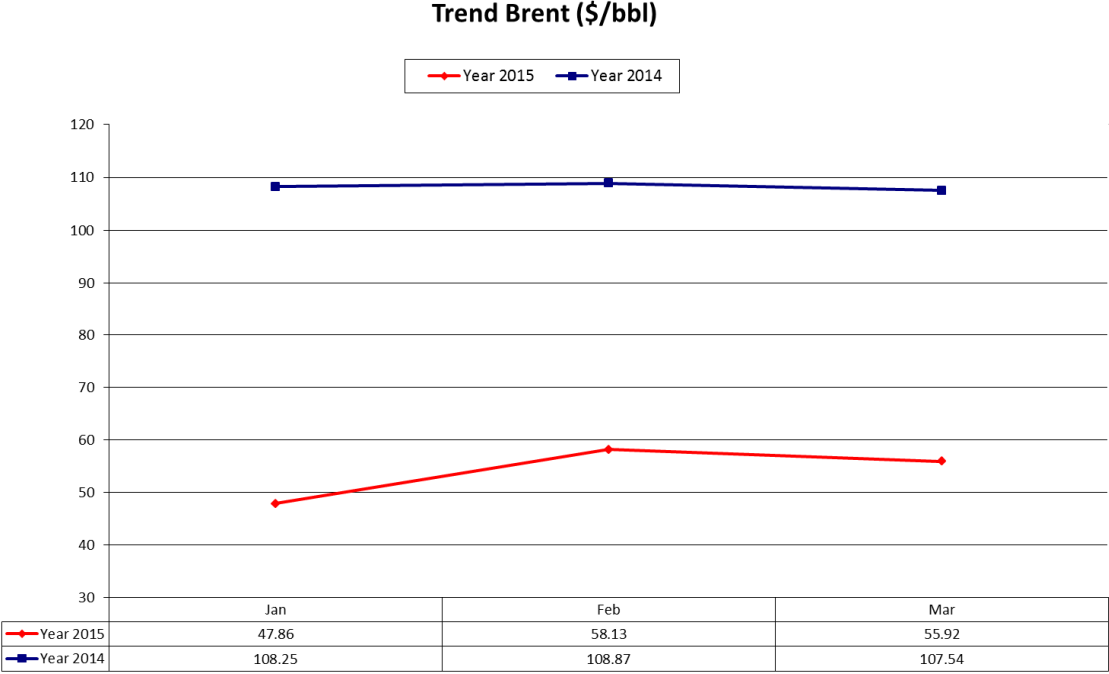
The first three months of 2015 saw a slight reduction in total of 0.1% of electricity demand over the same period in the previous year, while the same showed an increase compared to the previous quarter (+ 5.3%). The percentage decreases occurred mainly in Northern and Central Italy, with the largest decreases being recorded in Emilia Romagna and Tuscany (- 1.9%) and then in the area of the North East (- 1.4%).

In the first 3 months of 2015 the price of crude oil was 53.97 \$/bbl, sharply down compared to the same period of 2014 (108.2 \$/bbl equal to a fall of 50.1%). The average \$/€ exchange rate was 1.13 with an appreciation of our currency compared to the average for the same period in 2014 (1.37). As a result of

previous dynamics, the average price of crude oil in euro was € 48/bbl in 2014, down by 39.3% compared to the average of 2014.

In the first quarter of 2015, the dollar prices of Brent Dated have seen a fluctuating trend over the previous quarter. Quotations in January reached on average the minimum value for six years, equal to \$ 47.9/bbl, and then fluctuated between \$ 58.1/bbl in February and \$ 55.9/bbl in March.

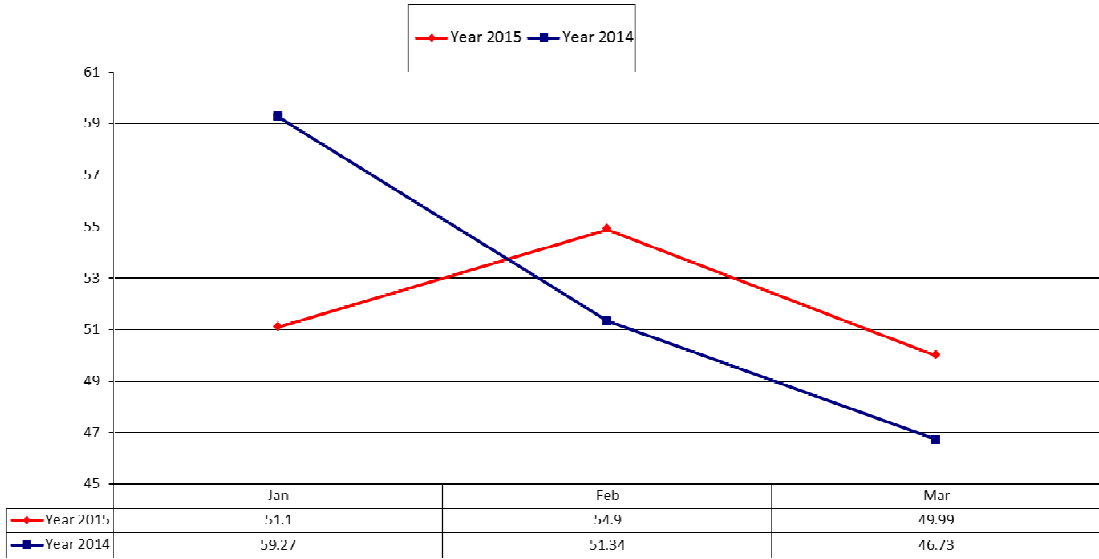
The current situation is particularly influenced by transactions on the futures markets which have reached very high levels specifically in relation to the conditions of price volatility: since January the purchase positions have increased constantly while the selling positions have decreased.



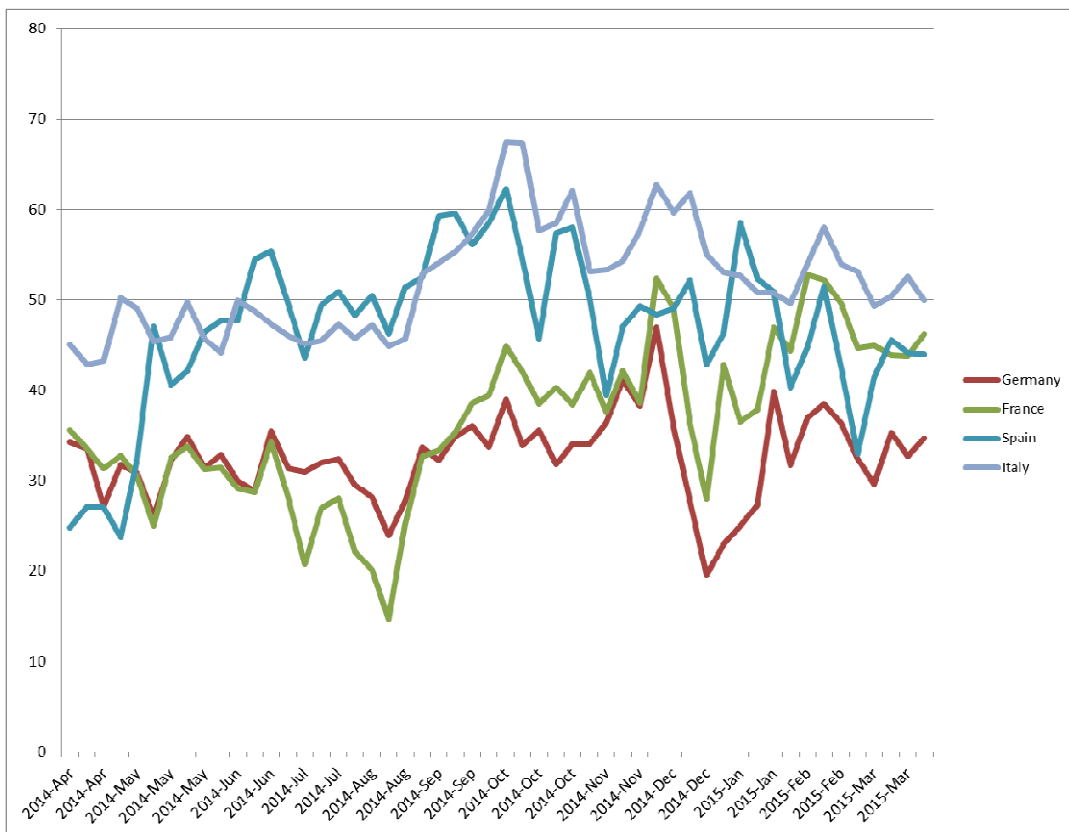
The first quarter of 2015 on the Power Exchange closed with an average price of € 51.9/ MWh. This price is the lowest for the period under consideration since the start of the computerised platform. The value shows a minimum reduction of € 0.4/MWh, compared to the same quarter of 2014 with a 0.9% rate of decrease.

In relation to the zonal prices, the beginning of 2015 confirms, as for the past year, that the South area has the minimum, while the Sicily area has the maximum, respectively with € 49.8/MWh and € 53.9/MWh. Sicily has seen a drastic fall in prices compared to the SNP from + 42.1% in the first quarter of 2014 to 4.1% this year.

Average purchase price on the MGP market PUN (€/MWh)



The main European power exchanges have expressed, in the first quarter, an average price of € 41.2/MWh with a differential from the average SNP of about € 11/MWh. This differential shows a reduction compared to the previous quarter (€ 17.2/MWh) and compared to the quarter in the previous year (€ 20.2/MWh).



With regard to the futures market, the following table shows the figures and comparisons with the monthly average prices expressed by IDEX. In the three months from January to March, continuous reductions have been recorded for all quotations. The annual future (December 2016), which was quoted at € 44.7/MWh in January 2015, reached € 47.8/MWh in February and returned to €46.9/MWh in March.

| January 2015 Futures | | | February 2015 Futures | | | March 2015 Futures | | |
|----------------------|--------------|------|-----------------------|--------------|------|--------------------|--------------|------|
| monthlies | €/MWh | | monthlies | €/MWh | | monthlies | €/MWh | |
| | feb-15 | 51.4 | | mar-15 | 49.6 | | apr-15 | 46.6 |
| | mar-15 | 47.5 | | apr-15 | 47.0 | | may-15 | 45.5 |
| | apr-15 | 43.9 | | may-15 | 44.9 | | jun-15 | 47.4 |
| quarterlies | €/MWh | | quarterlies | €/MWh | | quarterlies | €/MWh | |
| | jun-15 | 42.8 | | jun-15 | 46.3 | | jun-15 | 46.4 |
| | sep-15 | 46.1 | | sep-15 | 49.4 | | sep-15 | 49.1 |
| | dec-15 | 49.4 | | dec-15 | 52.8 | | dec-15 | 51.6 |
| | mar-16 | 49.5 | | mar-16 | 52.9 | | mar-16 | 51.5 |
| annuals | €/MWh | | Annuals | €/MWh | | Annuals | €/MWh | |
| | dec-16 | 44.7 | | dec-16 | 47.8 | | dec-16 | 46.9 |

Source: RIE processing of IDEX data

The Natural Gas Market

After the sharp contraction in domestic consumption in 2014 (down by 11.6% or 8.2 billion cubic metres), the first quarter in 2015 registered an increase of 10.4% with a “recovery” of 2.2 billion cubic metres compared to the previous year. The increase was due to higher withdrawals in urban distribution networks (+ 16.6%), on account of slightly stiffer temperatures compared to the very mild winter last year, and also the thermoelectric uses showed an increase of 8.7%. These last figures, substantially equal to the electricity demand in the quarter, seem to have been positively affected by the decline in hydroelectric generation (-3.3 TWh). There was a slight decline in natural gas consumption by industries (-1.2%).

60.9% of the demand was covered by imports, which nevertheless declined by 1.3%, while domestic production accounted for 6.7% (down by 7.9%); 32.4% was satisfied through the use of stocks whose provisions increased by 50% due to the marketing decision of the operators to use stocks instead of imports. Especially from the second half of January 2015, in fact, the system increased the use of gas in stock, which at the end of 2014 still stood at around 9 billion cubic metres. At 31 March, the formal end of the provision period, the Stogit sites showed a residue of 10.4% compared to 1 November 2014 (1.1 billion cubic metres), while it was 31% (3.0 billion cubic metres) the same day in 2014.

Since the start of the year, 46.5% of volumes imported have come from Tarvisio (mainly Russia), 19.5% from Passo Gries (Northern Europe), 11.3% from Mazara del Vallo (Algeria), 12.2% from Gela (Libya) and 10.5% from the Rovigo regasification plant (Qatar).

Uses and sources of natural gas in the first quarter of 2015 and comparison with previous years

| | 2015 | 2014 | 2013 | 2012 | 2008 | Change % '15/'14 | Change % '15/'13 | Change % '15/'12 | Change % '15/'08 |
|--|-------------|-------------|-------------|-------------|-------------|------------------------|------------------------|------------------------|------------------------|
| GAS USED (bln m³) | | | | | | | | | |
| Distribution plants | 14.4 | 12.7 | 16.1 | 15.9 | 14.7 | 13.6% | -10.1% | -9.0% | -1.5% |
| Industrial use | 3.5 | 3.5 | 3.5 | 3.7 | 4.2 | -1.2% | -0.9% | -6.3% | -17.6% |
| Thermoelectric use | 5 | 4.6 | 5.9 | 6.9 | 8.9 | 8.7% | -14.9% | -27.9% | -43.7% |
| Third party network and system consumption (*) | 0.7 | 0.6 | 0.7 | 0.9 | 1.0 | 26.1% | -1.1% | -20.4% | -32.6% |
| Total withdrawn | 23.6 | 21.4 | 26.2 | 27.4 | 28.8 | 10.4% | -9.7% | -13.8% | -18.0% |
| GAS INPUT (bln m³) | | | | | | | | | |
| Domestic production | 1.6 | 1.7 | 1.9 | 2.0 | 2.3 | -7.9% | -15.2% | -22.1% | -31.9% |
| Imports | 14.4 | 14.6 | 16.8 | 20.4 | 23.0 | -1.3% | -14.3% | -29.6% | -37.5% |
| Storage | 7.7 | 5.1 | 7.5 | 4.9 | 3.5 | 50.2% | 2.2% | 54.9% | 121.3% |
| Total input | 23.6 | 21.4 | 26.2 | 27.4 | 28.8 | 10.4% | -9.7% | -13.8% | -18.0% |

(*) Includes: transport, exports, transport company redeliveries, input/output changes, losses, consumption and gas not accounted for.

Source: processing of Snam Rete Gas data: provisional for March 2015.

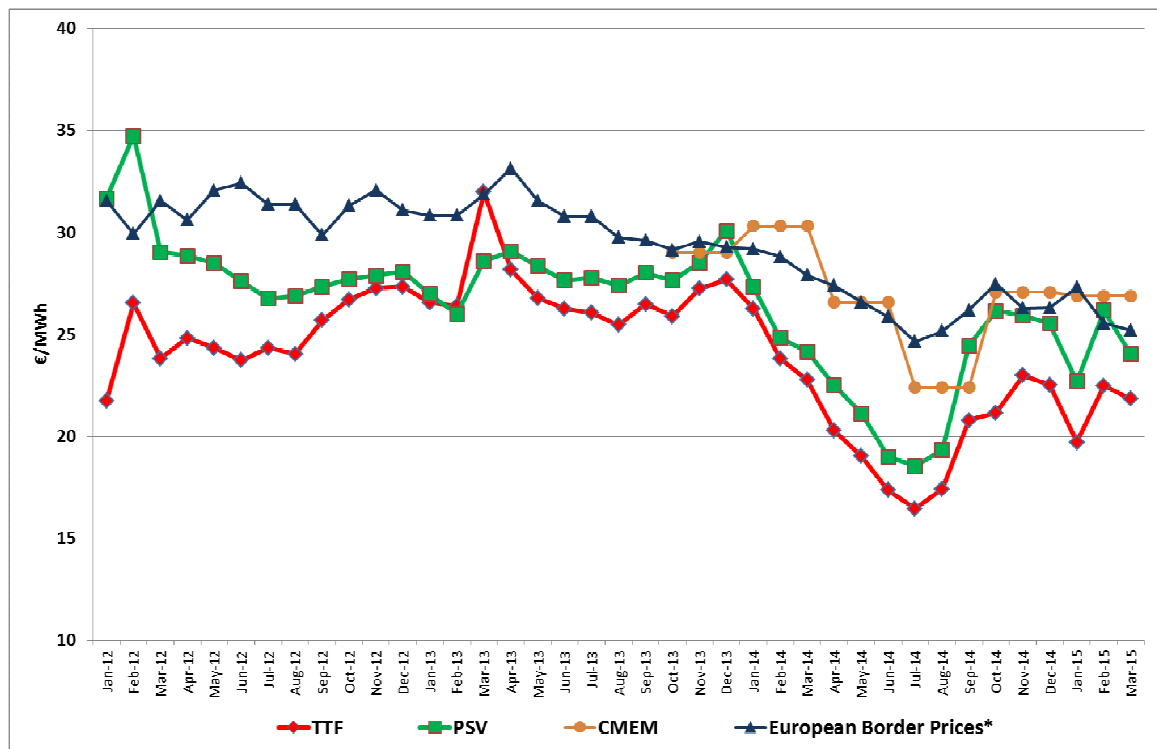
The first quarter of 2015 was characterized by a declining trend in the wholesale prices of natural gas in all international market areas.

