Interim Report

at 30 june 2016

iren

Contents

KEY FIGURES OF THE IREN GROUP

	First half 2016	First half 2015	Changes %
Income statement figures *(millions of euro)*			
Revenue	1,555	1,579	(1.5)
Gross Operating Profit (EBITDA)	417	378	10.3
Operating profit (EBIT)	242	217	11.5
Profit (loss) before tax	202	183	10.4
Profit (loss) for the period - Group and non-controlling interests	131	115	13.9
Financial position figures *(millions of euro)*	*At 30/06/2016*	*At 31/12/2015*	
Net invested capital	4,713	4,231	11.4
Shareholders' equity	2,169	2,062	5.2
Net Financial Position	(2,544)	(2,169)	17.3
Financial/economic indicators			
	First half 2016	*First half 2015*	
GOP/Revenue	26.8%	23.9%	
	At 30/06/2016	*At 31/12/2015*	
Debt/Equity	1.17	1.05	
Technical and commercial figures	**First half 2016**	**First half 2015**	
Electricity sold (GWh)	5,154	5,686	(9.4)
Thermal energy produced (GWh_t)	1,581	1,624	(2.6)
District heating volume (mln m^3)	82	80	2.5
Gas sold (mln m^3)	1,271	1,254	1.4
Water distributed (mln m^3)	88	71	23.9
Waste collected (tons)	602,461	580,889	3.7
Waste disposed of (tons)	577,308	391,382	47.5

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

- Energy Business Unit operates in the sector of electricity production and district heating
- Market Business Unit responsible for selling of electricity, gas and heat
- Networks Business Unit which operates in the field of the integrated water cycle and in the gas distribution and electricity distribution sectors
- Waste Management Business Unit, which is in charge of waste collection and disposal.

As of 1 May 2016, the Iren Group consolidated Atena Spa and Atena Trading. Atena Spa operates in the integrated water cycle, distribution of electricity and gas and waste management, whereas Atena Trading sells electricity and gas.
The Group has an important customer portfolio and a significant number of plants that supports the operating activities:

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

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

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

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

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

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

Sales of gas, electricity and heat: each year the Group sells over 2.5 billion m^3 of gas, more than 12,000 GWh of electricity and more than 2,800 GWh_t of heat for the district heating networks.

COMPANY OFFICERS

Board of Directors [1]

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

Board of Statutory Auditors [14]

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

Financial Reporting Manager

Massimo Levrino

Independent Auditors

PricewaterhouseCoopers S.p.A. [15]

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

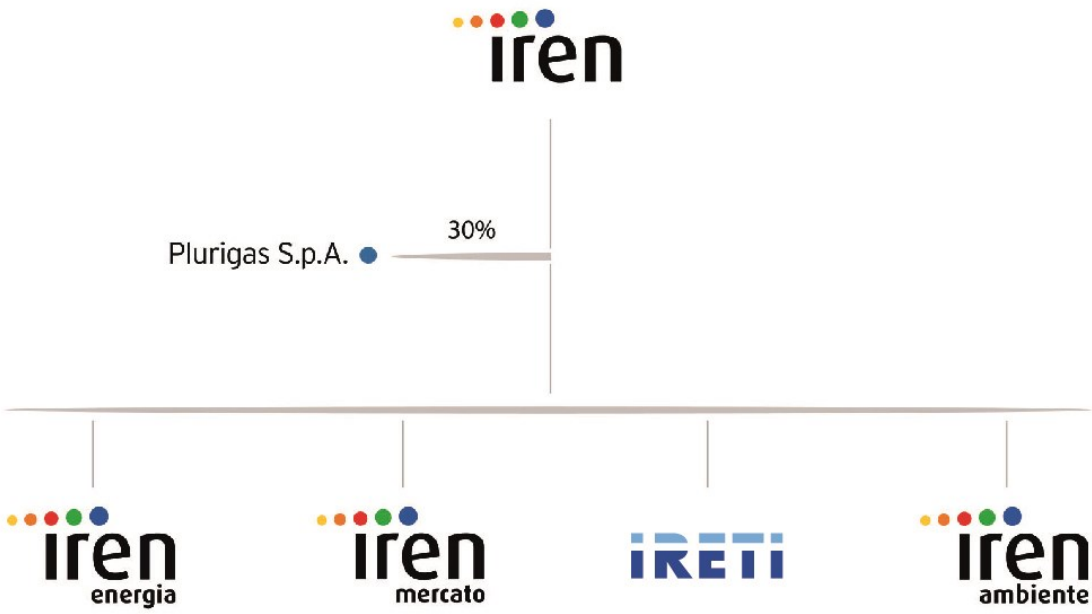
MISSION AND VALUES OF THE IREN GROUP

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

Directors' Report

at 30 june 2016

THE CORPORATE STRUCTURE OF THE IREN GROUP



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

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

ENERGY BU

Cogeneration production of electricity and heat
Iren Energia has a total of approximately 3,000 MW of installed capacity (in electrical set-up), in particular it has 25 electricity production plants: 19 hydroelectric plants, 6 thermoelectric cogeneration plants and 1 thermoelectric plant, for a total capacity of approximately 2,800 MW of electricity and 2,300 MW of heat, of which 900 MW through cogeneration. All primary energy sources used – hydroelectric and cogeneration – are 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 use other forms of production that have a greater environmental impact. Environmental protection is a corporate priority for Iren Energia, which has always considered that the development of hydroelectric production systems, in which it invests heavily each year, is one of the main ways to safeguard the local environment. 40% of total heat production capacity is generated by Group-owned cogeneration plants, while the remaining comes from conventional heat generators. Heat production was 1,478 GWht during the first half of 2016, with district heating volumes for approximately 82 million m³.
Iren Energia oversees the Group's electricity, the thermal energy planning and the related dispatching activities.

District heating
The total volume heated at 30 June 2016 amounted to 82.0 million cubic metres, increased by 2.1% compared to 2015.
In Turin Iren Energia has the largest district heating network of Italy, with 540.9 km of dual pipes (of which 23.7 km in the municipality of Nichelino). In Genoa the company has a network with an extension of 10.3 km, in Reggio Emilia of approximately 218.4 km, in Parma of approximately 98.0 km and Piacenza of approximately 21.9 km (for a total of 889.5 km).

Since 1 October 2015 Iren Energia, following the transfer of the business unit from Iren Emilia, has been directly managing the operation and the maintenance of the district heating plants located in Emilia.

Services to Local Authorities and Global Service
Iren Servizi e Innovazione works in the field of street, monument and traffic lighting, and manages, in technological global service, the thermal and electrical systems of the public buildings of the city of Turin and renewable and alternative energy.
In agreement with The Council of the City of Turin the company is going to complete a structured plan of renewals in order to improve energy efficiency and limiting consumption, which involves replacing traditional mercury lamps with LED lamps.

MARKET BU

Through Iren Mercato the Group sells electricity, gas and heat, supplies fuel to the Group, trades energy efficiency certificates (or white certificates), green and emission trading certificates, provides customer management services to Group companies, supplies heat services and sells heat through the district heating network.
Iren Mercato operates at the national level with a higher concentration of customers served in the North of Italy.
Iren Mercato handles the sale of the energy provided by the Group on the market represented by final customers and other wholesale operators.
The 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 the province of Turin and in the Parma area.
Lastly, Iren Mercato handles heat sales to district heating customers in Turin, Reggio Emilia, Parma, Piacenza and Genoa together with sales development in new district heating areas.
Iren Mercato has operated historically in the direct sale of natural gas in the territories of Genoa, Turin and Emilia.
The Group also sells heat management services and global services both to private entities and public authorities. Development has focused on the management of air conditioning systems for residential and commercial buildings by using energy service agreements, also through its subsidiaries. This contractual model guarantees long-term customer loyalty, by maintaining the natural gas supplies that represent one of the core businesses of Iren Mercato.

Sale of Natural Gas
Total volumes of natural gas procured during the first half of 2016 were approximately 1,271 million m^3 of which 546 million m^3 were sold to end customers outside the Group and 725 million m^3 were used within the Iren Group both for electricity and thermal energy production and for the provision of heating services.
At 30 June 2016, gas customers served by the Market BU were approximately 799,000, spread throughout the traditional Genoa, Turin and Emilia areas, supported by the customers of Atena Trading consolidated from 1 May 2016 (over 26,000 customers).

Sale of electricity
The volumes sold in the first half of 2016 amount to 5,154 GWh.
Retail electricity customers were more than 778,000 distributed mainly in the areas traditionally served, corresponding to Turin and Parma, and in the areas covered by the company and Atena Trading (approximately 28,000 customers).

Sale of heat through the district heating network
Iren Mercato manages heat sales to customers receiving district heating in the municipalities of Genoa, Turin and Nichelino, and in the provinces of Reggio Emilia, Piacenza and Parma.
This activity in substantiated in 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.
The total district heating volumes as at 30 June 2016 amounted to 82 million cubic metres.

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

NETWORKS BU

Following the extraordinary corporate rationalisation operations, carried out at the end of 2015 and with effect from 1 January 2016, the activities related to the Networks BU were performed mainly by the company IRETI, which incorporates the former companies Genova Reti Gas, Iren Acqua Gas, Iren Emilia and AEMD. The company handles the integrated water cycle, electricity distribution, natural gas distribution and other minor activities.

Integrated Water Services
IRETI, directly and through the operating subsidiaries Mediterranea delle Acque and Idrotigullio, operates in the field of water supply, sewerage and waste water treatment in the provinces of Genoa, Savona, Piacenza, Parma and Reggio Emilia.
With the acquisition of the business unit known as “Ramo Ligure” from Società Acque Potabili S.p.A. with effect from 1 July 2015, IRETI extended to 4 more municipalities (Camogli, Rapallo, Coreglia Ligure and Zoagli) in the Genoa ATO and to the municipality of Bolano (La Spezia) its presence in the territory.
Overall in the Optimal Territorial Areas (“Ambiti Territoriali Ottimali” - ATOs) managed (Genoa Area, Reggio Emilia, Parma, Piacenza, Savona and La Spezia), the service is provided in 191 Municipalities serving over 2.6 million residents.
During the first half of 2016 the Networks BU sold approximately 88 million cubic metres of water, through a distribution network of more than 16,500 km. With regard to sewage disposal, the company manages a network spanning approximately 9,300 km.

Gas distribution
IRETI distributes natural gas in 75 municipalities of the provinces of Reggio Emilia, Parma and Piacenza, in the municipality of Genoa and in 19 other municipalities nearby. The distribution network made up of approximately 7,634 km of high, medium and low pressure pipes serves an area of approximately 719,000 customers. During the first half of 2016 IRETI distributed approximately 693 million cubic metres of gas.

Electricity distribution
With approximately 7,555 km of network in medium and low voltage IRETI provides the electricity distribution service in the cities of Turin and Parma.

WASTE MANAGEMENT BU

The Waste Management BU carries out the activities of waste collection and disposal mainly through three companies: Iren Waste Management BU operating in the Emilia area as well as AMIAT and TRM operating in the Piedmont area.

The Waste Management BU carries out all the activities of the municipal waste management chain (collection, selection, recovery and disposal) with particular attention to sustainable development and to environmental protection confirmed by growing levels of separate waste collection; it also manages an important customer portfolio that provides all the services for special waste disposal.
In the first half of 2016 the Group has acquired the control over TRM S.p.A.. The company has designed and built the waste-to-energy plant for municipal and similar waste serving the province of Turin and it is

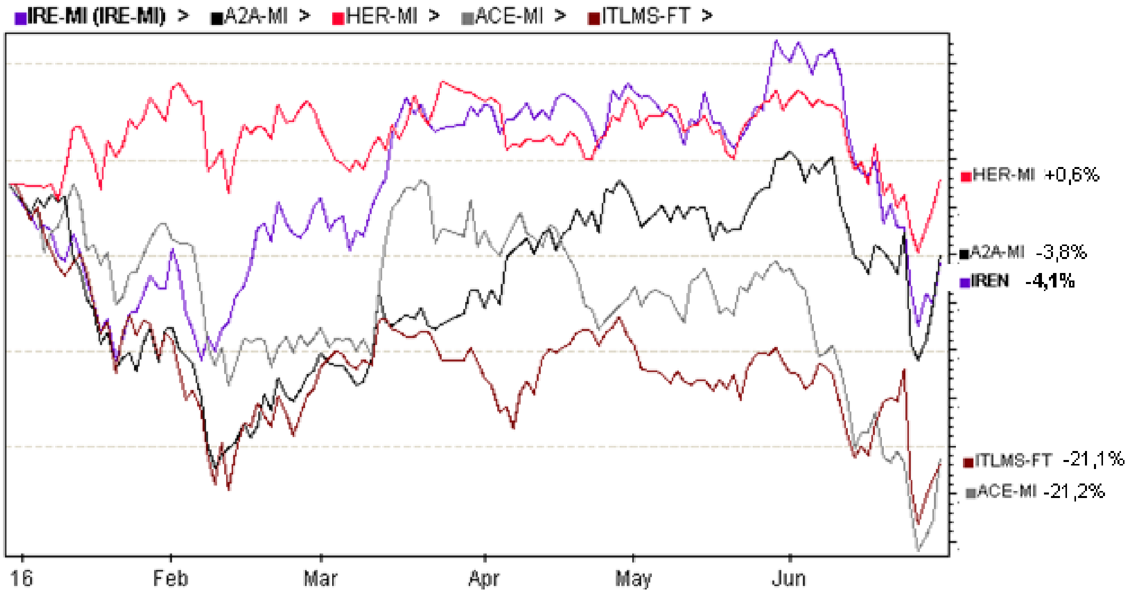
in charge of its management up to 2034. The TRM plant has a waste-to-energy capacity of approximately 500 thousand tons/year of waste with energy recovery.
Acquisition of control over TRM enabled the Group to triple its waste-to-energy capacity, confirming Iren as one of the top three groups in Italy in terms of treated waste.
We can also note the investment in the company Ecoprogetto Tortona, which manages an OFMSW (Organic Fraction of Municipal Solid Waste) anaerobic treatment plant, with a capacity of 32,000 tons/year of OFMSW.

INFORMATION ON THE IREN SHARE IN THE FIRST HALF OF 2016

Iren share performance on the Stock Exchange

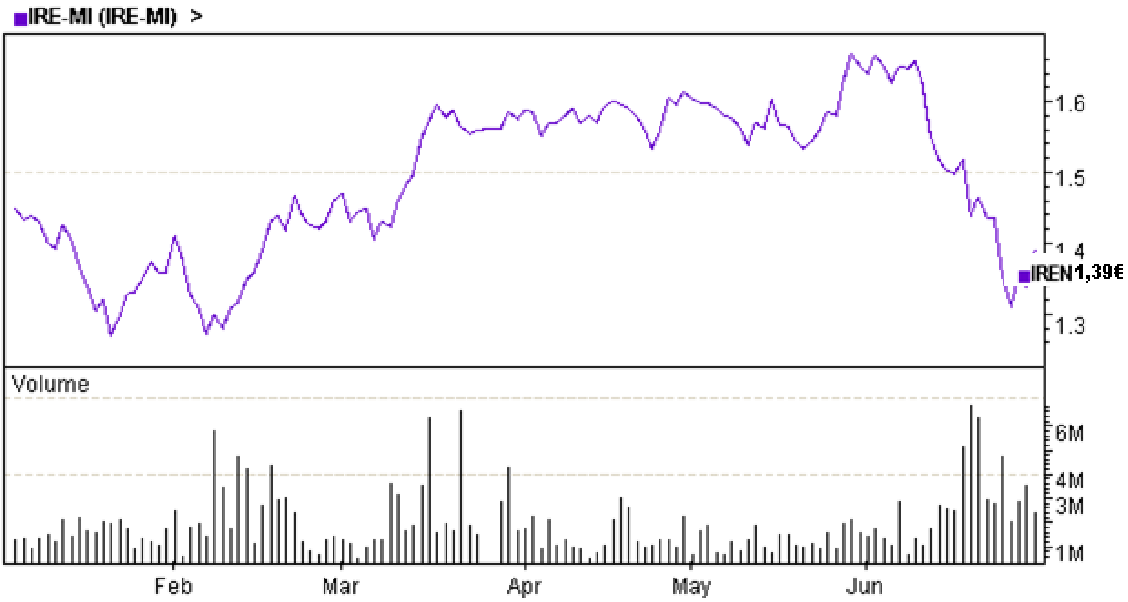
In the first half of the year the FTSE Italia All-share (the main Borsa Italiana index), recorded a drop of 21.1%, due mainly to the negative performance of the banking sector. This result can also be attributed to the effects of the persistent uncertainty and global economic fragility represented by the weakness in the oil price. Although there was some recovery compared to the first quarter, it still remains at record lows of recent years.
The performance of Iren stock was impacted marginally by what reported above, recording a slight decrease (-4.1%) compared to figures at the start of the year. This result comes after the significant growth of 60.9% achieved for the share during 2015.

PERFORMANCE OF IREN STOCK vs. COMPETITORS



At the end of June 2016, the Iren stock stood at Euro 1.39 per share, with average trading volumes in the half-year of approximately 2.0 million units per day.
During the first six months of the year the average price was Euro 1.49 per share reaching a peak of Euro 1.67 per share on 30 May and a minimum of Euro 1.27 per share on 20 January.

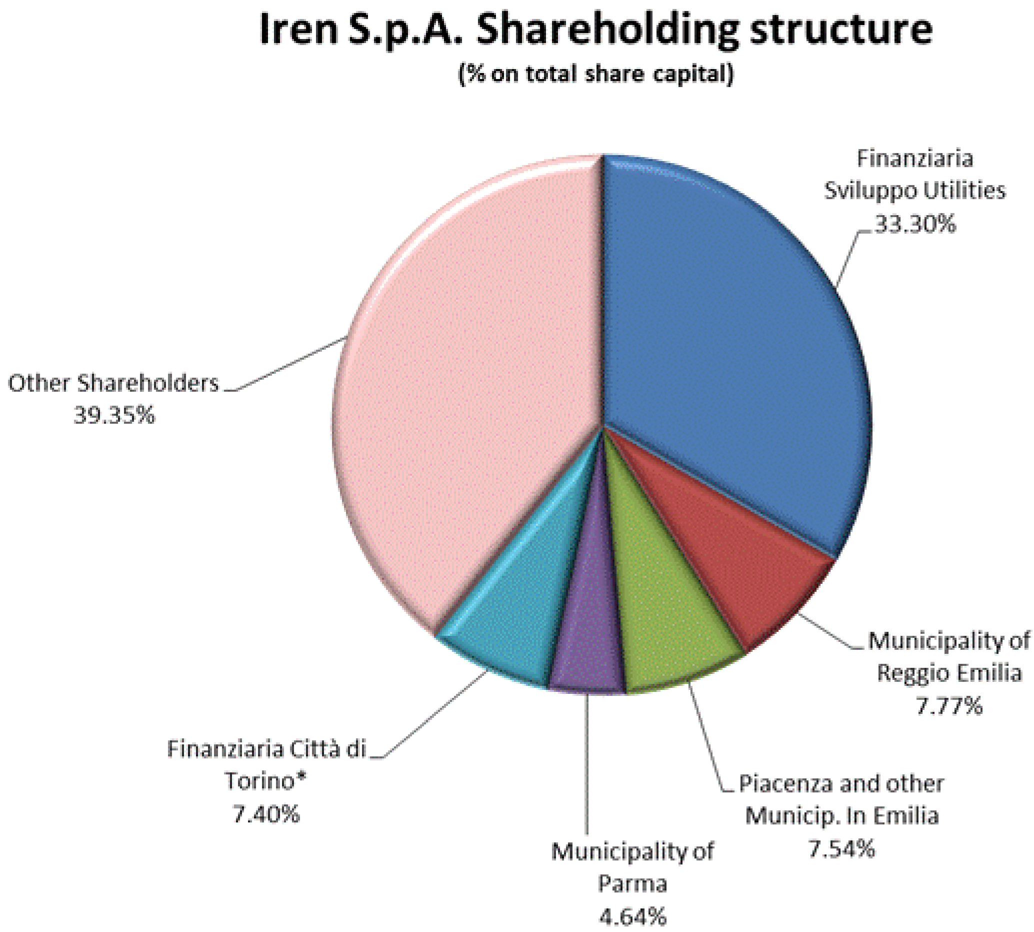
PRICE TREND AND TRADING VOLUME OF IREN



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

Shareholding structure

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



(*) Savings shares without voting rights

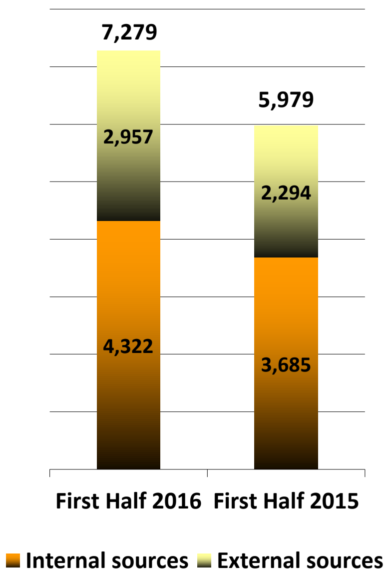
OPERATING DATA

Electricity balance sheet

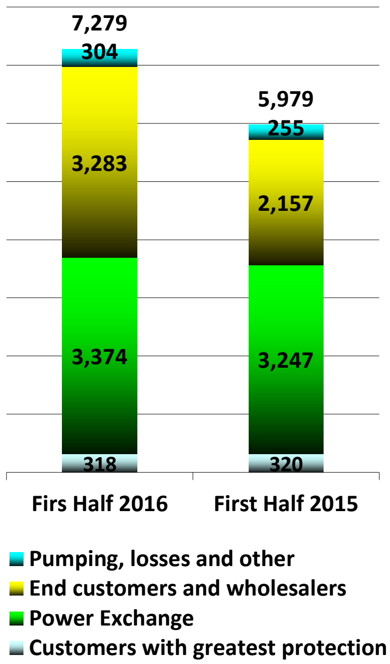
GWh	**First half 2016**	**First half 2015**	**Changes %**
SOURCES			
Group gross production	4,322	3,685	17.3
a) Hydroelectric	*674*	*767*	*(12.1)*
b) Cogeneration	*2,713*	*2,475*	*9.6*
c) Thermoelectric	*649*	*335*	*93.7*
d) Production from WTE plants and landfills	*286*	*108*	*(*)*
Purchases from *Acquirente Unico* [Single Buyer]	334	337	(0.9)
Energy purchased on the Power Exchange	1,588	791	(*)
Energy purchased from wholesalers and imports	1,035	1,166	(11.2)
Total Sources	**7,279**	**5,979**	**21.7**
USES			
Sales to protected customers	318	320	(0.6)
Sales on the Power Exchange	3,374	3,247	3.9
Sales to eligible final customers and wholesalers	3,283	2,157	52.2
Pumping, distribution losses and other	304	255	19.2
Total Uses	**7,279**	**5,979**	**21.7**

(*) Change of more than 100%

Composition of Sources



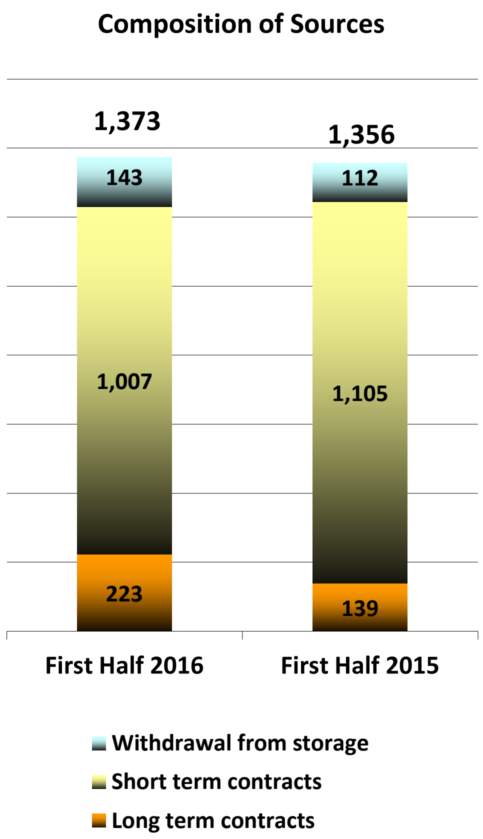
Composition of Uses

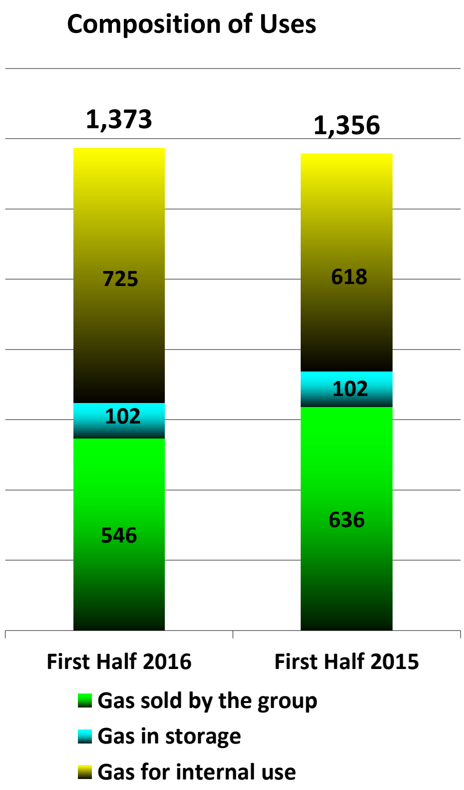


Gas Production

Gas Production Millions of m³	First half 2016	First half 2015	Changes %
SOURCES			
Long-term contracts	223	139	60.4
Short-term contracts (annual and spot)	1,007	1,105	(8.9)
Withdrawals from storage	143	112	27.7
Total Sources	**1,373**	**1,356**	**1.3**
USES			
Gas sold by the Group	546	636	(14.2)
Gas in storage	102	102	-
Gas for internal use (1)	725	618	17.3
Total Uses	**1,373**	**1,356**	**1.3**

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





Network services

	First half 2016	First half 2015	Changes %
ELECTRICITY DISTRIBUTION			
Electricity distributed (GWh)	2,096	1,887	11.1
No. of electronic meters	710,827	706,535	0.6
GAS DISTRIBUTION			
Gas distributed in the Emilia area (mln m³)	*483*	*504*	*(4.3)*
Gas distributed in the Genoa area (mln m³)	*206*	*216*	*(4.6)*
Gas distributed in the Vercelli area (mln m³)	*4*	*-*	*n.a.*
Total Gas distributed	693	720	(3.8)
DISTRICT HEATING			
District heating volume (mln m³)	82	80	2.1
District heating network (Km)	890	889	0.1
INTEGRATED WATER SERVICE			
Water volume (mln m³)	88	71	24.3

MARKET CONTEXT

The macro-economic scenario

After three years of recession, GDP in 2015 adjusted for calendar effects, increased by 0.6%.
The Italian economy has shown positive signs from the start of 2016. During the first quarter, GDP has risen by 1.0% year-on-year[1], whereas based on assumptions[2] in the first quarter of 2016, overall GDP should increase by 0.5% compared to the previous six-month period.
During the first quarter of the year, fixed investments have increased, confirming the reversal of the cycle that began during the last quarter of 2015. Industry is driving the recovery, whereas the construction industry has at least stabilized after an extended negative period. At the same time, household spending went up by 1.5% year-on-year during the first quarter of 2016.
However, the recovery in the Italian economy still appears fragile and could slow down over the short-term. The increase in household consumption appears to be linked to the drop in oil prices, and with the rise in the Brent at around 50 $/bbl, could quickly slip back once again. Indicators relating to the labour market reveal that the situation is still critical, with the unemployment rate for young people (25-34 years old) recording stable levels from the start of the year at 27.6%. Italian exports that have always been a driver for the national economy and are directed mainly towards European countries, tended to slow down, in line with trends in global sales.
Despite the slowdown recorded for the second quarter by ISTAT, overall GDP for the current year should come in at a positive level, below 1%.
With regard to the effects of the British referendum, there could be significant repercussions for the Italian economy especially in the coming year, given that it is still fragile from a financial perspective, and very delicate in economic terms. Even though official (and pre-Brexit) forecasts showed growth of more than 1% in GDP in 2017, the risk that the rates will be lower during the next year will remain.

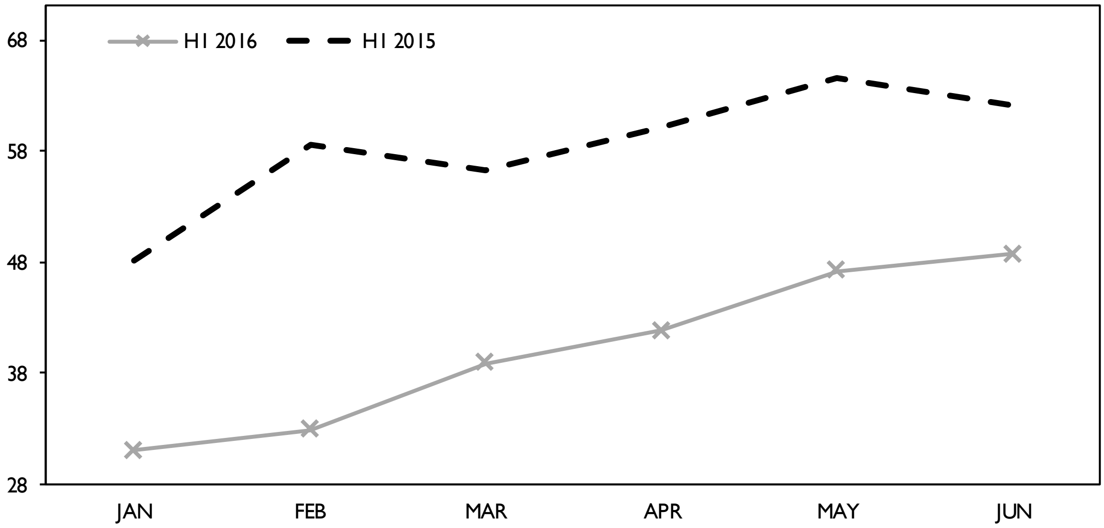
[1] Latest quarterly ISTAT figures available. The ISTAT estimate for the second quarter will be available in August 2016.
[2] Quarterly growth for the second quarter of 2016 is expected to be slightly down on what was recorded during the first quarter of the year.

The oil market

In the first six months of 2016, the average price of crude oil was 39.73 $/bbl, sharply down compared to the same period of 2015 (-31.4%). The average $/€ exchange rate was $ 1.1155/€, which was essentially in line with the previous year (-0.03%). As a result of the previous trends, the average price of crude oil in euro was 35.54 €/bbl in 2016, down compared to the 2015 average (-31.67%).
In the first half of 2016, spot listings for Brent dated in dollars were continually on the rise, with listing of $ 48.34/bbl in June, up about 17.7 dollars compared to January 2016.

BRENT PRICE TRENDS

($/bbl)



Source: REF-E processing of Platts data

The electricity market

Supply and demand

In the period January - June 2016, the net production of electricity in Italy was 129,688 GWh, down (-1.9%) compared with the same period of 2015. The demand for electricity, 151,005 GWh (-1.5%) was met for 86% from domestic production (-2% compared to 2015) and the remaining 14% from foreign production. At national level, traditional thermoelectric production was 83,823 GWh in line with 2015 and represented 65% of the production supply; hydroelectric production was 21,505 GWh (-8.9% compared to 2015) representing 17% while geothermal, wind and photovoltaic production was 24,360 GWh (-1.5%) covering 19% of supply.

Demand and supply of accumulated electricity

(GWh and changes in trends)

	up to 30/06/2016	up to 30/06/2015	Change %
Demand	**151,005**	**153,239**	**-1.5%**
Northern Italy	70,931	70,707	0.3%
Central Italy	44,554	45,782	-2.7%
Southern Italy	22,237	22,797	-2.5%
Islands	13,283	13,953	-4.8%
Net production	**129,688**	**132,153**	**-1.9%**
Hydroelectric	21,505	23,601	-8.9%
Thermoelectric	83,823	83,808	0.0%
Geothermoelectric	2,953	2,874	2.7%
Wind and photovoltaic	21,407	21,870	-2.1%
Pumping consumption	-1,245	-1,023	21.7%
Foreign balance	**22,562**	**22,109**	**2.0%**

Source: Terna

The first half of 2016 saw total demand for electricity dropping slightly compared to the previous year. Percentage decreases were seen in all regions of the country, in particular in the Islands (-4.8%) Centre-South (-2.5%), whereas the North remained largely stable (0.3%).

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

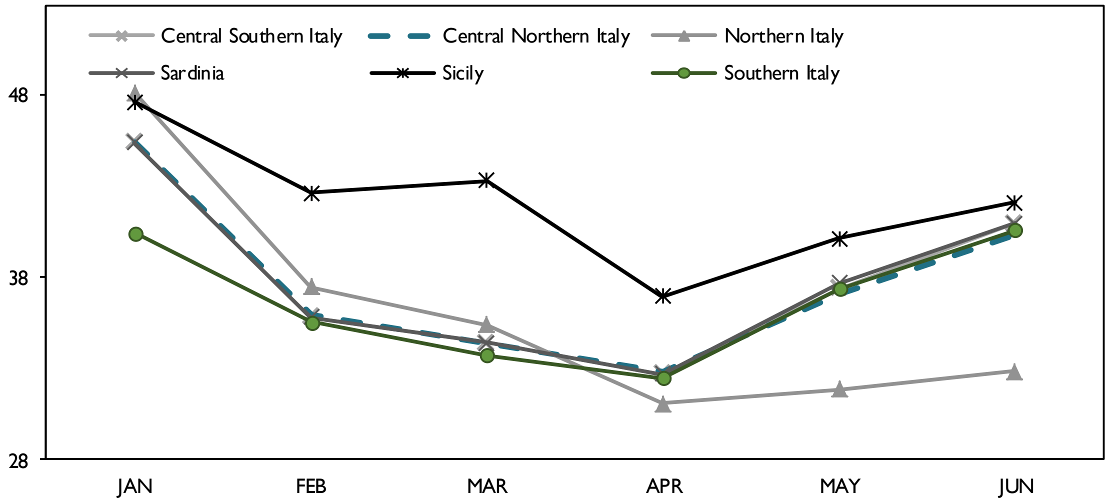
In relation to zonal prices, the first half of 2016 saw a general fall in prices compared to 2015, with a drop in all zones, and consequently also in the "Prezzo Unico Nazionale – PUN" (Standard National Price – SNP). During the second quarter of 2016, the North price was the lowest, unlike the previous quarters. This trend is due to dynamics in the underlying market, which saw demand rise in the Central and Southern zones and come down in the North, while at the same time experiencing a contraction in supply to zero in the South and an increase in North. Consequently, the higher contestable, combined with increased unavailability in the South, caused an increase in prices, whereas the contestable came down in the North and imports from abroad kept prices low based on the effective Market Coupling dynamics.

The highest zone price is still the one in Sicily, which in June recorded a drop in the spread similarly to other zones due to the doubling of the Sorgente-Rizziconi cable at the end of May, which coincided with the suspension of the administered regime imposed by the sicilian plants[3]. This resulted in offering free prices via the market and forming a macro-zone with the South, by increasing competition in the Sicily zone and consequently lowering prices.

[3] The administered regime, imposed from the beginning of 2015, provided for the offering to recognised variable costs for all production units above 50 MW.

HI ITALIAN ZONAL PRICE TRENDS 2016

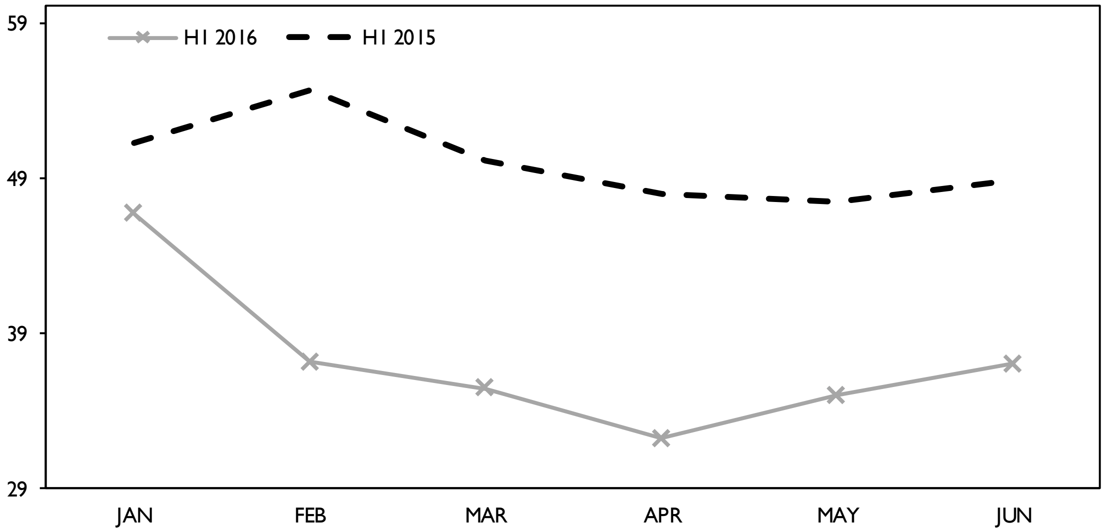
(€/MWh)



Source: REF-E processing of GME data

DAM - SNP AVERAGE PURCHASE PRICE TRENDS

(€/MWh)



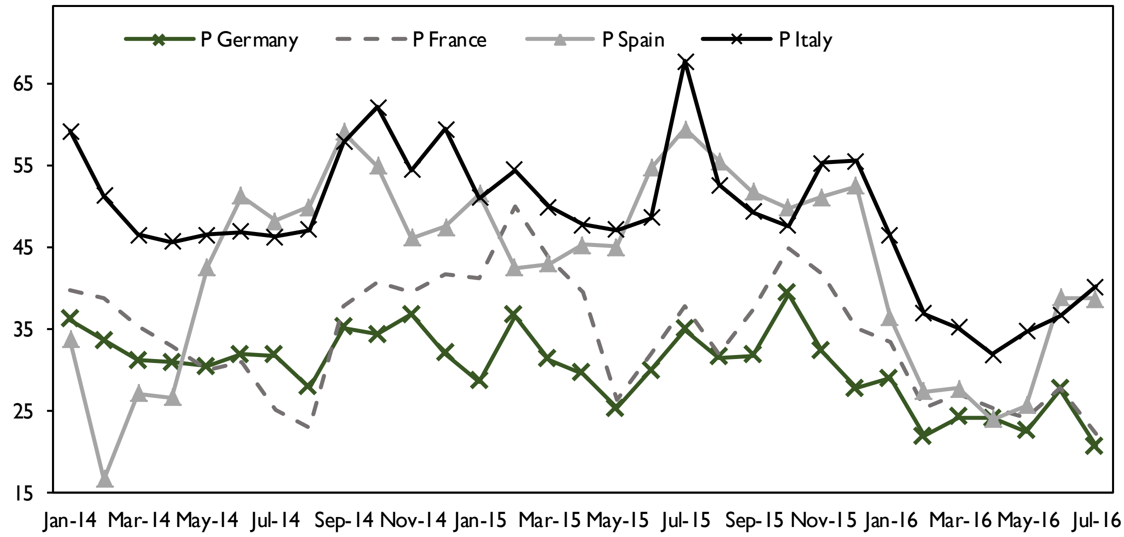
Source: REF-E processing of GME data

Trend in main European power exchanges

In the first half-year period of 2016, European power exchanges expressed an average price of 27.5 €/MWh compared to the average SNP of 37.0 €/MWh with a difference of 9.5 €/MWh down compared to the 11.1 €/MWh of 2015.

EUROPEAN POWER PRICE TRENDS

(€/MWh)



Source: REF-E processing of European Exchange data

Futures of Baseload SNP over EEX

The table below shows a comparison between the average future prices of products available for the second quarter of 2016. In the three months from April to June, increases were recorded for the prices of the quarterly periods ended September (Q3), December (Q4) 2016 and March (Q1) 2017. The annual future (December 2017) which quoted 37.9 €/MWh in April went up to 42.2 €/MWh in June (+4.3 €/MWh). This trend can be explained on the basis of trends in fuels futures; gas mainly contributed for around 70% (3 €/MWh), whereas coal came in at 10%.

April-16 Futures		May-16 Futures		June-16 Futures	
Monthly	**€/MWh**	**Monthly**	**€/MWh**	**Monthly**	**€/MWh**
May-16	31.9	Jun-16	34.6	Jul-16	38.0
Jun-16	32.7	Jul-16	37.6	Aug-16	45.9
Jul-16	34.8	Aug-16	44.5	Sep-16	41.9
Quarterly		**Quarterly**		**Quarterly**	
Q3 16	39.0	Q3 16	42.2	Q3 16	44.0
Q4 16	39.5	Q4 16	42.1	Q4 16	44.5
Q1 17	39.0	Q1 17	41.6	Q1 17	43.5
Yearly		**Yearly**		**Yearly**	
Y1 17	37.9	Y1 17	39.6	Y1 17	42.2

Source: Reuters on EEX data

The Natural Gas Market

Supply and demand

The first half of 2016 recorded a slight increase in gas consumption compared to 2015 (+1.3%), as a result of growth in the thermoelectric sector (+9.8%), which was offset by a decrease in residential demand (-3.9%) and the remaining demand factors basically remaining stable.
Following a mild winter, residential demand fell by around 0.7 billion, whereas the decrease in hydroelectric production contributed especially to the increase in thermoelectric use volumes. Industrial consumption rose slightly (+1.6%).

GAS USED (bln m^3)	HY1-2016	HY1-2015	HY1-2014	HY1-2013	Change %2016 vs 2015	Change %2015 vs 2014	Change %2014 vs 2013
Industrial use	6.8	6.6	6.7	6.8	3%	-1%	-1%
Thermoelectric use	10.1	9.2	8.4	9.7	10%	10%	-14%
Distribution plants	17.8	18.5	16.7	20.6	-4%	11%	-19%
Third party network and system consumption (*)	1.1	0.9	0.9	1.0	12%	10%	-14%
Total withdrawn	**35.7**	**35.2**	**32.7**	**38.1**	**1%**	**8%**	**-14%**

Latest data 30 June 2016

Source: REF-E processing of SRG data

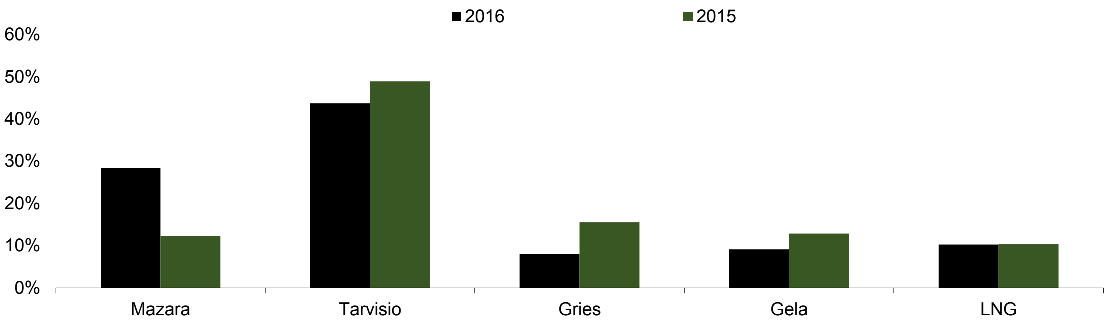
GAS INPUT (bln m^3)	HY1-2016	HY1-2015	HY1-2014	HY1-2013	Change %2016 vs 2015	Change %2015 vs 2014	Change %2014 vs 2013
Imports	31.3	29.5	29.3	30.8	6%	1%	-5%
National prod.	2.7	3.2	3.4	3.7	-15%	-6%	-7%
Storage	1.6	2.5	(0.1)	3.6	-34%	-2124%	-103%
Total input (incl. Storage)	**35.7**	**35.2**	**32.7**	**38.1**	**1%**	**8%**	**-14%**
Max. capacity	63.4	63.0	63.9	61.2			
Load Factor	**49%**	**47%**	**46%**	**50%**			

Latest data 30 June 2016

Source: REF-E processing of SRG data

On the supply side, imports rose by 6%, whereas the downward trend in domestic production persists (-15%). The balance of the storage systems (outputs+/inputs-) indicates -0.9 billion/m^3 compared to the 2.5 billion/m^3 the previous year, the results of higher stock levels at the end of March, and consequently less output during winter.

Imports by port of entry over the total

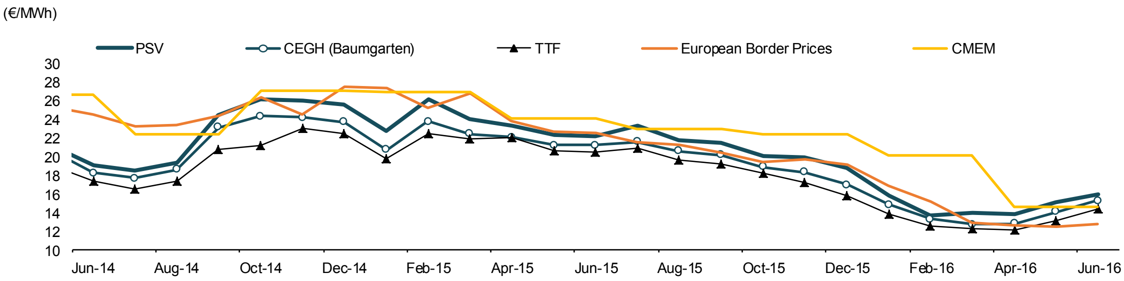


A significant increase has been seen from the beginning of the year in volumes from Algeria, which went from 12% of volumes imported during the first half of 2015 to approximately 28% in the first half of 2016.

This was the result of recovered capacity in Algerian exports associated with increased production (in Salah and Amenas) and limited internal demand.
Volumes imported in the first half of 2016 have come from Tarvisio (mainly Russia) for 44.0%, for 8.1% from Passo Gries (Northern Europe), 28.4% from Mazara del Vallo (Algeria), 9.2% from Gela (Libya) and 10.3% from LNG (mainly from the Rovigo regasification plant/Cavarzere entry point (Qatar).

Wholesale gas price
In the first half of 2016 the wholesale prices of natural gas showed a declining trend in all international market areas, compared to the previous six-month period. In Europe, in a context of demand that was still weak and accentuated by the prolonged mild winter and the fall in Brent, hub prices after a sharp reduction in the first quarter of 2016 (-24% compared to the fourth quarter of 2015), against the normal seasonal trends, rose slightly during the second quarter (+2%).
The Dutch TTF recorded an average quarterly figure in spot listings of 13.02 €/MWh. The Italian PSV was still a premium market compared to the Northern European hubs with a spread of +1.7 €/MWh against the TTF (-25% compared to the figure in the first half of 2015).
Renegotiations of long-term contracts and falling oil prices, to which some of the volumes imported are still directly or indirectly connected, led to a significant decrease in “prices at the border” and to their gradual convergence with short-term ones: in June estimates indicate prices for imports into Europe of 12.7 €/MWh compared to prices at the hubs of between 14 and 16 €/MWh.

Wholesale prices in Europe

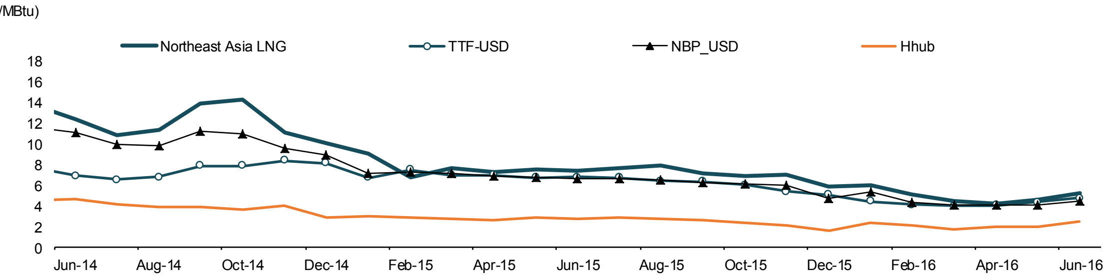


Latest data 30 June 2016
Source: REF-E processing of Platts- WGI data

With regard to the Italian context beside the aforementioned trends on the PSV, the balancing market (PB-Gas) was confirmed in the first half of the year as the only liquid market among those organised by the Energy Markets Manager (Gestore dei Mercati Energetici - GME). In the two segments that make it up (G+1 and G-1) in the first half, volumes of approximately 2.1 bln/m^3 were traded (1.1 bln/m^3in the same period of 2015), with an average price of 14.7 €/MWh for the G+1 segment and 15.2 €/MWh for the G-1, recording trends and price levels in line with those of bilateral trades on the PSV.
The so-called “CMEM component”, meant to reflect the cost of procuring gas in the protected market price, defined by the AEEGSI on the basis of the TTF forward prices, in the first quarter was 20.1 €/MWh and in the second 14.63 €/MWh.

In the markets of North-East Asia, the slowdown in world growth and the new liquefaction coming into production in Australia and in the USA (Sabine Pass) and the drop in oil prices, are reflected in lower LNG prices.

LNG prices



Latest data 30 June 2016

Source: REF-E processing of Platts data

Asian spot prices which during the first half of 2015 had recorded an average 7.6 $/MBtu, fell to 4.9 $/MBtu in the first half of 2016, confirming a downward trend to 4.6 $/MBtu in the last three months (compared to approximately 4.2 for the Northern European hubs). The premium for Asian markets is therefore further reduced following the increase in LNG supply in Asia, which reduces the attractiveness of reloadings from the European to Asian market.

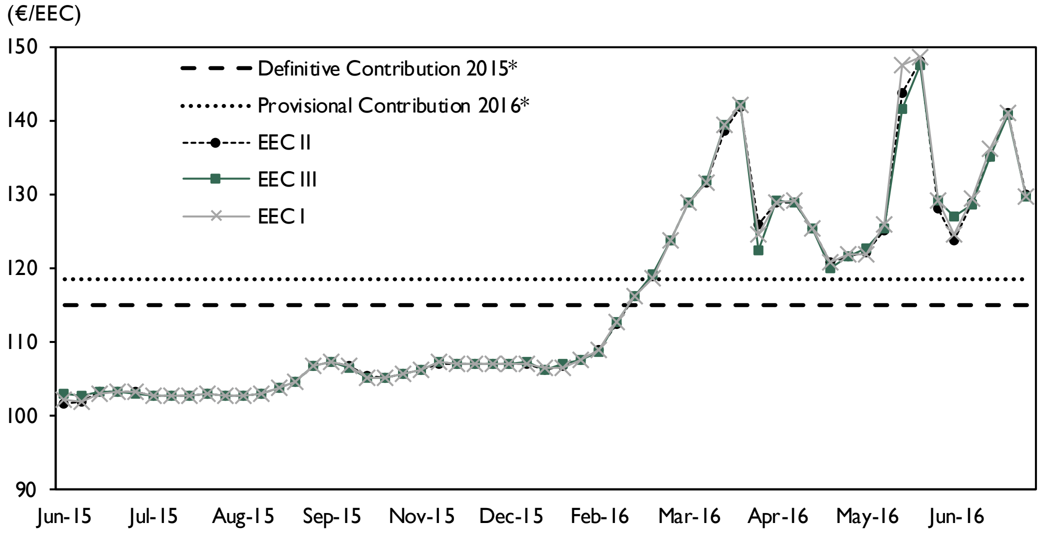
In the USA, the Henry Hub, the main American market, showed a downward price of 2.8 $/MBtu in the first half of 2015 to around 2.1 $/MBtu in 2016.

White Certificates (EECs)

Market trend

The first half of 2016 recorded "anomalous" trends on the EECs market compared to the previous year and a half. From June 2014 (start of 2014 obligation year) until the market session in January 2016, type I, II and III EEC prices (representing the majority of securities traded) essentially held at levels between 100 and 110 €/EEC. From February 2016 a series of fluctuations affected prices, at one point topping 150 €/EEC, to average out at 130 €/EEC. This upward trend obviously reflected on the final tariff contribution figure for the 2015 obligation year, as set by the AEEGSI Directive, which came in at 114.83 €/EEC, whereas the 2016 obligation year opened with a provisional contribution of 118.37 €/EEC[4].

EEC: MARKET PRICE AND TARIFF CONTRIBUTION

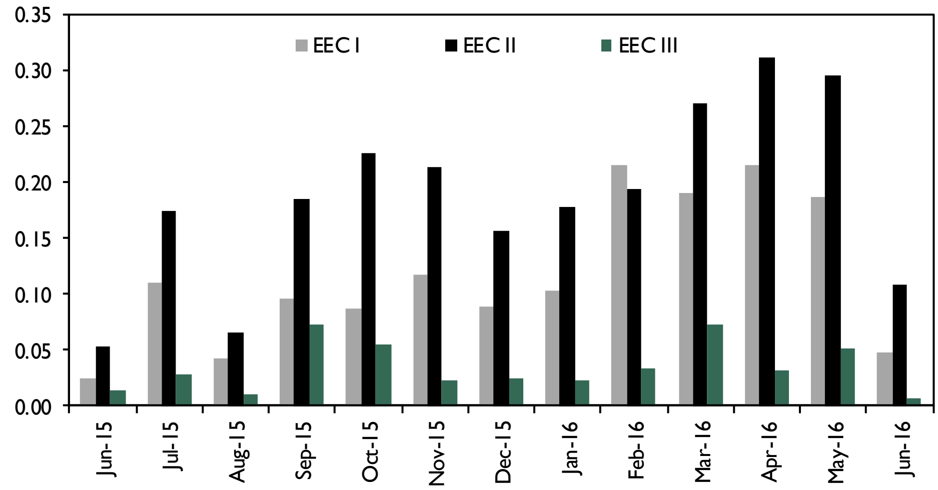


* AEEGSI 11/2016 – DMEG. Latest given 05/07/2016

Source: REF-E processing of GME and AEEGSI data

In terms of volumes traded on exchanges in recent months, the trend rose, except in June, when a significant contraction was recorded subsequent to the compliance for the year 2015.

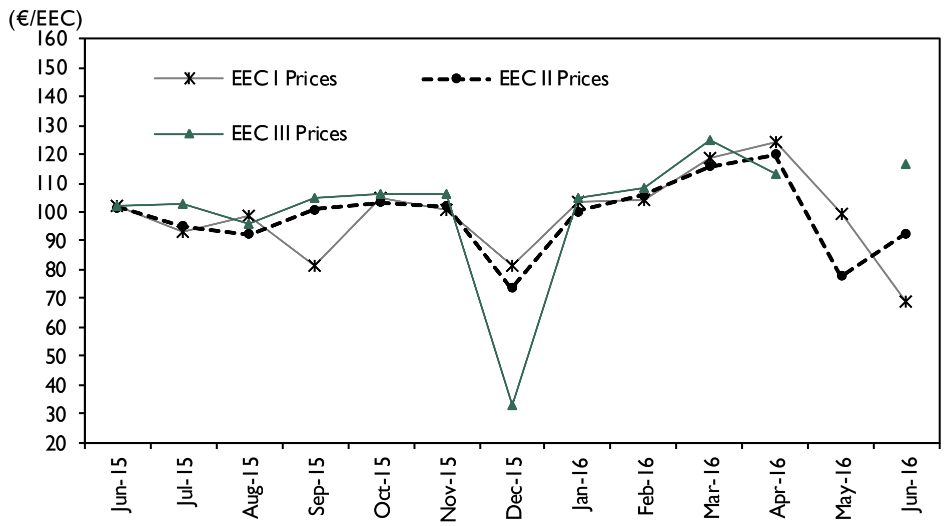
[4] AEEGSI Directive 16 June 2016 DMEG/EFR/11/2016.



Monthly volumes from start of 2015 obligation year

Source: REF-E processing of GME data

Prices on the OTC market also recorded increases over the first months of the year, even though market levels were not reached and over the last two months (May and June) a reverse trend was seen, which at least in respect of May, is assumed to be linked to the pre-compliance inter-group trades. Volumes, which are historically higher than those on the market, have been considerably lower in recent months than those recorded on the organised market.



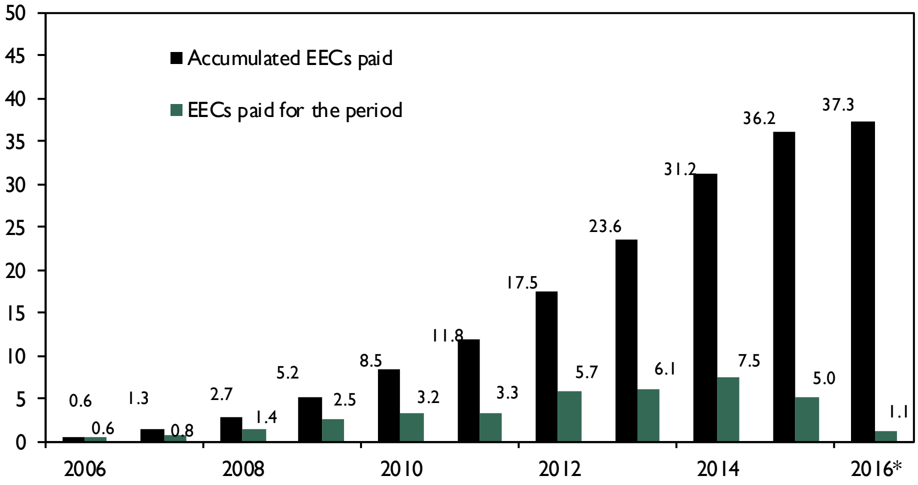
Monthly prices from start of 2015 obligation year

Source: REF-E processing of GME data

EECs issued: the slowdown after the 2013-2014 acceleration

By analysing the time series for EECs paid from 2006 until the start of 2016, we note that the emissions trend was impacted by updates to regulatory and legislative provisions.

(EEC millions)



*GSE Financial Statement January - March

Source: REF-E processing of GSE data

The first significant factor is the introduction, starting from 2012, of the τ ratio, supporting the supply of securities by ensuring a higher number of interventions compared to the previous situation, with all other things being equal.

The peak of the projects presented and the EECs paid in 2013-2014 can largely be attributed to two updates introduced by the Ministerial Decree dated 28 December 2012: limited admission to the mechanism as from 2014 in respect only for new projects or projects underway, and accumulating this with other government incentives disallowed with effect from the middle of 2013. Some sort of realignment to the previous period was seen in 2015.

Approximately 2.6 million EECs were issued in the first six months of 2016, and for the 2015 obligation year (June 2015 - May 2016) the GSE estimates that the EECs that can be generated stand at 5.1 million; taking into consideration the number of EECs that are still available on operators' accounts subsequent to compliance for the 2014 obligation year, and the offsets over the two previous years, as well as the overall 2015 obligation (7.75 million EECs between gas and electricity distributors), the Manager estimates a 77% hedge for 2015 obligations, in other words higher than the minimum flexibility figure set for 2015 and 2016, at 60%.

The situation could become more critical in future years if the downward trend in the issuing of securities persists, combined with an ever increasing level of obligations. In this case, recent turbulence recorded in the securities market could be seen as the first sign that the higher figures for EECs need to be taken compared to what was recorded in recent years, so as to incentivise projects being presented and making it possible to hedge obligations.

LEGISLATION FIRST HALF 2016

GAS

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

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

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

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

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

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

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

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

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

The AEEGSI approved the new Integrated Gas Balancing Regulation (TIB), which incorporates the guidelines provided in CD no. 103/2016 and European Regulation no. 312/2014. The TIB becomes effective as from 1 October 2016 if all the conditions for its introduction exist.

The regulation outlines:

- the general intervention criteria for the balancing manager (BM) on the balancing market;
- the procedures whereby the balancing manager can propose recourse to balancing services;
- the procedures whereby the balancing manager can seek recourse to locational type products;
- the balancing prices for aspects not defined by the Regulation, including the extent of the small adjustment;
- the introduction of an organised market within the scope of the market governed by the GME to trade gas in storage between users, which the balancing manager can also access in the event that this is necessary to meet possible operational and safety requirements;
- a general neutrality criterion for the balancing manager with the concurrent provision of a reserve to cover charges related to the balancing system, and the procedures whereby the balancing manager pays or recovers the amounts owed;
- the introduction of certain disclosure obligations related to balancing that the balancing manager is responsible for.

In addition, the Authority deems it necessary for the balancing manager and other infrastructural operators to enter into interconnection agreements with the aim of ensuring inter-operability and the allocation of balancing costs to the users that initiated them.

CD 12/2016/R/gas: Changes relating to gas settlement rules.

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

CD 321/2016/R/gas: Compliance with the Council of State judgement relating to the distribution services tariff regulation system, and dispatching of natural gas for the period 2010-2013.
This document contains the AEEGSI final guidelines on determining the tariff criteria for the gas transport service for the regulatory period 2010-13 in accordance with the Council of State judgement. In particular, it sets out:

- The criteria for the distribution of revenue between capacity and commodity components: confirmed 90% capacity and 10% commodity; the Po Valley confirmed as the main market
- Fee to cover internal consumption: the AEEGSI proposes introducing a fee that is differentiated according to the different points of entry, so as to take into account the distance of the point of entry from the system's centre point
- With regard to shippers that have effectively been allocated internal consumption in kind for the period 2010-13 and that submit an application by 30 September 2016, Snam will issue a credit note by 30 November 2016.

Resolution no. 336/2016/R/gas: Introduction of a pilot project related to capacity at delivery points on the gas transport network that supply electricity generation plants.
In terms of this resolution, the AEEGSI confirms that the ex-ante conferral regime will be maintained, which provides for all the types of capacity products now available at interconnection points with countries in the European Union so that each user may select the composition of the capacity product portfolio that best meets their production requirements. The pilot project aims to facilitate the move towards more flexible and effective conferral mechanisms, making it possible for producers to better coordinate the purchase of gas transport capacity with the sale of electricity and services.

Resolution 173/2016/R/gas: Determining provisional reference tariffs for gas distribution and measurement services for 2016 and approval of bi-monthly equalisation amounts, relating to the distribution of natural gas service for 2016.
In terms of this Resolution, the AEEGSI provisionally set the reference tariffs for companies managing distribution networks and the relative equalisation amounts for 2016, based on the technical/economic data relating to investments made in 2015. The tariffs remain provisional because these figures are still subject to verification.

Resolution 223/2016/R/gas: Directives on insurance in favour of gas end customers, for the four-year period 1 January 2017 to 31 December 2020.
The AEEGSI has passed a resolution regarding insurance in favour of gas end customers for the 2017 - 2020 period. This insurance has in fact been implemented for several years now, and aims to provide financial cover for gas end customers involved in accidents arising from using gas. The cost for this insurance was always a marginal charge of a few euro cents a year for the end customer, applied to each individual Redelivery Point.

CD 205/2016/R/gas: Criteria for recognising costs relating to investments in the natural gas distribution network, implemented as from 2017 - initial guidelines.
With this first CD (a second will follow around September 2016), the AEEGSI provides its guidelines regarding recognising investment in tariff costs, by identifying two options: using the price-cap mechanism or the standard costs mechanism. The CD is especially significant for distribution service managers in the time context of gas tenders; the guidelines provided by the AEEGSI could impact on the economic/financial plans that managers are preparing in order to participate in gas tenders.

ELECTRICITY

CD 75/2016: reform of price protections in retail markets for electricity and natural gas: protection similar to the free market for electricity for final domestic customers and small enterprises.
In the CD the AEEGSI identifies two lines of action to arrive at superseding Higher Protection:

- the reform of higher protection in order to make it more consistent with the universal service role that it will be destined to assume: the AEEGSI intends to keep the AU's procurement function and marketing under the responsibility of the current higher protection operators; this service would be provided to domestic users and small enterprises that do not have a supplier on the free market. The energy price would be defined *ex ante* with reference to the price formed on the DAM (Day-Ahead Market).
- the maturation of the retail segment of small customers, facilitating their access to the market through an evolution "guided and supervised" by the Authority (so-called Similar Protection). The AEEGSI intends to launch a voluntary acceptance process for customers and vendors through the centralised management of access. For vendors that intend to accept specific requirements are laid down in terms of solidity (economic/financial), honourability and operations in keeping with the maximum number of customers that they are willing to supply. Access to Similar Protection is permitted only for customers that are included in the reformed higher protection service and takes place through a specific website managed by the AU in its capacity as central administrator. Similar Protection regards only the supply of electricity and involves standard contractual conditions for all customers, irrespective of the supplier selected. The price charged is equal to that of the reformed higher protection service minus a discount defined by the supplier for each type of customer.

We must stress that the proposals in the CD are embedded in a context of great evolutionary instability because the measure by which the proposals can potentially be influenced, that is the Draft Competition Law, is still awaiting approval by the Senate, which must be followed by a further measure of the Ministry of Economic Development (MED).

Resolution 327/2016: Extension of the deadline regarding the obligation to unbundle the communication policy and the brand for the sale of electricity to final customers.
In view of the current uncertainty regarding the expected Draft Competition Law (DDL), the AEEGSI has decided to extend the obligation of debranding between sales on the free market and protection until 01/01/2017.

Stability Law (no. 208 of 28 December 2015) and MED Decree: TV licence fee in bills
Official Journal dated 04/06/2016 issued the MED implementation decree no. 94, and on 21 June the Tax Authorities' Circular was published on the rules for determining the fee payable according to the different cases.
At the end of May and beginning of June the Single Buyer forwarded the relevant files to align the data banks with vendors.
The application of the fee on bills issued after 1 July 2017 was confirmed.

Judgement of the Council of State no. 2182 of 24 May 2015: annulled 612/2013/R/eel in the section referring to vendors' obligation to provide guarantees to cover the risk of failure to make payment on system charges.
The EE network Code (CADE) requires that the calculation on guarantees that vendors must provide to distributors takes into account the total on the transport bill, including system charges.
The Council of State cancelled the section in no. 612/2013 that expressly specified that vendors must also provide guarantees on system charges.

Resolution 138/2016/R/eel: launch of procedure for the revision of the general system expenses for non-domestic customers.
The resolution begins a consultation procedure to determine the general system expenses for all non-domestic customers according to the rules of the electricity distribution tariffs (higher proportion of the power quota with respect to that of the variable quota) in accordance with paragraph 3.2.b. of the "Decreto Milleproroghe" Law (Italian Law 21/16).

In practice, the measure supersedes the previous Res. 13/2016/R/eel, which defined the first transitory rules for the general system expenses to be charged from January 2016 to HV and VHV customers (the Thousand Extensions Law extends its scope also to customers at lower voltage levels).
Operationally, the resolution applies temporarily and subject to adjustment the General System Expenses (GSEs) for all non-domestic customers provided for in the previous Res. 657/2015/R/com and subsequent updates (it governed the GSEs from January 2016).

Resolution 654/2015/R/EEL: Tariff regulation for transmission, distribution services and measurement.
The Energy Authority, Gas and Water sets the tariff regulation for electricity transmission, distribution and measurement for 2016-2023, extending the regulatory period to eight years, which is then broken down into two sub-periods of four years (NPR1 2016-2019 and NPR2 2020-2023). In respect of tariff criteria, the Resolution makes the provision under NPR1 for incentive schedules that recognise operating expenses and regulatory rate-of-return schedules for capital costs, substantially continuing the method; in the NPR2, an overall key control approach relating to expenses (Totex approach) is adopted gradually, as will be explained below. Among the new aspects introduced by the Resolution, we note the new remuneration procedure for invested capital, which requires, inter alia, that the regulatory lag is eliminated (i.e. delay in tariff recognition of remuneration for new investments).

CD 255/2016: Reform regarding the tariff structure of general system expenses for non-domestic customers in the electricity market.
The CD becomes the first point of consultation in the context of the process started with Res. 138/2016. The CD deals with the feasibility of the reform required by the above law, by presenting options for the gradual application of the new tariff structure for general expenses for non-domestic customers supplied via MV and LV.
Law no. 21/2016 stipulates that the tariff structure for general expenses must be adjusted to the criteria used for network tariffs, by also introducing a trinomial tariff structure for the former. The CD provides three different procedures for introducing a trinomial structure for general expenses. Each option has a weighting distribution for the charges among the different types of users and consumption classes.