In Europe, the first months of 2015 saw a fluctuating trend in prices at the hubs, but with values on average lower than in the corresponding period of 2014 and at the year-end, given the persistence of a context of weak demand exacerbated by the continuation of a mild winter in most countries. In January, in contrast with normal seasonal trends, prices showed a reduction of around 11-12% compared to December 2014. After this decline, in February the values rose between 13% and 15% due to a decrease in temperatures and the decision by the Dutch government to further reduce the production of the large Groningen field, which had already been cut in 2014 for precautionary reasons related to seismic activity in the area. This factor also contributed to a recovery in prices at the end after several months of consecutive falls. In March, with no particularly significant factors that could change the market ratios and proceeding towards the end of the winter season, prices were again generally on the decline at all hubs with variations for spot markets ranging from -2.9% of the Dutch TTF, which stood at € 21.8/MWh, to -8.1% of the Italian PSV which showed an average of € 24/MWh; the forward product values were also slightly down.

On average in the first quarter of 2015, the prices of Northern European hubs were down by 11-12% compared to the same period in 2014 (an average of € 21.7/MWh vs. € 24.5/MWh), while PSV showed -4.4% (€ 24.3/MWh vs. € 25.4/MWh), remaining the European hub with the highest prices and with an average spread over the Dutch hub of €3/MWh.

At the same time, recent data and information on the figures of the border prices for long-term contracts confirm that repeated renegotiations have gradually pushed their value towards that of the hub prices, although still presumably remaining higher on average (roughly in the order of 5-10%). For import volumes still related in whole or in part to oil product prices, the sharp fall in oil prices has only partially been transferred to the price of natural gas, but will have a greater effect in the coming months, thereby helping to compress the average European prices for natural gas.

Gas price trends on European wholesale markets



*Indicative figures based on RIE processing of World Gas Intelligence (Platts) estimates, European Commission, RIE database

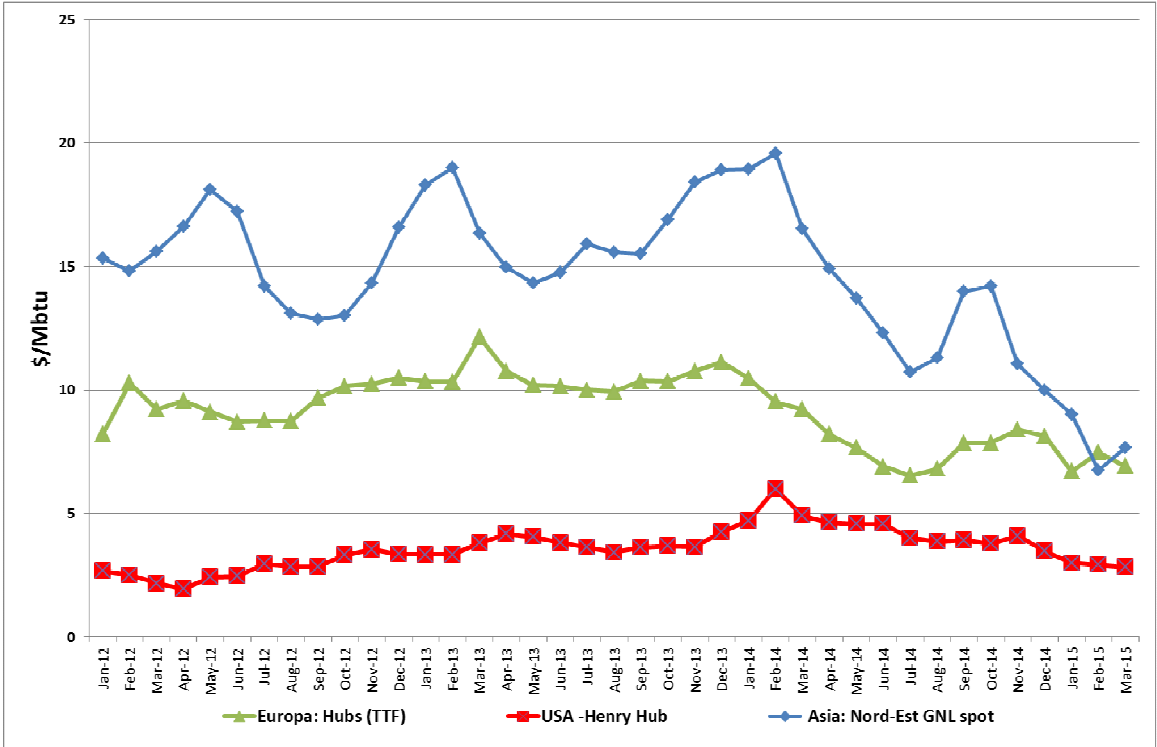
Note: the CMEM prices were translated into Euro/MWh on the basis of a heating power of 38.52 Mj/m³

Other Sources: RIE processing of European Gas Daily (Platts) and AEEGSI data

As regards the Italian context, besides the aforementioned trends on the PSV, the balancing market (PB-Gas) was confirmed in the first quarter of the year as the only liquid gas market among those organised by the Energy Markets Manager (Gestore dei Mercati Energetici - GME). In the two sectors that constitute it (G+1 and G-1) volumes were exchanged for approximately 1.5 billion cubic metres, with an average price of € 23.6/MWh for the sector G+1 and € 26.2/MWh for the G-1. The so-called “CMEM component”, meant to reflect the cost of procuring gas in the protected market price, defined by the AEEGSI on the basis of the TTF forward prices, in the quarter was c€ 28.8/cubic metre (€ 26.9/MWh).

In the markets of North-East Asia, after a series of factors changed the market fundamentals, starting from October 2014, for both short-term trades (less-than-expected demand and greater supply flows) and for long-term contracts (falling oil price), the prices of LNG continued on a downward trend. Spot prices in the first quarter of 2014 had recorded an average of \$ 18.4/MBtu, twice those in Europe, and were then down about a half, falling on a quarterly average to \$7.8/MBtu compared to \$7.1-7.3/MBtu of the Northern Europe hubs. The closing of the gap with European prices made netbacks obtainable from short-term LNG exports to Asia less attractive for producers encouraging the arrival of larger loads in Europe. In the US, prices declined and were increasingly lower than other market areas, albeit with reduced differences compared to 2014 due to the greater price drops in Europe and Asia. On average in the quarter, the Henry Hub, the main US market, showed a price of \$ 2.9/MBtu (it was \$ 5.2/MBtu in the same period in 2014).

Comparison between international natural gas prices



Source: RIE processing of Platts data

REGULATORY FRAMEWORK

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

Regulations relating to local public services of economic importance

The rules on local public services resulting from the ante legislative framework are contained in the Law converting Italian Law Decree No.179 of 18/10/2012 containing further urgent measures for growth of the country, Art. 34, as resulting from the conversion law (Italian Law No. 221 of 17/12/2012), and as amended by Italian Law Decree No. 150 of 30-12-2013 - Extension of terms provided for by legislative measures, Art. 13 Terms on the subject of local public services, in force since 1 March 2014, under the terms of which:

1. By way of exception to the provisions of Article 34, paragraph 21 of Italian Law Decree No. 179 of 18 October 2012, converted, with amendments, by Italian Law No. 221 of 17 December 2012, in order to guarantee continuity of the service, where the entity responsible for the assignment or, if provided for, the governing entity of the territory or optimal and uniform territorial area has already launched the assignment procedures publishing the report pursuant to paragraph 20 of the same article, the service is performed by the operator or operators already working until the new operator takes over and in any case not later than 31 December 2014.

2. Failure to establish or designate the government bodies of the optimal territorial area under the terms of paragraph 1 Article 3-bis of Italian Law Decree No. 138 of 13 August 2011, converted, with amendments, by Italian Law No. 148 of 14 September 2011, , or failure to resolve the assignment within the term of 30 June 2014, entail the exercise of the substitutive powers on the part of the Prefect competent for the territory, whose expenses are chargeable to the non-fulfilling entity, which must perform the formalities necessary for completion of the assignment procedure by 31 December 2014.

3. Failure to observe the terms pursuant to paragraphs 1 and 2 entails the cessation of assignments non-compliant with the requisites provided for in the European legislation as of 31 December 2014.

4. The present article does not apply to the services pursuant to Article 34, paragraph 25, of Italian Law Decree No. 179 of 18 October 2012, converted, with amendments by Italian Law No. 221 of 17 December 2012. (natural gas distribution service, pursuant to Italian Legislative Decree No. 164 of 23 May 2000, electricity distribution service, pursuant to Italian Legislative Decree No. 79 of 16 March 1999, and to Italian Law No. 239 of 23 August 2004, and management of municipal pharmacies, pursuant to Italian Law No. 475 of 2 April 1968).

Direct assignments granted as of 1 October 2003 to partially publicly-owned companies already listed on the stock exchange at that date, and to those controlled by them, cease at the expiry date provided for in the service contract; assignments that do not provide for an expiry date cease, with no extension possible, on 31 December 2020.

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

Italian Law No. 190 of 23 December 2014, (Stability Law for 2015) introduced, in paragraph 609 of Art. 1, amendments to Article 3-bis of Italian Law Decree No. 138 of 13 August 2011, converted into Italian Law No. 148 of 14 September 2011, in order to promote aggregation processes and to strengthen the industrial management of local public network services of economic relevance. The functions organising the local public network services of economic relevance are performed exclusively by the government bodies within optimal or uniform geographical territories or areas, in which the bodies take part obligatorily. If the local authorities do not join the aforesaid government bodies by 1 March 2015 or within seventy days from the establishment of the government bodies, the Chairperson of the Region exercises substitutive powers, after a warning. The government bodies must make the report which gives

an account of the reasons and existence of the requirements set forth by European law for the pre-established form of the assignment and explains the reasons with reference to the objectives of universality and sociality, efficiency, value for money and quality of the service.

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

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

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

Paragraph 611 of Article 1 of the Stability Law for 2015 states that, starting from 1 January 2015, the Regions and the local authorities must begin a process of rationalising the companies and equity investments directly and indirectly held, according to the following criteria:

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

To this end **c. 612** states, with a view to a reorganisation and reduction of investee companies, that the presidents of regions and the autonomous provinces of Trento and Bolzano, the presidents of provinces, mayors and other top management of the administrations pursuant to paragraph 611, in relation to the respective fields of competence, must define and approve, by 31 March 2015, an operational plan to rationalise the companies and equity investments directly or indirectly held, the methods and implementation times, and a detailed description of the savings to be achieved. This plan, accompanied by a specific technical report, must be sent to the competent regional auditing section of the Court of Auditors and published on the institutional website of the administration involved. By 31 March 2016, the bodies pursuant to the first sentence must prepare a report on the results achieved, which must be sent to the competent regional auditing section of the Court of Auditors and published on the institutional website of the administration involved. Publication of the plan and the report fulfils the disclosure obligation.

Directive 2014/23/EU of the European Parliament and of the Council of 26 February 2014, on the award of concession contracts was published in the E.U.O.J. (Official Journal of the European Union) of 28 March 2014.

The directive must be transposed by the Member States by 18 April 2016 (although there are certain interpretations on the immediate applicability of the same in the Member States; in this sense the Council of State, Section II, expressed its view in Opinion No. 298 of 30 January 2015, according to which it is essential to take into account the detailed rules introduced by the European legislators).

The concession assignment methods are:

- a) to private companies, selected through a public tender procedure;
- b) directly to public-private companies if the private partners is selected via tender concerning (i) assignment of the position of partner and, at the same time, (ii) assignment to the private partner of operating duties related to service management;
- c) directly to companies 100% owned by public entities, if the sole purpose of such companies is to provide services to the public partners and if the awarding body can exercise the same control that the authority exercises over its own offices (“in house” companies with analogous control).

Code on public works contracts

The text of Italian Legislative Decree 163/2006 (Code on Public Works Contracts) has been subject to frequent additions and amendments. The more important new elements are:

- for bidding companies, a declaration of so-called “in continuity” arrangement with creditors is not a reason for exclusion, but to be able to take part an explicit authorisation by the judicial receiver, if appointed, or by the court is necessary (specification introduced by Italian Law 9/2014);
- the commissioning bodies must, where possible and economically convenient, divide the contracts into operating lots;
- establishment of the NATIONAL PUBLIC CONTRACTS DATABASE which will enable the commissioning bodies to verify the general, technical, economic and financial capacity requisites; after subsequent postponements from 1 July 2014 it becomes obligatory to verify the requisites through the database for contracts in the ordinary sectors (e.g. solid urban waste collection);
- in tenders with award to the lowest price, this price is determined net of the expense related to personnel costs under the terms of Article 82, Section 3-*bis*, of Italian Legislative Decree 163/2006; on this point we can note that the Piedmont Regional Administrative Court – Sect. 1, with a judgement filed on 6 February 2015, introduced the principle of necessary not literal, but substantial and systematically logical interpretation of the law, in order to avoid, among other things, distorting effects on tender procedures;
- the anti-corruption law introduces new disclosure obligations for public administrations and companies controlled by public bodies, with the exclusion, until new rules are issued, of companies already listed on the Stock Exchange and companies controlled by them, as specified by the circular of the Minister for the Public Administration and Simplification No. 1/2014 and confirmed by ANAC in the draft resolution subject to online consultation (send contributions by 15/04/2015) - **Guidelines for implementation of the legislation on the subject of prevention of corruption and transparency by companies and private law bodies controlled and invested in by public administrations and economic public bodies;**
- with Italian Law No. 9 /2014 converting Italian Law Decree No. 145 of 2013, Art. 13, rules were introduced which enable commissioning bodies to pay subcontractors directly in cases of financial liquidity crisis of the contractor which are proven by repeated delays in payments to Subcontractors or Pieceworkers and ascertained by the commissioning body, after consulting the Contractor. In addition, also for works contracts in progress, where arrangements with creditors are pending, the commissioning body retains the right to arrange payments due for services provided by the contractor, and by subcontractors and pieceworkers.

At the end of 2013 the European Commission issued Regulation No. 1336/2013 which for the two-year period 2014-2015 changed the application limits on procedures for the award of public works contracts: Euro 207,000 for ordinary sectors (instead of Euro 200,000) and special sectors; Euro 414,000 (rather than Euro 400,000) for all public supply and services contracts and Euro 5,186,000 (instead of Euro 5,000,000) for public works contracts.

Once they are transposed (by 18/4/2016), the following European Union Directives published in E.U.O.J. (Official Journal of the European Union) 94 of 28 March 2014 will have a great impact on the legislation:

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

We can note:

- the suppression of the AVCP, which was replaced by the ANAC pursuant to Art. 19 of Italian Law Decree 90/2014, converted into Italian Law No. 114/2014
- A.N.A.C. Communication 2/9/2014 and A.N.A.C. Communication 17/3/2015 : “Application of Art. 37 of Italian Law Decree No. 90 of 24 June 2014 as converted by Italian Law No. 114/2014, method of transmitting and communicating to the ANAC variants to work in progress” which lays down operating rules for commissioning bodies for the new formality (it applies only to over-the-threshold works).

Italian Law 114/2014 also introduces rules on accelerating the administrative process (Art. 40) and contrasting abuse of the process (Art. 41) the so-called vexatious litigation.

- Italian Law Decree 133 /2014 of 12 September 2014, known as “Unblock Italy” which introduced provisions modifying the Contracts Code, among which we can mention in particular those pursuant to Art. 2 on the subject of “Procedural simplifications for strategic infrastructures assigned in concession”, to Art. 4 on identifying “Simplification measures for unfinished works reported by local authorities and financial measures in favour of territorial bodies”, and the provision of a series of measures for bureaucratic simplification, in favour of project bonds and to relaunch the building industry, to Art. 9 on measures for simplifying bureaucracy for non-deferrable projects with a value below the community threshold.

Art. 28 of Italian Legislative Decree No. 175 of 21 November 2014, abrogated paragraphs 28, 28-bis and 28-ter of Art. 35 of Italian Law Decree No. 223 of 4 July 2006, which established the joint liability of the contractor and the subcontractor for payment to the tax authority of tax withholdings on income from subordinate employment payable by the subcontractor and imposed on the commissioning body an obligation to control fulfilment of the above obligations.

Anti-Mafia Code

Italian Legislative Decree No. 159 of 6 September 2011, subsequently supplemented and amended by Italian Legislative Decree 153/2014, approved the code on anti-Mafia laws and prevention measures, which consolidates all provisions of the fight against organised crime into one law.

In particular we can note: elimination of the so-called “atypical information”, annual validity of anti-Mafia information, rather than half-yearly, and obtainment of anti-Mafia communications solely from the Prefecture, and no longer from the Chamber of Commerce.

Italian Law Decree 90/2014, converted into Italian Law 114/2014 in Art. 29, amending Art. 1 paragraph 52 of Italian Law 190/2012, states that it becomes obligatory to consult the so-called “White list”, established at the Prefectures and that registration in the lists takes into account the anti-Mafia communications and information required by Italian Legislative Decree. 159/2011, also for activities other than those for which the lists were established. The activities defined as at higher risk of infiltration are listed in paragraph 53 of Art. 1 of Italian Law 190 /2012 (e.g.: hot charters, waste transport and disposal for third parties, road transporters for third parties, extraction, supply and transport of soil and inert materials, etc.)

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

Robin Hood Tax

Following the ruling of the Constitutional Court of 11 February 2015 the additional IRES Tax (Robin Hood Tax), introduced into Italian law by Law Decree No. 112 of 25/6/2008, converted to Law No. 133 of 6/8/2008, was deemed unconstitutional. However, the unconstitutionality is not effective retroactively, because it was established that it applies from the day after publication of this judgement in the Italian Official Journal. This “restrictive” interpretation was considered constitutionally oriented as “The macroeconomic impact of rebates of tax payments connected with the declaration of unconstitutionality of Art. 81, paragraphs 16, 17 and 18, of Italian Law Decree No. 112 of 2008, and subsequent amendments, would determine, in fact, an imbalance in the State budget of an amount such as to imply the need for an additional financial manoeuvre, also so as not to fail to observe the parameters to which Italy is obliged in the European Union and internationally (Arts 11 and 117, first paragraph, Const.) and, in particular, of the annual and multi-annual forecasts indicated in the stability laws in which this revenue was considered fully acquired. Therefore, the overall consequences of removal with retroactive effect of the law challenged would end up requiring, in a period of continuing economic and financial crisis which affects the weakest bands, an unreasonable redistribution of wealth to the advantage of economic operators that can instead have benefited from a favourable economic situation. An irremediable prejudice to the

needs of social solidarity would thus be determined with a serious breach of Arts 2 and 3 of the Constitution.”

Cash transfers

The limit above which transfers in cash, or of bank or post office savings books payable to the bearer are not permitted was set at Euro 999.99 euro.

Gas distribution

The Letta Decree of 2000 introduced competition to the Italian natural gas market by deregulating gas imports, exports, transport, dispatch and sales.

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

By Decree of 19 January 2011 the Ministry of Economic Development announced the district authorities for the natural gas distribution sector. With Ministerial Decree 12/11/2011, No. 226, the Regulation on public tender criteria and the assessment of bids for the assignment of gas distribution services was also approved. This Regulation establishes that the Municipality which is the Provincial Capital is the commissioning body for managing the tender. The deadline for identification of the awarding party is set as six months from entry into force of the regulation (11 February 2012) for the Parma, Reggio Emilia, Turin 1 and Turin 2 ATOs, 24 months for the Genoa 2 ATO, 30 months for the Genoa 1 ATO and 36 months for the Piacenza 2 East ATO.

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

In 2013 the “Decreto del Fare” (Action Decree, Italian Decree Law No. 68 of 21 June 2013) introduced a number of amendments to the “Criteria Regulation” which defines the basic rules for conducting area-related tender procedures. The peremptory nature of deadlines is envisaged for appointment of the commissioning body, with a penalty for failing to meet the deadlines and the strengthening of substitution powers through the appointment of an “ad acta commissioner”. The deadlines for the call for tenders were then extended for different periods, as results from the rules indicated below. These concessions are currently operating under the extended regime pending the launch and award of public invitations to tender.

Italian Law Decree 145/2013 converted into Italian Law No. 9 of 21/2/2014 established in Art. 1 paragraph 16 that “The expiry terms provided for in paragraph 3 of Article 4 del Italian Law Decree No. 98 of 9 August 2013, are extended for a further 4 months. The deadlines pursuant to Annex 1 to the regulation pursuant to the decree of Minister of Economic Development No. 226 of 12 November 2011, related to areas included in the third group of the said Annex 1, and the respective terms pursuant to Annex 3 of the same regulation, are extended by four months.”

Article 30-bis of Law Decree No. 91 the so-called “Competitiveness Decree”, converted, with amendments, by Law No. 116/2014, marked the extension of deadlines for the publication of tenders for the award of the gas distribution services.

Specifically the deadlines for the first group of territories are extended by eight months, and thus until 11/3/2015, those of the second, third and fourth groups by six months and those of the fifth and sixth groups of territories by four months. In addition with Italian Law No. 11 of 27 February 2015, converting, with amendments, Italian Law Decree No. 192 of 31 December 2014, containing extension of terms provided for by legislative measures, *the so-called “Thousand Extensions”* published in O.J. No. 49 of 28-2-2015, in the coordinated text, in force since 1 March 2015, in Art. 3 *Extension of terms on the subject of economic development*, established in paragraph 3-ter that “*The term beyond which the provision pursuant to paragraph 4 of Article 30-bis of Italian Law Decree No. 91 of 24 June 2014, converted, with amendments, by Italian Law No. 116 of 11 August 2014, applies in relation to the first and the second group as per Annex 1 to the regulation pursuant to the decree of the Ministry of Economic Development No. 226 of 12 November 2011, is extended to 31 December 2015*”, and in the subsequent paragraph 3-*quater*, which states “*The terms pursuant to Article 3, paragraph 1, of the regulation pursuant to*

paragraph 3-ter, related to failure to publish the call for tenders, for the areas of the first group as per Annex 1 to the same regulation are extended to 11 July 2015 (OMISSIS)".

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

- Reggio Emilia - tender extended for two years owing to earthquake, has not incurred any variations - 11 November 2015
- Parma – 11 July 2015
- Piacenza 1 West – 11 November 2015
- Piacenza 2 East – 11 November 2016
- Turin 2 – 11 July 2015
- Genoa – 11 March 2016

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

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

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

On 22.5.2014 a Decree was issued by the Ministry for Economic Development containing "*Approval of the document 'Guidelines on criteria and application methods for measuring the refund value of the natural gas distribution plants'*". This was published in Italian Official Journal, General Series, No. 129 of 6.6.2014 together the document, which is annexed to the said decree and is an integral part of it, containing "*Guidelines on criteria and application methods for measuring the refund value of the natural gas distribution plants'*".

On 24 July 2014 the AEEGSI published Resolution No. 367/2014 and Annex A – concerning the Gas distribution services tariff regulation system, with reference to the regulation period 2014-2019 for Territorial Area managements and other rules on the subject of tariffs.

Both the Ministerial Decree of 22.5.2014, and the Resolution No. 367/2014 were challenged respectively at the RAC of Lazio, and the RAC of Lombardy. The appeals are currently pending.

Italian Law Decree "Unblock Italy" in Art. 37 provides for "Urgent measures for natural gas procurement and transport" and in Art.38 "Measures for measuring national energy resources".

Default service

With Resolution ARG/gas 99/11, the Authority had introduced rules for the retail sale of natural gas, with particular reference to the methods of purchase and loss of liability of withdrawals, to rules on non-fulfilment by final customers of their payment obligations (default) to completion of the structure provided for regarding last resort services, regulating the default service (DS), aimed at ensuring the balancing of the distribution network in relation to withdrawals of gas made directly by the final customer (without a supplier), that owns the supply point for which the conditions are not met for the commissioning of a supplier of last resort, or it is, in any case, impossible to commission a supplier of last resort.

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

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

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

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

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

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

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

Subsequently the following resolutions were issued:

on 6 June 2013 Resolution 241/2013/R/gas "Reform of the rules on the distribution default service, following the declared impossibility to perform all the activities pursuant to the TIVG, as regards the balancing of direct withdrawals",

on 27/2/2014 Resolution 84/2014/R/gas "Rules on default and last resort services, amendments and additions to the TIMG and TIVG,

on 29 May 2014 Resolution 246/2014/R/gas "measurement of natural gas withdrawn at redelivery points to which the distribution default service is provided following failure to physically disconnect".

With a judgement filed on 12.6.2014, the Council of State accepted the appeal lodged by the AEEG against the judgements with which the Milan Regional Administrative Court, in December 2012, had ruled that Resolution 99/11 was unlawful ordering it to be cancelled.

Very briefly the Council of State, following the AEEG's pleadings, decided that the default service is associated with the balancing service and that the same cannot be considered sales activity but, rather, as ex post settlement activity of the objective debt relationships created following withdrawals made by customers that have remained connected to the distribution network.

This was also considering the fact that the typical risk of sales activity, since the default of the final customer served is almost fully socialised and made chargeable to the community.

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

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

Electricity distribution

Legislative Decree No. 79 of 16 March 1999 (the “Bersani Decree”) established a general regulatory framework for the Italian electricity market which gradually introduced competition in the production of electrical energy and sale to eligible customers, against the retention of a regulated monopoly arrangement for transmission and distribution.

Specifically, the Bersani Decree:

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

Law no. 290 of 27 October 2003 established the re-unification of ownership and management of the transmission network.

Measures were adopted in 2007 to guarantee unbundling.

Tariff structure for transmission, distribution and metering

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

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

These activities are:

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Major hydroelectric shunt concessions

Constitutional Court sentence no. 205 of 4 July 2011 pronounced the illegal nature of the provisions of Decree Law no. 78 of 31 May 2010, converted to Law no. 122 of 30 July 2010, which extended major water shunting concessions for the production of electrical energy by five years, with the option of extension by a further seven years if a combined private/public company was established by certain provinces.

As a result of the declaration of constitutional illegitimacy, the concessions expiring on 31 December 2010 are subject to continued management by the operator until takeover by the new operator, which must be chosen through a public tender.

The duration of future concessions, to be issued following a tender process, will vary between twenty and thirty years, in accordance with criteria to be established in an interministerial decree in the process of being issued in agreement with the State-Regions Conference, in relation to the investments deemed necessary. The choice of the best bid for assignment of the concession will be based predominantly on the economic bid for the acquisition of water resources and on the increase in energy produced or installed power. For concessions already expired or those due to expire by 2017, the tender will be called within two years from the date of entry into force of the interministerial decree that will establish the criteria and the new concession will take effect from the fifth year after the original expiry and, in any case, no later than 31 December 2017. Ownership of the business unit relating to the exercise of the concession is transferred from the outgoing to the incoming concession holder, including all pertinent legal relations.

In September 2013 the European Commission began a fact-finding inquiry, concerning several member states, on the conditions for assigning, extending or renewing water concessions for hydroelectric use and sent the Italian Government a letter of formal notice which states that certain provisions recently introduced by the Italian parliament (with Italian Law 134/2012, converting the Italian “Development” Law Decree 83/2012), as well as certain parts of the legislation of the Autonomous Provinces of Trento and Bolzano are contrary to principles and rules of community law (freedom of establishment; Art. 12 of the “Bolkestein” Directive 2006/123/EC) . The Italian Government's reply to the European Commission's objections is being prepared.

Integrated Water Service

The integrated water service reform process, which began with Italian Law No. 36/94 (the Galli Law), was revised with the approval of Italian Legislative Decree No. 152 of 3 April 2006, as amended by Italian Legislative Decree No. 219 of 10 December 2010.

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

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

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

The integrated water service is also governed by Regional Laws 25/1999 and 10/2008 for the Emilia Romagna region.

As regards rules on the subject of ATOs, the Emilia Romagna Region with Regional Law No. 23 of 23-12-2011 set forth the “Rules for the territorial organisation of the functions related to local public environmental services”, which lays down the rules relating to regulation of public environmental services

and in particular to the territorial organisation of the integrated water service and the integrated urban waste management service in Emilia-Romagna, and states that on the basis of the principles of subsidiarity, differentiation and adequacy, the entire regional territory constitutes the optimal territorial area in accordance with Articles 147 *and* 200 of Italian Legislative Decree No. 152 of 2006.

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

As regards the IWS, the Law identified 5 ATOs:

- ATO West – Province of Imperia;
- ATO Centre/West 1 - Province of Savona;
- ATO Centre/West 2 - Province of Savona;
- ATO Centre/East – Province of Genoa;
- ATO East – Province of La Spezia.

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

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

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

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

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

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

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

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

The decision taken by the Authority can be criticised for various reasons, and in particular because it clashes with the community rules that provide for the coverage of this cost item; the Authority would, on the contrary, have excluded from the tariff the remuneration of the invested capital without providing for any alternative form of coverage of the financial costs. The Lombardy Regional Administrative Court, with a judgement dated 20 February 2014, accepted the arguments of the appellants (including IREN Acqua Gas) ruling that AEEGSI Resolution No. 273/2013 should be cancelled for the reasons maintained by the same. With Resolution No. 643 of 27 December 2013 the AEEG approved the “Water Tariff Method and completion rules” (MTI), containing the methods and parameters for calculating the costs (OPEX and CAPEX) that must provide adequate remuneration through the tariff applied to water service users.

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

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

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

Italian Law Decree 133 /2014 of 12 September 2014 known as the “Unblock Italy” Decree (Art. 7) introduced a number of changes to the rules of the IWS contained in the Consolidated Law on the Environment (Italian Legislative Decree No. 152/2006).

In brief it is established that:

- the Regions (if they have not already done so) must identify the governing bodies of the area by 31.12.2014 - otherwise the government's substitutive powers would apply;
- the local authorities must take part in the governing body of the area (which replaces the Area Authority) - failure to join the governing bodies of the area is sanctioned with exercise of the substitutive powers by the President of the Region;
- the concept of *single* management of the IWS is introduced;
- the governing bodies of the area (if they have not already done so) must choose the form of management of the IWS and begin the assignment procedures within the term of 30 September 2015;
- the relationship between the governing body of the area and the operator is regulated by an agreement prepared on the basis of a standard agreement prepared by the AEEGSI - the existing agreements are supplemented in accordance with the provisions of the said agreements, with the methods established by the AEEGSI;
- the new operator must pay the outgoing operator an amount to reimburse the investments made, determined according to criteria defined by the AEEGSI;
- in the event of early termination of the assignments, the outgoing operator is owed an indemnity as a refund of the investments made (not depreciated) and for loss of earnings (10% of the service still to be provided assessed on the basis of the economic-financial plan), with a reference to the rules of the Contracts Code;
- the definitive project of the works and actions provided for in the Investment Plan included in the Area Plans (and the related substantial changes) must be approved by the governing bodies of the area - approval of the projects entails the declaration of public utility and constitutes authorisation and/or variant to the town and territorial planning instruments - the governing body of the area convenes the conference of services and constitutes the expropriating authority (a role which may be delegated to the operator);
- in order to ensure observance of the principle of single management, the IWS operator takes over from the other entities operating in the same area with effect from entry into force of the law, but if these entities manage the service on the basis of an assignment granted in accordance with the *pro-tempore* current law, the takeover will occur at the expiry of the assignment.

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

- Resolution No. 6/2015/R/IDR of 15 January 2015 regarding the launch of proceedings for defining the water tariff method for the second regulatory period with reunification of the proceedings pursuant to Resolution 374/2014/R/IDR and identification of a single term for completion of the proceedings.
- Resolution No. 8/2015/R/IDR of 15 January 2015 regarding the launch of a proceeding for defining the criteria for structuring the tariffs applied to users of the water services.
- Resolution No. 83/2015/A of 5 March 2015 regarding the establishment and operation of the Permanent Observatory on regulations covering energy, water and district heating;
- Resolution No. 107/2015/R/IDR of 12 March 2015 containing the list of managements excluded owing to failure to deliver the plants from the tariff update for the first regulatory period 2012-2015. AMAT of Imperia and AIGA of Ventimiglia are also included in the list. These Companies presented to the AEEGSI a plea for a revision of the decision and are preparing an appeal to the RAC in the event of a negative reply or no reply within the terms for proceeding with an appeal.
- Resolution No. 122/2015/R/IDR of 19 March 2015 regarding the launch of proceedings for the creation of solidaristic economic and financial equalisation systems covering the tariffs of the integrated water service also on the national scale.

Waste Management Service

Integrated Waste Management is understood as all the activities of transportation, treatment and disposal of waste, including street sweeping and the management of these operations.

The legislation of a general nature applicable to the Integrated Waste Management Services sector is contained at national level in the Environmental Code (Italian Legislative Decree 152/2006 amended most

recently by the Ministerial Decree of 15.01.2014), in Italian Legislative Decree 36/2003 (landfills), in Italian Legislative Decree 133/2005 (incineration and co-incineration), in Italian Presidential Decree No. 59 of 13 March 2013 (Single Environmental Authorisation), and at the regional level by Emilia Romagna Regional Laws No. 25/99, No. 10/2008 and No. 23/2011.

Given that the Territorial Area Authorities ceased to exist on 31 December 2012, the Emilia Romagna Region set up the Territorial Agency of Emilia Romagna, according to the aforementioned law, for water and waste services, in which all the Municipalities and provinces take part, and which is responsible for the regulation functions for the entire regional territory. This agency became operational in 2012.