Resolution 87/2016/R/eel: functional and performance specifications for 2G Smart Meters.
The resolution (which will come into force after 3 months have passed from notification to the European Community) governs electricity meters for LV customers (known as 2G smart meters) with a view to their replacement after the complete depreciation of the previous ones currently installed (known as “1G”), defining their 7 necessary functions and the expected levels of system performance (and related full installation times).
The measure provides for a first version 2.0 (immediately available), which must have both a communication channel to the “electricity system” which can use the Power Line Carrier (PLC) in band A or in radio frequency, and a second channel to the user devices to be installed in homes, which must be able to use at least the PLC in band C.
The resolution is also aimed at assessing the effective availability of standardised technological solutions with incremental and evolutionary functions for the communication of the meters and for the power limiter that makes it possible to interrupt the supply of electricity in the event that the available power is exceeded without opening the magneto-thermal switch.

Resolution AEEGSI 29/2016/R/efr: determination of the average selling price of electricity in 2015
The AEEGSI determined the average selling price of electricity recorded in 2015 at 51.69 €/MWh; this price is used to calculate the price of withdrawal by the GSE of the GCs related to production in 2015 (100.08 €/GC) and, using the same formula, minus a coefficient K depending on the date of entry into operation of the individual plant, the figure, for 2016, of the post-GC incentive.

GAS/EE

CD 216/2016: Invoicing for the period in the retail market, in the framework of price protection regimes evolving and being surpassed.
The AEEGSI proposes the introduction of regulatory constraints for the procedures for acquiring and managing customer meter readings, the frequency and procedures for invoicing, and criteria for calculating consumption estimates.

During 2016, the AEEGSI will begin a specific revision of the contract supply conditions: the vendor will offer its free market customers an offer based on standard conditions (set by the Authority) and price levels that are freely contracted between the parties.
The other free market offerings from the vendor will contain mandatory clauses (set by the Authority and therefore contained in all offers) and optional clauses (subject of negotiation between the parties and therefore a tool for differentiating among vendors).
The contract clauses set for the standard offering are also applicable on a mandatory basis to gas protection and greater protection contracts.

CD 225/2016: Protection of final customers, processing complaints and out-of-court settlement of disputes.
The document confirms the outline proposed in the previous CD 614/2015, namely the objective to rationalise and reform the protection system, by acting on three escalation levels:

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

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

Resolution 302/2016: revision of regulation on the withdrawal of retail customers.
Based on Resolution 302/2016/R/com, the AEEGSI amended the procedures and timing for exercising the right of withdrawal from supply contracts for small final customers, with the objective of also standardising regulations in the context of changes in the retail market.
The new regulations take effect from 1 January 2017, including existing contracts at that date.

Resolution 134/2016/R/eel: Directives on additional fee for the temporary remuneration of production capacity availability for 2010 and 2011.
With Res. 48/04, the Authority set the regulations for the temporary remuneration of production capacity availability, breaking this down into two parts:

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

Pursuant to this Resolution, Terna had to recalculate the amount for Fee S and notify the relevant operators by 30 April 2016.

Resolution 303/2016/R/eel: Update to regulations on temporary remuneration on production capacity for 2015.
The AEEGSI sets the criteria for quantifying the “GCAP1” parameter, that the CAP1 unit fee is calculated against for the remuneration of production capacity for 2015.
The Resolution also sets the price brackets for 2015 that CAP1 is broken down against (F1 peak, F2 high load, F3 medium load, F4 empty). Terna will recognise the amounts relating to the 2015 CAP1 fee by 30 June 2016.

Integrated text of updated Regulation on the Electricity Market (TIDME).
Following AEEGSI authorisation, with Decree date 15 June 2016, the MED approved amendments to the Integrated Text of the Electricity Market Regulation (TIDME), referring to the directives necessary to start market coupling on the intra-day market.
The amendments refer to the revision of the “market coupling” definition and the stipulation that the outcomes of intra-day market sessions take into account imports and exports in relation to bordering markets where market coupling is operational.

Res. 333/2016/R/eel: Valuation of effective balancing 2012-2014.
The Resolution was published, and as hoped, the content follows up on the directions outlined in CD/623/2015 on the regulations to implement for effective balancing for 2012-2014 subsequent to judgement by the Council of State that had cancelled the previously applicable regulation.
The Authority therefore envisages that the regulation cancelled by the Regional Administrative Court will be reinstated.
There is also provision for an alternative regulation, with the application of the regulations applicable prior to the Authority's first intervention in 2012.

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

Resolution 315/2016/S/eel: Start of sanction proceedings for the violation of obligations on the continuity of electricity services. Possible closure with simplified procedure.
Subsequent to the extended electricity outages experienced due to heavy snowfalls in Emilia Romagna and Lombardy, with Res. 96/2015/E/eel, the Authority began a fact-finding investigation regarding the management of poor service delivery that affected, inter alia, the MV and LV distribution networks managed by AEM Torino Distribuzione S.p.A. (now IRETI S.p.A.).
The investigation closed with Res. 644/2015/E/eel with the outcomes outlined in the "Final report on the electricity outages occurring on 6 February 2015 and the days following in Emilia Romagna and Lombardy".
The Report referred to certain IRETI internal emergency management procedures not being compliant.
With Res. 315/2016/S/eel the Authority ordered the start of sanction proceedings against IRETI S.p.A. for having violated Art. 59 of the Integrated Code on electricity quality (TIQE) and the closing of the existing proceedings based on the simplified procedure.

Resolution 233/2016/R/eel: Calculation of provisional reference tariffs for the electricity distribution service for 2016.
The Resolution provides for the provisional calculation of reference tariffs for the electricity distribution service under paragraph 8.1 of the integrated code on transport (TIT) for 2016, in respect of companies serving over 100,000 supply points.

REGASIFICATION

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

SIGNIFICANT EVENTS OF THE PERIOD

IRETI S.p.A.

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

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

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

With approximately 7,283 km of medium and low voltage networks IRETI distributes electricity in the cities of Turin and Parma; with a portfolio of more than 1.5 million customers, IRETI is the fifth largest operator in Italy in the electricity sector in terms of quantity of distributed electricity.

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

TRM

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

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

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

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

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

Sale of the TLC network in the territory of Emilia

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

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

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

Shareholders’ Meeting of Iren S.p.A.

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

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

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

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

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

In the extraordinary session the Shareholders’ Meeting approved:

(i) the amendments to Articles 6, 9, 10, 16, 18, 19, 21, 25, 27, 28 and 38 and the insertion of Articles 6-bis, 6-ter and 6-quater of the Articles of Association to introduce increased voting rights (“loyalty shares”) and

(ii) the insertion of Paragraph 4 in Article 5 of the Articles of Association to delegate to the Board of Directors, under the terms of Article 2443 of the Italian Civil Code, capital increases with exclusion of the option right up to a maximum amount of a nominal 39,470,897.00 Euro.

Company officers

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

Acquiring majority shareholding in Atena S.p.A.

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

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

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

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

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

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

Income statement

IREN GROUP CONSOLIDATED INCOME STATEMENT

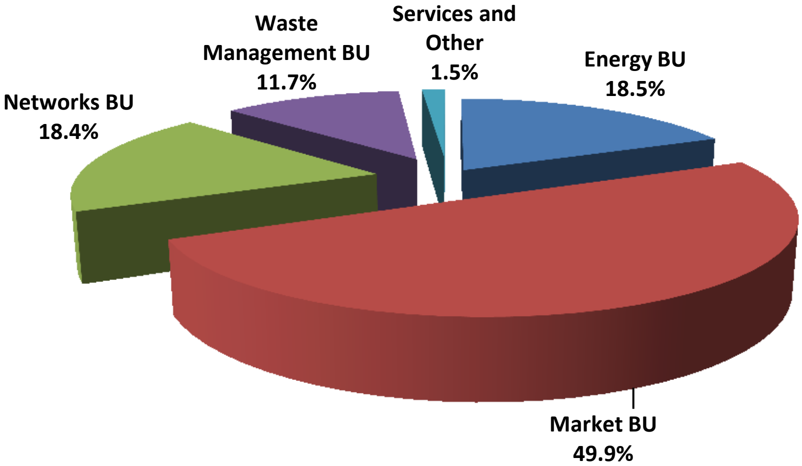
ousands of euro

	First half 2016	First half 2015	Change %
Revenue			
Revenue from goods and services	1,439,272	1,442,412	(0.2)
Change in work in progress	923	(74)	(*)
Other income	115,033	137,035	(16.1)
Total revenue	**1,555,228**	**1,579,373**	**(1.5)**
Operating expense			
Raw materials, consumables, supplies and goods	(456,748)	(535,399)	(14.7)
Services and use of third-party assets	(472,733)	(454,416)	4.0
Other operating expenses	(34,358)	(38,995)	(11.9)
Capitalised expenses for internal work	10,130	10,583	(4.3)
Personnel expenses	(184,444)	(183,041)	0.8
Total operating expense	**(1,138,153)**	**(1,201,268)**	**(5.3)**
GROSS OPERATING PROFIT (EBITDA)	**417,075**	**378,105**	**10.3**
Depreciation, amortisation, provisions and impairment losses			
Amortisation/depreciation	(142,996)	(130,937)	9.2
Provisions and impairment losses	(32,122)	(30,514)	5.3
Total amortisation, depreciation, provisions and impairment losses	**(175,118)**	**(161,451)**	**8.5**
OPERATING PROFIT (EBIT)	**241,957**	**216,654**	**11.7**
Financial operations			
Financial income	13,135	16,090	(18.4)
Financial expenses	(65,983)	(54,747)	20.5
Total financial income and expense	**(52,848)**	**(38,657)**	**36.7**
Share of Profit (loss) of associates accounted for using the equity method	705	4,793	(85.3)
Value adjustments on equity investments	12,599	-	-
Profit (loss) before tax	**202,413**	**182,790**	**10.7**
Income tax expense	(71,328)	(67,918)	5.0
Net profit/ (loss) from continuing operations	**131,085**	**114,872**	**14.1**
Net profit /(loss) from discontinued operations	-	-	-
Net profit /(loss) for the period	**131,085**	**114,872**	**14.1**
attributable to:			
- Profit (loss) - Group	119,112	102,559	16.1
- Profit (loss) - non-controlling interests	11,973	12,313	(2.8)

(*) Change of more than 100%

Revenue

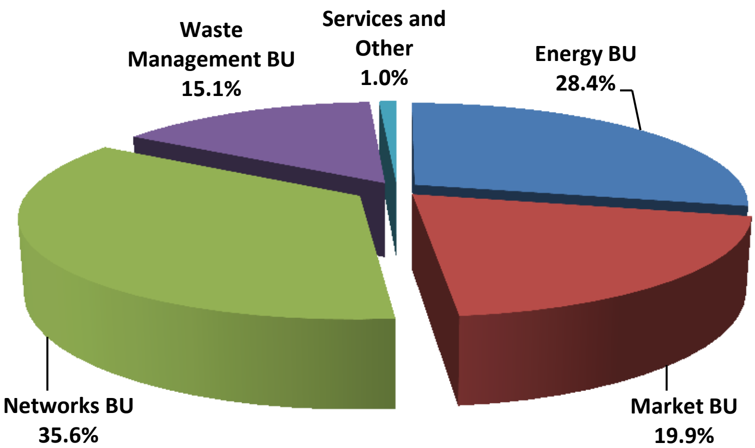
At 30 June 2016 the Iren Group achieved revenue of 1,555 million Euro down -1.5% compared to 1,579 million euro in first half of 2015 owing mainly to a reduction in commodity prices and to the lower gas and heat volumes sold as a result of a milder winter season. This was partly offset by extending the consolidation scope to include TRM, the company which manages the waste-to-energy plant in Turin.



Gross Operating Profit (EBITDA)

The gross operating profit amounted to 417 million Euro, up by +10.3% compared to 378 million euro in the first half of 2015. The increase refers mainly to the change in the scope of consolidation, with the inclusion of TRM as from January 2016 and the Atena Group from May; in addition, a further change compared to the first half of 2015 is the inclusion resulting from the acquisition of "Ramo Ligure" from Acque Potabili S.p.A. that took effect on 1 July 2015.

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



Operating profit (EBIT)

Operating profit totalled 242 million euro, an improvement of +11.7% compared to the figure of 217 million euro in the first half of 2015. The result reflects the trend in Gross Operating Profit (EBITDA), which was partially absorbed by the higher amortisation/depreciation of 12 million euro owing mainly to the consolidation of TRM, and provisions and impairment losses higher by 1.6 million euro.

Financial income and expense

Financial income and expense showed a balance of -53 million euro (-39 million euro in the corresponding comparative period). In particular financial expenses amounted to 66 million euro (55 million euro in the first half of 2015). The change is mainly attributable to the different scope of consolidation with the inclusion of TRM's financial expenses. Financial income amounted to 13 million euro. During the corresponding period, these amounted to 16 million euro, which included the capital gain of 2 million euro deriving from the sale of a non-controlling interest.

Share of Profit (loss) of associates accounted for using the equity method
The result of associates accounted for using the equity method amounted to +0.7 million euro (+4.8 million euro in the first half of 2015). The change during the period (-4.1 million euro) essentially refers to the trend in the pro-quota results for ASA and OLT Offshore, which were partially mitigated by the overall positive change in the results of other subsidiaries.
In the first half of 2015, this item included the results for TRM V. and Atena, which are currently fully consolidated.

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

Profit (loss) before tax
As a result of the above trends the consolidated profit before tax came out at 202.4 million euro, up on the 182.8 million euro recorded in the first half of 2015.

Income tax expense
Income tax for the period amounted to 71.3 million euro, up by 5% compared to same period of 2015. The effective tax rate was 35% (37% in the corresponding period of 2015) and represents an estimate, as of today, of the proportion of the cost of taxes for 2016.

Net profit /(loss) for the period
The net profit amounted to 131.1 million euro, up by 14.1% compared with the same period of 2015 (114.9 million euro).

Segment reporting

The Iren Group operates in the following business segments:

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

These operating segments are disclosed pursuant to IFRS 8. Under this standard, the disclosure about operating segments should be based on the elements which management uses in making operational and strategic decisions.
For a proper interpretation of the income statements relating to individual businesses presented and commented on below, revenue and expense referring to joint activities were fully allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers.
Given the fact that the Group mainly operates in the italian north-west area, the following segment information does not include a breakdown by geographical area.
Below are the main income statement items with relative comments broken down by operating segment compared to the figures for the first half of 2015.

In first half of 2016 non-regulated activities contributed to the formation of gross operating profit for 24% (23% in 2015), regulated activities accounted for 41% (50% in 2015), while semi-regulated activities grew, going up from 27% in 2015 to 35% in 2016.

Statement of financial position by sector at 30 June 2016

millions of euro

	Energy	Market	Networks	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,875	78	2,088	900	22	151	**5,114**
Net Working Capital	(33)	14	112	31	45	-	**168**
Other non-current assets and liabilities	(63)	20	(398)	(129)	1	-	**(569)**
Net invested capital (NIC)	**1,778**	**112**	**1,802**	**802**	**68**	**151**	**4,713**
Shareholders' equity							**2,169**
Net financial position							**2,544**
Own funds and net financial indebtedness							**4,713**

Statement of financial position by sector at 31 December 2015

millions of euro

	Energy	Market	Networks	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,940	74	1,973	400	24	237	**4,648**
Net Working Capital	91	(62)	125	(17)	17	-	**154**
Other non-current assets and liabilities	(94)	28	(408)	(99)	1	-	**(571)**
Net invested capital (NIC)	**1,937**	**40**	**1,690**	**285**	**42**	**237**	**4,231**
Shareholders' equity							**2,062**
Net financial position							**2,169**
Own funds and net financial indebtedness							**4,231**

Income Statement by sector First half of 2016

millions of euro

	Energy	Market	Networks	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	403	1,084	400	254	32	(617)	1,555
Total operating expense	(284)	(1,001)	(251)	(191)	(27)	617	(1,138)
Gross Operating Profit (EBITDA)	**119**	**83**	**148**	**63**	**4**	**-**	**417**
Net am./depr., provisions and impairment losses	(59)	(24)	(61)	(31)	(1)	-	(175)
Operating profit (EBIT)	**60**	**59**	**87**	**33**	**3**	**-**	**242**

Income Statement by sector First half of 2015

millions of euro

	Energy	Market	Networks	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	398	1,199	392	234	55	(698)	1,579
Total operating expense	(295)	(1,137)	(234)	(198)	(36)	698	(1,201)
Gross Operating Profit (EBITDA)	**103**	**62**	**158**	**36**	**18**	**-**	**378**
Net am./depr., provisions and impairment losses	(66)	(16)	(54)	(24)	(1)	-	(161)
Operating profit (EBIT)	**38**	**46**	**104**	**12**	**17**	**-**	**217**

Energy BU

On 30 June 2016, the revenue of the period totalled 403 million euro, up by 1.1% compared to 398 million euro in the first half of 2015.

		First half 2016	First half 2015	Δ %
Revenue	€/mln	403	398	1.1%
Gross Operating Profit (EBITDA)	€/mln	119	103	14.5%
EBITDA Margin		*29.4%*	*26.0%*	
Operating profit (EBIT)	€/mln	60	38	58.0%
Investments	€/mln	15	9	67.4%
Electricity produced	GWh	4,036	3,577	12.8%
from hydroelectric sources	*GWh*	674	767	-12.1%
from cogeneration sources	*GWh*	2,713	2,475	9.6%
from thermoelectric sources	*GWh*	649	335	93.6%
Heat produced	GWh_t	1,479	1,532	-3.5%
from cogeneration sources	GWh_t	1,281	1,333	-3.9%
from non-cogeneration sources	GWh_t	197	199	-1.0%
District heating volumes	Mm^3	82	80	2.1%

On 30 june 2016 4,036 GWh of electricity was produced, up by 12.8% compared to the 3,577 GWh of financial year 2015, as a result of higher thermoelectric production at the Turbigo plant and at the cogeneration plants.

In particular thermoelectric production was 3,362 GWh, of which 2,713 GWh from cogeneration sources, up by 9.6% compared to the 2,475 GWh of 2015 and 649 GWh from thermoelectric sources, connected with the contribution of the Turbigo plant up by 93.6% compared to the 335 GWh of 2015.
Hydroelectric production was 674 GWh, down by -12.1% compared to 767 GWh in 2015.

Heat production in the period amounted to 1,479 GWh_t down by -3.5% compared to 1,532 GWh_t in 2015, as a result of a particularly mild thermal season compared to that of first half of 2015 which has offset the increase in volumes connected. Overall the district heating volumes amounted to approximately 82 million m^3 up by +2.1% compared to the 80 million m^3 of 2015.

Gross operating profit (EBITDA) amounted to 119 million euro, up +14.5% on the 103 million euro of the first half of 2015.
The improvement that characterised the first half of 2016 was mainly due to the recovery in the margins of both electricity production in cogeneration, and thermoelectric production. This made it possible to completely absorb the effect of the drop in production and margins in the hydroelectric sector, lower production during the particularly mild thermal season, and also the fact that 2015 showed significant contingent assets related to former Edipower adjustments.

The operating profit (EBIT) of the Energy segment totalled 60 million euro, an improvement of 58% compared to 38 million euro of the corresponding period of 2015. The improvement in the operating profit also reflects the trend in the gross operating profit (EBITDA) that benefited from lower amortisation/depreciation and from the release of provisions, owing to suspension of the related risks.
Technical investments made in this sector amounted to 15 million euro.

Market BU

On 30 June 2016, the revenue of the sector totalled 1,084 million euro, down by -9.6% compared to the 1,199 million euro of the corresponding period of financial year 2015.
Gross operating profit (EBITDA) amounted to 83 million euro and was up 33.6% compared to 62 million euro recorded in 2015.

		First half 2016	First half 2015	Δ %
Revenue	€/mln	1,084	1,199	-9.6%
Gross Operating Profit (EBITDA)	€/mln	83	62	33.6%
EBITDA Margin		*7.6%*	*5.2%*	
from electricity	*€/mln*	32	13	(*)
from gas	*€/mln*	51	47	9.5%
from heat	*€/mln*	0	3	(*)
Operating profit (EBIT)	€/mln	59	46	29.0%
Investments		9	7	34.6%
Electricity sold	GWh	5,154	5,686	-9.4%
Electricity sold net of Power Exchange purchases/sales	GWh	4,767	5,366	-11.2%
Gas purchased	Mm^3	1,373	1,356	1.3%
Gas sold by the Group	Mm^3	546	636	-14.2%
Gas for internal use	Mm^3	725	618	17.4%
Gas in storage	Mm^3	102	102	-0.1%

(*) Change of more than 100%

Sale of electricity

The volumes of electricity sold amounted to 5,154 GWh (net of pumping, network leaks and dedicated withdrawals) down by -9.4% compared to the 5,686 GWh of the corresponding period of financial year 2015.
The drop is attributable solely to sales on the exchange carried out directly by the Energy BU as from 1 April 2016, following the organisational restructuring of the energy management business.
Volumes sold on the free market, including the segments of free business, free retail customers and wholesalers, amounted to a total of 3,283 GWh, up 52.2% compared to the 2,157 GWh of 2015. All free market segments showed improvement, in particular the wholesalers segment recorded an increase of +104.5% with 1,396 GWh compared to the 683 GWh of 2015; the free business customers posted sales for 1,222 GWh for a +47.3% improvement compared to the 830 GWh of 2015, whereas the free retail customers recorded sales for 664 GWh with a +9.5% improvement compared to the 607 GWh of 2015.
The volumes sold on the protected market were 318 GWh, down by -0.7%, compared to the 320 GWh of 2015.

The gross operating profit (EBITDA) on the sale of electricity amounted to 32 million euro, an improvement of more than double compared to 13 million euro in the 2015 financial year. The trend for the gross operating profit was the first to record an upward movement for both the free market and the protected market. With regard to the free market, the improvement is attributable mainly to the tariff revision on the sales component, the improvement in the procurement conditions as well as the higher volumes sold. In respect of the higher protection market, the improved margins derive from the revision related to the recovery of expenses on the arrears of customers and from the revision of previous sales revenue.

Sale of Natural Gas

The volumes sold amounted to 1,373 million m³, up by +1.3% compared to the 1,356 million m³ of financial year 2015. The period was characterised by gas sold for 546 million m³ down by 14.2% compared to the 636 million m³ of 2015, while internal consumption increased by 17.4% at 725 million m³ compared to the 618 million m³ of financial year 2015.
The gross operating profit (EBITDA) of the sector amounted to 51 million euro, up by 9.5% compared to € 47 million in the first half of 2015. This increase can be attributed to an improvement in the margins on sales and in the procurement conditions that made it possible to completely absorb the lower volumes sold due to the particularly mild thermal season.

Sale of heat through district heating networks:

Heat sales presented a break-even margin, down compared to 3 million euro in 2015. The drop refers to the impact of higher costs for the period.

Networks BU

On 30 June 2016 the segment of Network activities, which comprises the businesses of Gas Distribution, Electricity and the Integrated Water Service, recorded revenue of 400 million euro, up +2% compared to first half of 2015 when it was 392 million euro.

Gross operating profit (EBITDA) amounted to 148 million euro, down 6.3% on the 158 million euro of 2015.

The net operating profit (EBIT) of the sector amounted to 87 million euro, down by 15.9% compared to 104 million euro in the first half of 2015.

The main changes in the segments concerned are illustrated below.

		First half 2016	**First half 2015**	**Δ %**
Revenue	€/mln	400	392	2.0%
Gross Operating Profit (EBITDA)	€/mln	148	158	-6.3%
EBITDA Margin		*37.1%*	*40.4%*	
from electricity networks	*€/mln*	*35*	*37*	*-4.8%*
from gas networks	*€/mln*	*36*	*34*	*6.7%*
from Integrated Water Service	*€/mln*	77	88	*-11.9%*
Operating profit (EBIT)	€/mln	87	104	-15.9%
Investments	€/mln	60	64	-6.8%
in Electricity Networks	*€/mln*	*12*	*13*	*-6.9%*
in Gas Networks	*€/mln*	*16*	*16*	*0.9%*
in Integrated Water Service	*€/mln*	32	36	-10.2%
Electricity distributed	GWh	2,096	1,887	11.1%
Gas distributed	Mm^3	693	720	-3.8%
Water sold	Mm^3	88	71	24.3%

Networks BU - Electricity

The gross operating profit amounted to 35 million euro, down by -4.8% compared to 37 million euro in the first half of 2015.
The drop in the margin was mainly due to the contraction from the revenue constraint deriving from the reduction of the remuneration of invested capital for tariff purposes defined by the AEEGSI for the new regulatory period, and the accounting effect on the first half of 2015 from the contingent asset related to equalisation of previous years.

During the period investments for 12 million euro were made, mainly related to new connections, the construction of new LV/MV substations and LV/MV lines.

Networks BU - Gas Distribution

Gross operating profit of gas distribution networks amounted to 36 million euro, up by +6.7% compared to 34 million euro in financial year 2015. The increase in the profit was mainly due to a reduction in operating expense which more than offset the reduction in the distribution revenue constraint due to the reduction, established by the AEEGSI, of the remuneration of invested capital.

Investments made in the period amounted to 16 million euro and regarded the provisions of AEEGSI resolutions, in particular making the network compliant with cathodic protection, the installation of electronic meters and replacement of grey cast iron pipes.

Networks BU - Water Cycle

The gross operating profit of the period amounted to 77 million euro down by -11.9% compared to € 88 million in the corresponding period of 2015. The drop in the margin is attributable mainly to the previous tariff adjustments recorded in the first half of 2015 falling away. The tariff revision relating to the new regulatory period and characterised by a reduction in capital remuneration was offset by operating synergies and the change in the consolidation scope arising from the acquisition of the Società Acque Potabili (SAP) business unit (“Ramo Ligure”).

Investments in the period totalled 32 million euro and concerned the construction, development and maintenance of distribution networks and systems, the sewerage network and in particular water treatment plants.

Waste Management BU

At 30 June 2016 the turnover of the segment amounted to 254 million euro up by 8.8% compared to the 234 million euro of the same period of 2015 principally as a result of the entry into the consolidation scope of TRM SpA from 1 January 2016 the company which manages the waste-to-energy plant in Turin. This increase was partially offset by the lower energy revenue from waste disposal plants.

			First half 2016	First half 2015	Δ %
Revenue		€/mln	254	234	8.8%
Gross Operating Profit (EBITDA)		€/mln	63	36	75.6%
EBITDA Margin			*24.8%*	*15.4%*	
Operating profit (EBIT)		€/mln	33	12	(*)
Investments		€/mln	7	6	10.0%
Electricity sold		GWh	246	93	(*)
Waste collected		tonnes	602,461	580,889	3.7%
Waste disposed of		tonnes	577,308	391,382	47.5%
	Urban waste	*tonnes*	*375,086*	*132,396*	*(*)*
	Special waste	*tonnes*	*202,222*	*258,986*	*-21.9%*

(*) Change of more than 100%

Gross operating profit for the segment amounted to 63 million euro, up 75.6% on the 36 million euro of the corresponding period of 2015. The increase was mainly due to the consolidation of the TRM waste-to-energy plant in Turin, and the reduction in disposal costs following less use being made of the external hubs.

The operating profit was 33 million euro, up compared to the 12 million euro recorded in 2015.

The investments made in the period amounted to 7 million euro and refer to investments for maintenance of the various plants and investments in equipment and vehicles supporting waste collection based on the door-to-door and separated method.

Services and other

		First half 2016	First half 2015	Δ %
Revenue	€/mln	32	55	-42.3%
Gross Operating Profit (EBITDA)	€/mln	4	18	-77.0%
EBITDA Margin		*13.4%*	*33.5%*	
Operating profit (EBIT)	€/mln	3	17	-83.5%
Investments	€/mln	7	10	-34.5%

(*) Change of more than 100%

On 30 June 2016, revenue totalled 32 million euro, down by -42.3% compared to the 55 million euro of the first half of 2015.
Gross operating profit (EBITDA) amounted to 4 million euro, down compared to the 18 million euro in 2015.
Revenue and the gross operating profit were mainly affected by the recognition during the first half of 2015 for the adjustment of estimates related to expenses for electricity transport in previous years (2004-2010).
Investments in the period amounted to 7 million euro and related largely to information systems and telecommunications.

Statement of Financial Position

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

thousands of euro

	30.06.2016	31.12.2015	Change %
Non-current assets	5,113,666	4,648,465	10.0
Other non-current assets (liabilities)	(144,730)	(161,911)	(10.6)
Net Working Capital	168,487	153,888	9.5
Deferred tax assets (liabilities)	95,885	110,972	(13.6)
Provisions for risks and employee benefits	(520,917)	(525,799)	(0.9)
Assets (Liabilities) held for sale	920	5,420	(83.0)
Net invested capital	**4,713,311**	**4,231,035**	**11.4**
Shareholders' equity	2,169,248	2,061,666	5.2
Non-current financial assets	*(50,749)*	*(53,012)*	*(4.3)*
Non-current financial indebtedness	*3,035,921*	*2,698,648*	*12.5*
Non-current net financial indebtedness	2,985,172	2,645,636	12.8
Current financial assets	*(719,050)*	*(690,878)*	*4.1*
Current financial indebtedness	*277,941*	*214,611*	*29.5*
Current net financial indebtedness	(441,109)	(476,267)	(7.4)
Net financial debt	2,544,063	2,169,369	17.3
Own funds and net financial indebtedness	**4,713,311**	**4,231,035**	**11.4**

(*) Change of more than 100%

(1) For a reconciliation of the reclassified statement of financial position with that of the financial statements, please refer to the annex to the separate financial statements (paragraph X).
The current portion of the future charges provision for the TRM S.p.A. environmental offsets is included under Net Working Capital.

The main changes in the statement of financial position for the first half of 2016 are commented on below.
Non-current assets at 30 June 2016 amounted to 5,114 million euro, an increase of 465 million euro (+10%) compared to 31 December 2015 (4,648 million euro). Besides investments (98 million euro) and amortisation/depreciation (143 million euro), the change in the period was due essentially to the consolidation of the non-current assets of TRM (waste-to-energy plant) and the Atena Group net of the relative equity investment accounted by using the equity method until control, and to the differences deriving from consolidation of TRM V and TRM Holding (formerly F2i Ambiente), temporarily allocated to goodwill.
For further details on investments, see the section "Segment Reporting".
Net Working Capital at 30 June 2016 was 168 million euro (154 million euro at 31 December 2015); the change was substantially due to the trend in Trade payables, balanced by the seasonal downward trend in gas storage and by the effect of tax for the period.
Shareholders' equity at 30 June 2016 was 2,169 million euro, up by 5.2% compared to 31 December 2015 (2,062 million euro); the increase was essentially due to the effect of the profit for the period (131 million euro), the increase in shareholder equity (mainly referring to third parties) due to the full consolidation of the Atena Group and TRM (prior to acquiring control valued at equity) for 63 million euro, which was partially offset by dividend payments (87 million euro).

Net financial debt at 30 June 2016 was 2,544 million euro, an increase of 374 million euro compared to 31 December 2015. The change largely refers to non-current financial indebtedness, and arises mainly from the TRM acquisition, which was mitigated by net financial flows for the period.
The statement of cash flows, presented below, provides an analytical breakdown of the reasons for the changes in financial items in the first half of 2016.

CASH FLOW STATEMENT OF THE IREN GROUP

thousands of euro

	First half 2016	First half 2015	Change %
A. Opening cash and cash equivalents	**139,576**	**51,601**	**(*)**
Cash flows from operating activities			
Profit (loss) for the period	131,085	114,872	14.1
Adjustments:			
Income tax expense for the period	71,329	67,918	5.0
Share of profit (loss) of associates and joint ventures	(13,304)	(4,793)	(*)
Net financial expense (income)	52,848	38,657	36.7
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	142,996	130,937	9.2
Net impairment losses (reversals of impairment losses) on assets	4,146	220	(*)
Net provision for risk and other charges	36,089	40,248	(10.3)
Capital (gains) losses	(1,339)	(2,459)	(45.5)
Utilisations of employee benefits	(5,487)	(4,403)	24.6
Utilisations of provision for risks and other charges	(10,490)	(11,712)	(10.4)
Change in other non-current assets and liabilities	(4,665)	(6,735)	(30.7)
Other financial changes	(2,553)	(1,302)	96.1
Taxes paid	(3,726)	(2,235)	66.7
B. Cash flows from operating activities before changes in NWC	**396,929**	**359,213**	**10.5**
Change in inventories	14,246	(5,832)	(*)
Change in trade receivables	104,814	93,918	11.6
Change in tax assets and other current assets	(32,881)	63,612	(*)
Change in trade payables	(229,739)	(155,966)	47.3
Change in tax liabilities and other current liabilities	29,171	(26,318)	(*)
C. Cash flows from changes in NWC	**(114,389)**	**(30,586)**	**(*)**
D. Cash flows from /(used in) operating activities (B+C)	**282,540**	**328,627**	**(14.0)**
Cash flows from /(used in) investing activities			
Investments in intangible assets, property, plant and equipment and investment property	(97,701)	(96,316)	1.4
Investments in financial assets	(30)	(1,355)	(97.8)
Proceeds from the sale of investments and changes in assets held for sale	7,531	4,547	65.6
Changes in consolidation scope	(437,046)	-	-
Dividends received	6,979	7,260	(3.9)
E. Total cash flows from /(used in) investing activities	**(520,267)**	**(85,864)**	**(*)**
F. Free cash flow (D+E)	**(237,727)**	**242,763**	**(*)**
Cash flows from /(used in) financing activities			
Dividends paid	(86,698)	(81,417)	6.5
New non-current loans	20,000	250,000	(92.0)
Repayment of non-current loans	(88,235)	(111,812)	(21.1)
Change in financial liabilities	449,058	(223,380)	(*)
Change in financial assets	9,916	(66,948)	(*)
Interest paid	(42,451)	(40,334)	5.2
Interest received	7,691	8,984	(14.4)
G. Total cash flows from /(used in) financing activities	**269,281**	**(264,907)**	**(*)**
H. Cash flows for the period (F+G)	**31,554**	**(22,144)**	**(*)**
I. Closing cash and cash equivalents (A+H)	**171,130**	**29,457**	**(*)**

(*) Change of more than 100%

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

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

thousands of euro

	First half 2016	First half 2015	Change %
Free cash flow	(237,727)	242,763	(*)
Dividends paid	(86,698)	(81,417)	6.5
Interest paid	(42,451)	(40,334)	5.2
Interest received	7,691	8,984	(14.4)
Change in fair value of hedging derivatives	(1,730)	6,740	(*)
Other changes	(13,779)	(6,081)	(*)
Change in net financial position	**(374,694)**	**130,655**	**(*)**

(*) Change of more than 100%

The increase in net financial debt is related mainly to the free cash flow of the period.
The free cash flow was -238 million euro following essentially the extraordinary effect of the operation to acquire control over TRM, and to a lesser extent the Atena Group, which absorbed the positive net cash flows of the period.

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

- the operating cash flow was 283 million euro and is made up of cash flows from operating activities before changes in net working capital of a positive 397 million euro and a cash flow deriving from changes in net working capital associated with the trade components for a negative 114 million euro;
- the cash flow from investing activities, a negative 520 million euro, was generated mainly by the aforesaid change in the financial position resulting from the acquisition of control over and full consolidation of F2i Ambiente, TRM V, TRM Atena and Atena Trading for 437 million euro. The other components of the flow of investing activities are related to the combined effect of investments in the period of 98 million euro, the disposal of non-current assets for 8 million euro and dividends received by associates (mainly Plurigas) for a total of 7 million euro.

EVENTS AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

There were no significant events occurring subsequent to the close of the reporting period.

BUSINESS OUTLOOK

The first half of the year was characterised by the persistent weakness in the economy that impacted significantly on the price of energy commodities: the average price for electricity and gas dropped by double digits compared to the first six months of 2015. With the gas price having fallen more than that of electricity, a situation was created that allowed the Group to take advantage of significant growth options, and reporting a strong increase in results that were driven by the excellent performance in the energy supply chain.
These results that were also impacted positively by achieving notable synergies from the territorial consolidation process, confirmed Iren’s commitment to achieve the goals set in the business plan, well into the future.

REGULATORY FRAMEWORK

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

Regulations relating to local public services of economic importance

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

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

Italian Law no. 115 of 29 July 2015 "Rules for fulfilling the obligations deriving from Italy's membership of the European Union - European Law 2014, Art. 8", in force since 18 August 2015, paragraph 22 of *Article 34 of Italian Law Decree no. 179 of 18 October 2012*, converted, with amendments, by *Italian Law no. 221 of 17 December 2012*, is replaced by the following:
"22. Direct assignments authorised as of 31 December 2004 to public companies already listed in regulated markets at that date and those controlled by them under the terms of Article 2359 of the Italian Civil Code at the same date, cease at the expiry provided for in the service contract or in the other deeds that govern the relationship; assignments that do not provide for an expiry date cease, with no extension possible and with no need for a specific resolution of the assigning body, on 31 December 2020. Direct assignments to companies placed, after 31 December 2004, under the control of listed companies following corporate operations carried out in the absence of procedures compliant with the principles and rules of the European Union applicable to the specific assignment cease, with no extension possible and with no need for a specific resolution of the assigning body, on 31 December 2018 or at the expiry provided for in the service contract or in the other deeds that govern the relationship, if earlier".
In paragraph 23 of Art. 34 it is specified that "After paragraph 1 of *Article 3-bis of Decree Law no. 138 of 13 August 2011*, converted with amendments, by *Law no. 148 of 14 September 2011*, and subsequent amendments, the following is inserted: "1-bis. The functions organising the local public network services of economic relevance, including those belonging to the urban waste sector, deciding on the form of management, determining the relevant utility tariffs, managing assignment and the associated control, are performed exclusively by the government bodies within optimal, standardised geographic areas, established or designated in accordance with para. 1 of this article".

Direct assignments granted as of 1 October 2003 to partially publicly-owned companies already listed on the Stock Exchange at that date, and to those controlled by them, cease at the expiry date provided for in the service contract; assignments that do not provide for an expiry date cease, with no extension possible, on 31 December 2020.
The functions organising the local public network services of economic relevance, including those belonging to the urban waste sector, deciding on the form of management, determining the relevant utility tariffs, managing assignment and the associated control, are performed exclusively by the government institutions within optimal geographical territories or areas.

Italian Law no. 190 of 23 December 2014, (Stability Law for 2015) introduced, in paragraph 609 of Art. 1, amendments to Article 3-*bis* of Italian Law Decree no. 138 of 13 August 2011, converted into Italian Law no. 148 of 14 September 2011, in order to promote aggregation processes and to strengthen the industrial management of local public network services of economic relevance. The functions organising the local public network services of economic relevance are performed exclusively by the Government bodies within optimal or uniform geographical territories or areas, in which the bodies take part obligatorily. If the local authorities have not joined the aforesaid Government bodies by 1 March 2015 or within sixty days from the establishment of the government autorities, the Chairperson of the Region exercises substitutive powers, after a warning. The Government institutions must make the report which gives an account of the reasons and existence of the requirements set forth by European law for the pre-established form of the assignment and explains the reasons with reference to the objectives of universality and sociality, efficiency, value for money and quality of the service.
The economic operator that took over from the initial concessionaire, wholly or partially, following business combinations carried out with transparent procedures, including mergers or acquisitions, continues in the management of the service until the expiry dates provided for. In these cases the competent subject ascertains that the qualitative criteria and conditions of economic and financial balance are being maintained including with the update of the expiry term of all or some of the existing concessions, after a check by any Regulatory Authority.
The capital investments made by the local authorities with the income from the disposal of equity investments in companies are excluded from the constraints of the Stability Pact.
The rules on the subject of local public network services of economic relevance are understood as referred, subject to explicit exceptions, also to the urban waste sector and to sectors subject to regulation by an independent authority.

Paragraph 611 of Article 1 of the Stability Law for 2015 states that, starting from 1 January 2015, the Regions and local authorities must begin a process of rationalising the companies and equity investments directly and indirectly held, according to the following criteria:
a) elimination of non-indispensable companies and equity investments;
b) suppression of companies made up of only directors or by a larger number of directors than that of employees;
c) elimination of companies that perform the same or similar activities as those of other subsidiaries;
d) aggregation of companies providing local public network services of economic relevance;
e) reorganisation of administrative and control bodies and reduction of the related remunerations.

To this end the next paragraph, 612, of the same Law states, with a view to a reorganisation and reduction of subsidiaries, that the presidents of regions and the autonomous provinces of Trento and Bolzano, the presidents of provinces, mayors and other top management of the administrations pursuant to paragraph 611, in relation to the respective fields of competence, must define and approve, by 31 March 2015, an operational plan to rationalise the companies and equity investments directly or indirectly held, the methods and implementation times, and a detailed description of the savings to be achieved. This plan, accompanied by a specific technical report, must be sent to the competent regional auditing section of the Court of Auditors and published on the institutional website of the administration involved. By 31 March 2016, the above mentioned entities must prepare a report on the results achieved, which must be sent to the competent regional auditing section of the Court of Auditors and published on the institutional website of the administration involved. Publication of the plan and the report fulfils the disclosure obligation. With judgement handed down on 16 June 2016, the Constitutional Court denied the constitutional legitimacy questions raised by the Veneto Region against the regulations whereby the Stability Law of 2015 had intended to intervene so as to reduce public territorial entities' equity investments and the relative costs, pursuant to paragraphs 611 and 612 above. The denial of the question, which was raised with reference to the legitimacy of the criteria identified, is motivated by the

general objective of saving for the State Treasury and referring to the combining of each criterion with a government-related matter.
On 13 August 2015 Italian Law 124/2015 containing “Powers delegated to the Government on the reorganisation of the public administrations”, better known as the Madia Law on Reform of the PA, was published in Official Journal no. 187.
The measure contains 14 important delegated legislative powers: public management, reorganisation of central and peripheral state administration, digitalisation of the PA, simplification of administrative procedures, rationalisation and control of subsidiaries, countering corruption, and transparency.
In particular, Articles 18 and 19 contain guiding criteria for defining consolidated legislative decrees on local public services of general economic interest and on public entities.
To implement the provisions of the enabling legislation, the schedules for the above decrees (referred to as the “Madia Decree”) have been circulated, and are expected to be approved by September/October 2016.

Italian Law no. 1.058 of 28 December 2015 “Stability Law for 2016” in paragraphs 672–676 placed limits on fees for directors of publicly-controlled companies, amending paragraph 1 of Art. 23 bis of Italian Law Decree 201/2011 converted with Italian Law 214/2011 which is now worded as follows:
“Subject to the provisions Article 19, paragraph 6, of Italian Law Decree no. 78 of 1 July 2009, converted, with amendments, by Italian Law no. 102 of 3 August 2009, with a decree of the Ministry of the Economy and Finance, to be issued by 30 April 2016, after consulting the Unified Conference for the aspects with which it is concerned, after obtaining the opinion of the competent Parliamentary Commissions, for companies directly or indirectly controlled by State administrations or by other public administrations pursuant to Article 1, paragraph 2, of Italian Legislative Decree no. 165 of 30 March 2001, and subsequent amendments, with the exclusion of companies that issue financial instruments quoted on regulated markets and their subsidiaries, quantitative and qualitative dimensional indicators are defined in order to identify up to five bands for the classification of the aforesaid companies.
For each band the limit of the maximum fees to which the boards of directors of the said companies must make reference in determining the all-inclusive annual remuneration to be paid to directors, managers and employees is determined, in proportion, according to objective and transparent criteria. This remuneration may not in any case exceed the maximum limit of € 240,000 per year including pension and social security contributions and taxes payable by the beneficiary, taking into account also the fees paid by other public administrations.
The companies verify observance of the maximum limit of all-inclusive annual remuneration of their directors and employees set with the decree pursuant to the present paragraph. This is in any case subject to the legislative and regulatory provisions that set limits on fees lower than those provided for in the decree pursuant to the present paragraph”.
The same stability law also states in paragraphs 675–676 that “companies controlled directly or indirectly by the State or by other public administrations pursuant to Article 1, paragraph 2, of Italian Legislative Decree no. 165 of 30 March 2001, and subsequent amendments, with the exclusion of companies that issue financial instruments quoted on regulated markets and their subsidiaries, must publish, within thirty days from the conferment of collaboration, consultation or professional appointments, including arbitrators, and for the two years following their cessation, the information on the appointments conferred, as a condition for effectiveness of the payment itself and, in the event of omitted or partial publication, the entity responsible for the publication and the entity which has made the payment are subject to a penalty equal to the amount paid”.

Code on public works contracts

The EU O.J. (EU Official Journal) no. 94 of 28 March 2014 published the following Directives:
- Directive 2014/24/EU of the European Parliament and of the Council, of 26 February 2014, on public works contracts, which abrogates Directive 2004/18/EC;
- Directive 2014/25/EU of the European Parliament and of the Council, of 26 February 2014, on the contract procedures of supplying entities in the water, energy, transport and postal services sectors, which abrogates Directive 2004/17/EC;
- Directive 2014/23/EU on the award of concession contracts (previously not regulated).

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

Anti-Mafia Code

Italian Legislative Decree no. 159 of 6 September 2011, subsequently supplemented and amended by Italian Legislative Decree 153/2014, approved the Code of anti-Mafia laws and prevention measures, which consolidates all provisions of the fight against organised crime into one law.
In particular we can note elimination of the "atypical information", annual validity of anti-Mafia information, rather than half-yearly, and obtainment of anti-Mafia communications solely from the Prefecture, and no longer from the Chamber of Commerce.
Italian Law Decree 90/2014, converted into Italian Law 114/2014 in Art. 29, amending Art. 1 paragraph 52 of Italian Law 190/2012, states that it becomes obligatory to consult the "White list", established at the Prefectures and that registration in the lists takes into account the anti-Mafia communications and information required by Italian Legislative Decree 159/2011, also for activities other than those for which the lists were established. The activities defined as at higher risk of infiltration are listed in paragraph 53 of Art. 1 of Italian Law 190 /2012 (e.g.: hot charters, waste transport and disposal for third parties, road transporters for third parties, extraction, supply and transport of soil and inert materials, etc.)
The Single National Anti-Mafia Database provided for in Articles 87 and 90 of Italian Legislative Decree 159/2011 and subsequent amendments and additions, following publication in Italian Official Journal no. 4 of 7/1/2015 of the Regulation which governs the access methods: Prime Ministerial Decree no. 193 of 30/10/2014 "*Regulation containing rules concerning the methods of operation, access, consultation and connection with the EDP Centre, pursuant to Article 8 of Italian Law no. 121 of 1 April 1981, of the Single National Database of Anti-Mafia Documentation, established under the terms of Article 96 of Italian Legislative Decree no. 159 of 6 September 2011"*, should have been operational from January 2015, but currently it is still not possible to acquire the anti-Mafia information online.
An A.N.A.C. communication of 23 June 2015 provides for annotation in the electronic criminal records and in the Database of Anti-Mafia Disqualifying Information.
Official Gazette no. 132 of 8 June 2016 published Legislative Decree no. 97 of 25 May 2016 for the Revision and simplification of regulations on the prevention of corruption, disclosure and transparency, corrective decree of Law no. 190 of 2012 and Legislative Decree no. 33 of 2013, pursuant to article 7 of Law no. 124 of 2015, on the reorganisation of public administrations.

Cash transfers

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

Gas distribution

The Letta's Decree, approved with Legislative Decree no. 164 of 2000 introduced competition to the Italian natural gas market by deregulating gas imports, exports, transport, dispatch and sales.
Storage activities aim to compensate fluctuations in consumer demand within the national gas system so as to guarantee a strategic reserve of natural gas. Storage activities are performed by the company on the basis of concessions awarded by public tender procedures. Distribution activities are considered a public service and can only be performed by companies that do not already provide other services in the gas industry. The distribution service is currently assigned on the basis of public tenders for a maximum 12 years.

In a Decree of 19 January 2011 the Ministry of Economic Development determined the geographical areas for the natural gas distribution sector. With Ministerial Decree 12/11/2011, no. 226, the Regulation on public tender criteria and the assessment of bids for the assignment of gas distribution services was also approved. This Regulation establishes that the municipality which is the chief municipality is the Commissioning Body for managing the tender. The deadline for identifying the Commissioning entity is set as six months from entry into force of the regulation (11 February 2012) for the Parma, Reggio Emilia, Turin 1 and Turin 2 areas, 24 months for the Genoa 2 area, 30 months for the Genoa 1 area and 36 months for the Piacenza 2 East area.
The related tenders must be launched within 15 months of the above deadlines by the chief municipality, or within 18 months by an entity identified by the Municipalities belonging to the territorial area (if this does not include the chief municipality).
In 2013 the "Decreto del Fare" ("Action Decree", Italian Decree Law no. 68 of 21 June 2013) introduced a number of amendments to the "Criteria Regulation" which defines the basic rules for conducting area-related tender procedures. The peremptory nature of deadlines is envisaged for appointment of the Commissioning Body, with a penalty for failing to meet the deadlines and the strengthening of substitution powers through the appointment of an "*ad acta* commissioner". The deadlines for the call for tenders were then extended for different periods, as results from the rules indicated below.
These concessions are currently operating under the extended regime pending the launch and award of public invitations to tender.

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

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

Italian Law no. 21 of 25 February 2016 (containing Conversion with amendments, of Law Decree no. 210 of 30 December 2015, containing an extension of terms provided for in legislative measures published in the OJ General Series no. 47 of 26 February 2016) establishes that the terms pursuant to Art. 3, paragraph 1, of the regulation pursuant to the decree of the Ministry of Economic Development and of the Ministry for Relations with the Regions and Territorial Cohesion no. 226 of 12 November 2011, on non-publication of the call for tenders pursuant to Annex 1 of the said regulation, are extended respectively by twelve months for the areas of the first group, by fourteen months for the areas of the second group, by thirteen months for the areas of the third, fourth and fifth group, by nine months for the areas of the sixth and seventh group and by five months for the areas of the eighth group, in addition to the extensions current at the date of entry into force of the law converting the present decree.
The launch of tenders for ATEM are therefore as of today envisaged (unless extended) according to the following calendar, which takes into account the term for publication of the call for tenders:
- Reggio Emilia - tender extended for two years owing to earthquake, no change - 11 November 2016
- Parma – 11 July 2016
- Piacenza 1 West – 11 December 2016
- Piacenza 2 East – 11 September 2017
- Genoa – 11 April 2017
- Vercelli – 11 October 2016

With Resolution 382/2012/R/gas, the standard service contract template for natural gas distribution was published.
Amongst the major changes in the regulatory framework of the gas distribution sector, the most important are the measures adopted by the Authority for Energy and Gas (now the Authority for Electricity, Gas and Water Service – AEEGSI) regarding:
- distribution and metering tariffs;
- distribution and metering service.

On 22 May 2014 a Decree was issued by the Ministry of Economic Development containing *"Approval of the document 'Guidelines on criteria and application methods for measuring the refund value of the natural gas distribution plants'"*. This was published in Italian Official Journal, General Series, no. 129 of 6 June 2014 together with the document, which is annexed to the said decree and is an integral part of it, containing *"Guidelines on criteria and application methods for measuring the refund value of the natural gas distribution plants"*.

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

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

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

The Lombardy RAC, Second Section, handed down - rejecting the appeals lodged by Iren Emilia and Genova Reti Gas (companies merged into IRETI) against AEEGSI Resolution no. 367/14 - respectively Judgements no. 2740/2015 and 2736/2015, filed on 22 December 2015, with which it rejected both appeals with costs compensated.

Appeals were lodged against the above judgements.

As regards the Ministerial Decree of 22 May 2014 and subsequent amendments and additions containing "Approval of the document 'Guidelines on criteria and application methods for measuring the refund value of the natural gas distribution plants'", we can specify that in the context of the same judgement pending before the Lazio RAC against the Guidelines, an appeal was also lodged with recourse for additional reasons against Ministerial Decree 106/2015, which modifies numerous provisions of Ministerial Decree 226/2011 (known as the Criteria Decree). The ruling is now pending.

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

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

On 22 June 2015 the AEEGSI issued Resolution 296/2015/R/com with which it approved the "AEEGSI Rules on functional separation (unbundling) obligations for companies operating in the electricity and gas sectors (TIUF)". With the said Resolution 296/2015/R/COM the AEEGSI establishes functional unbundling obligations for electricity and gas operators. In particular we can note the obligation to unbundle the communication policy and the brand between sale and distribution companies. It is specified that interfacing with final customers must involve the use of distinct information channels, physical spaces and personnel.

With the Resolution of 30 July 2015 – 407/2015/R/gas the AEEGSI Ordered "Amendments to the Resolution of 26 June 2014, 310/2014/R/gas on determining the repayment value of natural gas distribution networks".
In particular these amendments are attributable, on the one hand, to the changes, on the sales of portions of grid by the outgoing to the incoming operator, introduced by Ministerial Decree no. 106 of 20 May 2015 containing an amendment to Italian Decree no. 226 of 12 November 2011, on the other to the introduction of the possibility for the commissioning bodies, following a justified request and in a logic of administrative simplification, to present the data on the VIR and the RAB, needed for assessments of differences by the Authority, with reference to 31 December of year t-2.

Default service
With Resolution ARG/gas 99/11, the Authority had introduced rules for the retail sale of natural gas, with particular reference to the methods of purchase and loss of liability of withdrawals, to rules on non-fulfilment by final customers of their payment obligations (default) to completion of the structure provided for regarding last resort services, regulating the default service (DS), aimed at ensuring the balancing of the distribution network in relation to withdrawals of gas made directly by the final customer (without a supplier), that owns the supply point for which the conditions are not met for the commissioning of a supplier of last resort, or it is, in any case, impossible to commission a supplier of last resort.
With Resolution 352/2012/R/gas, provisions were adopted to complete the regulation of the default service, establishing the remuneration of the distribution company that provides the default service and the entry into force of the regulations governing the remuneration of the default service, fixed starting from 1 January 2013, taking into account Ministerial Decree of 3 August 2012, which aimed at including, under final customers entitled to use a supplier of last resort, also customers that have remained without a supplier based on personal choice and that are owners of supply points that cannot be disconnected.
By means of Judgement no. 3296 of 29/12/2012 of section III of the Lombardy RAC, Resolution 99/11 was deemed illegitimate given that, in breach of the EU and national principle of unbundling, also functional, of distribution activities and gas supply activities, it introduced the default service, making gas distribution companies responsible for it.
The AEEG submitted an appeal with an application for monocratic precautionary measures against the judgement of the Regional Administrative Court. On 28 January 2013 the Council of State upheld the AEEG's appeal on a provisional basis, and suspended the effects of the judgement of the Lombardy Regional Administrative Court, setting the hearing on the merits of the case for 19 February 2013. Following this suspension decision, the AEEG saw fit to publish Resolution 25/2013/R/gas on 30 January 2013, "Urgent provisions, in implementation of the monocratic decrees of the Council of State on 28 January 2013, concerning the default service on natural gas distribution networks".
Given the establishment of a technical round table with the AEEG, adjournment of discussion of the appeal was requested in order to be able to continue the work of the round table commenced with operators in the meantime.
The Council of State then adjourned discussion of the precautionary suspension application to the hearing in Chambers of 9 July 2013.
At the hearing of 9 July 2013 the Council of State set the date of the hearing for discussion of the merits of the appeals filed by the AEEG against the Milan Regional Administrative Court judgements of December 2012 as 4 March 2014.
On 21 November 2013 the AEEG adopted another resolution, 533/2013/R/GAS, on regulations for default. On 21 January 2014 an appeal was filed based on additional grounds for its cancellation.
Subsequently the following resolutions were issued:

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

With a judgement filed on 12 June 2014, the Council of State accepted the appeal lodged by the AEEG against the judgements with which the Milan Regional Administrative Court, in December 2012, had ruled that Resolution 99/11 was unlawful ordering it to be cancelled.
Very briefly the Council of State, following the AEEGSI's pleadings, decided that the default service is associated with the balancing service and that the same cannot be considered sales activity but, rather, as ex post settlement activity of the objective debt relationships created following withdrawals made by customers that have remained connected to the distribution network.
This was also considering the fact that the typical risk of sales activity, since the default of the final customer served is almost fully socialised and made chargeable to the community.

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

In addition with the same Resolution no. 418/2014/R/GAS of 7 August 2014, the Authority amended, among other things, paragraph 30.4 of the 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 supplier the distribution companies which perform the service in areas where it should have been performed by the supplier are responsible for the activity of economic settlement of the physical gas items attributable to direct withdrawals made by the final customer.

AEEGSI Resolution no. 258/2015/R/com of 29 May provides for “first actions on default in the electricity and natural gas retail markets and revision of switching times in the natural gas sector”.
In particular the documentation transmission procedure between vendor and distributor in order to facilitate legal initiatives was implemented.
It should be noted that the resolution in a ”recital” qualifies as an obligation of result - on the distribution company - the physical disconnection of the redelivery point.
A fourth appeal on additional grounds was launched against the resolution in question, 258/2015/R/com, and at the moment the judgement on the merit is pending and a public hearing has not yet been fixed to discuss the same.

The AEEGSI published Res. 70/2016/R/gas and CD 71/2016/R/gas, with which, on the basis of its findings, it proposed to define the procedure for the presentation and assessment of applications with which Distributors can ask to be exonerated, partially or totally, from the payments provided for in the event of failure to disconnect Redelivery Points. The replies from the Distributors are in progress.

Electricity distribution

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

- 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;
- envisaged the setup of the “Power Exchange”, a virtual marketplace in which producers, importers, wholesalers, distributors, the national grid operator, the Single Buyer and other free market operators can buy and sell electricity at set prices through a tender procedure;
- envisaged the creation of an entity to manage the Power Exchange (i.e. the Electricity Market Operator or Market Operator) and assigned transmission and dispatch activities under concession to the national transmission grid operator (Terna); electricity distribution activities are performed under concession granted by the Ministry of Economic Development.

Italian Law no. 290 of 27 October 2003 established the re-unification of ownership and management of the transmission grid.
Measures were adopted in 2007 to guarantee unbundling.

Tariff structure for transmission, distribution and metering
The AEEG established a tariff regime that came into force on 1 January 2000. This system replaced the “cost plus” one with a new “price cap” mechanism, which provides for a limit on annual tariff increases corresponding to the difference between the inflation rate and the increase in productivity achievable by the service supplier, together with further factors, such as improving quality. According to the price cap method, tariffs should reduce by a fixed percentage each year in order to encourage regulated operators to improve efficiency and gradually pass on their savings to the end user.
In the fourth regulatory period (2012-2015), provisions are in force that regulate the main electricity distribution activities, which apply to a market that is now fully deregulated.

These activities are:

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

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

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

On point 3), Resolution 198/2011 (TIQE - integrated code on electricity quality) regulates the commercial and technical quality for 2012-2015.
The “rapid quote” mechanism came into force in 2013 together with new indicators for the replacement of faulty meters and for restoration of the correct value.

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

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

On point 5), Resolution 42/08 regulated the dispatching, transport and metering of electricity in the event of a change of vendor at the same active supply point, or assignment of a new or previously deactivated supply point to a vendor (switching).
As regards point 6), Annex A to Resolution ARG/elt 107/09 summarises in a single document (the Integrated Code on Settlements - TIS) all provisions regarding settlement, i.e. the settlement of the physical and economic items of dispatching (monthly settlement, annual adjustments, metering corrections, etc.) in order to obtain:

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

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

a) ensuring the neutrality of management of essential infrastructures for the development of a competitive market;

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

As regards functional unbundling, first and foremost, within the domain of a vertically integrated company, each regulated activity must be assigned to an Independent Operator, that must manage it with decision-making and organisational autonomy, pursuing objectives of efficiency, cost-effectiveness, neutrality and non-discrimination.
The Independent Operator nominates a Guarantor for the correct management of commercially sensitive information (Data Guarantor), which monitors the proper management of information (intended as commercially sensitive information, i.e. relevant for market competition).
In order to achieve these objectives the Independent Operator is equipped with a plan of obligations, a document containing a series of organisational and managerial measures whose minimum requirements are set by the Authority.
Furthermore, on an annual basis, the Independent Operator drafts an Annual Report on the Measures Adopted and sends it to the Authority.

As already specified in the section Gas distribution above, with Resolution 296/2015/R/COM the AEEGSI establishes functional unbundling obligations for electricity and gas operators. More specifically we can note the obligation to unbundle the communication policy and the brand between sale and distribution companies and, in particular in the electricity sector, also between sales on the free market and greater protection service. It is specified that interfacing with final customers must involve the use of distinct information channels, physical spaces and personnel.

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

Major hydroelectric shunt concessions

Constitutional Court Judgement no. 205 of 4 July 2011 pronounced the unconstitutionality of the provisions of Italian Law Decree no. 78 of 31 May 2010, converted to Italian Law no. 122 of 30 July 2010, which extended major water shunting concessions for the production of electricity by five years, with the option of extension by a further seven years if a combined private/public company was established by certain provinces.
As a result of the declaration of constitutional illegitimacy, the concessions expiring on 31 December 2010 are subject to continued management by the operator until takeover by the new operator, which must be chosen through a public tender.
The duration of future concessions, to be issued following a tender process, will vary between twenty and thirty years, in accordance with criteria to be established in an interministerial decree in the process of being issued in agreement with the State-Regions Conference, in relation to the investments deemed necessary. The choice of the best bid for assignment of the concession will be based predominantly on the economic bid for the acquisition of water resources and on the increase in energy produced or installed power. For concessions already expired or those due to expire by 2017, the tender will be called within two years from the date of entry into force of the interministerial decree that will establish the criteria and the new concession will take effect from the fifth year after the original expiry and, in any case, no later than 31 December 2017. Ownership of the business unit relating to the exercise of the concession is transferred from the outgoing to the incoming concession holder, including all pertinent legal relations.
In September 2013 the European Commission began a fact-finding inquiry, concerning several member states, on the conditions for assigning, extending or renewing water concessions for hydroelectric use and sent the Italian Government a letter of formal notice which states that certain provisions recently introduced by the Italian parliament (with Italian Law 134/2012, converting the Italian “Development” Law Decree 83/2012), as well as certain parts of the legislation of the Autonomous Provinces of Trento and Bolzano are contrary to principles and rules of community law (freedom of establishment; Art. 12 of

the “Bolkestein” Directive 2006/123/EC). The Italian Government’s reply to the European Commission’s objections is being prepared.
The Decree of the President of the Piedmont Regional Executive no. 2/R of 9 March 2015 approved the new regional regulation on public water shunting concessions which changes the rules on proceedings for issuing concessions for which the Province or the metropolitan city is responsible and introduces the possibility of overcoming the “*presumption of incompatibility owing to proximity*” producing specific documentation.

Integrated Water Service

The Integrated Water Service (IWS) reform process, which began with Italian Law no. 36/94 (the Galli Law), was revised with the approval of Italian Legislative Decree no. 152 of 3 April 2006, as amended by Italian Legislative Decree no. 219 of 10 December 2010.
Regulation of the integrated water service management is based on the following principles:

- establishment of an integrated system for management of the entire water cycle;
- identification by Regional Governments of 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, while 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 (Optimal Territorial Areas), the Emilia Romagna Region with Regional Law no. 23 of 23-12-2011 set forth the “Rules for the territorial organisation of the functions related to local public environmental services”, which lays down the rules relating to regulation of public environmental services and in particular to the territorial organisation of the integrated water service and the integrated urban waste management service in Emilia-Romagna, and states that on the basis of the principles of subsidiarity, differentiation and adequacy, the entire regional territory constitutes the optimal territorial area in accordance with Articles 147 and *200 of Italian Legislative Decree no. 152 of 2006*.

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

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

The Law (Article 10) extended the option for autonomous management of the IWS to Municipalities with a population of up to 3,000 inhabitants. This provision was challenged by the Government (raising a question of unconstitutionality) as it clashes with the rules (Art. 148, 5th paragraph of Italian Legislative Decree 152/2006 - Consolidated Law on the Environment), which limit this option to Municipalities with a population of up to 1,000 inhabitants.
With Judgement no. 31 of 10 February 2015 the Constitutional Court declared unconstitutional Article 10 paragraph 1 of Liguria Regional Law no. 1/2014.

The Integrated Water Services sector was also affected by the Referendum held on 12 and 13 June 2011, the result of which partially repealed Article 154 paragraph 1 (integrated water service tariff) of Italian Legislative Decree no. 152 of 13 April 2006 "Determination of the tariff for the integrated water service" only 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 AEEGSI approved a specific provision defining the criteria for calculating the amounts to be repaid to end users, corresponding to the return on invested capital and paid in the water bills in the post-referendum period from 21 July until 31 December 2011.
The decision made by the Authority is censurable from various points of view, in particular the fact that it conflicts with EU rulings that envisage coverage of this cost item. Instead, the Authority appears to have eliminated the return on invested capital from the tariff without envisaging any alternative means of covering the financial expense. The Lombardy Regional Administrative Court, with a judgement dated 20 February 2014, accepted the arguments of the appellants (including Iren Acqua Gas) ruling that AEEGSI Resolution no. 273/2013 should be cancelled for the reasons maintained by the same. With Resolution no. 643 of 27 December 2013 the AEEG approved the "Water Tariff Method and completion rules" (MTI), containing the methods and parameters for calculating the costs (current expenses -OPEX- and capital expenses -CAPEX-) that must provide adequate remuneration through the tariff applied to water service users.
The rules of this Resolution are applicable from financial year 2014 onwards.
By 31 March 2014, the entity with responsibility for the Territorial Areas must:

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

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

- the Regions (if they have not already done so) must identify the governing entities of the area by 31 December 2014 - otherwise the government's substitutive powers would apply;
- the local authorities must take part in the governing entity of the area (which replaces the Area Authority) - failure to join the governing entities of the area is sanctioned with exercise of the substitutive powers by the President of the Region;
- the concept of *single* management of the IWS is introduced;
- the governing entities of the area (if they have not already done so) must choose the form of management of the IWS and begin the assignment procedures within the term of 30 September 2015;
- the relationship between the governing entity of the area and the operator is regulated by an agreement prepared on the basis of a standard agreement prepared by the AEEGSI - the existing agreements are supplemented in accordance with the provisions of the said agreements, with the methods established by the AEEGSI;
- the new operator must pay the outgoing operator an amount to reimburse the investments made, determined according to criteria defined by the AEEGSI;
- in the event of early termination of the assignments, the outgoing operator is owed an indemnity as a refund of the investments made (not depreciated) and for loss of earnings (10% of the service still to

be provided assessed on the basis of the economic-financial plan), with a reference to the rules of the Contracts Code;

- the definitive project of the works and actions provided for in the Investment Plan included in the Area Plans (and the related substantial changes) must be approved by the governing entities of the area - approval of the projects entails the declaration of public utility and constitutes authorisation and/or variant to the town and territorial planning instruments - the governing entity of the area convenes the conference of services and constitutes the expropriating authority (a role which may be delegated to the operator);
- in order to ensure observance of the principle of single management, the IWS operator takes over from the other entities operating in the same area with effect from entry into force of the law, but if these entities manage the service on the basis of an assignment granted in accordance with the *pro-tempore* current law, the takeover will occur at the expiry of the assignment.