We can also note that the Sistri system came into force on 1 October 2013 for hazardous special waste operators and from 3 March 2014 for initial producers of hazardous special waste. The SISTRI sanctions, exclusively related to failure to register or pay the annual contribution, apply starting from 1 April 2015 (following Italian Law 11/2015 converting the "Thousand Extensions Decree" Italian Law Decree No. 192 of 31 December 2014). Conversely, the SISTRI sanctions for all the other breaches apply from 1 January 2016.

The "Unblock Italy" Decree converted by Italian Law 164/2014 states that within ninety days from entry into force of the conversion law (10 February 2015) the Prime Minister must identify with his or her decree energy recovery and urban and special waste disposal plants, existing or to be built, to create an integrated and modern management system for such waste capable of achieving national security in self-sufficiency and superseding the infringement proceedings for failure to implement the European laws on the sector. For this purpose he or she must consult the Permanent Conference. The Prime Minister must carry out the check with regard to: a) the total processing capacity at the national level of urban and similar waste by the incinerator plants in operation or authorised at the national level; b) the incinerator plants with energy recovery to be created to cover the residual need (for the purpose of gradual socio-economic rebalancing).

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

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

The term envisaged both for making the existing Integrated Environmental Authorisation (IEA) compliant in the event that saturation of the thermal load is authorised, and for verifying the existence of the requisites for the purpose of classification as energy recovery plants (and making the IEA compliant in this sense) was extended to 10 February 2015.

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

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

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

The reduction to a half of the terms for expropriation procedures was confirmed (for proceedings in progress, the remaining terms are reduced to 1/4). The reduction to a half of the terms envisaged for the the Environmental Impact Assessment (EIA) and the IEA was not confirmed, but the new law establishes that the terms set by law for these procedures "must be considered peremptory". By 11 May 2015 the Prime Minister must carry out a study of the existing offer of plants also as regards recovery of the organic fraction, divided into Regions. Until the plants in question are built, the Regions may authorise, where technically possible, an increase of up to 10% of the capacity of such plants to encourage the recovery and production of high-quality compost.

Article 182 of the "Environmental Code" was amended, providing for the exclusion from the prohibition on extra-regional disposal non-hazardous urban waste that the President of the Region considers necessary to send for disposal out of the Region *"to deal with emergency situations caused by natural calamities for which a state of emergency is declared"*.

In January, Ministerial Decree No. 272 of 13 November 2014 came into force, which discloses the methods for drawing up the reference report for a request or renewal in an IEA procedure. The operators of undertakings holding a plant subject to IEA, where the activity involves the use, production or discharges of dangerous substances, shall in fact submit a report containing information on the quality of soil and groundwater, indicating the relevant hazardous substances. It follows that, if an IEA procedure is pending, it will be necessary to supplement the application with the reference report, which enable also a comparison on the state of Contamination of soil and waters at the moment of definitive cessation of the activity, so as to permit an assessment on any obligations to reclaim.

The so-called "Thousand Extensions Decree" (Italian Law Decree No. 192 of 31 December 2014, converted into Law No. 11 of 27 February 2015) moved to 30 June 2015 the term of the prohibition on conferring to landfills any waste with an LCV (Lower Calorific Value) of more than 13,000 Kj/kg.

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

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

On 1 June 2015 the European Commission decision 2014/955/EC will also come into force, introducing a new European waste List amending Decision 2000/532/EC on the European list of waste, assimilated at a national level by Annex D of part IV of Legislative Decree No. 152/06.

Tariff system for waste management services

The 2014 Stability Law established from 1 January 2014 the IUC tax (Imposta Unica Comunale - single municipal tax) comprising: a municipal tax of a capital nature (IMU), a component referring to "indivisible" services (TASI) and the waste tax (TARI) destined to finance the cost of the urban waste collection and disposal service.

The prerequisite for the TARI tax is the ownership or possession of properties susceptible to producing waste and commensurate with the floor surface area of the property. The rates can be reviewed by the municipalities on the basis of service quality standards.

The possibility is reconfirmed for Municipalities to assign the ascertainment and collection, as an exception to Article 52 of Italian Legislative Decree No. 446 of 15 December 1997, to entities that at the date of 31/12/2013 "perform the service of waste management or TARES ascertainment and collection".

District Heating Service

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

- a) defines the standards of continuity, quality and security of the district heating and district cooling service, including plants supplying heat and the related accounting systems [...];*
- b) establishes the criteria for determining the tariffs and connection of users to the district heating network and the methods for exercising the right to disconnect;*
- c) subject to the provisions in letter e), identifies methods with which the network operators make public the prices for supplying heat, connection and disconnection, the ancillary equipment, for the purpose of cost-benefit analyses on the diffusion of district heating made under the terms of the present Article;*
- d) identifies reference conditions for connection to the district heating and district cooling networks, in order to encourage the integration of new heat generation units and the recovery of the useful heat*

available in the local area, in coordination with the measures defined to implement paragraph 5 for exploitation of the economically exploitable potential;

e) establishes the heat sale tariffs, exclusively in cases of new district heating networks if there is an obligation to connect to the district heating network, imposed by Municipalities or Regions.”

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

Energy efficiency

Italian Legislative Decree 102/2014

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

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

The following articles are particularly significant:

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

APEE 2014

In June 2014 the APEE (Action Plan for Energy Efficiency) 2014 was approved definitively by the Cabinet, after public consultation.

The document, prepared by the ENEA, contains the energy efficiency targets set by Italy to 2020 and the policy measures activated to achieve them. In particular the Plan proposes to strengthen the already existing measures and instruments and to introduce new mechanisms to overcome the difficulties encountered, in particular in certain sectors.

Particular attention is paid to describing the new measures introduced with Italian Legislative Decree 102/2014 which transposed Directive 2012/27/EU.

Compared with the APEE 2011 and with the figures up to 2012, the targets at 2016 have been 58.6% achieved.

Green Certificates, Energy Efficiency Certificates and the ETS

Green certificates

On the basis of Art. 11 of Italian Legislative Decree 79/99, producers and importers of electricity generated from non-renewable sources must introduce electricity produced from renewable sources into the network, equal to a portion of the electricity produced from non-renewable and non-cogeneration sources. The mandatory portion, initially set at 2%, in the period 2004-2006 was increased each year by 0.35 percentage points, whereas the annual increase for the period 2007-2012 was established as 0.75% by the 2008 Budget Law.

The obligation may also be fulfilled by purchase on the market and subsequent return to the GSE for cancellation of a corresponding quantity of green certificates; these certificates are attributed to electricity producers on the basis of the electricity production from plants powered by renewable sources which came into operation or were repowered after 1 April 1999 and classified as PPRSs (plants powered by renewable sources) by the GSE.

The eligible period for obtaining recognition of green certificates, initially 8 years, was later extended to 12 years.

The 2008 Budget Law 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.

The Authority for Electricity and Gas identified 6 June 2013 as the end date for reaching the provisional cumulative annual cost of Euro 6.7 billion for photovoltaic incentives. Therefore, starting from 6 July 2013 the photovoltaic incentive provisions came to an end.

The Energy Services Operator (Gestore dei Servizi Energetici – GSE S.p.A.) is responsible for implementing and managing the mechanism, and including the disbursement of the incentives to beneficiaries.

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

The new decree also governs the methods with which plants already in operation will transfer from the green certificates mechanism to the new incentive mechanisms starting in 2016.

Spread Incentives Decree

In November 2014 the MED published the decree known as the “Spread Incentives” decree, on the remodulation of incentives for electricity production from non-photovoltaic renewable sources. The decree states that producers of energy from renewable sources, owners of plants that benefit from incentives in the form of green certificates, all-inclusive tariffs or bonus tariffs can choose between 2 options:

- a) continue to enjoy the incentive system due for the remaining period of eligibility. In this case, for a period of ten years running from the end of the period of eligibility for the incentive system, work of any kind carried out on the same site does not have the right of access to further incentives, including dedicated withdrawal and exchange on site, chargeable to the electricity prices or tariffs;
- b) opt for a remodulation of the incentive payable, for which the incentive currently received (all-inclusive tariff or Green Certificate) is reduced extending by 7 years the incentive period. In this case:
 - for work carried out on the same site as the plant for which the remodulation option has been exercised, there is no right of access - up to the end of the new incentive period - to further incentives, with the exception of Dedicated Withdrawal and Exchange On Site (provided that they are compatible with the incentive mechanism enjoyed);
 - the regions and local authorities, each for the part they are responsible for, adjust to the duration of the incentive, as remodulated under the terms of the present decree, the validity over time of the permits issued, whatever they are called, for the construction and operation of the plants.

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

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

The deadline for expressing the intention to accept remodulation of the incentive is set as 17 February 2015.

Tax credits (Research and Development)

The 2015 Stability Law (Finance Bill) provides for the tax years from 2015 to 2019 a new tax credit for all enterprises, regardless of the legal form, the economic sector in which they operate, as well as the accounting scheme adopted, which make investments in research and development. The tax credit is equal to 25% of the costs incurred in excess of the average of such investments in the three tax periods prior to the current year to 31 December 2015.

For companies in business for less than three tax periods, the average investment in R&D activities to be considered for the calculation of incremental spending is calculated over the entire period from their Constitution.

The maximum annual amount of the tax credit enjoyed by each beneficiary is Euro 5 million. In addition, in order to take advantage of the benefit, the subject must enroll in their balance sheets, in each tax year considered, expenditure on research and development activities of at least Euro 30,000.

An enacting decree will be issued for the application of the rules

Energy efficiency certificates (EECs)

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

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

Emission trading system

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

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

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

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

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

The decree amends the field of application by defining it more precisely as regards combustion plants and extending the system to gases other than CO₂. It also envisages the option of excluding small plants, introduced the possibility of establishing simplified rules on monitoring, reporting and inspections, and amended the certificate assignment methods by establishing that these are assigned via auctions. More precisely, for thermoelectric plants and carbon capture and storage plants, assignment will be by full auctioning, except for cogeneration plants which can receive certificates free of charge for heat energy used in district heating.

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

Sale of natural gas and electricity

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

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

CONCESSIONS AND ASSIGNMENTS

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

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

Distribution of natural gas

Genoa area

The natural gas distribution service in the municipality of Genoa and the neighbouring municipalities is carried out by Genova Reti Gas S.r.l. which is 100% owned by Iren Acqua Gas. We can note that the concessions are currently operating under the extended regime pending the launch of public invitations to tender, the deadline for launching which è specified in the paragraph above "Distribution of gas".

Turin area

The services regarding methane gas distribution in the municipality of Turin and district heating distribution in the municipalities of Turin and Moncalieri, since 1 July 2014, have been managed by Italgas and Iren Energia as a result of the spin-off of AES TORINO.

The concessions for Gas Distribution are currently operating under the extended regime pending the launch of public invitations to tender, the deadline for which is six months from entry into force of the regulation (11 February 2012) for the areas Turin 1 - City of Turin - and Turin 2 - Turin Plant.

By agreement dated 29 December 2008, the municipality of Nichelino (Turin) assigned the concession for use of the public soil and subsoil for the laying of networks, plants and infrastructures for the district heating service for a period of 30 years, to the temporary association of companies established between Iren Energia S.p.A., Iren Mercato S.p.A. and AES Torino S.p.A., which together established the S.r.l. (limited company) Nichelino Energia.

Emilia Romagna area

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

Other geographical areas

The Iren Group also operates in numerous other entities throughout Italy through assignments or concessions given to mixed capital companies in which IREN Group companies have a direct or indirect investment.

The main assignments and concessions are:

- Province of Ancona / Macerata - ASTEA S.p.A. (21.32% controlled by the G.P.O. Consortium of which IREN Emilia holds 62.35%): Municipalities of Osimo (AN), Recanati (MC), Loreto (AN) and Montecassiano (MC) assignment expiring 31/12/2010;
- Municipality of Vercelli - ATENA S.p.A. (of which IREN Emilia holds 40%): assigned in 1999 expiring 31/12/2010;
- Province of Livorno - ASA S.p.A. (40% owned by AGA S.p.A., 99.64% controlled by IREN Emilia): Municipalities of Livorno, Castagneto Carducci, Collesalvetti, Rosignano Marittima and San Vincenzo – expiring 31 December 2010.

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

Natural gas sales

In accordance with the provisions of the "Letta" Decree on the subject of *unbundling*, the IREN Group carries on the business of selling natural gas mainly through IREN Mercato - which also sells electricity - and which has incorporated Enia Energia, acquiring its customers already served in the Emilia area.

This activity is also carried out through direct or indirect investment in vendor companies including:

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

Electricity sector

AEM Torino Distribuzione manages the public service of electricity distribution in the City of Turin on the basis of a ministerial concession. This concession expires on 31 December 2030.

AEM Torino Distribuzione S.p.A. also distributes electrical energy in the Municipality of Parma. This concession expires on 31 December 2030.

Through its local business combinations, the Iren Group distributes Electrical Energy in the following main areas:

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

Integrated Water Service

Genoa area

Iren Acqua Gas holds the management assignment for the integrated water service in the 67 municipalities of the province of Genoa, serving a total of 880,000 residents. The assignment was granted by Decision No. 8 of the Genoa ATO Authority on 13 June 2003 and will expire in 2032.

The integrated water service in the territory of the Municipalities of the Province Genova is managed by IAG through the safeguarded operators. The authorised and/or safeguarded companies of the IREN Group that perform the function of operator are Mediterranea delle Acque S.p.A. (60% controlled by IREN Acqua Gas), IdroTigullio S.p.A. (66.55% controlled by Mediterranea delle Acque S.p.A.) and AMTER S.p.A. (49% owned by Mediterranea delle Acque S.p.A.).

Emilia Romagna area

The IREN Group provides the Integrated Water Service on the basis of specific assignments granted by the respective Local Authorities, governed by agreements signed with the competent ATOs.

Based on the laws of the Emilia Romagna Region, water service Agreements provide for 10-year assignments, except for the agreement relating to the Parma ATO, which sets the expiry of the assignment at 30 June 2025, by virtue of the disposal to private entities of 35% of the AMPS capital by the municipality of Parma in 2000 through a public offering.

Management of the Integrated Water Services in the Parma and Reggio Emilia ATOs was transferred to IREN Acqua Gas. The latter uses Iren Emilia premises for its operations. Integrated Water Service management in Piacenza was transferred from Iren Emilia to Iren Acqua Gas in September 2011.

Ownership of the assets and networks of the water segment was transferred to companies wholly owned by public entities. These companies made their networks and assets available to the Iren Group on the basis of a rental contract and against the payment of a fee.

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

| ATO | REGIME | SIGNING DATE | EXPIRY DATE |
|----------------------|--------------|----------------------|----------------------|
| <i>Genoa area</i> | ATO/operator | | 31 December 2032 |
| <i>Reggio Emilia</i> | agreement | 16.04.2004/5.10.2009 | 31 December 2011 (*) |
| | ATO/operator | 30 June 2003 | |
| | agreement | | |
| <i>Parma</i> | ATO/operator | 27 December 2004 | 31 December 2025 |
| | agreement | | |
| <i>Piacenza</i> | ATO/operator | 20 December 2004 | 31 December 2011 (*) |
| | agreement | | |

(*) Service extended until new agreements are defined

Other geographical areas

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

- Toscana Coast ATO – ASA S.p.A. (40% owned by AGA S.p.A. which is 99.64% controlled 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. (21.32% owned by Consorzio GPO which is in turn 62.35% controlled by IREN Emilia) only for the municipalities of Recanati, Loreto, Montecassiano, Osimo, Potenza Picena and Porto Recanati;
- Biella-Casale-Vercelli ATO: ATENA S.p.A. (40% 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;
- Cuneo ATO: Mondo Acqua S.p.A. (38.5% owned by IREN Acqua Gas) – manages the Municipality of Mondovì and 7 other Municipalities in the Cuneo area.

Waste Management segment

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

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

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

(*) Service extended until new agreements are defined

(**) the term is 20 years running from the end of provisional operation of the thermal incinerator plant of TRM S.p.A.

In a temporary grouping of companies with F2i and Acea Pinerolese, the Iren Group was awarded the tender offer launched by the city of Turin in 2012 for the sale of 80% of the share capital of TRM S.p.A. and 49% of AMIAT S.p.A. (percentage held at the time of the tender, while in 2014 it went up to 80%). Two SPVs were set up for the purchase of investments (TRM V and AMIAT V). The company TLR V. was also set up; the absolute majority shareholder is IREN Energia S.p.A., for the creation of the infrastructural

and commercial district heating system between the waste-to-energy plant and the district heating operators of the Municipality of Grugliasco and Beinasco.

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

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

Services provided to the Municipality of Turin

On 31 October 2006, Iride Servizi S.p.A. took over from AEM Torino S.p.A. in:

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

By a resolution of 3 November 2010, the Turin City Council decided to assign service agreements to Iride Servizi for the management of the Electrical and Special Systems and of the Heating and Conditioning Systems for municipal buildings until 31 December 2017.