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

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

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

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

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

In challenging the lack of active legitimation of the Local Authority in the proceeding, as the case in question involved a matter devolved to the competence and responsibility in the regulation of interference of the ATOs, the Council of State affirmed that these latter are the only subjects holding the

power of representation, also in relation to all the subjects that obligatorily are part of the said Area Authority.
On 30 September 2015 the Province of Savona approved Resolution no. 70/2015, with which it approved the Plans of the 3 sub-areas and defined the subjects to which they were to be assigned through an in-house procedure (and therefore excluding Acquedotto di Savona, the Savona water company, merged into IRETI with effect from 1 January 2016). The Resolution is being appealed.
We can note finally Resolution no. 656/2015/R/IDR of 23 December 2015 regarding the Standard Agreement for regulating relations between awarding bodies and operators of the integrated water service - Rules on the essential minimum contents.
With this measure - taking into account the observations received on the previous Consultation Documents 274/2015/R/idr and 542/2015/R/idr - the Authority adopts the Standard Agreement for regulating relations between awarding bodies and operators of the integrated water service, with which besides the operating agreements currently in force must be made compliant.
With judgement no. 7210 of 13 April 2016, the Court of Cassation specified that the payment due on the sewerage and purification tariff as a component of the Integrated Water Services fee is not automatically excluded in the case that the relative sewerage and purification plants were provided and operated by the local entity and that the failure to use the relevant services depends on the user's conduct that voluntarily decides not to become connected, and that it is up to the user to prove that its collection and purification systems for waste water originating from domestic premises are compatible with the overriding objectives of environmental protection and competition.

Waste Management Service

Integrated Waste Management is understood as all the activities of transportation, treatment and disposal of waste, including street sweeping and the management of these operations.
The legislation of a general nature applicable to the Integrated Waste Management Services sector is contained at national level in the Environmental Code (Italian Legislative Decree 152/2006 amended most recently by the Ministerial Decree of 15 January 2014), Italian Law no. 68 of 22 May 2015 "Rules on the subject of crimes against the environment", in the Italian Legislative Decree 36/2003 (landfills), in the Italian Legislative Decree 133/2005 (incineration and co-incineration), in the Presidential Decree no. 59 of 13 March 2013 (Single Environmental Authorisation), and at the regional level by Emilia Romagna Regional Laws no. 31/96, no. 25/99, no. 10/2008, no. 23/2011, and no. 13/2015 (reform of the system of regional and local government and rules on the metropolitan city of Bologna, Provinces, Municipalities and their unions) and no. 16/2015 (on the so-called "circular economy " amending Regional Law no. 31/96).
Given that the Territorial Area Authorities ceased to exist on 31 December 2012, the Emilia Romagna Region set up the Territorial Agency of Emilia Romagna (ATERSIR), according to the aforementioned law, for water and waste services in which all the Municipalities and provinces take part and which is responsible for the regulation functions for the entire regional territory, and determination of the urban waste disposal tariffs on the basis of the regional criteria, of the private and public plant engineering. This agency became operational in 2012.
The Piedmont Region adopted the Regional Waste Management Plan on 30/09/2009, completing a process launched in 2007. The Plan has a 2009–2015 time horizon.
At the same time as adopting the Plan, the establishment of 3 Optimal Territorial Areas, combining the 8 previous areas divided by Province, was provided for.
Regional Law 7/2012 further modified the structure of the Areas, providing for their division into 4. The 4 current Areas are made up as follows:

a) area 1: Novarese, Vercellese, Biellese and Verbano, Cusio, Ossola;
b) area 2: Astigiano and Alessandrino;
c) area 3: Cuneese;
d) area 4: Torinese.

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

The Legislative Assembly of the Emilia-Romagna Region approved Regional Law 16/2015 for municipal waste management, which promotes recycling and the prevention of waste production. Among the objectives to be achieved within five years, are: an increase in separate waste collection to 73%, a 25% reduction in individual waste production, recycling at 70%, limiting of landfills and regional self-sufficiency. Among the changes introduced by the new law: precise tariffs, that is payment on the basis of how much is conferred, incentives aimed at the most virtuous Municipalities and bonuses for companies that do better disposal. Incentives are provided for information and education activities, with the possibility for Municipalities that plan information and education initiatives to destine to these activities a proportion of the income deriving from applying the tariff. With the new law the Region intends to transit from a linear economic model based on the exploitation of natural resources to a circular economy, in which materials are constantly reused. And to do this it identifies instruments such as precise tariffs and puts in place incentives aimed at Municipalities that send less waste for disposal and bonus schemes for businesses. Based on Assembly Resolution no. 67 of 3 May 2016, the Region of Emilia Romagna approved the new regional waste management plan (PRGR), which is effective until 2020.

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. Following the approval of Italian Law Decree no. 210 of 30 December 2015 ("Thousand Extensions") the term for compliance with SISTRI (Waste Traceability Control Computer System) is extended by a year and the so-called "twin-track regime" is extended to 31 December 2016, keeping in force the registers and forms and the related penalty system. The term for application of the emission limits for industrial plants is extended to 1 January 2017 to enable the competent Authority to update the authorisation. The SISTRI sanctions, exclusively related to failure to register or pay the annual contribution, apply for a reduced amount of 50% starting from 1 April 2015 (following Italian Law 11/2015 converting the "Decreto Milleproroghe" Italian Law Decree no. 192 of 31 December 2014). The SISTRI sanctions for all the other breaches apply from 1 January 2017. On 8 June, Ministerial Decree no. 78 of 30 March 2016 came into effect with the "Regulation containing the provisions relating to the functioning and optimisation of waste traceability system, implemented with article 188-bis, paragraph 4-bis of Legislative Decree no. 152 of 3 April 2006", which abrogates Ministerial Decree no. 52/2011.

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

The European Investment Bank has just published a guide (on line) to financial Instruments available to green projects – some together with the European Commission - dedicated to financing projects in the environmental field.

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

The Stability Law for 2015 (Italian Law no. 190 of 23 December 2014) in paragraph 615 of Art. 1 replaced the second sentence of Art. 149-*bis* of Italian Legislative Decree no. 152/2006 establishing that direct assignment of the service can be made to entirely publicly-owned companies, in possession of the requisites prescribed by the European legislation for in-house management, in any case invested in by local authorities located in the optimal territorial area.
All the “energy recovery” (no longer “thermo-treatment”) plants, both existing and to be built, must be authorised to saturation of the thermal load, but only in the event of a positive environmental compatibility assessment of the plant in operating mode (including observance of Italian Legislative Decree 155/2010 on air quality).

The plants in question must give priority to urban waste produced in the regional territory (and to those of other Regions, only for the availability remaining after the regional needs are met).
If these plants receive urban waste from other Regions, the operators of the plants must pay the Region a new contribution (max 20 euro per ton) destined to finance a fund used to prevent waste, provide incentives for Separate Collection, for reclamation work and to limit tariffs. The law establishes that the expenses of this contribution “*may not be transferred into tariffs, charged to citizens*”.
Only hazardous special waste with infection risk remains permitted, “*in a complementary manner*” and observing the principle of proximity, on condition that the plant is fitted with a dedicated loading system that “excludes also all contact between the personnel involved and the waste” (to this end the Integrated Environmental Authorisations - IEAs - are made compliant).
The reduction to a half of the terms for expropriation procedures was confirmed (for proceedings in progress, the remaining terms are reduced to 1/4). The reduction to a half of the terms envisaged for the Environmental Impact Assessment and the IEA was not confirmed, but the new law establishes that the terms set by law for these procedures “must be considered peremptory”. The Prime Minister must carry out a study of the existing offer of plants also as regards recovery of the organic fraction, divided into Regions. Until the plants in question are built, the Regions may authorise, where technically possible, an increase of up to 10% of the capacity of such plants to encourage the recovery and production of high-quality compost.
Article 182 of the “Environmental Code” was amended, providing for the exclusion from the prohibition on extra-regional disposal of non-hazardous urban waste that the President of the Region considers necessary to send for disposal out of the Region “*to deal with emergency situations caused by natural calamities for which a state of emergency is declared*”.
In January 2015 Ministerial Decree no. 272 of 13 November 2014 came into force; this makes known the methods for preparing the reference report at the moment of requesting or renewing the IEA. The managers of companies that run a plant subject to IEA, if the activity entails the use, production or discharge of hazardous substances, must in fact present a report containing information on the quality of the soil and underground waters, indicating the 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 “Decreto Milleproroghe” (Italian Law Decree no. 192 of 31 December 2014, converted into Law no. 11 of 27 February 2015) moves to 30 June 2015 the term of the prohibition on conferring to landfills waste with LCV (Lower Calorific Value) of more than 13,000 Kj/kg. Following the so-called “Thousand Extensions 2016” (Italian Law Decree no. 210 of 30.12.2015), the term for prohibition of the aforesaid conferment is postponed to 29 February 2016.
Italian Law no. 190 of 2014 has also been in force since the first of January. This states that in polluted sites not yet reclaimed the work required by the legislation on workplace safety and ordinary and extraordinary maintenance activity can be done, provided that it does not prejudice the reclamation activity and workers’ health.

Regulation (EU) no. 1357/2014 of the European Commission came into force on 1 June 2015; this innovates the hazardous waste classification system. The Regulation replaces Annex III of Directive 2008/98/EC, and consequently the entire Annex I to Part IV of Italian Legislative Decree no. 152/2006.
On 1 June 2015 the Decision of the European Commission 2014/955/EC came into force. This introduces a new European List of Waste that modifies Decision 2000/532/EC, transposed at the national level by Annex D of part IV of Italian Legislative Decree 152/06.

Directive no. 2015/1127, which starting from 31 July 2015 made a number of changes to Annex II of Directive 2008/98/EC on waste (containing a non-exhaustive list of recovery operations), was rectified with a deed published in November 2015.

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

On 17 June 2015 the Ministry of the Environment published Circular no. 12422, containing “Further criteria on the methods of applying the rules on integrated prevention and reduction of pollution in the light of the amendments introduced by Italian Legislative Decree no. 46 of 4 March 2014”.
The Prime Ministerial Decree of 27 March 2015 establishes the methodological notes and standard needs for Municipalities of ordinary-statute Regions in the fields of roads, transport, management of the territory and the environment (including waste).

At the end of 2015 the 2016 Stability Law (Italian Law no. 208 of 28 December 2015) was published, and it has been in force since 1 January 2016. There were various measures in the Environmental field: incentives and subsidies are introduced for renewable energies as well as actions on the subject of urban regeneration; on the subject of reclamations a fund of € 10 million was established for each of the years 2016, 2017 and 2018, in part destined for sites of national interest for which it is necessary to act urgently in order to fulfil European obligations; as regards unauthorised landfill sites an increase is introduced for the assets of the fund set up to finance an extraordinary reclamation plan for landfill sites identified by the competent state authorities in relation to EU Infringement Procedure no. 2003/2007; spending of 5 million euro is authorised for the year 2016 for the launch of an extraordinary programme aimed at verifying the effectiveness of the polluting emission levels of vehicles. Again on the subject of emissions, the legislative changes involve, in addition, the income from auctions of greenhouse gas emission quotas.
The stability law also makes changes to Italian Legislative Decree 152/2006: in Art. 6, paragraph 17, regarding the prohibition of search activities, prospecting and extracting liquid and gaseous hydrocarbons in the sea within the perimeter of protected marine and coastal areas, the exceptions currently provided for are abolished.
At the end of the year the Draft Law known as “*Green Economy*”: “*Rules on the environment to promote green economy measures and to limit the excessive use of natural resources*” was also approved; this provides for - among numerous other measures – amendments to Italian Legislative Decree 152/06 and subsequent amendments and additions and to other laws on the subject of waste. In particular the main action areas regard supervision on waste management, the collection and processing of metal waste, measures to increase separate collection and recycling, changes to the special levy for unloading in landfills and incinerators. In addition, different rules are introduced for the use of excavated land and rocks and rules to prevent waste production; the rule that provided from 1 January 2016 for a prohibition on conferring to landfills waste with LCV (Lower Calorific Value) of more than 13,000 Kj/kg is abrogated and the objectives of reducing conferment to landfills, and other rules, are updated.
At the end of September the Ministerial Decree of 24 June 2015 came into force. This contains “Amendments to the Ministerial Decree of 27 September 2010, related to definition of the criteria of admissibility of waste in landfills”. The significant amendments regard in particular Arts 3, 5, 6, 7, 8 and the entire Annex 3, on the Sampling and analysis of waste.

Since 2 February Italian Law no. 221 of 28 December 2015 has been in force. This is the so-called “Environmental Annex”, which introduces numerous and important changes among its 79 articles in numerous fields but especially on Waste Management, not only amending the Consolidated Environmental Act itself (modifying for example Articles 183, 187, 188, 190, 193), but also introducing new and important changes on the subjects of WEEE (e-waste), Compost, Mixing, Landfills, etc. For sustainable mobility 35 million euro is allocated, in an experimental programme involving home-school and home-work travel. The fund for planning actions against hydro-geological risk is created and 11 million euro is made available to municipalities for the demolition of buildings in zones at risk built without the necessary permits. A series of measures are introduced to increase separate collection and recycling, including experimental and voluntary 'returnable recipients', and the asbestos reclamation process is strengthened through a tax credit of 5.6 million euro a year up to 2019 for businesses that handle its removal. The action that regards 'green public procurement' is significant. This entails minimum green criteria with which all state administrations must comply in their purchases: from toners to heating, from lighting to catering. The guarantee fund for waterworks, including sewerage and purification networks, is also created, while domestic users of the integrated water service in disadvantaged economic and social conditions are guaranteed access to water supplies for fundamental needs at subsidised conditions. Finally, unattachability is extended also to pets and companion animals, such as those used for therapeutic or assistance purposes.

In the field of SMEs, in 2015, the European Commission adopted various initiatives to encourage small and medium-sized enterprises to assess the commercial opportunities that can arise from greater efficiency in the use of resources and green entrepreneurship. These initiatives are brought together in the Commission's Green Action Plan for SMEs. A further definition of the themes of the plan is expected in 2016 and in subsequent years.

On 18 May 2016, the Attorney General at the Appeal Court of Bologna, the General Manager of Arpae, representatives from all the territorial Attorney Generals' offices and the senior commanders of the NOE Carabinieri, the State Forestry Department and Port Authority of Ravenna signed a Protocol of intent aimed at ensuring that the regulations on eco-crimes (Law no. 68/2015) would be uniformly applied throughout the Emilia Romagna region.
The document specifically states as its final objective: "the uniform application of the regulations on environmental crimes throughout the district territory, with special reference to the procedure for discharging contraventions under Part VI-bis of Legislative Decree no. 152 of 03 April 2006".

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

The Prime Minister's Decree came into effect on 7 March 2016 referring to the "Measures to implement an adequate and integrated management system for the organic fraction of urban waste, a study of the existing offer and identifying the remaining requirement pertaining to plants for the recovery of the organic fraction of urban waste from separate waste collection, divided according to regions". The aims of the provision are the reduction of the negative impact on the environment caused by managing this waste, achieving the objectives set by the European Union on recycling and reduction of conferring bio-degradable waste to landfills.

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

On 25 February 2016, the Decree issued by the Ministry of Agricultural and Forest Policies came into effect; this identifies the criteria and general technical rules for the regional governance of the agronomic use of livestock effluents (Title II) and waste water (Title III), as well as the production and agronomic of digestate (Title IV).

Official Gazette no. 70 of 24 March 2016 published a notice from the Court of Cassation announcing the application for a repeal referendum of Art. 35, paragraphs 1, 2, 3, 4, 5, 8 and 9 of Legislative Decree no. 133/2014 (so-called "Sblocca Italia" Decree, converted into Law no. 164/2014), on the subject of waste incineration plants.
Article 35 makes provision, inter alia, for the issuing of a Council of Ministers Presidential Decree (D.P.C.M.) that identifies the overall capacity for the treating of urban waste and similar by incineration plants, as well as incineration plants with energy recovery to be built to meet the remaining requirement, with these structures classified as strategic infrastructure of major national interest (paragraph 1).

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

On 13 April 2016, the WEEE Coordination Centre, Assoraee, Assorecuperi and Assoformet signed a new Programme Agreement on the treatment of WEEE, to ensure adequate and uniform treatment levels and the qualification of companies in the sector.
The agreement that was signed by the parties pursuant to Art. 33, paragraph 5, lett. g) of Legislative Decree no. 49/2014 and that comes into effect 30 days after signing, provides that the Coordination Centre makes its portal available, containing services dedicated to accredited plants.
Subscribing to the Agreement is open to all treatment operator associations that intend to join.

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

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

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

Reg. (EC) 1907/2006 (known as the REACH Regulation) was amended by two European Regulations:

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

Tariff system for waste management services

The 2014 Stability Law established from 1 January 2014 the IUC tax (Imposta Unica Comunale - single municipal tax) comprising: a municipal tax of a capital nature (IMU), a component referring to "indivisible" services (TASI) and the waste tax (TARI) destined to finance the cost of the urban waste collection and disposal service.
The prerequisite for the TARI tax is the ownership or possession of properties susceptible to producing waste and commensurate with the floor surface area of the property. The rates can be reviewed by the municipalities on the basis of service quality standards.
The possibility is reconfirmed for Municipalities to assign the ascertainment and collection, as an exception to Article 52 of Italian Legislative Decree no. 446 of 15 December 1997, to entities that at the date of 30 December 2013 "performed the service of waste management or TARES ascertainment and collection".

Italian Law Decree no. 78 of 19 June 2015, Urgent provisions on territorial entities, was published in the O.J. on 19 June 2015. In particular, among the rules laid down by the Law Decree we can note Art. 7, paragraphs 4 (on extension also to the TARES of the option to entrust controls to the operator of the waste service), 7 (extension of terms on local collection at 31 December 2015), 8 (extension to the consortia of the fiscal benefits already provided for in the case of winding-up of municipal companies) and 9 which adds to Italian Law no. 147 of 27 December 2013 (2014 Stability Law) paragraph 654-*bis*, which states that any lack of revenue from receivables that turn out to be unenforceable, with reference to the environmental health tariff, the integrated environmental tariff, and the municipal tax on waste and services (TARES) should also be considered among the cost components of the TARI.

District Heating Service

With Resolution 411/2014/R/com of 7 August 2014, the Authority for Electricity, Gas and Water Services (AEEGSI) approved the procedure for adopting the measures on the subject of regulation and control in the sector of district heating and district cooling, for the purpose of implementing the provisions of Italian Legislative Decree no. 102 of 4 July 2014, which transposed Directive 2012/27/EU on energy efficiency, that is (Art. 10, paragraph 17): "*The Authority […], with one or more measures to be adopted within twenty-four months from the date on which the present decree comes into force and on the bases of guidance formulated by the Ministry of Economic Development, in order to promote the development of district heating and district cooling and of competition:*
a) defines the standards of continuity, quality and security of the district heating and district cooling service, including plants supplying heat and the related accounting systems […];
b) establishes the criteria for determining the tariffs and connection of users to the district heating network and the methods for exercising the right to disconnect;
c) subject to the provisions in letter e), identifies methods with which the network operators make public the prices for supplying heat, connection and disconnection, the ancillary equipment, for the purpose of cost-benefit analyses on the diffusion of district heating made under the terms of the present Article;
d) identifies reference conditions for connection to the district heating and district cooling networks, in order to encourage the integration of new heat generation units and the recovery of the useful heat available in the local area, in coordination with the measures defined to implement paragraph 5 for exploitation of the economically exploitable potential;
e) establishes the heat sale tariffs, exclusively in cases of new district heating networks if there is an obligation to connect to the district heating network, imposed by Municipalities or Regions."

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

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

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

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

Energy efficiency

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

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

The following articles are particularly significant:

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

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

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

The first decree is aimed at defining the new methods for calculating energy performance and the new minimum efficiency requirements for new buildings and those being restored.
The second decree adjusts the formats of the technical project report to the new legislative framework, according to the different types of works: new constructions, significant restorations, energy requalifications.
The third decree updates the guidelines for the certification of the energy performance of buildings (APE). The new APE model will be valid over the whole country and, together with a new commercial announcement template and the national energy certificates database (SIAPE), will offer more information on the efficiency of buildings and systems, enabling easier comparison of the energy quality of different property units and orienting the market towards buildings with better energy quality. With the issue of these measures, starting from 1 January 2021 new buildings and those being significantly restored must be built in such a way as to reduce energy consumption to a minimum covering them mostly with the use of renewable sources. For public buildings this deadline will be brought forward to 1 January 2019.
On 15 July 2015 the Ministerial Decree of 26 June 2015, containing national guidelines for the energy certification of the buildings, was published in the EU Official Journal;

APEE 2014

In June 2014 the APEE (Action Plan for Energy Efficiency) 2014 was approved definitively by the Cabinet, after public consultation. The document, prepared by the ENEA, contains the energy efficiency targets set by Italy to 2020 and the policies activated to achieve them. In particular the Plan proposes to strengthen the already existing measures and instruments and to introduce new mechanisms to overcome the difficulties encountered in certain sectors. Specific attention is paid to describing the new measures introduced with Italian Legislative Decree 102/2014 which transposed Directive 2012/27/EU.
Compared with the APEE 2011 and with the figures up to 2012, up to now the targets for 2016 have been 58.6% achieved.

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

Post-Green Certificates Incentive

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

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

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

Non-PV RES incentives

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

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

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

Spread Incentives Decree

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

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

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

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

Tax concessions

Tax concessions for energy savings, consisting in amounts deductible from IRPEF (personal income tax) or IRES (business income tax), are permitted when works are completed to increase the energy efficiency level of existing buildings.
A deduction of 65% will apply to expenses incurred from 6 June 2013 to 31 December 2015 for energy performance upgrading works on existing buildings.
It should be remembered that the expense incurred prior to 6 June 2013 benefited from a 55% deduction.
From 1 January 2016 a 36% tax benefit is envisaged for property restructuring costs.

Energy efficiency certificates (EECs)

Italian Legislative Decrees 79/99 and 164/00 introduced the obligation for electricity and gas distributors (with at least 100,000 customers at year end 2001) to increase the energy efficiency of end users of energy.
Provision was made for the transfer to Società Gestore dei Servizi Energetici S.p.A. of energy saving evaluation and certification management activities relating to projects presented under the energy efficiency certificate mechanism.

Emission Trading System

In accordance with the Kyoto Protocol, from 2008 to 2012 industrialised countries and transition economies are committed to reducing the global emission of greenhouse gases by an overall 5%, compared to the levels for 1990.
The reduction targets, different for each member country, are 8% for the European Union and 6.5% for Italy.
To meet the reduction obligations established by the Kyoto Protocol, Directive 2003/87/EC defined a trading system for the greenhouse gas emission quotas within the European Union, i.e. the "Emission Trading System" (ETS). The Italian law transposing Directive 2003/87/EC is Legislative Decree no. 216 of 4 April 2006.
The Emission Trading System provides that a maximum limit is established for emissions from industrial plants producing greenhouse gas, by allocating each plant (through the National Assignment Plans) a given number of emission quotas, which give the right to emit a corresponding quantity of tons 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:

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

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

Sale of natural gas and electricity

Article 1 of Italian Legislative Decree no. 21 of 21 February 2014 made changes to the Consumer Code implementing Directive 2011/83/EU on consumers' rights, replacing Chapter I, Title III, Part III of the Consumer Code relating to "Consumers' rights in contracts".
These changes came into force on 13 June 2014 and apply to contracts concluded after that date.
With Resolution 100/2016/R/com of 10 March 2016 the AEEGSI laid down Rules on issuing closing invoices for cessation of the supply of electricity or natural gas.
The AEEGSI issued the consultation document of 10 March 2016 no. 93/2016/R/gas where it illustrates the Authority's new orientations in relation to the insurance in favour of final gas customers, currently governed by Resolution 191/2013/R/gas of 9 May 2013, which expires on 31 December 2016, by activating a new policy with effects starting from 1 January 2017.
With Resolution 17/2016/R/com of 21 January 2016 the AEEGSI issued rules on the minimum content of grounded replies to customer complaints, on the subject of invoicing of anomalous amounts for electricity and gas.

CONCESSIONS AND ASSIGNMENTS

The Iren Group executes services under concessions/assignments in the following sectors:
- Natural gas
- Electricity
- Integrated water cycle
- Environmental service management

Distribution of natural gas

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

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

Other geographical areas
The Iren Group also operates in numerous other entities throughout Italy through assignments or concessions given to mixed capital companies in which Iren Group companies have a direct or indirect investment.
These concessions are currently operating under the extended regime pending the launch of public invitations to tender.
The main assignments and concessions are:
- Province of Ancona / Macerata - ASTEA S.p.A. (21.32% controlled by the G.P.O. Consortium of which IRETI holds 62.35%): Municipalities of Osimo (AN), Recanati (MC), Loreto (AN) and Montecassiano (MC) assignment expired on 31 December 2010 and in *prorogatio*;
- Municipality of Vercelli - Atena S.p.A. (subsidiary of IRETI): award of 1999 expired on 31 December 2010 and in *prorogatio*;

- Province of Livorno - ASA S.p.A. (40% owned by IRETI): Municipalities of Livorno, Castagneto Carducci, Collesalvetti, Rosignano Marittima and San Vincenzo – award expired on 31 December 2010 and in *prorogatio*;

Natural gas sales

In accordance with the provisions of the "Letta" Decree on the subject of unbundling, the Iren Group carries on the business of selling natural gas mainly through Iren Mercato - which also sells electricity.
This activity is also carried out through direct or indirect investment in vendor companies including:

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

Electricity sector

IRETI (using the assets previously owned by AEM Torino Distribuzione, incorporated from 1 January 2016) manages in the city of Turin the public electricity distribution service on the basis of a ministerial concession. This concession expires on 31 December 2030. IRETI also distributes electricity in the municipality of Parma, with the same expiry date.
Through its local business combinations, the Iren Group distributes Electricity in the following main areas:

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

District heating sector

The district heating distribution service in the municipalities of Turin and Moncalieri, from 1 July 2014 has been managed by Iren Energia as a result of the spin-off of the heat distribution unit of the city of Turin of AES Torino.

By agreement dated 29 December 2008, the municipality of Nichelino (Turin) assigned the concession for use of the public soil and subsoil for the laying of networks, plants and infrastructures for the district heating service for a period of 30 years, to the temporary association of companies established between Iren Energia S.p.A., Iren Mercato S.p.A. and AES Torino S.p.A., which together established Nichelino Energia S.r.l. The company, 100% controlled by the Group, was merged by incorporation into Iren Energia with effect from 1 October 2015.

Besides the existing assignment of the distribution of district heating in the city of Turin on the basis of the Framework Agreement signed with the municipality, and in the town of Nichelino following what was described above, Iren Energia acquired an equity investment in the company Asti Energia e Calore, incorporated on 18 May 2015, to which the district heating service in the city of Asti is assigned in sub-concession.

Integrated Water Service

Genoa area
IRETI S.p.A. (company deriving from the merger by incorporation, among other things, of Iren Acqua Gas into Iren Emilia) holds the management assignment for the integrated water service in the 67 municipalities of the province of Genoa, serving a total of 880,000 residents. The assignment was granted by Decision no. 8 of the Genoa ATO Authority on 13 June 2003 and will expire in 2032.
The integrated water service in the territory of the Municipalities of the Province of Genoa is managed by IRETI through the safeguarded operators. The authorised and/or safeguarded companies of the Iren Group that perform the function of operator are Mediterranea delle Acque S.p.A. (60% controlled by IRETI), IdroTigullio S.p.A. (66.55% controlled by Mediterranea delle Acque S.p.A.) and AMTER S.p.A. (49% owned by Mediterranea delle Acque S.p.A.).
On 23 April 2015 the business unit made up of the set of assets and the related legal relationships regarding the drinking water distribution activity in the Municipalities of Camogli, Rapallo, Coreglia and Zoagli in the Genoan ATO and the integrated water service in the municipality of Bolano in the Province of

La Spezia was sold, with effect from 1 July 2015, by Acque Potabili S.p.A. to Iren Acqua Gas S.p.A., today IRETI S.p.A..
At the same time, with a deed dated 19 June 2015 and with effect from 1 July 2015 the company Acque Potabili S.p.A. sold to Iren Acqua Gas S.p.A. (today IRETI S.p.A.) at the conditions provided for in the deed of sale, the equity investment held in the company Acquedotto di Savona S.p.A. representing 100% of the share capital of the same. The company was merged by incorporation into IRETI with effect from 1 January 2016.

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

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

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

(*) Service extended until new agreements are defined

On 19 April 2016, ATERSIR Emilia Romagna published the tender based on a restricted procedure in the EU Official Journal for the assignment in concession of the IWS for the Province of Piacenza, including the instrumental works.
IRETI submitted its bid on 10 June 2016.

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

Waste Management segment

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

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

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

In a temporary grouping of companies with F2i and ACEA Pinerolese, the Iren Group was awarded the tender offer launched by the city of Turin in 2012 for the sale of 80% of the share capital of TRM S.p.A. and 49% of AMIAT S.p.A. (the stake is currently 80% following a further acquisition of 31% from the municipality of Turin at the end of 2014).
Two SPVs were set up for the purchase of investments (TRM V and AMIAT V). The company TLR V. (merged by incorporation into Iren Energia starting from 1 January 2016) was also set up, for the creation of the infrastructural and commercial district heating system between the waste-to-energy plant and the district heating operators of the municipality of Grugliasco and Beinasco.
TRM is the company that built the Turin waste-to-energy plant and is responsible for waste disposal for the city and for municipalities in Turin province.
AMIAT is the company responsible for waste collection and transport in Turin.

Services provided to the municipality of Turin

On 31 October 2006, Iren Servizi e Innovazione took over the following from AEM Torino S.p.A.:
- the agreement signed with the municipality of Turin for the assignment of street lighting and traffic light services in the municipality of Turin, expiring on 31 December 2036;
- the management services assignment for the municipal heating plants, expiring on 31 December 2014;
- the management services assignment for the electrical and special systems in municipal buildings, expiring on 31 December 2014.

By the resolution of 3 November 2010, the Turin City Council decided to assign service agreements to Iren Servizi e Innovazione for the thermal plants and electrical and special systems for municipal buildings until 31 December 2017.
By resolution of 27 November 2012, the Municipal Council of Turin extended the assignment of these service agreements to 31 December 2020.

FINANCIAL INCOME AND EXPENSE

General framework

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

Examining the trend in the six-month Euribor rate we can note that the parameter continued on the trend of slow but progressive decline, in negative-rate territory since November 2015 and now at -0.19%. The quotations of fixed rates, reflected in the values of the IRS at 5 and 10 years, recorded a downward trend, although in a context of volatility, and have reached new historical lows.

Activities performed

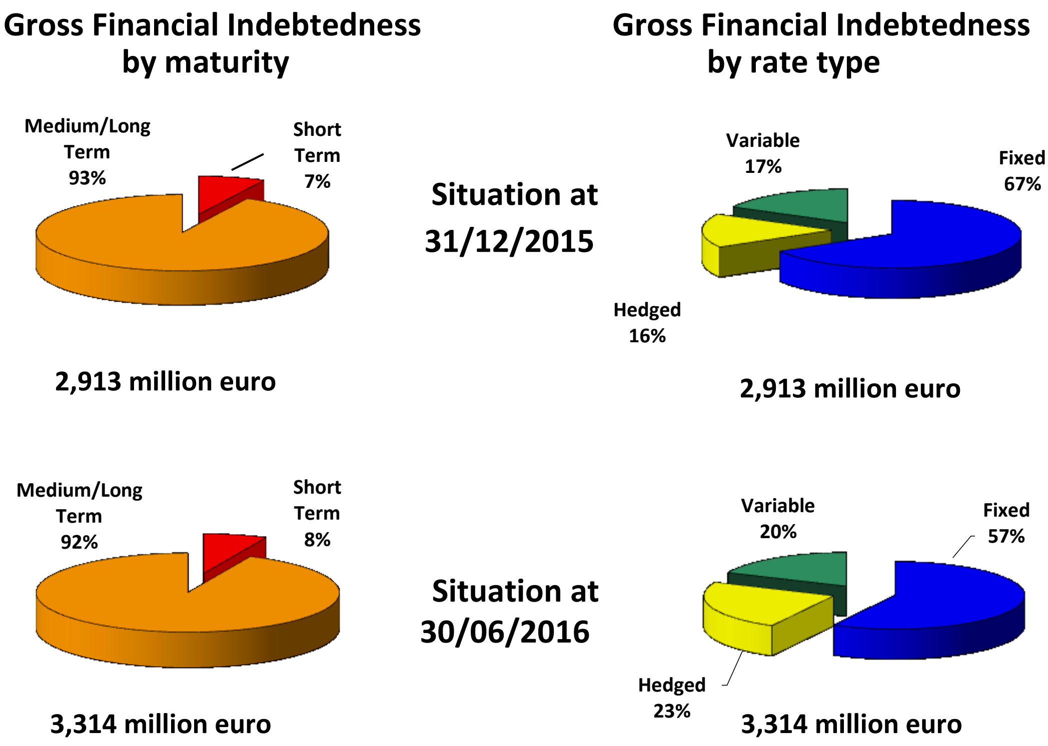
During the first half of 2016, activities aimed at consolidating the financial structure of the Iren Group continued. The development of funding needs is monitored through careful financial planning, which enables requirements for new financial resources to be anticipated, taking into account the repayments of outstanding loans, the development of indebtedness, the investments, the trend in working capital and the balance of short-term and long-term sources.
The organisational model adopted by the Iren Group, with the goal of financial optimisation of all Group companies, provides for Iren's centralisation of treasury management, medium/long-term loans management and financial risk monitoring and management. The Group has relations with the leading Italian and international banks, for the purpose of identifying the types of loans best suited to its needs, and the best market conditions.
Moving on to discuss in detail the financing transactions completed in the first half of 2016, we note that new medium/long-term loans were finalised for a total of 20 million euro.
The direct loans with the European Investment Bank, duration up to 15 years, agreed in December 2014 and December 2015, remain unused and available for a total of 230 million euro.
Financial indebtedness at the end of the period is made up 64% of loans and 36% of bonds.

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

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

With regard to financial risks, the Iren Group is exposed to different kinds of risk, including liquidity risks, and the risk of fluctuations in the interest and exchange rates. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit such risks.
In the first half of 2016 three new Interest Rate Swap contracts were signed hedging a total of 150 million euro of debt, with maturity at 2027 and effects starting from December 2017. The fair value of the above-mentioned interest rate hedges was a negative 137,333 thousand euro at 30 June 2016.
At 30 June 2016, the portion of floating rate debt not hedged by exchange rate derivatives was 20% of consolidated gross financial indebtedness, in line with the objective of the Iren Group which is to maintain a balance between positions at floating rate and at fixed rate or in any case protected from significant increases in interest rates.