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

MARKET SCENARIO - REGULATIONS

On 20 February the Cabinet approved the text of a Draft Law, known as “**2015 Competition DL**”, aimed at removing regulatory obstacles to the opening of the markets and at promoting the development of competition. Chapter IV contains the provision for the end of protected electricity and gas prices from 1 January 2018. To implement the cessation of the protection regimes it is stated that the Minister of Economic Development must issue a decree, after consulting the Authority for Electricity, Gas and Water. At the beginning of April the DL is ready to face the parliamentary process.

Gas

On 25 February the **European Commission** published a number of communications that took the name “*Energy Union Package*”. Among these **Communication No. 80/2015** contains measures and proposals to be implemented in the next 5 years in the field of energy. Considered by many a document with contents still not wholly defined and a symptom of the difficulties in drawing up an effective European strategy, the Commission's Communication provides for measures to re-found and re-qualify the electricity market, greater transparency in gas supply contracts, substantial evolution in regional cooperation as a decisive move towards an integrated market, new rules to guarantee the procurement of electricity and gas, more EU financing in favour of energy efficiency. The communication gives particular attention to security of gas supplies: the instructions in this respect are aimed to diversify supplies from countries other than Russia and to draw attention to transparency in the market. The document stresses the importance of the development of the “Southern Corridor”, of the hubs in Central Eastern Europe and the Mediterranean and of the interconnection infrastructures within the EU and of LNG.

A **Ministerial Decree of 6 February 2015**(OJ of 23 February) of the Ministry of Economic Development defined general rules and figures for the storage year from 1 April 2015 to 31 March 2016. The MD confirmed at 500 bln m³ the capacity, deriving from the reduction decided in 2012 of the strategic storage (today approx. 4.6 bln m³), reserved for integrated regasification plants and storage services for industrial customers; the modulation capacity to be assigned as a priority to the civil market supply is quantified as 6.843 bln m³, offered in modulation products with a profile variable on a seasonal basis. The capacity to be offered with a uniform profile for the other sectors (e.g. thermoelectric and industrial) is instead 1.122 bln m³. The capacity must be placed through auctions. It also envisaged a multi-year product offered with uniform delivery to operators of 500 million cubic metres. As regards the profiling of outputs the MD further reduced the daily and monthly maximum output for November and December and increased that of January and February.

With **Resolution No. 49/2015/R/Gas of 12 February 2015** (*“Rules for the conferment of storage capacities for the thermal year of storage 2015-2016 and definition of the storage tariffs”*) AEEGSI, as a consequence of the MD of 6 February, adopted rules regarding the methods of performing the procedures for allocating storage capacity: monthly procedures in sequential auctions, criteria for determining the reserve price for each auction, criteria for performing auctions, tariffs to be applied to the capacities conferred.

With **Resolution No. 117/2015/R/Gas** of 19 March 2015 (*“Reform of the regulations governing the measuring of delivery points on the distribution network, also in implementation of Legislative Decree 102/2014”*) the AEEGSI took action in an important aspect of relations between distributors and sellers by bringing some innovation into the rules governing gas measurement. The main elements of intervention included: reading frequency, management of customer meter readings and the provision of data in the event of switching.

With **Resolution No. 133/2015** of 26 March (*“Economic conditions of the natural gas protection service starting from the thermal year 2015-2016 ”*) the AEEGSI established the criteria for the definition of protected gas prices starting from 1 October 2015 and until 30 September 2016. In brief the Regulatory Authority:

- also keeps for the t.y 2015-2016, the reference to gas prices at the Dutch TTF hub, in view of the insufficient development of *over-the counter* trading liquidity at the Italian PSV hub;
- defines also for the protected price the movement downstream of the PSV, already laid down in Resolution No. 60/2015/R/Gas, of certain system charges (items CVI, CV^{BL} and CV^{OS}) now included in the cost component of procurement of raw materials (the so-called “C_{MEM}”); the components “extracted” will be added to the QT transport tariff;
- establishes with minimum changes the new amounts of the component covering the costs of wholesale selling to retailers (the “CCR”);
- it defers to the next measure, regarding the thermal years subsequent to 2015-2016, the definition of the procedures for the evaluation of conditions required to allow reference to national gas prices, taking into account *“the broader legal and regulatory process in progress, aimed at the progressive revision of price protections”* (see “Competition DL”).

Electricity

AEEGSI Resolution 29 January 2015 22/2015/R/efr

With this measure the Authority defined the price of placement on the market of green certificates for the year 2015, quantifying the annual average figure of the selling price of electricity, recorded in the year 2014, as 55.10 €/MWh. In view of the above, it follows that in the year 2015 the GSE will place on the market the GCs issued by the same at a price of 124.90 €/MWh.

AEEGSI Resolution 12 February 2015 45/2015/R/eel

With this measure the Authority defines the criteria for enabling the Italian market to take part in the European market coupling project with particular reference to the Italy-France, Italy-Austria and Italy-Slovenia borders.

SIGNIFICANT EVENTS IN THE PERIOD

Organisational Rationalisation Work

Starting from 1 January 2015 the Iren Group companies were involved in a number of reorganisation projects that saw a strong commitment of the new Governance which considered a priority the objective of strengthening the unitary nature of Group governance and identifying clearly the main activities and responsibilities related to each structure ensuring a rapid and real integration process, indispensable for tackling the challenges of the Market.

The Parent Company's organisation was involved in a first rationalisation project which, from 1 January 2015, entailed a simplification of the head office departments which were reorganised as follows:

- “Corporate Secretariat, Internal Audit and Compliance”, “Communication and External Relations”, “Local Institutional Relations” and “Internationalisation and Innovation” reporting to the Chairperson;
- “Procurement and Contracts”, “Administration, Finance and Control”, “Legal Affairs”, “Personnel, Organisation and Information Systems” and “Strategy and Regulatory Affairs” reporting to the Chief Executive Officer;
- “Corporate Social Responsibility and Territorial Committees”, “Risk Management” and “Corporate Affairs” reporting to the Deputy Chairperson

From the same date the hierarchical structure of all the Departments and staff organisational units of all the first level companies and subsidiaries were defined by the corresponding head office departments.

On 1 February 2015 the Organisational Units of the various Parent Company Departments were created, the activities and responsibilities of all the structures were defined and the complete staff structure of Iren SpA was published. 422 new resources from the Group's various first-level companies and subsidiaries were absorbed into this by secondment, in keeping with the centralised activities. Iren SpA's staff structure in force at 1 February thus consisted of 784 people.

Starting from March the organisation of the first-level companies was also redefined, although only marginally, presenting the staff structures by Business Unit and defining the activities and responsibilities of the said companies' structures.

It was also decided to begin a review of the processes, structures and systems at the single BU level to revise the organisation of the said BUs, by the end of April 2015, assessing also the opportunity for further combinations – mergers between companies and revision of the business model.

Bank Loans

In January 2015 the second tranche of 50 million of the Unicredit bank loan agreed at the end of 2014 was used and a new medium-term loan from Cassa Depositi e Prestiti of 100 million was agreed and used.

Merger by incorporation of Acque Potabili S.p.A. into Sviluppo Idrico S.p.A.

With reference to the operation for merger by incorporation of Acque Potabili S.p.A. into Sviluppo Idrico S.p.A., we must specify that on 20 January 2015 the merger by incorporation deed was signed, with civil-law effects starting from 1 February 2015, while the accounting and tax effects were recognised in the financial statements of Sviluppo Idrico S.p.A. with effectiveness retroactive to 1 January 2015. At the date of effectiveness of the merger, all the Acque Potabili ordinary shares were cancelled; the last day the stock was listed on the MTA market was 30 January 2015.

Robin Hood Tax Judgement

With Judgement 10/2015 of 9 February 2015 the Constitutional Court declared unconstitutional Art. 81 paragraphs 16, 17 and 18 of Italian Decree Law No 112 of 25 June 2008 converted with Italian Law No. 133 of 6 August 2008, which had introduced an IRES tax surcharge, the so-called "Robin Hood Tax", payable by production, distribution and marketing companies operating in the energy and oil sectors. This unconstitutionality does not have retroactive effect, because it was established that the judgement must apply from the day after its publication in the Official Journal (11 February 2015).

As a result of the above, subject to the further in-depth studies which will be carried out on the aforementioned verdict, for the Group companies involved the amount of the IRES surcharge due also for financial year 2014 has been calculated and ascertained and the provisions for deferred tax assets and liabilities related to the "Robin Hood Tax" set aside in previous years have been eliminated from the financial statements. Even the interpretive instructions on the topic issued in the meantime by the Inland Revenue in its circular No. 18/E of 28/4/2015, have now confirmed the correctness of the actions performed as a result of the declaration of illegality.

Turin LED Project

During March the Turin LED Project, promoted by the City, was launched. This involves the installation, over two years, of more than 50,000 new LED lamps (on 55% of the total of lampposts in the city).

The Project was developed in partnership with Iren Servizi e Innovazione which, in the context of the existing agreement with the City of Turin, will handle the implementation, making available its know-how and its technical skills on the subject.

The Turin LED Project will enable the City to obtain important benefits on the economic front, halving the electricity consumption of the plants involved in the project.

At the energy and environmental level, once completed, the Project will enable a saving estimated at 20,000,000 kWh/year (with a reduction of electricity consumption of more than 50%), enabling the non-consumption of approximately 3600 TOEs (Tonnes of Oil Equivalent)/year, and avoiding, at the same time, the production of 3.5 tonnes/year of CO².

BASIS OF PREPARATION

CONTENT AND STRUCTURE

The interim report on a consolidated basis at 31 March 2015 has been prepared in compliance with the provisions of art. 154-ter "Financial Reports" of the Consolidated Finance Act ("TUF"), introduced by Legislative Decree 195/2007, by which the Italian legislator implemented Directive 2004/109/EC (the so-called Transparency Directive) regarding periodic reporting according to Consob Communication DEM/8041082 of 30/04/2008. This provision supersedes the previous provisions of art. 82 "Quarterly Reports" and Annex 3D ("Criteria for the preparation of the Quarterly Report") of the Issuer Regulations. The accounting standards used in the preparation of the report are the "International Financial Reporting Standards – IFRS" issued by the International Accounting Standards Board (IASB) and endorsed by the European Commission. "IFRSs" shall also mean International Accounting Standards ("IAS") that are still in force, as well as all interpretative documents issued by the International Financial Reporting Interpretations Committee ("IFRIC") and by the former Standing Interpretations Committee ("SIC").

ACCOUNTING PRINCIPLES

Accounting standards and evaluation criteria, as well as the consolidation principles adopted in the preparation of the interim report are the same as those used in the preparation of the Consolidated Financial Statements of the IREN Group at 31 December 2014, to which reference is made for completeness of coverage .

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

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

It should also be remembered that interim reports are not subject to auditing.

CHANGES IN THE CONSOLIDATION SCOPE WITH RESPECT TO 31 DECEMBER 2014

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

At 31 March 2015, there are no changes in the scope of consolidation compared to 31 December 2014.

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 operative within the Group includes the methodological approach to integrated identification, assessment and management of the Group risks.

For each of the following risk types:

- Financial Risks (interest rate, exchange rate, spread);
- Credit Risk
- Energy Risks, associated with energy and/or financial markets, such as market variables or pricing options;
- Operational risks, associated with asset ownership, involvement in business activities, processes, procedures and information flows.

specific “policies” have been defined with the primary goal of fulfilling strategic guidelines, organisational-managerial principles, macro processes and techniques necessary for the active management of the related risks. The Group’s Enterprise Risk Management model also regulates the roles of the various parties involved in the risk management process, which is governed by the Board of Directors, and calls for specific Committees to manage each type of risk.

The Iren Group pays particular attention also to maintaining trust and a positive image of the Group in the eyes of stakeholders; therefore the Group’s Enterprise Risk Management model manages also so-called Reputational Risks.

The “Risk Management” department, reporting to the Deputy Chairperson, was set up within the Iren Group. This department is formally entrusted with the following activities:

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

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

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

1. FINANCIAL RISKS

The Iren Group activities are exposed to various types of financial risks, including liquidity risks, currency risks and interest rate risks.

a) Liquidity risk

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

The Group Finance Department is 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 intra-group accounts along with intra-group interest income and expense.

A number of investees have an independent financial management structure in compliance with the guidelines provided by the Parent.

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 to the accounts of the Parent Company.

The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored, and no critical points have emerged regarding the hedging of current financial commitments.

Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suited to its needs, and the best market conditions.

With regard to the liquidity risk potentially deriving from contractual clauses allowing counterparties to withdraw financing should certain events occur (default and covenant risk), we can note that the clauses in Iren's loan agreements are being observed. In particular, for certain medium/long-term loan agreements Iren is committed to observing financial covenants (such as Debt/EBITDA, EBITDA/Financial expense ratios) with annual verification. Moreover, other covenants have been provided for. One is the Change of Control clause, which states that the IREN Group should be kept under direct and indirect control by Local Authorities. In addition, there are Negative Pledge clauses, under which the company undertakes not to give collateral beyond a specific limit, and the *Pari Passu* clause, which reserves an equal treatment to lending banks with respect to the treatment for other unsecured creditors. The medium/long-term loan agreements of certain companies which contribute to the Group's Net Financial Position also envisage the observance of financial covenants which have been satisfied.

b) Exchange rate risk

Within the Group, the currency risk is linked to the purchase of energy commodities. One should refer to the specific point covered in the following paragraph "Energy Risk".

c) Interest rate risk

The Iren Group is exposed to interest rate fluctuations especially with regard to the measurement of financial expense related to indebtedness. The IREN Group's objective is to limit its exposure to interest rate increase risks while maintaining acceptable borrowing costs.

In a non-speculative view, the risks associated with the increase in interest rates are monitored and, if necessary, reduced or eliminated by swap and collar contracts with financial counterparties of high credit standing, for the sole purpose of cash flow hedging.

Compliance with the limits imposed by the policy are verified during the Financial Risk Committee meetings with regard to the main metrics, together with analysis of the market situation, interest rate trends, the value of hedges and confirmation that the conditions established in covenants have been met.

2. CREDIT RISK

The credit risk of the group mainly attributable to the amount of trade receivables arising from the sale of electricity, district heating, gas and water and environmental services, does not present a particular concentration being split across a large number of counterparties such as retail customers, businesses and public authorities.

Risk control of commercial credit is pursued with methods and tools for assessing the creditworthiness of potential customers and existing customers with monitoring and recovery activities differentiated in relation to the various categories of customers and the various consumption levels.

Over the last few years in order to strengthen the receivable analysis and monitoring capacities, the company has used new tools for the acquisition of commercial information and customer payment records, in addition to operating management of the overdue receivables collection, using new tools such as reminder emails, sms, etc. as well as the outsourcing of telephone reminder activities for certain customer segments and the assignment of receivables to debt collection companies.

Credit risk is covered, for some types of business customers, with opportune forms of first-demand bank or insurance guarantees issued by subjects of leading credit standing.

For other categories of customers, particularly retail customers, an interest-bearing guarantee deposit is paid for some types of services (water, natural gas, "protected customer" electrical energy) in compliance with regulations governing these activities. This deposit is reimbursed if the customer adopts the payment through direct debit on current accounts.

The payment terms usually applied to customers are related to applicable legislation or regulations, and in line with market standards; in the event of non-payment, interest on arrears is charged to the extent indicated in the contracts of administration and/or laid down by current legislation.

The provisions for doubtful accounts accurately reflect the actual credit risks through the quantification of the provision targeted according to the type of receivable and their seniority.

3. ENERGY RISK

Energy risk is attributable to factors related to energy and/or financial markets that have a direct impact on the variability of economic and financial results of the Group. Some of these factors are exogenous, i.e. due to fuel prices and revenues from energy sales, while others are endogenous and arise from the adopted pricing structures.

Among the risk factors with the greatest impact for the group, we can note:

- currency risk, implicit in the choices of pricing and procurement, characterised by strong seasonality of exposure, due to the presence of different temporal lags between the indices to which the procurement contracts and sales contracts are connected;
- the price risk of oil commodities and natural gas, related to the procurement choices;
- the price risk associated with the Italian Electricity Market, which in relation to the exposure of the Iren Group acquires high relevance due to the volatility that characterizes this Market and the impact that this can have on business outcomes.

Within the Group evaluating the impact of each risk factor on the business outcomes is performed via stochastic analysis parameterized according to their volatility; the combination of the results provides the overall assessment of the risk in question. The Energy Risk policy sets quantitative limits to the value of the risk to the portfolio; if these limits are exceeded, the risk is managed through specific hedging operations.

During the Energy Risk Committee meetings, the performance of the principal risk metrics is assessed, and the market conditions, sales volumes, exposure to risks related to exchange rates and the prices of energy raw materials and the trends of the stipulated hedges are also analysed.

4. OPERATIONAL RISKS

This category includes all the risks which, in addition to those already noted in the previous paragraphs, may influence achievement of the targets, i.e. relating to the effectiveness and efficiency of business transactions, levels of performance, profitability and protection of the resources against losses.

The Group's Enterprise Risk Management model has as its objective the integrated and synergistic management of risks.

The process of managing the Group's risks entails that, for each business line and operating area, the activities performed are analysed and the main risk factors connected with achievement of the objectives are identified. Following the identification activity, the risks are assessed qualitatively and quantitatively (in terms of magnitude and probability of occurrence), thus making it possible to identify the most significant risks; the analysis also involves an assessment of the current and prospective level of control of the risk, monitored by means of specific key risk indicators.

The above stages make it possible to structure specific treatment plans for each risk factor.

Along all the management phases, each risk is subjected on a continuous basis to a process of control and monitoring, which checks whether the treatment activities approved and planned have been correctly and effectively implemented and whether any new operational risks have arisen. The process of managing operational risks is associated with a comprehensive and structured reporting system for presenting the results of the risk measurement and management activity.

Each process stage is performed in accordance with standards and references defined at Group level.

The Group's risk position is updated at least quarterly, indicating the extent and level of control of all risks monitored, including financial, credit and energy risks.

The risk reporting is sent to the top management and to the risk owners, who are involved in the management activity.

The risk analysis also supports the preparation of planning tools.

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

a. Legal and regulatory risks

The legislative 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 its implications and ensure its correct application.

b. Strategic risks

The current macroeconomic scenario has significant impacts also on the local utilities sector.

The Group's operating drivers are oriented to consolidating the CORE businesses in the territories of reference, maximising operating efficiency, rationalising the assets and taking advantage of any opportunities for external growth.

In line with the drivers described above, the Group's strategic orientations provide for consolidation initiatives in the business segments in which the Group operates, completing the projects in the sector of generation and district heating, making the most of energy infrastructures, consolidating the integrated water cycle and making it more operationally efficient, completing the projects linked to waste-to-energy plants and assessing the possibility of external growth in the sectors in which the Group operates.

From the above there derives an exposure to risks of a mainly legislative, technical, commercial, economic and financial nature, which the Group deals with through dedicated processes and structures, aimed at overseeing all the stages of achieving the strategic objectives; in particular, Risk Management carries out specific qualitative and quantitative assessments, with which the main risk factors and the necessary treatment plans are identified.

c. Plant-related risks

As regards the consistency of Group production plants, 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.).

For the most important plants the Risk Management department periodically conducts surveys, from which it can accurately detail the events to which such plants could be exposed and subsequent preventive action.

The risk is also covered by insurance policies designed considering the situation of the single plants.

d. IT Risks

The main IT risks are related to the availability of core systems, amongst which, for example, Iren Mercato's interface with the Power Exchange.

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 subject to simulations, to ensure their effectiveness.

THE IREN GROUP'S ECONOMIC AND FINANCIAL SITUATION AND CAPITAL

Presented below are the income statement, statement of financial position and statement of cash flows for the Iren Group on which the comments regarding business performance are based.

Income Statement

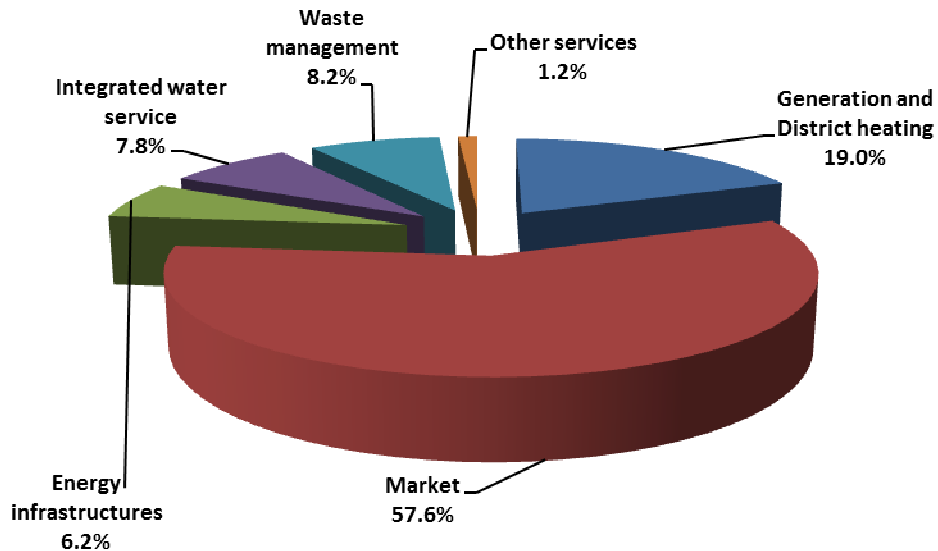
CONSOLIDATED INCOME STATEMENT IREN GROUP FIRST THREE MONTHS OF 2015

| | thousands of euro | | |
|---|------------------------|------------------------|-------------|
| | First 3 months 2015 | First 3 months 2014 | Change % |
| Revenue | | | |
| Revenue from goods and services | 875,315 | 835,346 | 4.8 |
| Change in work in progress | 34 | 471 | (92.8) |
| Other income | 43,770 | 67,316 | (35.0) |
| Total revenue | 919,119 | 903,133 | 1.8 |
| Operating costs | | | |
| Raw materials, consumables, supplies and goods | (367,090) | (433,627) | (15.3) |
| Services and use of third-party assets | (234,035) | (181,429) | 29.0 |
| Other operating expenses | (20,923) | (17,828) | 17.4 |
| Capitalised expenses for internal work | 5,903 | 4,482 | 31.7 |
| Personnel expenses | (91,543) | (71,460) | 28.1 |
| Total operating expense | (707,688) | (699,862) | 1.1 |
| GROSS OPERATING PROFIT | 211,431 | 203,271 | 4.0 |
| Depreciation, amortisation, provisions and impairment losses | | | |
| Depreciation and amortisation | (65,740) | (57,176) | 15.0 |
| Provisions and impairment losses | (12,511) | (17,361) | (27.9) |
| Total amortisation, depreciation, provisions and impairment losses | (78,251) | (74,537) | 5.0 |
| OPERATING PROFIT (EBIT) | 133,180 | 128,734 | 3.5 |
| Financial management | | | |
| Financial income | 8,054 | 6,749 | 19.3 |
| Financial expenses | (36,436) | (32,463) | 12.2 |
| Total financial income and expense | (28,382) | (25,714) | 10.4 |
| Profit (loss) of equity investments accounted for using the equity method | (2,929) | (2,804) | 4.5 |
| Impairment losses on investments | - | - | - |
| Profit (loss) before tax | 101,869 | 100,216 | 1.6 |
| Income taxes | (39,036) | (45,406) | (14.0) |
| Net profit (loss) from continuing operations | 62,833 | 54,810 | 14.6 |
| Net profit (loss) from discontinued operations | - | - | - |
| Net profit (loss) for the period | 62,833 | 54,810 | 14.6 |
| attributable to: | | | |
| - Profit (loss) attributable to owners of the parent | 58,589 | 51,321 | 14.2 |
| Profit (loss) attributable to non-controlling interests | 4,244 | 3,489 | 21.6 |

Revenue

At 31 March 2015, the Iren Group achieved revenue of Euro 919.1 million, up by +1.8% compared to the Euro 903.1 million of the first quarter of 2014. The increase in revenues was mainly generated by the positive contribution of Environment which consolidated (economic consolidated) from 1 January 2015 AMIAT SpA (+ Euro 50 million), the Turin waste collection company, while the turnovers of the energy sectors are still negative.

REVENUE COMPOSITION



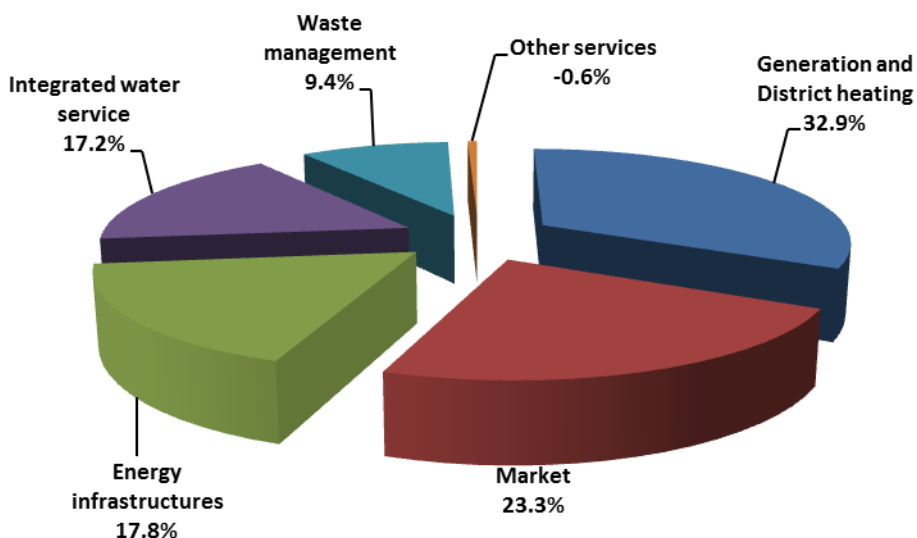
Gross Operating Profit

The gross operating profit amounted to Euro 211.4 million, up by +4% compared to Euro 203.3 million in the corresponding period of 2014.

All business segments present a positive change compared to 2014 with the sole exceptions of Cogeneration of Power and Heat, and the Sale of Electricity.

The areas of the business of selling Gas show particularly positive results, due to the larger quantities sold and recovery of profits in the same and the Environment that benefits from the contribution of Amiat SpA.

EBITDA COMPOSITION



Operating profit (loss)

Operating profit totalled Euro 133.2 million, with an improvement of 3.5% compared to the 2014 figure of Euro 128.7 million. The result reflects higher amortisation/depreciation figures by Euro -8.6 million compensated by lower provisions of Euro +4.9 million.

Financial income and expense

Net financial income and expense came out at a negative Euro 28 million. In particular, financial expense amounted to Euro 36 million. The increase compared to the same period in 2014 is due primarily to expenses from discounting and capitalized interest, while there has been a reduction in the average cost of debt. Financial income amounted to Euro 8 million (+19%).

Share of profit of associates recognised using the equity method

The result of associates accounted for using the equity method is negative for about 2.9 million, substantially in line with the corresponding period of 2014 (where the item was negative by € 2.8 million), mainly due to the negative result of OLT and TRM V.

Impairment losses on investments

During the first three months of 2015 and 2014 there were no adjustments made to investments.

Profit (loss) before tax

As a result of the above trends the consolidated profit before tax came out at Euro 102 million, up by 1.6% compared to the Euro 100 million recorded in the first three months of 2014.

Income taxes

Income taxes for the first three months of 2015 amounted to Euro 39 million, down by 14% compared to same period of 2014. The effective tax rate was 38% and represents, as of today, an estimate of the proportion of the cost of taxes for 2015. The decrease in the tax rate was mainly due to the deduction in labour costs from IRAP and to the abolition of the Robin Hood tax (considered unconstitutional by the Constitutional Court with Judgement No. 10/2015 of 9 February 2015).

Net profit (loss) for the period

The net result for the period amounted to Euro 63 million, up by 14.6% compared with the same period of 2014.

Segment reporting

The Iren Group operates in the following business segments:

- Generation and District heating (hydroelectric production, Cogeneration of electricity and heat, District heating networks and Thermoelectric production)
- Market (Sale of electricity, gas, heat)
- Energy Infrastructures (Electricity distribution networks, Gas distribution networks);
- Integrated Water Service (sale and distribution of water, water treatment and sewerage)
- Waste Management (Waste collection and disposal)
- Other services (Telecommunications, Public Lighting, Global Services and other minor services).

These operating segments are disclosed pursuant to IFRS 8. Under this standard, the disclosure about operating segments should be based on the elements which management uses in making operational and strategic decisions.

For a proper interpretation of the income statements relating to individual businesses presented and commented on below, revenue and expense referring to joint activities were fully allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers. Given the fact that the Group mainly operates in the North-West area, the following segment information does not include a breakdown by geographical area.

Below are the main income statement items with comments broken down by sector of activity compared to figures for the first quarter of 2014, restated to reflect the new structure after the demerger, the management of activities managed by AES (consolidation of district heating distribution and deconsolidation of gas distribution activities).

Generation and District Heating

Revenue for the period amounted to Euro 267 million, down -11.5% from the Euro 302 million of 2014.

| | | First 3 months 2015 | First 3 months 2014 | Δ % | |
|---------------------------------|--------------------------------------|---------------------|---------------------|--------|-------|
| Revenue | €/mn | 267 | 302 | -11,5% | |
| Gross Operating Profit (EBITDA) | €/mn | 70 | 69 | 0,3% | |
| <i>EBITDA Margin</i> | | 26,1% | 23,0% | | |
| Operating profit (EBIT) | €/mn | 39 | 42 | -8.2% | |
| Investments | €/mn | 4 | 5 | -27.1% | |
| Electricity produced | GWh | 2,345 | 2,258 | 3.9% | |
| | <i>from hydroelectric sources</i> | GWh | 263 | 245 | 7.5% |
| | <i>from cogeneration sources</i> | GWh | 1,813 | 1,721 | 5.3% |
| | <i>from thermoelectric sources</i> | GWh | 269 | 292 | -7.9% |
| Heat produced | GWh _t | 1,286 | 1,256 | 2.4% | |
| | <i>from cogeneration sources</i> | GWh _t | 1,141 | 1,119 | 1.9% |
| | <i>from non-cogeneration sources</i> | GWh _t | 145 | 137 | 5.7% |
| District heating volumes | Mm ³ | 80 | 79 | 1.8% | |

At 31 March 2015, 2,345 GWh of electricity was produced, up by +3.9% compared to the 2,258 GWh in the first quarter of 2014, as a result of higher production in cogeneration and higher hydroelectric production, partially offset by lower thermoelectric production at the Turbigo plant.

In particular thermoelectric production was 2,082 GWh, of which 1,813 GWh from cogeneration, up by 5.3% compared to the 1,721 GWh in the first quarter of 2014 (+92 GWh), and 269 GWh from thermoelectric sources in the strict sense, connected with the contribution of the Turbigo plant down by -7.9% compared to the first quarter of 2014 (-23 GWh).

Hydroelectric production was 263 GWh, with an increase of +7.5% compared to 245 GWh in the first quarter of 2014.

Heat production in the period amounted to 1,286 GWh_t up by 2.4% compared to 1,256 GWh_t in the first quarter of 2014 (+30 GWh_t), as a result of a more favourable thermal season compared to the 2014 thermal season which was particularly mild and the increase in volumes connected +1 million cubic metres thus surpassing the 80 million cubic metres.

The gross operating profit (EBITDA) amounted to Euro 70 million substantially in line with the Euro 69 million in the corresponding period of 2014 (+0.3%).

The more favourable thermal season compared to the particularly mild one that had characterised the first quarter of 2014 had a positive effect on the margin due to the higher quantities of thermal and electric energy produced. That occurrence, supported by producing electricity for the despatching services market, enabled us to absorb the steep decline resulting from the expiry of the incentive system, via green certificates, for cogeneration plants and thus to maintain alignment with the results for the same period in the previous year.

The operating profit (EBIT) of the Cogeneration and District Heating segment totalled Euro 39 million, down by 8.2% compared to Euro 42 million in the first quarter of 2014. The worsening of the gross operating profit is attributable to the increase in depreciations.

Technical investments made in this sector amounted to Euro 4 million, and regarded for Euro 3.5 million cogeneration and district heating and for approximately Euro 0.5 million the hydroelectric segment.

Market

At 31 March 2015, the revenue of the sector totalled Euro 812 million, down by 7% compared to the Euro 873 million of the first quarter of 2014.

The gross operating profit (EBITDA) amounted to Euro 49 million, an improvement of +21.6% compared to Euro 40 million in the corresponding period of 2014.

| | | First 3 months 2015 | First 3 months 2014 | Δ % | |
|--|------------------------------|---------------------|---------------------|-------|--------|
| Revenue | €/mn | 812 | 873 | -7.0% | |
| Gross Operating Profit (EBITDA) | €/mn | 49 | 40 | 21.6% | |
| <i>EBITDA Margin</i> | | 6.1% | 4.6% | | |
| | <i>from electricity</i> | €/mn | 6 | 8 | -26.0% |
| | <i>from gas</i> | €/mn | 41 | 30 | 35.0% |
| | <i>from heat</i> | €/mn | 2 | 2 | 19.7% |
| Operating profit (EBIT) | €/mn | 39 | 29 | 34.4% | |
| Investments | | 3 | 2 | 34.9% | |
| Electricity sold | GWh | 3,412 | 3,387 | 0.7% | |
| Electrical energy sold net of Power Exchange purchases/sales | GWh | 3,232 | 3,030 | 6.7% | |
| Gas purchased | Mm ³ | 958 | 901 | 6.3% | |
| | <i>Gas sold by the Group</i> | Mm ³ | 494 | 444 | 11.3% |
| | <i>Gas for internal use</i> | Mm ³ | 464 | 457 | 1.5% |

Sale of electricity

The volumes of electricity sold amounted to 3,412 GWh (net of pumping, network leaks and dedicated withdrawals) with a slight increase of 0.7% compared to the 3,387 GWh in the first quarter of 2014.