Furthermore, the financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored; no critical points have emerged regarding the coverage of current financial commitments. At the end of the period short-term bank credit facilities used by the Parent Company totalled 51 million euro.



Rating

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

TRANSACTIONS WITH RELATED PARTIES

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

- of the provisions relating to transactions with related parties pursuant to Article 2391-*bis* of the Italian Civil Code;
- of the provisions pursuant to Art. 114 of Italian Legislative Decree no. 58 of 24 February 1998 (the "Testo Unico della Finanza" - Consolidated Law on Finance);
- the regulation containing provisions on transactions with related parties, adopted by Consob with its Resolution 17221 of 12 March 2010 and subsequently amended with Resolution 17389 of 23 June 2010 (the "Consob Regulation").

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

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

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

RISKS AND UNCERTAINTIES

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

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

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

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

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

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

1. FINANCIAL RISKS

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

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

The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored; no critical points have emerged regarding the coverage of current financial commitments. At the end of the period short-term bank credit facilities used by the Parent Company totalled 51 million euro.

Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suited to its needs, and the best market conditions. It is noted that during the period, new medium-long term loans were finalised and utilised for 20 million euro.
Financial indebtedness at the end of the period is made up 64% of loans and 36% of bonds.
Details of the activities carried out in this area and of the individual transactions are shown in the paragraph "Financial Operations".

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

c) Interest rate risk
The Iren Group is exposed to interest rate fluctuations especially with regard to the measurement of financial expenses related to indebtedness. The Iren Group's strategy is to limit exposure to the risk of interest rate volatility, maintaining at the same time a low cost of funding.
In a non-speculative view, the risks associated with the increase in interest rates are monitored and, if necessary, reduced or eliminated by swap and collar contracts with financial counterparties of high credit standing, for the sole purpose of hedging. At the end of the period, all the contracts entered into meet the requisite of limiting the exposure to the risk of oscillation of interest rates and, except for a few positions with insignificant impacts, they also meet the formal requirements for the application of hedge accounting.
The hedging contracts entered into, together with fixed-rate loans, hedge approximately 80% of gross financial indebtedness against interest rate risk, in line with the Iren Group target of maintaining a balance between loans at floating rate and at fixed rate or in any case protected against significant increases in the interest rate.

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

2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables deriving from the sale of electricity, district heating, gas and the provision of water and environmental services. The receivables show no particular concentration since the exposure is spread across a large number of counterparties, belonging to non-uniform customer categories (retail and business customers and public entities).
In carrying on its business, the Group is exposed to the risk that the receivables may not be honoured on maturity with a consequent increase in their age and in insolvency up to an increase in receivables subject to arrangement procedures or unenforceable. This risk reflects the current unfavourable economic and financial situation.
To limit exposure to credit risk, a number of tools have been introduced and identified. These include analysing the solvency of customers at the acquisition stage through careful assessment of their creditworthiness, transferring the receivables of discontinued and/or active customers to external credit recovery companies and introducing new recovery methods for managing legal disputes.
The receivable management policy and creditworthiness assessment tools, as well as monitoring and recovery activities differ in relation to the various categories of customers and types of service provided.
Credit risk is hedged, for some types of business customers, with opportune forms of first-demand bank or insurance guarantees issued by subjects of leading credit standing.
An interest-bearing guarantee deposit is paid for some types of services (water, natural gas, "protected customer" electricity sectors) in compliance with regulations governing these activities. This deposit is reimbursed if the customer uses payment by direct debit from a current account.
The payment terms generally applied to customers are related to the legislation or regulations in force or in line with the standards of the free market; in the event of non-payment, default interest is charged for the amount indicated in the contracts or by the legislation.
Provisions set aside for impairment of receivables accurately reflect the effective credit risk through assessments based on analysis of the individual receivable items recorded in the databases, specifically

taking into account ageing, as well as comparison with historical losses on receivables and determination of the average non-payment rate.

In view of the continuing unfavourable economic situation, the control over credit risks has been improved by strengthening the monitoring and reporting procedures, in order to promptly identify possible countermeasures.

In addition, on a quarterly basis, the Risk Management Department collects and integrates the main data on trade receivables of the Group companies, in terms of customers, business chain and ageing band. Some of the above assessments are carried out at intervals of less than three months or when there is a specific need.

3. ENERGY RISK

The Iren Group is exposed to price risk, including the related currency risk, on the energy commodities traded, (that is electricity, natural gas, heat, etc.) as both purchases and sales are impacted by price fluctuations directly or through indexing formulae.

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

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

The objective is to balance opportunely self-production and energy from the futures market with respect to the demand coming from the Group's customers, with adequate recourse to the spot market and sufficient stability of the margins.

4. OPERATIONAL RISKS

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

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

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

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

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

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

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

The risk reporting is sent to the top management and to the risk owners, who are involved in the management activity. The risk analysis also supports the preparation of planning tools.

Of particular note are:

a. Legal and regulatory risks

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

b. Plant-related risks

As regards the amount of the Group's production assets, plant-related risks are managed with the approach described above in order to correctly allocate resources in terms of control and preventive measures (preventive/predictive maintenance, control and supervisory systems, emergency and continuity plans, etc.).
For the most important plants the Risk Management department periodically conducts surveys, from which it can accurately detail the events to which such plants could be exposed and consequent preventive action.
The risk is also hedged by insurance policies designed considering the situation of the single plants.

c. IT Risks

The main operational IT risks are related to the availability of core systems which regard accounting operational management and invoicing processes and the energy commodity trading platforms. The Iren Group is, in fact, one of the leading Italian operators on the Power Exchange and any accidental unavailability of the system could have considerable economic consequences, connected with the non-submission of energy sale or purchase offers.
To mitigate such risks, specific measures have been adopted, such as the redundancy of parts of the system and appropriate emergency procedures ("Disaster recovery"), which are periodically subject to simulations, to ensure their effectiveness.

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

5. STRATEGIC RISKS

The Iren Group has adopted a Business Plan with a time horizon at 2020 which defines its strategic orientations. It is articulated according to the following macro-drivers which determine its targets for economic, capital and financial figures:

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

In application of the Group's policies, the said Plan was subjected to a risk assessment carried out by the Risk Management Department and to the related stress tests, which have shown the substantial resistance including in the face of adverse events characterised by specific sensitivities.

ORGANISATION AND IT SYSTEMS

Organisation

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

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

During the first half of 2016 work continued on reorganising the Group; this is aimed at strengthening the unitary nature of governance and accelerating the integration process, making operations more efficient and focusing on the business in keeping with the provisions of the Business Plan approved by the Board of Directors of Iren S.p.A. on 16 June 2015.
The numerous projects in progress for pursuing savings included in the Business Plan are both for corporate rationalisation, and for business process re-engineering and performance improvement and involve both the corporate staff Departments and the Business Units.

Information Technology

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

The overall programme, entitled *IrenOne*, continued with a second "go–live" moment for the new transactional environment at 1 January 2016, and during the first quarter of 2016 was completed with the post-launch activities; in this second stage of the Programme the activities were carried out harmonising the action areas of the programme with Iren's corporate evolutions - "100% Operations". The second stage of *Iren One* included the roll-out of the group payroll system on AMIAT. In the coming months it will continue with the "porting" on the *Iren One* platform of the new companies that are coming into the Group's consolidation scope.
During the second quarter of 2016, the necessary interventions were undertaken to ensure faster closing times (Fast Closing Project), together with the integration activities to consolidate the accounts within the corporate scope for the Atena Group.

In addition, a project was introduced to integrate the TRM and Atena systems, which will include the companies within the operating Holding's systems in the Administration, Finance and Control, Procurements and Logistics area by July 2016 (TRM) and January 2017 (the Atena Group).

Two strategic projects were introduced relating to (i) the revision of the payments cycle and (ii) the design of the Group's management reporting system. The aim of the first project is to harmonise the administrative management processes for the payments cycle, laying the foundations for digitalising

processes in the administrative and works' areas, whereas the second through a specific Business Unit, seeks to provide a series of indicators for a reporting system dedicated to top management.
In relation to the Energy Business Unit, as part of the "Torino In Luce" (Turin in Light) project, the project was completed to create the App for the reporting by residents of any poor services of public lighting and to manage the consequent maintenance actions. As per the agreed plan, project work is underway for the management of maintenance interventions, including the adoption (first application for the Group) of an automatic scheduling platform for maintenance notices and work orders. All the relevant functions will have mobile access to ensure the highest level of operational efficiency possible.
A study to assess the adoption of a specific system has been undertaken for the heat supply chain. The platform in question is the reference product on the district heating and heat service management market, and has already been adopted or is under assessment by all the major Italian groups operating in the sector. Based on the availability of a series of active licences with Atena, it has been decided to conduct a pilot experiment during the upcoming 2016-17 thermal season. Testing on the system in production will be done for approximately 100-200 plants, distributed between Turin (Iren Servizi e Innovazione scope of services) and Genoa (Iren Gestioni Energetiche scope of services), in terms of both technical and commercial processes, using the same installation as the Atena Group. This will take advantage of significant synergies, without having to incur the costs for buying servers and licences. By the end of the year, a final decision will be taken as to whether to adopt the system or not.

On the front of the Waste Management BU the project was completed to revise the system for calculating the precise tariff for the municipality of Reggio Emilia and the first stage of the GEOSAI project, relating to the creation of the datawarehouse prototype for analysing the collection and sweeping services. During its initial stage of usage, the latter made it possible to support the data analysis underway to prepare for the upcoming Parma tender to assign urban hygiene services.
The second phase of the GEOSAI project began in June, which aims to complete the set of operating indicators used to monitor the performance of services, and automate the supply of data collected by the devices installed on board vehicles.

For Iren Mercato, the first quarter projects have been completed (Bill 2.0 and managing instalment packages for leds), and an important Switch project has gone into production, which has automated back-office sales processes linked to the processing of electricity contracts until they are loaded into the commercial systems. The project is characterised by high levels of automation, thanks to real-time integration (application to application) with the Iren Mercato and the Single Buyer's Integrated Information System.
A project to calculate the gas accrual and analyse gas revenue is in the development stage. The system was delivered in May and testing is currently underway. During June, work on the related credit project was also launched.

In the area of Territorial Information Systems the planning stage of the new single group system architecture was completed in the first quarter.
The GEOIREN project was introduced during the second half of the year, which will lead to the unification of the SIT systems, both in respect of the consultation portion (envisaged for the start of 2017), and the updating portion (envisaged for the start of 2018).

The initiatives relating to consolidation and rationalisation continue on the infrastructure front, in particular:
- In the first quarter, the first stage of modernising the videoconference rooms was completed and the project to consolidate the group's data centres went live with the closure of the AMIAT data centre and the call for tenders for the new geographical network.
- The consolidation project for the Data Centre continues according to plan, and operational tests are planned for July and August for the migration of resident data in the Turin infrastructure.
- The tender for the geographical network links was completed with a high level of expertise and reliability.
- On the distribution front, the phase for identifying solutions for the Group's Service Desk got underway, as have preparations for the tender to procure PCs and the relevant accessories.
- On the security front, the configuration of the new firewall was completed, new internet access controls were introduced, and as from July new technology will be used to control corporate post.

RESEARCH AND DEVELOPMENT

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

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

The main research, development and innovation lines on which the Iren Group is investing regard:
- study of renewable sources for heat and electricity production;
- diffusion of "customer empowering" tools and increasing the awareness of users on the impact of consumption and on energy savings;
- energy efficiency divided into several levels and assets (customer, building, urban agglomerate, energy assets of the Group);
- study of new systems for the recovery of energy losses and an increase in the efficiency of the plants;
- advanced remote management, remote reading, smart metering and multi-metering systems;
- thermal and electrical storage systems;
- systems for the processing, purification and re-use of waste from sludge, waste water and other waste treatment processes;
- Internet of Things ("IoT") and domotics;
- "data intelligence" ICT tools;
- development of platforms for the creation of a single urban register of sub-services;
- optimised management of the integrated water cycle (districtualisation, identification and reduction of network losses);
- electrical mobility.

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

The first half of 2016 was characterised by the continued technical and development activities relating to the various projects co-financed by the Group, and in some cases in partnership with innovative start ups, and internal technology projects, for example on the issues of user engagement and user empowerment.
The research on innovative start-ups also continued during the six-month period, with partnership agreements signed and experimental projects introduced.

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

FINANCED RESEARCH PROJECTS IN PROGRESS

Water Services

BlueSCities (Horizon 2020)

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

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

Status: The project is in its seventeenth month, and Iren has begun its own development of a practical guide to be used by all stakeholders involved to implement methodologies and best practices applicable to the integrated management of water and environmental services.

GeoSmartCity (FP7)

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

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

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

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

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

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

Status: Following on from the MEUR (Ministry of Education, Universities and Research) communication relating to the new classification, a reformulated budget was submitted, which will be incorporated into the finance decree that will shortly be released to the partnership. Work has begun in the Rapallo area, where concentrated investigations are underway to find water leaks, and the aqueduct networks are being divided into ten districts, which manage pressure and monitor water leaks in real time, by analysing the minimum night-time outflow.

Similar activities involving the drainage system and monitoring of water parasites have been introduced in a district of the city of Parma.

Waste Management

Biometh-ER (Life+)

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

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

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

ReQPro (Life+)

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

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

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

Energy

CELSIUS (FP7)

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

Each city has been given the task of producing a pilot plant to create and verify a particular method of obtaining increased energy efficiency. Specifically, the demonstrator for which Iren is responsible, through IRETI, aims at achieving energy recovery using the pressure jump of the natural gas distribution network to produce electricity and heat for a small district heating network.

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

Status: the project has a duration of 57 months and ends in December 2017. The construction is being completed and the demo start up should be ready by July 2016. This will be followed by 2 months of reduced summer load testing so as to be ready for full load winter operations.

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

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

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

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

EMPOWERING (Intelligent Energy Europe programme)

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

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

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

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

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

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

Status: the project is now in the stage of technical implementation of the induction recharging systems in the different pilot sites. Iren continues to support the partners tasked with developing the Italian demonstrator for all the questions related to the impact of the solution on the electricity grid.

NeMo- Hyper-Network for electroMobility (Horizo 2020)

The NeMo project aims to develop an e-roaming platform applied to different electricity mobility systems (recharging infrastructure and motor vehicles). The main objective is to create a "Hyper network", namely an upper ICT infrastructure that can standardise data originating from various stakeholders and generate innovative services and applications on different verticals.

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

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

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

FLEXMETER (Horizon 2020)

The idea of the project is to analyse the possibility of a system of multi-service *smart meters* (with focus on electricity meters) underpinning a single platform for collecting and transmitting data (in analogy with what was requested by the AEEG in Resolution 393/2013). The project will also analyse the possibilities offered by the NIALM methodologies on analyses of disaggregated electricity consumption.

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

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

Store&Go – (Horizon 2020)

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

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

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

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

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

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

Status: The software application is being developed with the aim of assisting the Iren control room in the management of emergency calls, and the preparation of tests.

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

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

Partners: Iren Servizi e Innovazione, Turin Environment Park, Agencia Andalusa de l'Energia, Institut Andaluzo de Technologia, SP Technical Research Institute of Sweden, Lombardy Region, The European House Ambrosetti Spl, Nemzeti Innovacios Hivital, Miskolk Holding Önkormányzati Vagyonkezelö Zártkörüen Müködö Részvénytársasá, Borlänge Kommun.

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

OTHER INNOVATION ACTIVITIES

Water Services

During the first six months of 2016 Iren continued to take part in the WssTP (Water Supply and Sanitation Technology Platform) project, launched by the European Commission in order to oversee research in the water sector, participating also in the TICASS (Tecnologie Innovative per il Controllo Ambientale e lo Sviluppo Sostenibile - Innovative Technologies for Environmental Control and Sustainable Development) Consortium, a technological innovation hub of the Liguria region. In this regard, Iren is part of the WssTP working groups on the issues of Emerging Compounds, Water&ICT and Urban Water Pollution, which involve the preparation of road maps and planning and consultation documents that will be submitted to the European Commission. During the same period, numerous project proposals have been submitted which also aim to finance research grants relating to the subject of water quality. Some of the project proposals submitted referred to applying circular economy methodologies in the integrated water cycle sector, based on recovery techniques for phosphorous derivatives (H2020), as well as the purification of biogas using membrane technology.

More specifically, the research projects launched and completed concerned:

Water demonstrator

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

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

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

Projects included in the Amga Foundation’s research programme

Iren is working on a number or projects included in the AMGA Foundation’s programme for the current year; these projects refer to economic regulatory issues and technical-scientific questions associated with the quality of water resources. Among these, we note the research on the *circulation of viral pathogenic micro-organisms in sewerage liquids*, the *standard cost of capital in the regulation of public utilities*, the *new TOTEX TOTal EXpenditure regulatory approach.* Additional research refers to three macro-subjects relating to developing the remote control of the third millennium, optimising purification and drinking water processes, specialist laboratory analyses, on-line measurement systems and innovative sensors.

Energy

Turin LED Project

A project is in progress to replace in the city of Turin approximately 54,000 lighting points fitted with discharge lamps with new LED lamps. The project is completely financed by Iren on an ESCo basis; approximately 49,400 lamps have been replaced from the start of the project to 30 June 2016. In energy terms, when the project is completed, the saving will be approximately 19.6 GWh per year, with lower emissions of approximately 3,600 TOE.

Remote control of district heating plants

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

At 30 June 2016, on the Turin district heating network, 5,136 plants out of 5,220 had been installed.

The installation of the same system on other networks in the Group will begin during the second half of 2016.

Installation of storage systems on the district heating network

In the city of Turin, Iren is continuing with the work to create two heat storage systems serving the district heating network at the BIT integration centre, which, added to the currently existing 12,500 m^3, will take the total capacity to 15,000 m^3. On a parallel level, the design of an additional three storage systems is underway, which aim to optimise the network and maximise the heat produced in cogeneration reducing the use of supplementary and reserve boilers.

Flexibilisation of combined cycle plants

Iren is proceeding with work on flexiblising its combined cycle plants, to respond better to the ever-increasing needs of the electrical system and to become increasingly competitive in offering services on the auxiliary services market. These activities involve improvements on gas turbines, steam turbines, steam generators with recovery and control systems, with the purpose of keeping the plant hot, reducing the start-up and shut-down times and increasing the intake/load reduction ramps.

Dam seismic research contract

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

Monitoring of the Ciardoney glacier

In the early months of 2016 research activities continued on the behaviour of the Valle Orco glaciers, through monitoring of the Ciardoney glacier in the Gran Paradiso National Park. This is an initiative launched at the beginning of the 1990s in collaboration with the Italian Meteorological Society which has continued regularly through annual campaigns to check the mass balance of the glacier. The research is oriented to monitoring the reduction of glaciers in the Alps supporting the planning of the production of hydroelectric plants in Valle Orco. The June 2016 campaign recorded snow cover varying between 425 to 230 cm, for an equivalent average for the entire glacier of around 1300 mm, slightly up on the average for the entire 1992-2016 observation period.

#OpenIren 2016

The "#OpenIren 2016 Energy that innovates" call was officially launched on 27 May, which aims to find three innovation scouters, namely digital talents that support the identification and valuation of innovative projects, products or services that could service the business within the Iren Group, which is promoting the project together with the Turin Talent Garden.

After an initial training and brainstorming session with Iren, the three selected talents will need to select and analyse between three and six innovative solutions in the domotics and metering, big data, and marketplace & customer services sectors, taking into consideration possible repercussions on the Group's business.

The call subjects range from intelligent management systems, the automation and simplifying of domestic control operations, through to the structured analysis of plant data, networks and sensors used to introduce new operational management systems, including the sale of services/devices and innovation in customer relationship processes.

The call and research by these talents will extend over 6 months.

PERSONNEL AND TRAINING

Personnel

At 30 June 2016 the Iren Group had 6,306 employees; compared to 31 December 2015 there was an increase compared to the previous 6,132 employees. The table below provides a breakdown of personnel at 30 June 2016, divided into Holding and First-level companies (with related subsidiaries), compared with the figure at 31 December 2015.

Company	Workforce at 30.06.2016	Workforce at 31.12.2015
Iren S.p.A.	927	821
IRETI and subsidiaries	1,968	-
Iren Acqua Gas and subsidiaries	-	865
Iren Emilia and subsidiaries	-	794
Iren Ambiente and subsidiaries	2,295	2,257
Iren Energia and subsidiaries	620	915
Iren Mercato and subsidiaries	496	480
Total	**6,306**	**6,132**

The change in the workforce compared to 31 December 2015 is due to:

- continuation of the plan to reorganise the Iren Group subsidiaries, implementing the Business Plan adopted, which starting from 1 January 2016, besides transferring a number of business units, entailed the incorporation into Iren Emilia S.p.A. (the company name of which changed on the same date to IRETI S.p.A.) of the following Companies operating in the sectors of electricity, gas distribution and integrated water service: Genova Reti Gas, AEM Torino Distribuzione (up to then controlled by Iren Energia), Iren Acqua Gas, Acquedotto di Savona, Enìatel and AGA;
- the inclusion of TRM S.p.A. in the Group, with effect from 1 March 2016, within the scope of Waste Management Business Unit (57 resources) and with effect from 1 May 2016, the companies Atena S.p.A. and Atena Trading S.r.l. in the scope of the Networks Business Unit (238 resources);
- the continuation of the process to revise the Business Units that the Group's different segments fall under, with the objective of simplifying the corporate structure with the transfer of business units on 1 April 2016, from Iren Mercato S.p.A. to Iren Energia S.p.A.("Power Management" function), and from Iren Mercato S.p.A. to Iren Ambiente S.p.A. ("Commercial waste" function), from IRETI S.p.A. to Iren S.p.A. ("Staff Corporate and Storage" functions) and from Iren Energia S.p.A. to Iren S.p.A. ("Storage" function).
- continuation of the voluntary retirement incentive process, pursuant to Art. 4 of Italian Law 92/2012, which, with the objective of creating a generational change in the context of the Iren Group, will in any case take into account the organisational need to guarantee maintenance of the policy on the subject of limiting workforces.

Training

Since it was first established, Iren has made training one of its fundamental tools in the professional development of human resources, developing the necessary technical, professional and managerial skills to support/facilitate operational changes and at the same time, to ensure the staff component remains constantly updated.
In relation to the first half of 2016, a total of approximately 47,000 hours of training were provided, with 65% of Group employees taking part in at least one training course, and a per-capita average of 7.7 hours.

QUALITY, ENVIRONMENT AND SAFETY

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

- customer satisfaction;
- attention to the social and environmental aspects;
- personnel safety;
- efficiency in performing the service;
- supply and contract quality;
- constant improvement;
- compliance with the Code of Ethics.

The Integrated System policy is adopted by all Group personnel and has created strong synergies between the operating structures.
The Parent Company, all first-level companies and the main investees have systems that are certified in accordance with international standard ISO 9001 (Quality).
The Parent Company, the first-level companies Iren Energia, IRETI and Iren Ambiente and the main investees are certified in accordance with the international standards ISO 14001 (Environment).
The Parent Company, IRETI, Iren Energia, Iren Mercato and their main subsidiaries and AMIAT are in possession of the Certification under the terms of the OHSAS 18001 Standard (Safety).

Iren Ambiente has certified the provision of the services of cleaning and sweeping public roads and roads used by the public, collection and transport of municipal and similar waste, management of waste collection centres, provision of the waste-to-energy service with production of heat and electricity at the Parma Environmental Hub.
During the first quarter of 2016 the audit for Quality, Environment and Safety Certification of IRETI was carried out and the planned audits to keep/renew certification for the Group companies were carried out regularly, giving positive results and therefore confirming the existing certifications.
During the second quarter of 2016, the audit was successfully completed for Iren S.p.A. to maintain its Quality, Environment and Safety certificates, as was the audit for Multi-Site Accreditation by the Iren Acqua Gas Laboratories Group.

The projects were launched for revision of the processes of Iren, IRETI and Iren Mercato in relation to the corporate and organisational changes that have occurred, with the objective of using the certified systems as an effective instrument for improvement.
In this logic, besides numerous projects for expansion of the certifications mentioned, activities were carried out aimed at maintaining or acquiring:

- accreditation under the terms of UNI EN ISO/IEC 17025 and Accredia for the chemical-biological analysis laboratories;
- certification according to Reg. EC no. 303/2008 - FGAS for Iren Gestioni Energetiche, operating in the heat management sector, for the service provided on devices containing fluorinated greenhouse gases;
- certification for the sales of electricity produced solely from renewable sources, in compliance with the Certiquality Technical Document no. 66, by Iren Mercato;
- transition to the new edition of the standard according to the new standard UNI CEI 11352:2014 by Iren Rinnovabili;
- UNI 11352 certification by Iren Gestioni Energetiche and Iren Servizi e Innovazione.

IREN AND SUSTAINABILITY

The Iren Group promotes policies in keeping with the principles of environmental, social and financial sustainability: respect for and protection of the territory, professional development of employees, customer satisfaction, constant dialogue with the community and the Public Administration, careful management of the supply chain, and transparent communications with shareholders and lenders. The values that the Iren Group bases its strategy include: customer satisfaction, health and safety, ongoing improvement, respect and valorisation of people, innovation and change, sustainable development, responsibility and co-operation with the community, efficient services, quality in supplies and contracts, safeguarding the environment and the rational use of energy. The 2015-2020 Strategic Plan represents the “bridge” towards the new Iren which, through continual innovation, rationalisation and increased efficiency of internal processes, selectivity of investments for profitability and attention to customers’ new needs aims at becoming an aggregation hub and driver of development in the areas in which it operates, in addition to providing a new strategic direction for Corporate Social Responsibility.

In this context, the following are of particular note among the Group’s main sustainability initiatives carried out in the first half of 2016:

Sustainability Report

The Sustainability Report is a tool whereby Iren can communicate with stakeholders regarding its objectives, actions and results; the Group also uses it to report on its performance in the environmental, social and economic sphere, ensuring transparency regarding current and future commitments and its ability to satisfy stakeholders’ expectations. Furthermore, the Sustainability Report is also a management tool that monitors compliance with the Group’s Corporate Social Responsibility operating strategy. The Sustainability Report is prepared on the basis of the Sustainability Reporting Guidelines (version G4) of the Global Reporting Initiative (GRI) and the Utility supplement for the electricity sector – G4 Sector Disclosure, with a level of comprehensive application.
Data is collected via the “sustainability report” application, which allows for the tracking, verification and approval of all required data.
The document content is defined according to a materiality analysis that is conducted following the steps below:

- identification of issues that are potentially significant on the basis of an analysis of GRI guidelines and publications, the Group’s economic-financial statements and sustainability reporting, the new Business Plan, research on customer satisfaction, and analysis of the media and peer and competitor sustainability reporting;
- involvement of Group management in identifying the relevant issues for Iren;
- involvement of the Iren Local Committees of Piacenza, Parma and Reggio Emilia to identify relevant issues for stakeholders.

The 2015 Sustainability Report was approved by the Board of Directors on 15 March 2016 and published on the internet site.

Publications on Sustainability

To make the issues pertinent to sustainability more accessible to stakeholders, the internet site dedicated to the Sustainability Report (http://irensostenibilita.it) was updated. This contains the main data appearing in the Sustainability Report, divided in a point format and available in an English translation. The 2015 Sustainability Report was published on the corporate internet site in Italian and English, and specific information brochures were prepared and printed in both languages.

Local Committees

In January 2016, the Local Committee for Genoa was established, which is added to the previously established Committees in Piacenza, Reggio Emilia, Parma and Turin. Local Committees were introduced to ensure a greater presence within the local community, based on participatory planning and consultation on issues such as environmental and social sustainability, innovation and the quality of services provided. In order to extend involvement, the Committees makes use of the on-line platform www.irencollabora.it. This is a first at national level, where residents can participate directly, making

proposals and suggestions on the issues relevant to the Committees, with the objective of generating concrete and tangible projects.
Each Committee comprises specific working groups that develop projects submitted within scope of the Committee or on the platform Irencollabora.it. 49 Committee and working group meetings were held during the first half of 2016. “A more sustainable Campus is a Campus without plastic”. This project was proposed to the Piacenza Committee via the platform, and saw the installation of 3 aqueduct water distributors and the delivery of 1,500 water bottles to students attending the campus of the Catholic University of Piacenza. At 30 June 2016, there were 608 registered profiles, 470 registered users, 27 projects and 21 proposals.

CDP *(Carbon Disclosure Project)*
The Iren Group participated for the fifth consecutive year, in the Carbon Disclosure Project survey “CDP Climate Change Report 2016”, for which assessments are currently in progress.

Sodalitas Social Award
Iren participated in the 2016 edition of the Sodalitas Social Award, a corporate sustainability award in Italy (currently being adjudicated), entering 8 projects under the following categories: “Youth and the future”, “Work, equal opportunities and human rights”, “Sustainable innovation and production processes”, “Sustainable innovation, consumption and lifestyles”, “Community, territory and quality of life”.

Edu.Iren
Continuation of the project “Edu.Iren”, a programme of training courses made available to schools free of charge, based on the many years of experience of the Iren Group companies at the local level in sustainability education projects in schools.

Asylum seekers and refugees involved in Turin cleaning
Around twenty asylum seekers and refugees became involved during April, working for free as waste collectors in the city of Turin. Based on a protocol of intent signed between the city of Turin and a company in the AMIAT Group, refugees with the status of requiring international protection hosted by the city, were able to give something back thanks to the migrant projects associated with the local community.
These foreign nationals receive initial training from AMIAT and work a 6-hour shift on Saturdays for 12 week periods in all the city’s districts.

New public park in Vallette, Turin
During May 2016, the new park located in the Vallette district of Turin was inaugurated. The public park originates from the redevelopment of an industrial area that previously housed the Iren cogeneration plant during the eighties. The redevelopment work began in the summer of 2014 and once completed, recovered an area of around 13 thousand square metres to the city, creating a recreational area for children and adults in the neighbourhood.

Waste recovery
A number of initiatives were undertaken in the various local regions the Group operates in (CAM, eco crossword puzzles, eco quiz) for the recovery of waste that is difficult to recycle, such as mobile phones, small household appliances, medicine, batteries, reading glasses and all the products that cannot be disposed of in street bins or using door-to-door collections.

Discussions for sustainable families
With the collaboration of the Iren and the Coop Alleanza 3.0 Castel San Giovanni, the province of Piacenza hosted the “Sustainable families, practical and fun experiences for parents and children” project; this comprised a series of meetings for all ages, in order to sensitise participants on environmental and food education, to create a network between different “knowledge bases”.

Meetings aimed at sensitising foreign communities resident in Turin on the issue of separate waste collection and recycling
In conjunction with some cultural mediation cooperatives, AMIAT used public meetings to provide useful information on the correct conferral of waste, disposal plants, urban hygiene, and a platform to air the needs and questions of a population with different habits and traditions.

Rebuild
The Rebuild project, promoted by Iren Rinnovabili, Iren Energia and the municipality of Reggio Emilia, which encourages the energy requalification of private buildings, was explained to the Ministry of Economic Development on 23 June during the presentation of the ENEA 5th Annual Report on Energy Efficiency.

Cell to cell
This project, promoted by AMIAT and the Lo Russo and Cutugno Prison incentivises separate waste collection within the penitential facility.

We also note participation in conferences, events and initiatives aimed at sensitising on CSR-related issues (Altis, UniToGo, CSR Manager Network, etc.) and specific working tables and groups:

- "ESG Performance: do they count for people who judge companies? - Promoting sustainability performance among the criteria for judging financial operators" promoted by Altis;
- "Benchmarking sustainability" promoted by Utilitatis to create a benchmarking system for sustainability in the main Italian utilities;
- work table established by Assonime on the issues of sustainability and social responsibility in view of the implementation of EU Directive 95/2014 on the disclosure of non-financial information (integrated reporting).