The volumes sold on the free market, including the segments of free retail customers, wholesalers and net exchange, amounted to a total of 3,056 GWh up by 8.2% compared to the 2,826 GWh in the first quarter of 2014. The increase is attributable exclusively to sales in net exchange up by 42.2% to 1,865 GWh compared to 1,312 GWh in the first quarter of 2014. There is a decline in sales to wholesalers of 28.2% to 465 GWh, compared to 647 GWh in the first quarter of 2014 and sales to end users, in the business and retail segment fell by 16.2% to 727 GWh compared to 867 GWh in the first quarter of 2014 (only the retail segment showed an increase of 4.2%).

The volumes sold on the protected market were 175 GWh down by 14.2% compared to the 204 GWh in the first quarter of 2014.

The gross operating profit (EBITDA) of the sale of electricity amounted to Euro 6 million, down by 26% compared to Euro 8 million in the first quarter of 2014. The negative variation is attributable to positive adjustments on the protected market which had characterised the first quarter of 2014.

Sale of Natural Gas

The total volumes of gas supplied during the first quarter of 2015 totalled 958 million cubic metres up by 6.3% compared to 901 million cubic metres in the first quarter of 2014. The increase regarded both gas sold totalling 494 million m³ up by 11.3% compared to the 444 million m³ of the first quarter of 2014, and internal consumption at 464 million m³ up by 1.5% compared to the 457 million m³ of the first quarter of 2014.

The gross operating profit (EBITDA) of the sector amounted to Euro 41 million, an improvement of 35% compared to Euro 30 million in the corresponding period of 2014. This positive change can be attributed to an improvement in the margins on sales and in the procurement conditions as well as the higher volumes sold owing to a more favourable thermal season compared to the particularly mild one that had characterised the first quarter of 2014.

Sale of heat through district heating networks:

The EBITDA for the period amounts to 2 million and is broadly in line with the results for the same period in 2014.

Energy infrastructures

At 31 March 2015 the Energy Infrastructures segment, which includes the gas and electricity distribution businesses, recorded revenue of Euro 87 million, up by 12.8% compared to Euro 77 million in the first quarter of 2014.

The gross operating profit (EBITDA) of the sector amounted to Euro 37 million, an improvement of 14.7% compared to Euro 33 million in the first quarter of 2014.

The net operating profit (EBIT) of the sector amounted to Euro 26 million, up by 19.1% compared to Euro 22 million in the first quarter of 2014.

The main changes in the segments concerned are illustrated below.

| | | First 3 months 2015 | First 3 months 2014 | Δ % | |
|---------------------------------|----------------------------------|---------------------|---------------------|--------|-------|
| Revenue | €/mn | 87 | 77 | 12.8% | |
| Gross Operating Profit (EBITDA) | €/mn | 37 | 33 | 14.7% | |
| EBITDA Margin | | 43.2% | 42.5% | | |
| | <i>from electricity networks</i> | €/mn | 20 | 16 | 22.4% |
| | <i>from gas networks</i> | €/mn | 17 | 16 | 6.9% |
| Operating profit (EBIT) | €/mn | 26 | 22 | 19.1% | |
| Investments | €/mn | 15 | 13 | 7.7% | |
| | <i>in electricity networks</i> | €/mn | 8 | 6 | 28.2% |
| | <i>in gas networks</i> | €/mn | 7 | 8 | -8.2% |
| Electricity distributed | GWh | 999 | 996 | 0.3% | |
| Gas distributed | Mm ³ | 575 | 518 | +11.1% | |

Electricity Distribution Networks

The gross operating profit of the sector amounted to Euro 20 million, up by 22.4% compared to Euro 16 million in the first quarter of 2014.

The increase of approximately Euro +4 million compared to the first quarter of 2014 is attributable to adjustments on earlier periods related to equalisation mechanisms and energy efficiency certificates.

During the 1st quarter of 2015, there were investments of Euro 8 million (of which Euro 7 million related to the Turin electricity networks and Euro 1 million related to the Parma electricity networks), mainly involving new connections and the construction of new LV/MV cabins and LV/MV lines.

Gas Distribution Networks

Gross operating profit of gas distribution networks amounted to Euro 17 million, up by 6.9% compared to Euro 16 million in the corresponding period of 2014. The positive change is attributable to synergies on operating costs and a greater margin on energy efficiency certificates.

Investments made in the period amounted to Euro 7 million and regarded the provisions of AEEG resolutions, in particular making the network compliant with cathodic protection, the installation of electronic meters and replacement of grey cast iron pipes.

Integrated Water Service

At 31 March 2015, the Integrated Water Service achieved revenue of Euro 110 million, up by 10.9% compared to Euro 99 million in the first quarter of 2014.

The increase in revenues compared to the first quarter of the previous year is due to tariff increases and other revenues, but are mainly revenues relating to the application of IFRIC 12 linked to investments in the period for leased assets.

| | | First 3 months 2015 | First 3 months 2014 | Δ % |
|---------------------------------|-----------------|------------------------|------------------------|-------|
| Revenue | €/mn | 110 | 99 | 10.9% |
| Gross Operating Profit (EBITDA) | €/mn | 36 | 35 | 5.5% |
| <i>EBITDA Margin</i> | | 33.1% | 34.8% | |
| Operating profit (EBIT) | €/mn | 21 | 17 | 21.9% |
| Investments | €/mn | 14 | 11 | 34.1% |
| Water sold | Mm ³ | 35 | 37 | -5.2% |

The gross operating profit for the period amounted to Euro 36 million, up by 5.5% compared to Euro 35 million in the first quarter of 2014. The increase was due in particular to tariff increases, lower operating costs, and to the cost of the electricity used in the delivery and treatment plants.

The operating profit totalled Euro 21 million, with an improvement of 21.9% compared to Euro 17 million in the first quarter of 2014. The release of the residual Fund relative to the return of the sewage cost quota following Judgement No. 335/08 due to the removal of the risk, also had an effect on the positive change in the operating result, in addition to the dynamics of the EBITDA, although the ruling only partially offset the risk with the higher provisions.

Investments in the first quarter of 2015 totalled Euro 14 million and concerned the construction, development and maintenance of distribution networks and systems, the sewerage network and in particular water treatment plants.

Environment

At 31 March 2015 the turnover of the segment amounted to Euro 116 million up compared to the Euro 56 million of the same period in 2014 principally as a result of the consolidation scope of AMIAT SpA from 1 January 2015 which provides the waste collection service for the City of Turin. In addition higher revenues were recorded in relation to the Environmental Centre in Parma, higher revenues for the refuse collection services and commercial revenues.

| | | First 3 months 2015 | First 3 months 2014 | Δ % |
|---------------------------------|--------------------------------|---------------------|---------------------|--------|
| Revenue | €/mn | 116 | 56 | (*) |
| Gross Operating Profit (EBITDA) | €/mn | 20 | 13 | 52.1% |
| <i>EBITDA Margin</i> | | 17.0% | 23.2% | |
| Operating profit (EBIT) | €/mn | 11 | 6 | 63.7% |
| Investments | €/mn | 3 | 8 | -64.9% |
| Waste collected | tonne | 172,237 | 171,503 | 0.4% |
| Waste disposed of | tonne | 209,492 | 151,043 | 38.7% |
| | <i>Unseparated waste</i> tonne | 63,674 | 68,695 | -7.3% |
| | <i>Special waste</i> tonne | 145,818 | 82,348 | 77.1% |
| Separated waste collection | | 65.1% | 62.1% | 4.9% |

(*) Change of more than 100%

The gross operating profit of the period amounted to Euro 20 million, an improvement compared to Euro 13 million in the first quarter of 2014. The increase is mainly attributable to the consolidation of Amiat S.p.A., whose economic effects become apparent only from 1 January 2015, and the recovery of margins on trading and waste collection and road sweeping activities.

The operating profit was Euro 11 million, up compared to the Euro 6 million recorded in the first quarter of 2014. The greater depreciation and provisions costs of Amiat for about Euro -2 million weigh heavily on the period and are offset by lower amortization costs for collection and lower provisions for doubtful accounts as a result of the transition from environmental hygiene tariffs to charges levied by the individual municipalities. The disposal sector has higher depreciation of about Euro -2 million for the operational launch of the Integrated Environmental Centre in Parma.

The investments made in the period amounted to Euro 3 million, 1 million of which refers to investments for maintenance of various plants and 2 million to investments in equipment and vehicles supporting waste collection with the door-to-door and separated method.

Services and other

| | | First 3 months 2015 | First 3 months 2014 | Δ % |
|---------------------------------|------|---------------------|---------------------|--------|
| Revenue | €/mn | 17 | 32 | -45.9% |
| Gross Operating Profit (EBITDA) | €/mn | -1 | 13 | (*) |
| <i>EBITDA Margin</i> | | -7.7% | 41.0% | |
| Operating profit (EBIT) | €/mn | -3 | 12 | (*) |
| Investments | €/mn | 4 | 3 | 30.2% |

(*) Change of more than 100%

At 31 March 2015 revenue was Euro 17 million, down compared to the Euro 32 million recorded in the first quarter of 2014. The decrease is attributable to the accounting of capital gains generated in 2014 with the second tranche of the sale of shares of the real estate investment fund established in the 2012

financial year. This event was reflected also in the gross operating profit which was negative by Euro 1 million compared to the Euro 13 million in the first quarter of 2014.

Investments in the period amounted to Euro 4 million and related to information systems, telecommunications and facilities.

Statement of Financial Position

RECLASSIFIED STATEMENT OF FINANCIAL POSITION OF THE IREN GROUP AT 31 MARCH 2015

| | thousands of euro | | |
|---|-------------------|------------------|---------------|
| | 31.03.2015 | 31.12.2014 | Change % |
| Non-current assets | 4,591,099 | 4,618,669 | (0.6) |
| Other non-current assets (liabilities) | (144,413) | (153,619) | (6.0) |
| Net working capital | 215,636 | 238,448 | (9.6) |
| Deferred tax assets (liabilities) | 117,078 | 115,336 | 1.5 |
| Provisions for risks and employee benefits | (561,657) | (550,363) | 2.1 |
| Assets (Liabilities) held for sale | 9,943 | 10,762 | (7.6) |
| Net invested capital | 4,227,686 | 4,279,233 | (1.2) |
| Shareholders' equity | 2,055,367 | 1,993,549 | 3.1 |
| <i>Non-current financial assets</i> | <i>(61,162)</i> | <i>(66,439)</i> | <i>(7.9)</i> |
| <i>Non-current financial indebtedness</i> | <i>2,356,454</i> | <i>2,210,821</i> | <i>6.6</i> |
| Non-current net financial indebtedness | 2,295,292 | 2,144,382 | 7.0 |
| <i>Current financial assets</i> | <i>(563,158)</i> | <i>(522,902)</i> | <i>7.7</i> |
| <i>Current financial indebtedness</i> | <i>440,185</i> | <i>664,204</i> | <i>(33.7)</i> |
| Current net financial indebtedness | (122,973) | 141,302 | (*) |
| Net financial indebtedness | 2,172,319 | 2,285,684 | (5.0) |
| Own funds and net financial indebtedness | 4,227,686 | 4,279,233 | (1.2) |

(*) Change of more than 100%

The main changes in the statement of financial position at 31 March 2015 are commented on below.

Non-current assets decreased slightly by 0.6% compared to 31 December 2014 owing to amortisation/depreciation for the period, higher than the investments made. For further details on investments in the period, reference should be made to the section "Segment Reporting".

The decrease in net working capital down by 9.6% was affected by the changes in trade receivables and payables and tax items. It should be noted in this regard that as from 1 January 2015 part of the trade receivable with the city of Turin of the subsidiary AMIAT S.p.A (about Euro 67.7 million) was recorded among the short-term financial receivables following the conclusion of the current account agreement with the Municipality.

The increase in Equity derives mainly from profit for the period.

The cash flow statement presented below provides an analytical breakdown of the reasons for changes in borrowing in the first three months of 2015.

Cash Flow Statement

CASH FLOW STATEMENT OF THE IREN GROUP FIRST THREE MONTHS OF 2015

| | thousands of euro | | |
|---|------------------------|------------------------|---------------|
| | First 3 months 2015 | First 3 months 2014 | Change % |
| A. Opening cash and cash equivalents | 51,601 | 50,221 | 2.7 |
| Cash flows from operating activities | | | |
| Profit (loss) for the period | 62,833 | 54,810 | 14.6 |
| Adjustments: | | | |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 65,740 | 57,176 | 15.0 |
| Capital gains (losses) and other changes in equity | 3,038 | (11,031) | (*) |
| Net change in post-employment benefits and other employee benefits | (1,155) | 363 | (*) |
| Net change in provision for risks and other charges | 6,370 | 7,203 | (11.6) |
| Change in deferred tax assets and liabilities | (2,236) | (531) | (*) |
| Change in other non-current assets and liabilities | (9,206) | 5,656 | (*) |
| Dividends accounted for net of adjustments | (66) | (602) | (89.0) |
| Portion of profit (loss) of associates and joint ventures | 2,929 | 2,804 | 4.5 |
| B. Cash flows from operating activities before changes in NWC | 128,247 | 115,848 | 10.7 |
| Change in inventories | 22,881 | 44,731 | (48.8) |
| Change in trade receivables | (85,580) | (85,879) | (0.3) |
| Change in tax assets and other current assets | 3,150 | (41,989) | (*) |
| Change in trade payables | 55,152 | (54,097) | (*) |
| Change in tax liabilities and other current liabilities | 27,209 | 75,260 | (63.8) |
| C. Cash flows from changes in NWC | 22,812 | (61,974) | (*) |
| D. Cash flows from (used in) operating activities (B+C) | 151,059 | 53,874 | (*) |
| Cash flows from (used in) investing activities | | | |
| Investments in property, plant and equipment and intangible assets | (43,167) | (43,286) | (0.3) |
| Investments in financial assets | (385) | (25) | (*) |
| Proceeds from the sale of investments and changes in assets held for sale | 4,067 | 8,913 | (54.4) |
| Dividends received | 66 | 602 | (89.0) |
| E. Total cash flows from (used in) financing activities | (39,419) | (33,796) | 16.6 |
| F. Free cash flow (D+E) | 111,640 | 20,078 | (*) |
| Cash flows from (used in) financing activities | | | |
| New non-current loans | 150,000 | 150,000 | - |
| Repayment of non-current loans | (3,808) | (17,058) | (77.7) |
| Change in financial payables | (222,853) | 2,386 | (*) |
| Change in financial assets | (52,030) | (49,046) | 6.1 |
| G. Total cash flows from (used in) financing activities | (128,691) | 86,282 | (*) |
| H. Cash flows for the period (F+G) | (17,051) | 106,360 | (*) |
| I. Closing cash and cash equivalents (A+H) | 34,550 | 156,581 | (77.9) |

(*) Change of more than 100%

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

| | thousands of euro | | |
|---|------------------------|------------------------|-------------|
| | First 3 months 2015 | First 3 months 2014 | Change % |
| Free cash flow | 111,640 | 20,078 | (*) |
| Change in fair value of hedging derivatives | 1,725 | (2,480) | (*) |
| Change in net financial position | 113,365 | 17,598 | (*) |

(*) Change of more than 100%

Net financial indebtedness at 31 March 2015 amounted to Euro 2,172 million, down 5% compared to 31 December 2014.

In particular, the free cash flow, a positive Euro 112 million, derives from the combined effect of the following cash flows:

- cash flows from operating activities were positive by Euro 151 million and consist of Euro 128 million cash flows from operating activities before changes in net working capital and Euro 23 million cash flows deriving from changes in net working capital;
- cash flows used in investing activities, negative for Euro 39 million, were generated from investments in property, plant, equipment, investment property and intangible assets of Euro 43 million (including investments for the construction of infrastructures under concession pursuant to IFRIC 12), proceeds from the disposal of non-current assets for Euro 4 million euro.

SIGNIFICANT SUBSEQUENT EVENTS AND BUSINESS OUTLOOK

SIGNIFICANT SUBSEQUENT EVENTS

RESOLUTION FOR SALE OF BUSINESS UNITS FROM ACQUE POTABILI S.p.A.

The Board of Directors of Acque Potabili S.p.A. resolved on 15 April 2015 to sell to Iren Acqua Gas S.p.A. the business unit, known as “Ramo Ligure” [Liguria Branch], related to the integrated water service in the Municipalities of Camogli, Rapallo, Coreglia Ligure and Zoagli in the Genoa ATO and in the Municipality of Bolano (La Spezia) and the equity investment held in the subsidiary Acquedotto di Savona S.p.A., representing the entire share capital of the same, and to sell to Società Metropolitana Acque Torino S.p.A. the business unit, known as “Ramo ATO 3 Torinese”, [ATO 3 Turin Branch], related to the integrated water service in the ATO 3 of the Turin area.

The operations to transfer the Business Units described above pursue the aim of enabling the reorganisation of the activities, managed up to now by Acque Potabili S.p.A., by integrating them with the activities managed by its shareholders of reference permitting at the same time the start of a gradual enhancement of its portfolio of concessions.

The business units were identified on the basis of figures relating to the financial statements closed on 31 December 2014. The changes occurring between the date of the reference financial statements of 31 December 2014 and the transfer date (scheduled tentatively for 1 July 2015) will be calculated and offset monetarily based on the related financial statements at the date of transfer.

Without prejudice to any adjustment of the price at the transfer date, the selling price of Ramo Ligure which will be paid by Iren Acqua Gas S.p.A. to Acque Potabili S.p.A. at the date of the transfer is approximately Euro 32.9 million, net of a financial debt of approximately Euro 14.6 million, while the selling price of Ramo ATO 3 Torinese, which will be paid by Società Metropolitana Acque Torino S.p.A. to Acque Potabili S.p.A. is approximately Euro 32.9 million, net of a financial debt of approximately Euro 14.6 million.

The net liquidity that will flow to Acque Potabili as a result of the completion of these transactions – an estimated amount of Euro 65.8 million based on 2014 data – will form the new net financial position of the Company and may be partially distributed to shareholders in the form of an extraordinary dividend, after the management of the company has appropriately assessed the economic and financial sustainability of this decision.

IREN S.p.A. ORDINARY SHAREHOLDERS' MEETING

On 28 April 2015 the Ordinary Shareholders' Meeting of IREN S.p.A. approved the Company's Financial Statements in relation to financial year 2014 and resolved to distribute a dividend of Euro 0.0523 per share, confirming what had been proposed by the Board of Directors.

The dividend of Euro 0.0523 for each ordinary and savings share shall be paid on 24 June 2015 (ex-dividend date 22 June 2015 and record date 23 June 2015).

With approval of the financial statements at 31 December 2014 the term of office of the Board of Statutory Auditors expired. For the three years 2015-2017 the Shareholders' Meeting appointed, on the basis of the lists presented: three Standing Auditors in the persons of: Emilio Gatto, Annamaria Fellegara and Michele Rutigliano, electing this last Chairperson of the Board of Statutory Auditors; two Supplementary Auditors in the persons of Giordano Mingori and Giorgio Mosci.

The Board of Statutory Auditors will remain in office up to the date of approval of the financial statements for the year ending 31 December 2017.

The Shareholders' Meeting of IREN S.p.A. also resolved to appoint Vito Massimiliano Bianco as Director following the co-option under the terms of Art. 2386 of the Italian Civil Code that occurred on 1 December 2014. Vito Massimiliano Bianco will remain in office up to the date of approval of the financial statements for financial year 2015, the expiry date of the current Board of Directors.

The Board of Directors of IREN S.p.A., meeting on 28 April 2015, at the end of the work of the said Shareholders' Meeting, confirmed Vito Massimiliano Bianco as Chief Executive Officer of the multi-utility.

RESIGNATION OF THE DEPUTY CHAIRPERSON

On 30 April 2015 Andrea Viero formalised his resignation with immediate effect from the positions of Director of IREN S.p.A. and, consequently, from the role of Deputy Chairperson of the Company.

BUSINESS OUTLOOK

Macroeconomic forecasts for the next nine months of 2015 are characterized mainly by the effectiveness of the quantitative easing plan, already launched by the ECB in the first quarter, which is causing an easing of financial strains in the Eurozone.

As regards specifically the Italian economic trend a series of factors, including Euro devaluation, the low cost of commodities and the support for investments associated with an improving financial situation, are giving support to the recovery which sees GDP growing by about 0.7% in 2015 which, although limited, represents a turnaround compared to the previous year.

As far as the energy scenario is concerned, the electrical sector is continuing to experience a persistent situation of overcapacity. This together with the weakness of demand will determine downward pressure on energy prices and generation margins.

In the gas sector a recovery of residential consumption is expected. This is associated with the normalisation of the thermal trend (which penalised demand in 2014 as a result of exceptionally mild weather) and the further development of the national spot market for gas the prices of which in 2015 are expected to be in substantial continuity with the previous year.

As regards regulated sectors in 2015 no substantial changes to the regulatory scheme are expected. The Group therefore expects to seize the development opportunities associated with the important investments made and to grow mainly in the environmental sector in the territories of reference as confirmed by the results for the first quarter of the year.

The Group is also focused on achieving further synergies deriving from the new organisational structure. Therefore the Group's objectives are to maintain profitability levels at least in line with the previous year, and to implement a selective approach on investment decisions aimed at rigorous monitoring of financial stability.



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



**CONSOLIDATED FINANCIAL STATEMENTS
AS OF 31 MARCH 2015**

Statement of consolidated financial position

| | thousands of euro | |
|---|----------------------|-------------------|
| | 31.03.2015 | 31.12.2014 |
| ASSETS | | |
| Property, plant and equipment | 2,961,779 | 2,992,246 |
| Real estate investments | 14,071 | 14,427 |
| Intangible assets with a finite useful life | 1,242,710 | 1,234,670 |
| Goodwill | 124,407 | 124,407 |
| Investments accounted for using the equity method | 230,315 | 235,102 |
| Other equity investments | 17,817 | 17,817 |
| Non-current trade receivables | 54,456 | 51,232 |
| Non-current financial assets | 61,162 | 66,439 |
| Other non-current assets | 46,004 | 47,006 |
| Deferred tax assets | 278,851 | 277,679 |
| Total non-current assets | 5,031,572 | 5,061,025 |
| Inventories | 58,778 | 81,659 |
| Trade receivables | 1,060,320 | 977,964 |
| Current tax assets | 10,326 | 19,334 |
| Other receivables and other current assets | 239,292 | 233,434 |
| Current financial assets | 528,608 | 471,301 |
| Cash and cash equivalents | 34,550 | 51,601 |
| Total current assets | 1,931,874 | 1,835,293 |
| Assets held for sale | 9,943 | 10,762 |
| TOTAL ASSETS | 6,973,389 | 6,907,080 |

| | thousands of euro | |
|--|----------------------|------------------|
| | 31.03.2015 | 31.12.2014 |
| EQUITY | | |
| Equity attributable to owners of the Parent | | |
| Share capital | 1,276,226 | 1,276,226 |
| Reserves and retained Profits (Losses) | 485,979 | 401,198 |
| Net profit (loss) for the period | 58,589 | 85,795 |
| Total equity attributable to owners of the Parent | 1,820,794 | 1,763,219 |
| Non-controlling interests | 234,573 | 230,330 |
| TOTAL EQUITY | 2,055,367 | 1,993,549 |
| LIABILITIES | | |
| Non-current financial liabilities | 2,356,454 | 2,210,821 |
| Employee benefits | 147,816 | 148,971 |
| Provisions for risks and charges | 264,933 | 319,662 |
| Deferred tax liabilities | 161,773 | 162,343 |
| Other payables and other non-current liabilities | 190,417 | 200,625 |
| Total non-current liabilities | 3,121,393 | 3,042,422 |
| Current financial liabilities | 440,185 | 664,204 |
| Trade payables | 929,875 | 874,723 |
| Other payables and other current liabilities | 247,416 | 248,583 |
| Current tax liabilities | 30,245 | 1,869 |
| Provisions for risks and charges - current portion | 148,908 | 81,730 |
| Total current liabilities | 1,796,629 | 1,871,109 |
| Liabilities related to assets held for sale | - | - |
| TOTAL LIABILITIES | 4,918,022 | 4,913,531 |
| TOTAL EQUITY AND LIABILITIES | 6,973,389 | 6,907,080 |

Consolidated income statement

| | thousands of euro | |
|---|------------------------|------------------------|
| | First 3 months 2015 | First 3 months 2014 |
| Revenue | | |
| Revenue from goods and services | 875,315 | 835,346 |
| Change in work in progress | 34 | 471 |
| Other income | 43,770 | 67,211 |
| Total revenue | 919,119 | 903,028 |
| Operating costs | | |
| Raw materials, consumables, supplies and goods | (367,090) | (433,617) |
| Services and use of third-party assets | (234,035) | (204,194) |
| Other operating expenses | (20,923) | (17,827) |
| Capitalised expenses for internal work | 5,903 | 4,482 |
| Personnel expenses | (91,543) | (70,592) |
| Total operating expense | (707,688) | (721,748) |
| GROSS OPERATING PROFIT | 211,431 | 181,280 |
| Depreciation, amortisation, provisions and impairment losses | | |
| Depreciation and amortisation | (65,740) | (52,895) |
| Provisions and impairment losses | (12,511) | (17,361) |
| Total amortisation, depreciation, provisions and impairment losses | (78,251) | (70,256) |
| OPERATING PROFIT (EBIT) | 133,180 | 111,024 |
| Financial management | | |
| Financial income | 8,054 | 6,749 |
| Financial expenses | (36,436) | (31,198) |
| Total financial income and expense | (28,382) | (24,449) |
| Profit (loss) of equity investments accounted for using the equity method | (2,929) | 6,210 |
| Impairment losses on investments | - | - |
| Profit (loss) before tax | 101,869 | 92,785 |
| Income taxes | (39,036) | (40,048) |
| Net profit (loss) from continuing operations | 62,833 | 52,737 |
| Net profit (loss) from discontinued operations | - | - |
| Net profit (loss) for the period | 62,833 | 52,737 |
| attributable to: | | |
| - Profit (loss) attributable to owners of the parent | 58,589 | 49,131 |
| Profit (loss) attributable to non-controlling interests | 4,244 | 3,606 |

Other comprehensive income

| | thousands of euro | |
|---|------------------------|------------------------|
| | First 3 months 2015 | First 3 months 2014 |
| Profit/(loss) for the period - Owners of the parent and non-controlling interests (A) | 62,833 | 52,737 |
| Other comprehensive income to be subsequently reclassified to the Income Statement | | |
| - effective portion of changes in fair value of cash flow hedges | 1,725 | (2,502) |
| - changes in fair value of financial assets available for sale | | - |
| - portion of other profits/(losses) of companies accounted for using the equity method | (2,754) | (1,965) |
| Tax effect of other comprehensive income | (494) | 694 |
| Total other comprehensive income to be subsequently reclassified to the Income Statement, net of tax effect (B1) | (1,523) | (3,773) |
| Other comprehensive income that will not be subsequently reclassified to the Income Statement | | |
| - actuarial gains/(losses) on employee defined benefit plans (IAS 19) | | |
| - portion of other profits/(losses) of companies accounted for using the equity method related to employee defined benefit plans (IAS 19) | | |
| Tax effect of other comprehensive income | | |
| Total other comprehensive income that will not be subsequently reclassified to the Income Statement, net of tax effect (B2) | - | - |
| Total Profit/(loss) (A)+(B1)+(B2) | 61,310 | 48,964 |
| attributable to: | | |
| - Profit (loss) attributable to owners of the parent | 57,066 | 45,358 |
| Profit (loss) attributable to non-controlling interests | 4,244 | 3,606 |

Consolidated statement of changes in equity

| | Share capital | Share premium reserve | Legal reserve |
|-------------------------------------|------------------|-----------------------|---------------|
| 31/12/2013 | 1,276,226 | 105,102 | 32,512 |
| Retained earnings | | | |
| Other changes | | | |
| Comprehensive income for the period | | | |
| of which: | | | |
| - Net profit for the period | | | |
| - Other comprehensive income | | | |
| 31/03/2014 | 1,276,226 | 105,102 | 32,512 |
| 31/12/2014 | 1,276,226 | 105,102 | 36,855 |
| Retained earnings | | | |
| Change in business combinations | | | |
| Other changes | | | |
| Comprehensive income for the period | | | |
| of which: | | | |
| - Net profit for the period | | | |
| - Other comprehensive income | | | |
| 31/03/2015 | 1,276,226 | 105,102 | 36,855 |

thousands of euro

| Hedging reserve | Other reserves and retained earnings (losses) | Total reserves and retained Profits (losses) | Profit (loss) for the period | Equity attributable to the Group | Equity attributable to non-controlling interests | Total equity |
|-----------------|---|--|------------------------------|----------------------------------|--|------------------|
| (24,028) | 302,135 | 415,721 | 80,554 | 1,772,501 | 216,526 | 1,989,027 |
| | 80,554 | 80,554 | (80,554) | - | | - |
| | (89) | (89) | | (89) | (84) | (173) |
| (3,773) | | (3,773) | 49,131 | 45,358 | 3,606 | 48,964 |
| | | - | | - | | - |
| | | - | 49,131 | 49,131 | 3,606 | 52,737 |
| (3,773) | - | (3,773) | | (3,773) | | (3,773) |
| (27,801) | 382,600 | 492,413 | 49,131 | 1,817,770 | 220,048 | 2,037,818 |
| (39,695) | 298,936 | 401,198 | 85,795 | 1,763,219 | 230,330 | 1,993,549 |
| | 85,795 | 85,795 | (85,795) | - | | - |
| | 511 | 511 | | 511 | | 511 |
| | (2) | (2) | | (2) | (1) | (3) |
| (1,523) | | (1,523) | 58,589 | 57,066 | 4,244 | 61,310 |
| | | | 58,589 | 58,589 | 4,244 | 62,833 |
| (1,523) | - | (1,523) | | (1,523) | | (1,523) |
| (41,218) | 385,240 | 485,979 | 58,589 | 1,820,794 | 234,573 | 2,055,367 |

Consolidated cash flow statement

| | thousands of euro | |
|---|------------------------|------------------------|
| | First 3 months 2015 | First 3 months 2014 |
| A. Opening cash and cash equivalents | 51,601 | 50,221 |
| Cash flows from operating activities | | |
| Profit (loss) for the period | 62,833 | 52,737 |
| Adjustments: | | |
| Depreciation of property, plant and equipment and amortisation of intangible assets | 65,740 | 52,895 |
| Capital gains (losses) and other changes in equity | 3,038 | (8,960) |
| Net change in post-employment benefits and other employee benefits | (1,155) | 373 |
| Net change in provision for risks and other charges | 6,370 | 7,323 |
| Change in deferred tax assets and liabilities | (2,236) | (542) |
| Change in other non-current assets and liabilities | (9,206) | 5,727 |
| Dividends accounted for net of adjustments | (66) | (602) |
| Portion of profit (loss) of associates and joint ventures | 2,929 | (6,210) |
| B. Cash flows from operating activities before changes in NWC | 128,247 | 102,741 |
| Change in inventories | 22,881 | 44,766 |
| Change in trade receivables | (85,580) | (81,682) |
| Change in tax assets and other current assets | 3,150 | (36,383) |
| Change in trade payables | 55,152 | (55,911) |
| Change in tax liabilities and other current liabilities | 27,209 | 69,671 |
| C. Cash flows from changes in NWC | 22,812 | (59,539) |
| D. Cash flows from (used in) operating activities (B+C) | 151,059 | 43,202 |
| Cash flows from (used in) investing activities | | |
| Investments in property, plant and equipment and intangible assets | (43,167) | (41,819) |
| Investments in financial assets | (385) | (25) |
| Proceeds from the sale of investments and changes in assets held for sale | 4,067 | 8,913 |
| Dividends received | 66 | 602 |
| E. Total cash flows from (used in) financing activities | (39,419) | (32,329) |
| F. Free cash flow (D+E) | 111,640 | 10,873 |
| Cash flows from (used in) financing activities | | |
| New non-current loans | 150,000 | 150,000 |
| Repayment of non-current loans | (3,808) | (17,058) |
| Change in financial payables | (222,853) | (1,870) |
| Change in financial assets | (52,030) | (35,691) |
| G. Total cash flows from (used in) financing activities | (128,691) | 95,381 |
| H. Cash flows for the period (F+G) | (17,051) | 106,254 |
| I. Closing cash and cash equivalents (A+H) | 34,550 | 156,475 |

**DECLARATION BY FINANCIAL REPORTING OFFICER RESPONSIBLE
FOR THE PREPARATION OF FINANCIAL STATEMENTS IN
ACCORDANCE WITH THE PROVISIONS OF ART. 154-BIS,
PARAGRAPH 2 OF LEGISLATIVE DECREE NO. 58/1998
(CONSOLIDATED LAW ON FINANCE);**

The undersigned Massimo Levrino, Financial Reporting Officer responsible for the preparation of the financial statements for IREN S.p.A declares, pursuant to paragraph 2 of article 154-bis of the Consolidated Law on Finance, that the accounting information contained in this Interim Report as at 31 March 2015 corresponds to the documentary results, books and accounting entries.

14 May 2015

IREN S.p.A.
Administration, Finance and Control
Manager
Financial Reporting Manager appointed
under Law 262/05
Massimo Levrino





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