Condensed Consolidated Interim Report and Notes

at 30 june 2016

STATEMENT OF FINANCIAL POSITION

thousands of euro

	Notes	30.06.2016	of which related parties	31.12.2015	of which related parties
ASSETS					
Property, plant and equipment	(1)	3,383,845		2,907,076	
Investment property	(2)	13,656		14,148	
Intangible assets with a finite useful life	(3)	1,395,322		1,363,451	
Goodwill	(4)	170,106		126,723	
Investments accounted for using the equity method	(5)	143,566		219,246	
Other equity investments	(6)	7,171		17,821	
Non-current trade receivables	(7)	72,816		73,788	
Non-current financial assets	(8)	50,749	35,412	53,012	51,377
Other non-current assets	(9)	56,538	9,636	43,298	9,217
Deferred tax assets	(10)	283,000		252,812	
Total non-current assets		**5,576,769**	**45,048**	**5,071,375**	**60,594**
Inventories	(11)	83,442		96,337	
Trade receivables	(12)	786,585	156,768	841,022	154,045
Current tax assets	(13)	19,816		19,991	
Other receivables and other current assets	(14)	208,054	245	163,366	4,285
Current financial assets	(15)	547,920	540,919	551,302	549,104
Cash and cash equivalents	(16)	171,130		139,576	3,487
Total current assets		**1,816,947**	**697,932**	**1,811,594**	**710,921**
Assets held for sale	(17)	920		5,420	
TOTAL ASSETS		**7,394,636**	**742,980**	**6,888,389**	**771,515**

thousands of euro

	Notes	30.06.2016	of which related parties	31.12.2015	of which related parties
SHAREHOLDERS' EQUITY					
Equity attributable to owners of the Parent					
Share capital		1,276,226		1,276,226	
Reserves and retained earnings (Losses)		483,363		429,444	
Net profit /(loss) for the period		119,112		118,193	
Total equity attributable to owners of the Parent		**1,878,701**		**1,823,863**	
Non-controlling interests		290,547		237,803	
TOTAL EQUITY	**(18)**	**2,169,248**		**2,061,666**	
LIABILITIES					
Non-current financial liabilities	(19)	3,035,921		2,698,648	78,152
Employee benefits	(20)	136,172		135,092	
Provisions for risks and charges	(21)	291,655		292,302	
Deferred tax liabilities	(22)	187,115		141,840	
Other payables and other non-current liabilities	(23)	201,268		205,209	
Total non-current liabilities		**3,852,131**	**-**	**3,473,091**	**78,152**
Current financial liabilities	(24)	277,941	909	214,611	40,416
Trade payables	(25)	623,462	25,411	798,696	63,137
Other payables and other current liabilities	(26)	265,011	138	220,233	315
Current tax liabilities	(27)	94,076		21,687	
Provisions for risks and charges - current portion	(28)	112,767		98,405	
Total current liabilities		**1,373,257**	**26,458**	**1,353,632**	**103,868**
Liabilities related to assets held for sale	(29)	-		-	
TOTAL LIABILITIES		**5,225,388**	**26,458**	**4,826,723**	**182,020**
TOTAL EQUITY AND LIABILITIES		**7,394,636**	**26,458**	**6,888,389**	**182,020**

INCOME STATEMENT

thousands of euro

	Notes	First half 2016	of which related parties	First half 2015	of which related parties
Revenue					
Revenue from goods and services	(30)	1,439,272	144,356	1,442,412	162,507
Change in work in progress	(31)	923	923	(74)	(2)
Other income	(32)	115,033	1,597	137,035	5,768
Total revenue		**1,555,228**	**146,877**	**1,579,373**	**168,273**
Operating expense					
Raw materials, consumables, supplies and goods	(33)	(456,748)	(21,450)	(535,399)	(44,305)
Services and use of third-party assets	(34)	(472,733)	(11,985)	(454,416)	(28,058)
Other operating expenses	(35)	(34,358)	(2,194)	(38,995)	(3,049)
Capitalised expenses for internal work	(36)	10,130		10,583	
Personnel expenses	(37)	(184,444)		(183,041)	
Total operating expense		**(1,138,153)**	**(35,629)**	**(1,201,268)**	**(75,412)**
GROSS OPERATING PROFIT (EBITDA)		**417,075**	**111,248**	**378,105**	**92,861**
Depreciation, amortisation, provisions and impairment losses					
Amortisation/depreciation	(38)	(142,996)		(130,937)	
Provisions and impairment losses	(39)	(32,122)		(30,514)	
Total amortisation, depreciation, provisions and impairment losses		**(175,118)**		**(161,451)**	
OPERATING PROFIT (EBIT)		**241,957**	**111,248**	**216,654**	**92,861**
Financial income and expense	**(40)**				
Financial income		13,135	11,234	16,090	11,338
Financial expenses		(65,983)	(6)	(54,747)	(2,625)
Total financial income and expense		**(52,848)**	**11,228**	**(38,657)**	**8,713**
Share of Profit (loss) of associates accounted for using the equity method	(41)	705		4,793	
Value adjustments on equity investments	(42)	12,599		-	
Profit (loss) before tax		**202,413**	**122,476**	**182,790**	**101,574**
Income tax expense	(43)	(71,328)		(67,918)	
Net profit/ (loss) from continuing operations		**131,085**		**114,872**	
Net profit /(loss) from discontinued operations	(44)	-		-	
Net profit /(loss) for the period		**131,085**		**114,872**	
attributable to:					
- Profit (loss) - Group		119,112		102,559	
- Profit (loss) - non-controlling interests	(45)	11,973		12,313	
Earnings per ordinary and savings share	**(46)**				
- basic (euro)		0.09		0.08	
- diluted (euro)		0.09		0.08	

STATEMENT OF OTHER COMPREHENSIVE INCOME

thousands of euro

	First half 2016	First half 2015
Profit/(loss) for the period - Owners of the parent and non-controlling interests (A)	**131,085**	**114,872**
Other comprehensive income to be subsequently reclassified to the Income Statement		
- effective portion of changes in fair value of cash flow hedges	(1,730)	6,740
- changes in fair value of available-for-sale financial assets	-	-
- share of other profits/(losses) of companies accounted for using the equity method	4,743	4,680
Tax effect of other comprehensive income	(459)	(1,880)
Total other comprehensive income to be subsequently reclassified to the Income Statement, net of tax effect (B1)	**2,554**	**9,540**
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 comprehensive income/(expense) (A)+(B1)+(B2)	**133,639**	**124,412**
attributable to:		
- Profit (loss) - Group	123,203	112,097
- Profit (loss) - non-controlling interests	10,436	12,315

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserve	Legal reserve
31/12/2014	**1,276,226**	**105,102**	**36,855**
Legal reserve			2,505
Dividends to shareholders			
Retained earnings			
Change in business combinations			
Other changes			
Comprehensive income for the period			
of which:			
- Net profit for the period			
- Other comprehensive income			
30/06/2015	**1,276,226**	**105,102**	**39,360**
31/12/2015	**1,276,226**	**105,102**	**39,360**
Legal reserve			6,225
Dividends to shareholders			
Retained earnings			
Changes in consolidation scope			
Change in business combinations			
Other changes			
Comprehensive income for the period			
of which:			
- Net profit for the period			
- Other comprehensive income			
30/06/2016	**1,276,226**	**105,102**	**45,585**

thousands of euro

Hedging reserve	Other reserves and retained earnings (losses)	Total reserves and retained earnings (losses)	Profit (loss) for the period	Equity attributable to the Group	Equity attributable to non-controlling interests	Total equity
(39,695)	**298,936**	**401,198**	**85,795**	**1,763,219**	**230,330**	**1,993,549**
		2,505	(2,505)	-		-
			(66,747)	(66,747)	(14,670)	(81,417)
	16,543	16,543	(16,543)	-		-
	511	511		511		511
	(150)	(150)		(150)	(18)	(168)
9,538		9,538	102,559	112,097	12,315	124,412
			102,559	102,559	12,313	114,872
9,538	-	9,538		9,538	2	9,540
(30,157)	**315,840**	**430,145**	**102,559**	**1,808,930**	**227,957**	**2,036,887**
(36,654)	**321,636**	**429,444**	**118,193**	**1,823,863**	**237,803**	**2,061,666**
		6,225	(6,225)	-		-
		-	(70,192)	(70,192)	(16,506)	(86,698)
	41,776	41,776	(41,776)	-		-
	3,770	3,770		3,770	58,803	62,573
	(1,286)	(1,286)		(1,286)		(1,286)
	(657)	(657)		(657)	11	(646)
4,091		4,091	119,112	123,203	10,436	133,639
			119,112	119,112	11,973	131,085
4,091	-	4,091		4,091	(1,537)	2,554
(32,563)	**365,239**	**483,363**	**119,112**	**1,878,701**	**290,547**	**2,169,248**

STATEMENT OF CASH FLOWS

thousands of euro

	First half 2016	First half 2015
A. Opening cash and cash equivalents	**139,576**	**51,601**
Cash flows from operating activities		
Profit (loss) for the period	131,085	114,872
Adjustments:		
Income tax expense for the period	71,329	67,918
Share of profit (loss) of associates and joint ventures	(13,304)	(4,793)
Net financial expense (income)	52,848	38,657
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	142,996	130,937
Net impairment losses (reversals of impairment losses) on assets	4,146	220
Net provision for risk and other charges	36,089	40,248
Capital (gains) losses	(1,339)	(2,459)
Utilisations of employee benefits	(5,487)	(4,403)
Utilisations of provision for risks and other charges	(10,490)	(11,712)
Change in other non-current assets and liabilities	(4,665)	(6,735)
Other financial changes	(2,553)	(1,302)
Taxes paid	(3,726)	(2,235)
B. Cash flows from operating activities before changes in NWC	**396,929**	**359,213**
Change in inventories	14,246	(5,832)
Change in trade receivables	104,814	93,918
Change in tax assets and other current assets	(32,881)	63,612
Change in trade payables	(229,739)	(155,966)
Change in tax liabilities and other current liabilities	29,171	(26,318)
C. Cash flows from changes in NWC	**(114,389)**	**(30,586)**
D. Cash flows from /(used in) operating activities (B+C)	**282,540**	**328,627**
Cash flows from /(used in) investing activities		
Investments in intangible assets, property, plant and equipment and investment property	(97,701)	(96,316)
Investments in financial assets	(30)	(1,355)
Proceeds from the sale of investments and changes in assets held for sale	7,531	4,547
Changes in consolidation scope	(437,046)	-
Dividends received	6,979	7,260
E. Total cash flows from /(used in) investing activities	**(520,267)**	**(85,864)**
F. Free cash flow (D+E)	**(237,727)**	**242,763**
Cash flows from /(used in) financing activities		
Dividends paid	(86,698)	(81,417)
New non-current loans	20,000	250,000
Repayment of non-current loans	(88,235)	(111,812)
Change in financial liabilities	449,058	(223,380)
Change in financial assets	9,916	(66,948)
Interest paid	(42,451)	(40,334)
Interest received	7,691	8,984
G. Total cash flows from /(used in) financing activities	**269,281**	**(264,907)**
H. Cash flows for the period (F+G)	**31,554**	**(22,144)**
I. Closing cash and cash equivalents (A+H)	**171,130**	**29,457**

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

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

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

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

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

The company's condensed consolidated interim financial statements at 30 June 2016 include those of the Company and its subsidiaries, (collectively referred to as the "Group" and individually as "Group entities") and the Group's equity interest in jointly-controlled companies and in associates.

I. CONTENT AND STRUCTURE OF THE CONDENSED CONSOLIDATED INTERIM REPORT

The interim financial report of the Iren Group at 30 June 2016 was prepared under the terms of Art. 154-*ter*, Section 2 of Italian Legislative Decree no. 58 of 24 February 1998 as amended by Italian Legislative Decree no. 195 of 6 November 2007.

The condensed consolidated interim financial statements at 30 June 2016 were prepared in accordance with IAS 34 - Interim Financial Reporting. These condensed interim financial statements do not include, therefore, all the information required in the annual financial statements and must be read together with the annual financial statements prepared for the financial year ended 31 December 2015 and available at the company's registered office, at Borsa Italiana S.p.A., and on the website www.gruppoiren.it.

The financial statement formats adopted by the Iren Group in preparing these financial statements are the same as those applied in preparing the financial statements for the year ended 31 December 2015. In order to improve the financial information provided, more analysis on financial flows was included, specifically on those produced from operational and financial activities. In order to provide consistency, the period of comparison was prepared on a like-to-like basis as the first six months of 2016.

The financial statements of consolidated entities are drawn up at the reporting date of the half-year period of reference. These condensed consolidated interim financial statements are stated in euro, the company's functional currency. All amounts expressed in euro are rounded to the nearest thousand.

The accounting standards adopted in preparing these condensed consolidated interim financial statements are the same as those adopted in preparing the Group's consolidated annual financial statements for the financial year ended 31 December 2015, to which you are referred for a more ample discussion, with the exception of what follows.

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

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

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

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

asset (or group being discontinued) from the held for sale category to the held for distribution category (or vice versa), or when the requirements for classifying an asset as held for distribution no longer exist.
- Improvement to IFRS 7 - Financial instruments: Disclosures. The document governs the introduction of additional guidelines to clarify whether a servicing contract constitutes residual involvement in a transferred asset for the purposes of the required disclosure. In addition, relative to offsetting of financial assets and liabilities, the document clarifies that this disclosure is not explicitly required for interim financial statements.
  Nonetheless, the disclosure could be necessary to respect the requirements foreseen under IAS 34, if it is significant information.
- Improvement to IAS 19 - Employee Benefits: discount rate issues. The document introduces amendments to IAS 19 in order to clarify that high-quality corporate bonds used to determine the discount rate for subsequent benefits must be issued in the same currency used to pay the benefits. The amendments specify that the depth of the market for high-quality corporate bonds should be assessed at the currency level.
- Improvement to IAS 34 - Interim Financial Reporting: placement of additional disclosures. The document introduces amendments to clarify the requirements when the required disclosure is presented in the interim report, but outside of the financial statement sections. The amendment specifies that this disclosure is included through cross-references made between the two documents, provided that they are available to readers of the financial statements with the same method and in the same time.

Amendments to IAS 1 – Presentation of Financial Statements (Regulation 2406/2015). Document issued by the IASB on 18 December 2014. The amendments, which apply as of financial years which start on 1 January 2016, have the goal of making financial statements clearer and more intelligible. The amendments introduced involve:
- materiality and aggregation - it is clarified that information must not be obscured by aggregation or disaggregation and that the concept of materiality applies to the accounting statements, the notes to the statements and the specific disclosure requirements foreseen in the individual IFRSs. It is clarified that disclosures specifically requested in the IFRS need to be provided only if the information is material;
- statement of financial position and statement of comprehensive income - it is clarified that the list of items specified in IAS 1 for these statements can be disaggregated and aggregated as necessary. In addition, guidelines are provided on the use of subtotals within the statements;
- presentation of other components in the statement of comprehensive income (OCI: Other Comprehensive Income) - it is clarified that the portion of OCI for associates and joint ventures consolidated with the equity method must be presented in aggregate in a single item, distinguished based on whether they are components that could be reclassified to the income statement in the future or not;
- notes to the statements - it is clarified that entities can be flexible in defining the structure of the notes to the statements, and guidelines are provided on how to develop the structure of the notes.

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

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

IFRS 9 - Financial Instruments. In July 2014 the IASB published the standard IFRS 9 "Financial Instruments". The standard is the result of a process that began in 2008 following the economic and financial crisis, with the aim of completely rewriting the accounting rules for recognition and measurement of financial instruments provided for in IAS 39. In brief the rules of IFRS 9 regard:
- <u>the criteria for classification and measurement of financial assets and liabilities</u>. In particular, as regards financial assets, the new standard uses a single approach based on management models of financial instruments and characteristics of contractual cash flows of financial assets, with the aim of determining the measurement criteria, by replacing the various rules set forth in IAS 39. As regards

financial liabilities, the main amendment is instead related to accounting for fair value changes of a financial liability designated as carried at fair value through profit or loss, in the event that these are due to a change in the credit risk of the liability itself. According to the new standard, these changes should be recognised under Other comprehensive gains/(losses) and will no longer be entered in the income statement;

- impairment of financial assets. The standard establishes that the entity must recognise the expected losses on its financial assets, where "loss" means the present value of all future lost revenue, and provide adequate information on the estimation criteria used;
- hedging operations (hedge accounting). IFRS 9 introduces a number of significant changes that mainly regard the effectiveness test, as the 80-125% threshold is abolished and replaced by an objective test that verifies the economic relationship between the hedged instrument and the hedging instrument, accounting only for the cost of the hedge, and extending the hedged elements and the disclosure required.

IFRS 9 will be applicable prospectively starting from 1 January 2018.

IFRS 15 – Revenue from Contracts with Customers. Standard published by the IASB on 28 May 2014, replacing IAS 18 - Revenue, IAS 11 - Construction Contracts, and interpretations SIC 31, IFRIC 13 and IFRIC 15. The new standard applies to all contracts with customers, with the exception of contracts that fall under the scope of IAS 17 - Leases, for insurance contracts and financial instruments. The purpose of the new standard is to establish the criteria to be adopted in order to provide users of financial statements with information about the nature, amount and uncertainties associated with revenue and cash flows deriving from existing contracts with customers. The standard in question applies if all the following conditions are met:

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

The new standard will be applicable starting from 1 January 2018.
This principle underwent further change on 12 April 2016: the amendment that also becomes applicable from 1 January 2018, aims to clarify the guidelines for identifying an obligation to sell an asset or provide one or more services, in addition to providing directives on the recognition of licences relating to intellectual property.
Amendments to IFRS 10, IFRS 11 and IAS 28 – Investment Entities: Applying the Consolidation Exception. The document, published by IASB on 18 December 2014, introduces the following amendments:

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

IFRS 16 – Leases. Standard published by the IASB on 13 January 2016, intended to replace IAS 17 - Leases, as well as the interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease". The new standard provides a new definition of lease and introduces criteria based on the right of use for an asset to distinguish leasing contracts from services contracts, identifying as discriminating factors: identification of the asset, the right to replace the same, the right to obtain substantially all economic benefits deriving from the use of the asset and the right to control the use of the asset underlying the contract. It will be applied as of 1 January 2019. Early application is allowed for entities that apply IFRS 15. In the coming months, detailed analysis will be done to assess the effects the introduction of IFRS 16 will have on the Group.

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

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

Amendments to IFRS 2 - "Share-based payments". Document issued by the IASB on 20 June 2016. The amendments, which apply for financial years starting on 1 January 2018 with the option of being applied in advance, clarify the recognition of specific types of transactions with share-based payment. In particular, the amendments refer to:
- the impact of accrual and non-accrual conditions on the valuation of transactions with cash-settled share-based payments;
- the recognition of share-based payment transactions that require withholding tax to be applied;
- the reclassification of cash-settled transaction to equity-settled due to changes in the transaction's terms and conditions.

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

Use of estimates

In order to prepare the condensed interim financial statements in compliance with the IFRSs, estimates and related assumptions are based on previous experience and other factors, which are deemed reasonable and were adopted to define the carrying amount of assets and liabilities to which they refer. The later results that derive from occurrence of the events could differ from these estimates. Estimates have been used to recognise the accrual of some sales revenue, provisions for credit risks, risks for inventory obsolescence, amortisation/depreciation and impairment losses on assets, employee benefits, to determine the fair value of derivatives and financial assets available for sale, taxes and other provisions for risks. These estimates and assumptions are regularly revised. Any changes deriving from the revision of accounting estimates are recognised in the period in which they are revised, if the revision refers only to the period under evaluation. Should the revision involve both current and future periods, the variation is recognised in both the year in which the revision occurs and in the related future periods.

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 accordance with IAS 36, during the first half of 2016 the Group checked the non-existence of specific impairment triggers with particular reference to goodwill; in addition, no impairment indicators emerged in relation to equity investments and assets.

In the same way, the actuarial valuations necessary to determine employee benefit funds are normally carried out on the occasion of preparing the annual financial statements.

Seasonality

We can also note that the Iren Group's results for the period reflect the seasonality characteristic of the sectors in which it operates. These are influenced above all by the weather trends, and consequently cannot be extrapolated for the entire year.

II. CONSOLIDATION SCOPE

On 1 January 2016 a series of business combinations among the subsidiaries of the Parent Company Iren S.p.A. came into effect. These occurred as part of the Group's "overall" Corporate Rationalisation and Organisational Project (the so-called "100% Operations" Project), aimed at simplifying the equity investment structure and reducing the number of business Companies held wholly, directly or indirectly, by the Parent Company and at integrating/optimising the business processes/activities with uniform operating characteristics.
These operations did not entail a change in the consolidation scope, but in any case had effects on the Group's structure.
Specifically, the operations involved were the following:

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

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

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

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

1) Iren Ambiente and its subsidiaries:
    - Amiat V and the subsidiary:
        - AMIAT
    - Bonifica Autocisterne
    - Montequerce
    - TRM Holding and subsidiaries;
        - TRM V, and its subsidiary
            - TRM

2) Iren Energia, and the subsidiary:
    - Iren Servizi e Innovazione

3) Iren Mercato and its subsidiaries:
    - Iren Gestioni Energetiche
    - GEA Commerciale

4) IRETI and its subsidiaries:
    - Atena S.p.A. and its subsidiary:
        - Atena Trading
    - Consorzio GPO
    - Laboratori Iren Acqua Gas
    - Mediterranea delle Acque and its subsidiaries:
        - Idrotigullio
        - Immobiliare delle Fabbriche

CHANGES IN CONSOLIDATION SCOPE

The changes in consolidation scope during the first six-month period of 2016 were due to:

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

III. GROUP FINANCIAL RISK MANAGEMENT

The management of business risks is an essential component of the Internal Control System of corporate governance in a listed company, and the Code of Conduct set forth by Borsa Italiana assigns specific responsibilities as regards this aspect.
A summary of the risk management and control methods is shown below with respect to financial instruments (liquidity risk, exchange rate risk, interest rate risk, credit risk) and commodity price risk related to fluctuations in the prices of energy commodities.

1. FINANCIAL RISKS
Iren Group activity is exposed to various types of financial risks, including liquidity risk, currency risk and interest rate risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit currency risk and interest rate risk.

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

The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored; no critical points have emerged regarding the coverage of current financial commitments. At the end of the period short-term bank credit facilities used by the Parent Company totalled 51 million euro.
The nominal cash flows required to settle financial liabilities and the contractual conditions of the existing loans, apart from the inclusion of TRM positions, were substantially unchanged with respect to what was presented in the Consolidated Financial Statements at 31 December 2015 in the paragraph "a) Liquidity risk" in Section "VI. Group financial risk management".

Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suited to its needs, and the best market conditions.
Details of the activities carried out in this area and of the individual transactions are shown in the paragraph Financial Operations.

Financial indebtedness at the end of the period is made up 64% of loans and 36% of bonds.
The residual amount payable for loans was contractualised at 62% at a fixed interest rate and 38% at a floating rate.
With regard to the liquidity risk potentially deriving from contractual clauses allowing counterparties to withdraw financing should certain events occur (default and covenant risk), we can note that the clauses in Iren's loan agreements are being observed. In particular, for certain medium/long-term loan agreements Iren is committed to observing financial covenants (such as Debt/EBITDA, EBITDA/Financial expense ratios) with annual verification. Moreover, other covenants have been provided for. One is the Change of Control clause, which states that the Iren Group should be kept under direct and indirect control by Local Authorities. In addition, there are Negative Pledge clauses, under which the company undertakes not to give collateral beyond a specific limit, and the *Pari Passu* clause, which reserves an equal treatment to lending banks with respect to the treatment for other unsecured creditors.
The medium/long-term loan agreements of certain companies which contribute to the Group's Net Financial Position, in particular the Project Finance contract with TRM that was fully consolidated from January 2016, also envisage the observance of financial covenants which have been satisfied.

b) Exchange rate risk

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

c) Interest rate risk

The Iren Group is exposed to interest rate fluctuations especially with regard to the measurement of financial expenses related to indebtedness. The Iren Group's objective is to limit its exposure to interest rate increases 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 hedging. At 30 June 2016 all the contracts entered into meet the requisite of limiting the exposure to the risk of oscillation of interest rates and, except for a few positions with insignificant impacts, they also meet the formal requirements for the application of hedge accounting.

The fair value of the above-mentioned interest rate hedges was a negative 137,333 thousand euro at 30 June 2016.

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

For a more complete understanding of the interest rate risks to which the Group is subject, stress testing is performed annually at 31 December on the sensitivity of net financial expenses and evaluation components in derivatives contracts to changes in interest rates.

2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables deriving from the sale of electricity, district heating, gas and the provision of water and environmental services. The receivables show no particular concentration since the exposure is spread across a large number of counterparties, belonging to non-uniform customer categories (retail and business customers and public entities).

In carrying on its business, the Group is exposed to the risk that the receivables may not be honoured on maturity with a consequent increase in their age and in insolvency up to an increase in receivables subject to arrangement procedures or unenforceable. This risk reflects the current unfavourable economic and financial situation.

To limit exposure to credit risk, a number of tools have been introduced and identified. These include analysing the solvency of customers at the acquisition stage through careful assessment of their creditworthiness, transferring the receivables of discontinued and/or active customers to external credit recovery companies and introducing new recovery methods for managing legal disputes.

The receivable management policy and creditworthiness assessment tools, as well as monitoring and recovery activities differ in relation to the various categories of customers and types of service provided.

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

An interest-bearing guarantee deposit is paid for some types of services (water, natural gas, "protected customer" electricity sectors) in compliance with regulations governing these activities. This deposit is reimbursed if the customer uses payment by direct debit from a current account.

The payment terms generally applied to customers are related to the legislation or regulations in force or in line with the standards of the free market; in the event of non-payment, default interest is charged for the amount indicated in the contracts or by the legislation.

Provisions set aside for impairment of receivables accurately reflect the effective credit risk through assessments based on analysis of the individual receivable items recorded in the databases, specifically taking into account ageing, as well as comparison with historical losses on receivables and determination of the average non-payment rate.

In view of the continuing unfavourable economic situation, the control over credit risks has been improved by strengthening the monitoring and reporting procedures, in order to promptly identify possible countermeasures.

In addition, on a quarterly basis, the Risk Management Department collects and integrates the main data on trade receivables of the Group companies, in terms of customers, business chain and ageing band.

Some of the above assessments are carried out at intervals of less than three months or when there is a specific need.

With reference to credit concentration we can note the relations between the subsidiaries Iren Servizi e Innovazione and Amiat and the municipality of Turin. For further details see in particular Note 8 “Non-current financial assets” of the consolidated financial statements.

3. ENERGY RISK

The Iren Group is exposed to price risk, including the related currency risk, on the energy commodities traded, (that is electricity, natural gas, heat, etc.) as both purchases and sales are impacted by price fluctuations directly or through indexing formulae.

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

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

The objective is to balance opportunely self-production and energy from the futures market with respect to the demand coming from the Group’s customers, with adequate recourse to the spot market and sufficient stability of the margins.

From September to December 2015, commodity derivative contracts (Commodity swaps on TTF, PSV and Pfor indices) were entered into as an energy portfolio hedge for 2016, for a total notional amount of 5.1 TWh. In the first half of 2016, additional commodity derivative contracts (Commodity swap on TTF and PSV indices) were entered into for 1.3 TWh, once again to hedge the energy portfolio for 2016, and for 0.3 TWh as a hedge for the 2017 portfolio.

The fair value of agreements still in force on 30 June 2016 is a negative total of 2,778 thousand euro.

Iren Mercato trading operations involve negotiating physical and financial contracts on the electrical energy market and financial contracts directly on the underlying commodities. These contracts may refer to various indexes (PUN, ITEC, Itmix, BINE) and trading on the IDEX. At 30 June 2016 no contracts were in place that originate from such assets or classified in the specific Trading Portfolio.

RECOGNITION OF DERIVATIVES

Derivatives are measured at fair value, determined on the basis of market values or, if unavailable, according to an internal measurement technique.

The Group deals with derivatives with the purpose of hedging specific currency, rate or price risks.

In order to recognise derivatives, it is necessary to distinguish between transactions that meet all of the IAS 39 requirements in order to record them in compliance with the hedge accounting rules and transactions that do not abide to all of the above-mentioned requirements.

Transactions recognised in compliance with hedge accounting rules

These transactions may include:
- fair value hedging transactions: the derivative and the hedged item are recognised at fair value in the statement of financial position and the change in their fair values is recognised directly in the income statement;
- cash flow hedging transactions: the derivative is recognised at fair value with a contra entry in a specific equity reserve for the effective component of the hedge and in the income statement for the ineffective component; when the hedged item arises, the amount suspended in equity is reversed to the income statement.

Classification in the income statement of the ineffective component and the deferred amount transferred from equity is based on the nature of the underlying instrument; in the case of commodity derivatives, this amount is accounted for in the gross operating margin, while in the case of interest rate risk hedges in financial income and expenses.

Transactions not recognised in compliance with hedge accounting rules

The derivative is recognised at fair value in the statement of financial position.
The change in the fair value of the derivative is recognised in the income statement and is classified based on the type of underlying instrument:
- in the case of commodity derivatives, in the gross operating profit/loss; specifically, the realised component is recognised to adjust the income or expense to which it refers, while the portion determined from measuring the derivative at the end of the period is classified under other expense or other income;
- in the case of interest rate risk hedges, in financial income or expenses.

As regards the measurement of the derivative in the statement of financial position items, the fair value of the derivative is recognised in non-current financial assets and liabilities if the related underlying item is a non-current item. Conversely, the derivative is recognised in current financial assets and liabilities if the underlying item is settled within the reference period.

FAIR VALUE

In addition to the carrying amount, the fair value, along with the methods and major assumptions used to determine it, must be disclosed for every asset and liability class shown in the financial statements.
Fair value is determined as the sum of estimated future cash flows in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the curve of forward interest rates at the reporting date. In addition to measuring fair value, as required by IFRS 13, counterparty default risk was also considered.
In order to provide a disclosure as complete as possible, the corresponding figure from the previous year is also indicated.

thousands of euro

	30.06.2016		31.12.2015	
	Carrying amount	**Fair Value**	**Carrying amount**	**Fair Value**
Assets for hedging derivatives	2,000	2,000	-	-
Bonds due at more than 12 months (*)	(1,186,885)	(1,361,508)	(1,186,552)	(1,299,492)
Loans - non-current portion	(1,699,077)	(1,821,649)	(1,477,052)	(1,592,369)
Loans - current portion	(192,634)	(229,799)	(152,865)	(191,569)
Liabilities for hedging derivatives	(142,111)	(142,111)	(32,369)	(32,369)
Total	**(3,218,707)**	**(3,553,066)**	**(2,848,838)**	**(3,115,799)**

(*) At 30 June 2016, the fair value of the Put Bond was 191,652 thousand euro (189,926 thousand euro at 31 December 2015)

As regards financial asset and liability classes which are not included in the table above, the carrying amount is equal to fair value.

FAIR VALUE HIERARCHY

The following table shows financial instruments recognised at fair value, based on the measurement technique used. The various levels were defined as shown below:

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

thousands of euro

30.06.2016	Level 1	Level 2	Level 3	Total
Financial assets available for sale	88			88
Financial assets designated at fair value through profit or loss				-
Financial assets held for trading				-
Derivative financial assets		2,000		2,000
Total assets	**88**	**2,000**		**2,088**
Derivative financial liabilities		(142,111)		(142,111)
Grand total	**88**	**(140,111)**		**(140,023)**

thousands of euro

31.12.2015	Level 1	Level 2	Level 3	Total
Financial assets available for sale	388			388
Financial assets designated at fair value through profit or loss				-
Financial assets held for trading				-
Derivative financial assets				-
Total assets	**388**	**-**	**-**	**388**
Derivative financial liabilities		(45,372)		(45,372)
Grand total	**388**	**(45,372)**		**(44,984)**

All the Group's hedging instruments have a fair value which can be classified at level 2. This level is measured through valuation techniques, that take, as a reference, parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different from the price of the financial instrument, or in any case that do not require a significant adjustment based on data which cannot be observed on the market.

We can also note that no transfers occurred amongst the various Levels of the fair value hierarchy.

CAPITAL MANAGEMENT

The capital management policies of the Board of Directors involves maintaining a high level of capital to uphold relations of trust with investors, creditors and the market, and also allowing future business development.

The Board of Directors monitors the return on capital and the level of dividends for distribution to ordinary shareholders, and aims to maintain a balance between achieving extra yield by recourse to indebtedness and the benefits and security offered by a solid equity position.

IV. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

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

- of the provisions relating to transactions with related parties pursuant to Article 2391-*bis* of the Italian Civil Code;
- of the provisions pursuant to Art. 114 of Italian Legislative Decree no. 58 of 24 February 1998 (the "Testo Unico della Finanza" - Consolidated Law on Finance);
- the regulation containing provisions on transactions with related parties, adopted by Consob with its Resolution 17221 of 12 March 2010 and subsequently amended with Resolution 17389 of 23 June 2010 (the "Consob Regulation").

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

Iren and its subsidiaries carry out transactions with related parties in accordance with the principles of transparency and fairness. Most of these transactions concern services provided to the customers in general (gas, water, electricity, heat, etc.) and are governed by contracts normally applicable to these situations.
Where the services provided are not current, the transactions are governed by specific agreements whose terms are established in accordance with normal market conditions. If these references are not available or significant, the various profiles will be defined in consultation with independent experts or professionals.

Transactions with subsidiaries and associates

Intercompany Services
In order to optimise the organisational synergies, the Iren structure was designed in accordance with a Holding model, with sufficient staff structures to support the coordination activity of the Group and to deal with the most challenging matters of general interest. Therefore, Iren can provide professional services to its directly/indirectly controlled subsidiaries, according to their stated needs and so as to promote the Group's unitary coordination approach, based on service agreements signed by the parties.

<u>Financial operations</u> - Organisational solutions were adopted with the aim of centralising financial management for the entire Group under the direct responsibility of Iren S.p.A., in order to optimise the structure and conditions of access to third party financing.
To this end, loans are taken out by Iren with financial institutions, whereby the funds are subsequently transferred to the Group's companies to support the investments made, based on intercompany loan agreements.
The Board of Directors also approved the regulation of financial transactions between the Parent Company and the First-level Companies, regarding both the centralised management of resources available within the Group for day to day requirements (working capital), and the management of resources needed to support non-current investments. The conditions of intercompany contracts, signed based on the above regulation, were defined according to the conditions at which the Parent Company procures on the financial market.

<u>Tax consolidation scheme</u> - Starting from 2010, Iren S.p.A. adopted the tax consolidation scheme pursuant to Arts 117 et seq. of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.
All financial and legal transactions between the parties are governed by the specific intra-group agreement between the companies involved and the parent, Iren S.p.A.

The tax consolidation scope for 2016 includes the following companies, in addition to the consolidating company Iren S.p.A.: IRETI (formerly Iren Emilia and acquiring company of Iren Acqua Gas, AEM Torino Distribuzione, Aga, Eniatel, Genova Reti Gas and Acquedotto di Savona), Iren Servizi e Innovazione, Iren Mercato, Iren Energia (acquiring company of TLR V), Iren Gestioni Energetiche, Mediterranea delle Acque, Immobiliare delle Fabbriche, Iren Ambiente (acquiring company of Iren Ambiente Holding and Tecnoborgo), Iren Rinnovabili, Green Source, Enìa Solaris, Varsi Fotovoltaico, Millenaria Fotovoltaico and AMIAT.
In particular, this contract covers the way in which the IRES taxable amounts are transferred and the related remuneration, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.
Italian Law no. 244 of 24 December 2007 (2008 Budget Law), with effect starting from the 2008 tax period, radically changed the group taxation rules. It abolished all consolidation adjustments provided for by Art. 122 of the Consolidated Income Tax Act, abrogated the rules regarding intra-group transfers pursuant to Art. 123 of the Consolidated Income Tax Act and introduced the possibility, under certain conditions, to deduct from the consolidated income the surplus interest expense of the participating companies that may have accrued due to the new interest expense deductibility provisions set forth in Art. 96 of the said Act.
By reason of regulatory amendments, the Regulations in force were drawn up taking into account the above-mentioned criteria, pursuant to provisions set out by Art. 22 of the same Regulations.
After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay to the parent “tax settlements” equal to the amount of taxes owed on the income transferred, net of the transferred IRES receivables.
The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the parent is able to determine the total group Income for IRES purposes.
The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to Art. 127, paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.

Group VAT option - In terms of procedures, for 2016, the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding settlements and VAT periodic payments.
The companies that take part in the Group settlement procedure are the Parent Company Iren S.p.A. and the following companies: Iren Energia (acquiring company of TLR V.)., Iren Servizi e Innovazione, IRETI (formerly Iren Emilia and acquiring company of Iren Acqua Gas, AEM Torino Distribuzione, Aga, Eniatel, Genova Reti Gas and Acquedotto di Savona), Iren Mercato, Iren Gestioni Energetiche (incorporating company of OC.CLIM), Iren Ambiente (acquiring company of Iren Ambiente Holding and Tecnoborgo), AMIAT, Iren Rinnovabili., Enìa Solaris, Idrotigullio, Mediterranea delle Acque., Greensource, Millenaria Fotovoltaico, Varsi Fotovoltaico, Immobiliare delle fabbriche and Laboratori Iren Acqua Gas.

Transactions with related-party shareholder Municipalities

Iren S.p.A. provides Finanziaria Sviluppo Utilities S.r.l., a special purpose company through which the Municipalities of Genoa and Turin hold their equity investment in Iren S.p.A., with a series of services in the legal, administrative, financial and tax areas, in accordance with specific agreements that provide compensation for these services.
It is important to note, furthermore, the relations with local authorities on whose territory Iren also operates through its subsidiaries.
Through Iren Servizi e Innovazione S.p.A., the Iren Group provides various services to the municipality of Turin inherent to its activities for the benefit of citizens, such as management of public street lighting and traffic light services, management of heating and electrical systems of municipal buildings or buildings used to provide services to the community.
The services rendered by Iren Servizi e Innovazione are governed by specific long-term agreements.

It should be remembered that there is an agreement in place, signed during 2012, with the municipality of Turin, which provides for the progressive reduction of receivables due to the Iren Group from the

municipality of Turin and the amendment of some provisions of the current service conventions. This agreement was supplemented with *Addenda* signed in 2013, 2014 and 2015 (the last of which has not yet been fully executed), all regarding the settlement of certain economic items, the municipality's commitment to allocating amounts for extraordinary maintenance and the start-up of a joint working party for benchmark analysis and definition of optimum maintenance plans.
The Iren Group, through Iren Mercato supplies the Municipalities of Genoa, Reggio Emilia, Parma and Piacenza with electricity and gas to the Municipalities of Genoa, Reggio Emilia and Parma, at the conditions normally applied to all other customers. Its subsidiary, CAE S.p.A., provides services relating to the management of air conditioning systems in public buildings and to the management of technological systems at sports and public service facilities to the municipality of Genoa, on the basis of long-term contracts.
Mediterranea delle Acque S.p.A. (subsidiary of IRETI) provides the offices and facilities of the municipality of Genoa and directly the Municipalities of Reggio Emilia and Parma with drinking water and sewers based on supply contracts similar to those signed with all other customers.
The Group, through AMIAT provides the municipality of Turin with environmental health and snow clearing services, and performs post-operative management of the "Basse di Stura" landfill site in accordance with the Service Contract in being since 1 January 2013, awarded through a public tender procedure, which provides for conditions substantially similar to those applied to all other customers. In this regard we can note that, with effect from 1 January 2015, a current account contract was signed by the city of Turin and AMIAT S.p.A. for management of the past-due receivables related to the above activities.
IRETI and Iren Ambiente provide:

a) the Municipalities of Reggio Emilia, Parma and Piacenza with urban waste collection and disposal services at the conditions normally applied to all other customers;
b) the municipality of Piacenza with drinking water and sewerage services based on supply contracts similar to those signed with all other customers;
c) the municipality of Parma with public street lighting services;
d) the municipality of Reggio Emilia with public park maintenance and snow clearing services;
e) the municipality of Piacenza with public park maintenance, snow clearing and cemetery services.

It is worth recalling that a settlement agreement was signed with the municipality of Parma to settle the credit/debit position with some Iren Group companies.

Transactions with other related parties

On the basis of the "Internal Regulations on Transactions with Related Parties", the companies controlled, directly or indirectly, by municipality shareholders which are Provincial Capitals, signatories of the current shareholder agreements and which have not withdrawn from the same have been identified as related parties.
The relations with such parties are mainly of a commercial nature and related to services provided to all other customers.
In particular, we can note that in order to supply the integrated water service in the provinces of Parma, Piacenza and Reggio Emilia, the company IRETI, with the payment of an annual lease, uses the assets of the companies Parma Infrastrutture, Piacenza Infrastrutture and AGAC Infrastrutture, controlled by the Municipalities involved.

Information on financial transactions with related parties is presented in paragraph "X. Annexes to the condensed consolidated interim financial statements" which is considered an integral part of these notes.

Transactions with Directors

Lastly, with regard to directors, we can note that other than regarding their offices held within the Group companies there have been no transactions with the directors.

V. OTHER INFORMATION

CONSOB COMMUNICATION NO. DEM/6064293 of 28 July 2006

Significant non-recurring events and transactions
In the first half of 2016 the Group did not carry out significant non-recurrent events and/or transactions, as defined in the Communication, that is to say events or transactions the occurrence of which is non-recurring or transactions or events which are not repeated frequently in the normal performance of the business.

Positions or transactions deriving from atypical and/or unusual operations
We can specify that during the first half of 2016 the Group did not engage in any atypical and/or unusual operations, as defined in the Communication. Atypical and/or unusual operations are operations which owing to their significance/relevance, nature of the counterparties, subject of the transaction, the method by which the sales price is calculated and the timescale of the event (nearness to reporting date) may give rise to doubts with regard to the correctness/completeness of the information given in the financial statements, conflict of interest and safeguarding of the company's equity or protection of minority shareholders.

Publication of the Financial Statements
The Interim Report was approved for publication by Iren S.p.A.'s Board of Directors at its meeting of 4 August 2016.

VI. NOTES TO THE STATEMENT OF FINANCIAL POSITION

Unless otherwise stated, the following tables are in thousands of euro.

ASSETS

NON-CURRENT ASSETS

NOTE 1_PROPERTY, PLANT AND EQUIPMENT

The breakdown of property, plant and equipment, divided between historical cost, accumulated depreciation and carrying amount, is shown in the following table:

thousands of euro

	Cost at 30/06/2016	Accumulated depreciation at 30/06/2016	Carrying amount at 30/06/2016	Cost at 31/12/2015	Accumulated depreciation at 31/12/2015	Carrying amount at 31/12/2015
Land	101,322	(1,551)	99,771	93,731	(1,551)	92,180
Buildings	521,711	(154,787)	366,924	424,815	(134,197)	290,618
Plant and machinery	4,760,163	(1,963,866)	2,796,297	4,203,496	(1,777,653)	2,425,843
Industrial and commercial equipment	52,300	(43,744)	8,556	103,566	(77,738)	25,828
Other assets	203,940	(157,830)	46,110	159,709	(127,685)	32,024
Assets under construction and payments on account	66,187	-	66,187	40,583	-	40,583
Total	**5,705,623**	**(2,321,778)**	**3,383,845**	**5,025,900**	**(2,118,824)**	**2,907,076**

The variation in the historical cost of property, plant and equipment is shown in the following table:

thousands of euro

	Opening balance	Increases	Decreases	Changes in consolidation scope	Reclassifica -tions	Closing balance
Land	93,731	-	(265)	7,856	-	101,322
Buildings	424,815	160	(1,270)	97,319	687	521,711
Plant and machinery	4,203,496	11,773	(31,143)	565,984	10,053	4,760,163
Industrial and commercial equipment	103,566	282	(278)	1,084	(52,354)	52,300
Other assets	159,709	2,531	(7,023)	2,637	46,086	203,940
Assets under construction and payments on account	40,583	25,815	(418)	4,679	(4,472)	66,187
Total	**5,025,900**	**40,561**	**(40,397)**	**679,559**	**-**	**5,705,623**

The variation in accumulated depreciation is shown in the following table:

thousands of euro

	Opening balance	Depreciation for the period	Decreases	Changes in consolidation scope	Reclassifica -tions	Closing balance
Accumulated depreciation, land	(1,551)	-	-	-	-	(1,551)
Accumulated depreciation, buildings	(134,197)	(8,601)	4	(11,719)	(274)	(154,787)
Acc. depreciation, plant and machinery	(1,777,653)	(86,866)	17,688	(110,864)	(6,171)	(1,963,866)
Acc. depreciation, ind. and comm. equipment	(77,738)	(869)	277	(809)	35,395	(43,744)
Accumulated depreciation of other assets	(127,685)	(6,428)	6,859	(1,626)	(28,950)	(157,830)
Total	**(2,118,824)**	**(102,764)**	**24,828**	**(125,018)**	**-**	**(2,321,778)**

The column "Changes in consolidation scope" refers to the balances acquired during the first half of 2016 relating to the companies TRM S.p.A. and Atena S.p.A..

Land and buildings
This item primarily includes industrial buildings connected with Group plants and related land.

Plant and machinery
This item refers to costs for electricity production plants, heat production plants, electricity distribution networks, gas distribution networks, heat distribution networks and plants related to waste disposal services not operated under concessions as per IFRIC 12. Freely transferable assets are included in the assets of electricity production plants.

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

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

Assets under construction and payments on account
The item assets under construction includes all expenses incurred for investments in progress and not yet in operation.

Increases
The increases in the period, equal to 40,561 thousand euro, mainly refer to:
- development of the district-heating network and new connections to the network, including heat exchange substations, meters and remote reading appliances, for 9,860 thousand euro;
- installation of new electronic meters for end customers and new connections to the electricity distribution network, totalling 11,259 thousand euro;
- investments in cogeneration and hydroelectric plants of 4,997 thousand euro;

Amortisation/depreciation
Ordinary depreciation for the first half of 2016, totalling 102,764 thousand euro, was calculated on the basis of the rates indicated in the 2015 annual financial statements and considered representative of the residual useful life of the assets.

It is worth noting that in accordance with current regulations regarding the large shunt concessions for hydroelectric purposes ("hydroelectric concessions"), the outgoing operator is paid an amount, calculated as follows:

- as regards "wet assets" (collection, regulation works, penstocks, drain pipes included in the business branch of the outgoing operator, the "transferable assets"), based on the revalued historical cost, net of public capital grants, revalued, received by the operator for the construction of these assets, less normal wear;
- as regards "dry assets" (property, plant and equipment included in the business unit of the outgoing operator and not included in the "wet assets" category, the so-called non-transferable assets), based on the reconstruction value, less normal wear.

As a result of this legislation, starting from 2012, for transferable assets related to expired hydroelectric concessions with a residual carrying amount lower than the estimated amount payable to the outgoing operator (calculated based on the above provisions), the related depreciation has been suspended.

Lastly, no assets are pledged against liabilities.

NOTE 2_INVESTMENT PROPERTY

The following table highlights the breakdown of the item:

thousands of euro

	Cost at 30/06/2016	Accumulated depreciation at 30/06/2016	Carrying amount at 30/06/2016	Cost at 31/12/2015	Accumulated depreciation at 31/12/2015	Carrying amount at 31/12/2015
Land	2,859	-	2,859	2,568	-	2,568
Buildings	13,103	(2,306)	10,797	13,955	(2,375)	11,580
Total	**15,962**	**(2,306)**	**13,656**	**16,523**	**(2,375)**	**14,148**

The item consists mainly of properties acquired from the company Sportingenova against the settlement of part of the receivable due from that company.
The fair value of investment property is not lower than the carrying amount.

NOTE 3_ INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

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

thousands of euro

	Cost at 30/06/2016	Accumulated amortisation at 30/06/2016	Carrying amount at 30/06/2016	Cost at 31/12/2015	Accumulated amortisation at 31/12/2015	Carrying amount at 31/12/2015
Development costs	677	(672)	5	751	(745)	6
Industrial patents and similar rights	47,313	(12,625)	34,688	35,052	(10,486)	24,566
Concessions, licences, trademarks and similar rights	1,875,750	(712,024)	1,163,726	1,821,712	(681,900)	1,139,812
Other intangible assets	101,138	(57,548)	43,590	101,162	(48,413)	52,749
Assets under construction and payments on account	153,313	-	153,313	146,318	-	146,318
Total	**2,178,191**	**(782,869)**	**1,395,322**	**2,104,995**	**(741,544)**	**1,363,451**

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

thousands of euro

	Opening balance	Increases	Decreases	Changes in consolidation scope	Reclassifications	Impairment losses for the period	Closing balance
Development costs	751	-	(149)	75	-	-	677
Industrial patents and similar rights	35,052	5,678	(1,272)	92	7,763	-	47,313
Concessions, licences, trademarks and similar rights	1,821,712	13,171	(3,345)	25,788	19,002	(578)	1,875,750
Other intangible assets	101,162	20,053	(18,577)	6,220	(4,152)	(3,568)	101,138
Assets under construction and payments on account	146,318	29,143	(79)	544	(22,613)	-	153,313
Total	**2,104,995**	**68,045**	**(23,422)**	**32,719**	**-**	**(4,146)**	**2,178,191**

Changes in accumulated amortisation of intangible assets are shown in the following table:

thousands of euro

	Opening balance	Amortisation for the period	Decreases	Changes in consolidation scoper	Reclassificatio ns	Closing balance
Acc. amort., development costs	(745)	(1)	149	(75)	-	(672)
Acc. amort. of ind. patents and similar rights	(10,486)	(4,247)	1,275	(73)	906	(12,625)
Acc. amortisation of licences, trademarks and similar rights	(681,900)	(30,295)	848	(8)	(669)	(712,024)
Acc. amortisation of other intangible assets	(48,413)	(5,515)	1,223	(4,606)	(237)	(57,548)
Total	**(741,544)**	**(40,058)**	**3,495**	**(4,762)**	**-**	**(782,869)**

The column “Changes in consolidation scope” refers to the balances acquired during the first half of 2016 relating to the companies TRM S.p.A., TRM Holding, TRM V, Atena S.p.A. and Atena Trading.

The breakdown of the items that make up intangible assets is presented below.

<u>Industrial patents and intellectual property use rights</u>
This item mainly relates to the total costs borne for the purchase and internal production of corporate and management software and the acquisition of rights for the exclusive use of technical studies on the statistical trend of network losses, amortised over five years.

<u>Concessions, licences, trademarks and similar rights</u>
This item is primarily composed of:
- assets recognised in application of IFRIC 12, related to the operating segments of natural gas distribution, the Integrated Water Service and, marginally, district heating;
- the right of use of aqueduct networks by virtue of the concessions granted by the municipality of Genoa and other neighbouring municipalities;
- concessions for the use of the IT network of third party operators;

Other intangible assets
This item is primarily composed of:
- expense for the ordinary maintenance of electrical systems and special installations of the municipality of Turin, capitalised and amortised over the term of the fifteen-year agreement;
- emission trading quotas held for internal needs;
- costs for the commercial development of customers.

Assets under construction and payments on account
This item mainly consists of investments for concession services governed by IFRIC 12, in addition to software licences and related implementation costs.

NOTE 4_GOODWILL

This item totals 170,106 thousand euro (126,723 thousand euro at 31 December 2015) and mainly refers to goodwill for:
- acquisition of control over Acqua Italia S.p.A. (now Mediterranea delle Acque S.p.A.), where the positive difference between the purchase cost and fair value of acquired and identifiable assets and liabilities was recognised as goodwill of 23,202 thousand euro (allocated to the integrated water service CGU);
- acquisition of ENEL's business unit related to the distribution and sale of electricity to non-eligible customers in the municipality of Turin, in which the positive difference between the purchase cost and fair value of acquired and identifiable assets and liabilities was recognised as goodwill for 64,608 thousand euro (allocated to the energy infrastructures CGU, especially electricity networks);
- the business unit purchased from ENEL at the end of 2000 and referred to electrical facilities of the city of Parma, for an amount of 10,444 thousand euro (allocated for 3,023 thousand euro to energy infrastructures CGU, especially electricity networks and for 7,421 thousand euro to the market CGU);
- shares in Enìa Energia (now merged into Iren Mercato), acquired from Sat Finanziaria S.p.A. and Edison, for an amount of 16,761 thousand euro (allocated to the market CGU);
- acquisition of control over F2i Ambiente (now TRM Holding), TRM V and TRM S.p.A. for an amount of 43,792 thousand euro (allocated to the Waste Management BU). While awaiting the assessment to be carried out under the terms of IFRS 3 - Business Combinations, the difference between the purchase price and the carrying amount of the net assets acquired in continuity of values for 160,127 thousand euro, was provisionally allocated to plants for 162,457 thousand euro, to the deferred tax provision for 46,126 thousand euro and for the remaining 43,792 thousand euro to goodwill.

The difference compared to 31 December 2015 refers to the acquisition of control over F2i Ambiente (now TRM holding), TRM V and TRM S.p.A..

Goodwill is considered an intangible asset with an indefinite useful life. Therefore, it is not amortised, but annually tested for impairment to check whether the carrying amount is still recoverable.
As stated above in paragraph I "Content and structure of the condensed consolidated interim report" of the present document, in the first half of 2016, in accordance with IAS 36, the Group checked the non-existence of specific impairment triggers with particular reference to goodwill.

NOTE 5_INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Equity investments accounted for using the equity method are equity investments in companies in which the Group has joint control or exercises a significant influence.
The Group companies measured using the equity method at 30 June 2016 are shown in an annex.
Changes in the six-month period are shown in the tables below.

Equity investments in joint ventures

thousands of euro

	31/12/2015	Writebacks-writedowns for equity	Other changes	30/06/2016
Acque Potabili	20,984	(1,271)	114	19,827
Iren Rinnovabili	16,347	(264)	(1,286)	14,797
OLT Offshore LNG	18,773	(4,589)	6	14,190
TOTAL	**56,104**	**(6,124)**	**(1,166)**	**48,814**

Other changes refer mainly to the effects on the Iren Rinnovabili Group's Shareholders' equity subsequent to the payments for the future share capital increase in the investee STU Reggiane.

Equity investments in associates

thousands of euro

	31/12/2015	Increases	Changes consolidation scope	Writebacks-writedowns for equity	Distribution of dividends	Measurements with direct effect on equity	Reversals in the period	30/06/2016
A2A Alfa	445	-	-	(7)	-	-	-	438
Acos	8,522	-	-	659	-	-	-	9,181
Acos Energia	1,169	-	-	253	(350)	-	-	1,072
Acquaenna	-	-	-	-	-	-	-	-
Aguas de San Pedro	6,260	-	-	-	-	-	-	6,260
Aiga	215	-	-	(51)	-	-	-	164
Amat	3,099	-	-	(1)	-	-	-	3,098
Amter	642	-	-	119	-	-	-	761
Asa	29,727	-	-	922	-	(350)	-	30,299
Astea	20,825	-	-	436	(200)	(71)	-	20,990
Asti Energia Calore	-	30	-	(6)	-	-	-	24
Atena S.p.A.	6,497	-	(9,375)	778	-	-	2,100	-
Domus Acqua	112	-	-	(28)	-	-	-	84
Ecoprogetto Tortona	2,200	-	-	-	-	-	-	2,200
Fingas	5,808	-	-	(25)	-	-	-	5,783
Global Service Parma	6	-	-	-	-	-	-	6
Il tempio	108	-	-	51	-	-	-	159
Iniziative Ambientali	488	-	-	-	-	-	-	488
Mestni Plinovodi	4,859	-	-	-	-	-	-	4,859
Mondo Acqua	568	-	-	122	-	-	-	690
Nord Ovest Servizi	4,375	-	-	-	-	-	-	4,375
Rio Riazzone	224	-	-	-	-	-	-	224
Salerno Energia Vendite	2,254	-	-	694	(822)	-	-	2,126
Sinergie Italiane	-	-	-	-	-	-	-	-
Sosel	949	-	-	19	(55)	-	-	913
Tirana Acque	-	-	-	-	-	-	-	-
TRM V	63,244	-	(81,718)	2,882	-	5,093	10,499	-
Valle Dora Energia Srl	546	-	-	12	-	-	-	558
TOTAL	**163,142**	**30**	**(91,093)**	**6,829**	**(1,427)**	**4,672**	**12,599**	**94,752**

Changes in consolidation scope refer to the acquisition of control and consequent full consolidation of Atena S.p.A. and TRM V. For further details, reference is made to the paragraph "Significant events of the period" in the Report on Operations.

The measurements with a direct effect on equity, refer to ASA for the six-month change in the hedge accounting reserve and to TRM V for the recognition in the income statement of the amounts recorded in previous financial periods in other comprehensive income items and relating to the hedge accounting reserve.
The revaluation for the period for TRM V refers for 10,499 thousand euro to the restatement at fair value, at the date the controlling stake was acquired of the minority interest held at 31 December 2015, and for 2,882 thousand euro to the recognition of the pro-quota on the results accrued by the TRM V Group at 31 December 2015 that had not been recognised in the previous period because the data was provisional at the time the Iren Group's financial statements were approved.
The revaluation for the period for Atena refers to the positive difference between the net assets acquired and the purchase cost.
As regards the equity investment in Sinergie Italiane, the carrying amount of which is zero, the provisions for risks against the risk of future losses of this investee amounted to 10,000 thousand euro.

NOTE 6_OTHER EQUITY INVESTMENTS

This item relates to equity investments in companies over which the Group has neither control, nor joint control, nor significant influence. Since their fair value could not be reliably determined, these investments were maintained at cost, adjusted for any impairment losses.
The list of other Group investments at 30 June 2016 is shown in an annex.
Changes in the six-month period are shown in the tables below:

thousands of euro

	31/12/2015	Decreases	Changes in consolidation scope	30/06/2016
A2A Scarl	-	-	7	7
Acque Potabili Siciliane	-	-	-	-
Astea Energia	7	-	-	7
Atena Patrimonio	10,645	-	(10,645)	-
Autostrade Centro Padane	1,248	-	-	1,248
BT Enia	2,110	-	-	2,110
C.R.P.A.	52	-	-	52
CIDIU	2,294	-	-	2,294
Consorzio Italiano Compostatori	3	-	-	3
Consorzio Leap	10	-	-	10
Consorzio Topix	5	-	-	5
Cosme	2	(2)	-	-
CSP Innovazione nelle ICT	28	-	-	28
Environment Park	1,243	-	-	1,243
Fondo Core Multiutilities	100	-	-	100
Italeko AD.	11	-	-	11
RE Innovazione	12	-	-	12
Rupe	10	(10)	-	-
SDB Società di biotecnologie	10	-	-	10
Stadio di Albaro	27	-	-	27
T.I.C.A.S.S.	4	-	-	4
TOTAL	**17,821**	**(12)**	**(10,638)**	**7,171**

Changes in consolidation scope refer to the merger during the first half of the year of Atena Patrimonio into Atena S.p.A., and the subsequent acquisition of control over the latter. For further details, reference is made to the paragraph "Significant events of the period" in the Report on Operations.

NOTE 7_NON-CURRENT TRADE RECEIVABLES

The item amounted to 72,816 thousand euro (73,788 thousand euro at 31 December 2015) and refers to the receivables of the integrated water service for lower volumes supplied with respect to the constraint of revenue due to the operator; the current tariff method provides generally (unless the fee growth limit is reached) for their recovery in the fee after two years.

NOTE 8_NON-CURRENT FINANCIAL ASSETS

This item, equal to 50,749 thousand euro (31 December 2015: 53,012 thousand euro), refers to securities other than equity investments, financial receivables and the fair value of derivatives.

Securities other than equity investments
The item in question includes securities considered, on the basis of the provisions of IAS 39 – *Financial Instruments: Recognition and Measurement*, as held for sale or as investments held to maturity.
Specifically they amount to 36 thousand euro (unchanged compared to 31 December 2015) and refer to securities given as collateral to authorities, classified as held-to-maturity investments, and are measured at amortised cost.

Non-current financial receivables

thousands of euro

	30/06/2016	31/12/2015
Non-current financial receivables from joint ventures	29,444	30,236
Non-current financial receivables from associates	1,192	1,043
Non-current financial receivables from related-party shareholders	4,778	20,098
Non-current financial receivables from others	14,420	1,599
Non-current accrued financial income and prepaid expenses	734	-
Fair value of derivatives – non-current share	145	-
Total	**50,713**	**52,976**

Non-current financial receivables from joint ventures regard receivables from Iren Rinnovabili (5,090 thousand euro) and from its subsidiaries Enia Solaris (18,324 thousand euro), Greensource (3,548 thousand euro), Millenaria (1,344 thousand euro) and Varsi (1,138 thousand euro).

Financial receivables from associates relate to amounts due from the companies Acquaenna, Aiga and Asti Energia Calore whose amounts are not individually significant.

Receivables from related-party shareholders refer to amounts due from the municipality of Turin for 4,294 thousand euro and from the municipality of Genoa for 484 thousand euro.

The amounts due from the municipality of Turin, which accrue interest in favour of the Group, refer to classification of the non-current portion of receivables on the current account used to settle accounts between the subsidiary Iren Servizi e Innovazione S.p.A. and the municipality of Turin.
These receivables form part of an overall position, totalling 180,419 thousand euro, and are divided among various accounting items according to their classification by type and maturity: Trade receivables (Note 12) and Current financial assets – financial receivables from Parents (Note 15), as shown in the following table.

thousands of euro

	30/06/2016	31/12/2015
Trade receivables for services on invoices issued	53,305	50,595
Trade receivables for services on invoices to be issued	26,044	5,918
Trade receivables for electricity and other supplies	9,679	8,256
Provisions for impairment of receivables	(7,346)	(7,770)
Total trade receivables	**81,682**	**56,999**
Non-current portion of financial receivables in current account	4,294	19,614
Total non-current financial receivables	**4,294**	**19,614**
Current portion of financial receivables in current account	92,466	99,899
Financial receivables for interest	1,977	2,744
Total current financial receivables	**94,443**	**102,643**
Total	**180,419**	**179,256**

From a prudential assessment carried out by the Directors, it is estimated that approximately 94,443 thousand euro of the financial receivables from the municipality of Turin are collectable within 12 months. This amount includes the short-term balance of receivables on the current account that governs operations between the subsidiaries AMIAT and Iren Servizi e Innovazione S.p.A. and the municipality of Turin.
The Iren Group's total exposure towards the municipality of Turin is largely unchanged compared to 31 December 2015.

The increase in non-current financial receivables from others refer mainly to the long-term portion of the receivable for the disposal of the business unit comprising the telecommunications network (TLC) in Emilia-Romagna that took place during the first half of 2016.

NOTE 9_OTHER NON-CURRENT ASSETS

These are detailed in the following table:

thousands of euro

	30/06/2016	31/12/2015
Guarantee deposits	11,537	11,291
Tax assets after 12 months	18,140	17,722
Other non-current assets	3,787	3,281
Non-current accrued income and prepaid expenses	23,074	11,004
Total	**56,538**	**43,298**

Receivables for guarantee deposits refer mainly to amounts paid to the investee Sinergie Italiane.
Tax assets at more than 12 months mainly include the credits accrued following the application to deduct IRAP from IRES, Art. 2 paragraph 1 *quater* Italian Law Decree no. 201 of 6 December 2011 and the credits for the IRPEF advance on post-employment benefits paid in accordance with Italian Law 140/1997. In accordance with relevant legislation, this amount has been recovered since 1 January 2000 and is revalued annually based on the same criteria used to revalue the post-employment benefits.
Prepayments mainly include the long-term prepaid portion, relating to energy service contracts signed by the subsidiary Iren Gestioni Energetiche S.p.A. and to long-term plant maintenance contracts.

NOTE 10_DEFERRED TAX ASSETS

These total 283,000 thousand euro (252,812 thousand euro at 31 December 2015) and refer to deferred tax assets deriving from elements deductible in future years. They also include the tax effect on adjustments made on IFRS first-time adoption. The increase compared to 31 December 2015 is mainly attributable to the full consolidation of TRM.

CURRENT ASSETS

NOTE 11_INVENTORIES

Inventories, measured at weighted average cost, primarily comprise natural gas and consumables intended for maintenance and construction of the Group plants.
The summary of changes occurring over the period is as follows:

thousands of euro

	30/06/2016	31/12/2015
Raw materials	114,930	128,440
Inventory write-down provision	(42,074)	(41,731)
Carrying amount	**72,856**	**86,709**
Contract work in progress	10,586	9,628
Total	**83,442**	**96,337**

The decrease in raw materials in the period was essentially due to the decrease in gas stocks.
The inventory write-down provision was set aside and is used to take into consideration inventories that are technically obsolete and slow-moving.

At 30 June 2016 no inventories were pledged against liabilities.

NOTE 12_TRADE RECEIVABLES

These are detailed in the following table:

thousands of euro

	30/06/2016	31/12/2015
Receivables from customers	794,479	840,544
Provisions for impairment of receivables	(164,662)	(153,566)
Net receivables from customers	**629,817**	**686,978**
Trade receivables from joint ventures	6,778	7,469
Trade receivables from associates	17,667	23,857
Trade receivables from other Group companies	27,497	31,118
Trade receivables from related-party shareholders	115,700	102,899
Provisions for impairment of receivables from related-party shareholders	(10,874)	(11,299)
Total	**786,585**	**841,022**

We can note that at 30 June 2016 factoring transactions were completed with derecognition of the receivables for a total of 41,386 thousand euro.

Trade receivables, gross of provisions for impairment of receivables, are broken down by maturity as follows:

thousands of euro

	30/06/2016	31/12/2015
Not past due	487,339	585,063
Past due from 0 to 3 months	145,812	115,029
Past due from 3 to 12 months	110,808	80,460
Past due for more than one year	218,162	225,335
Total	**962,121**	**1,005,887**

Receivables from customers
These mainly relate to receivables due for electricity, gas, water and heat supplies, environmental services and sundry services. The balance takes into account the provisions for impairment of receivables, illustrated below, for 164,662 thousand euro (153,566 thousand euro at 31 December 2015).

Receivables from joint ventures
This item includes receivables from the Group joint ventures, consolidated with the equity method. These relate to normal trade transactions performed at arm's length. For further details, please see the table of transactions with related parties shown in the annex.

Receivables from associates
These relate to normal trade transactions performed at arm's length. For further details, please see the table of transactions with related parties shown in the annex.

Receivables from other Group companies
These regard receivables from the companies controlled by the territorial body owners (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and refer to normal commercial transactions carried out at arm's length.

Receivables from related-party shareholders
Receivables from related-party shareholders refer to trading transactions performed at arm's length with territorial authorities (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and, marginally, with the company FSU. The balance takes into account the allowance for impairment of accounts receivable of 10,874 thousand euro (11,299 thousand euro at 31 December 2015). For further details, please see the table of transactions with related parties shown in the annex.

The allowance for impairment features the movements shown in the following table:

thousands of euro

	31/12/2015	Release	Reclassifica -tions	Changes in consolidation scope	Provisions	Utilisations	30/06/2016
Provisions for impairment of receivables	153,566	-	337	4,517	21,439	(15,197)	164,662
Provisions for impairment of receivables from related-party shareholders	11,299	(88)	(337)	-	-	-	10,874
Total	**164,865**	**(88)**	**-**	**4,517**	**21,439**	**(15,197)**	**175,536**

NOTE 13_CURRENT TAX ASSETS

These amount to 19,816 thousand euro (19,991 thousand euro at 31 December 2015) and include receivables from the tax authority for IRES and IRAP.

NOTE 14_OTHER RECEIVABLES AND OTHER CURRENT ASSETS

These are detailed in the following table:

thousands of euro

	30/06/2016	31/12/2015
Receivables for revenue tax/UTIF	596	1,700
VAT credit	15,888	13,859
Other tax assets	5,866	5,609
Tax assets due within one year	**22,350**	**21,168**
Receivables from CCSE	102,244	72,780
Green certificate receivables	35,855	20,387
Advances to suppliers	14,786	9,564
Other current assets	8,546	18,211
Other current assets	**161,431**	**120,942**
Accruals and deferrals	24,273	21,256
Total	**208,054**	**163,366**

We can note that at 30 June 2016 factoring transactions were completed with derecognition of receivables for green certificates, for energy-efficiency certificates and for Emission Trading for a total of 56,852 thousand euro.
In relation to receivables from the Cassa Conguaglio Settore Elettrico (CCSE), a portion of the amounts shown may not be collectable within the next 12 months. The increase compared to 31 December 2015 is mainly attributable to the assets pertaining to energy efficiency certificates.
The increase in receivables for green certificates is mainly a result of the full consolidation of TRM.

NOTE 15_CURRENT FINANCIAL ASSETS

These are detailed in the following table:

thousands of euro

	30/06/2016	31/12/2015
Financial receivables from joint ventures	444,013	444,202
Financial receivables from associates	394	386
Financial receivables from Municipalities shareholders-related parties	94,443	102,643
Other financial receivables	7,215	4,071
Derivative receivables - current	1,855	-
Total	**547,920**	**551,302**

All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.

Financial receivables from joint ventures

Mainly refer to receivables from the joint venture OLT Offshore relating to the loan granted to the company Iren Mercato for 439,000 thousand euro (unchanged compared to 31 December 2015), receivables from the joint venture Acque Potabili S.p.A. for 2,321 thousand euro (2,384 thousand euro at 31 December 2015) and receivables from the Iren Rinnovabili Group for 2,692 thousand euro (2,818 thousand euro at 31 December 2015).

Financial receivables from associates

The item refers to receivables from associates for single non-significant amounts. For further details please see the schedule of transactions with related parties shown in the annex.

Financial receivables from shareholders - related parties

These regard receivables on which interest accrues for the Group and amount to 94,443 thousand euro (102,643 thousand euro at 31 December 2015). They refer to the short-term balance of the current account, which governs transactions between the subsidiaries Iren Servizi e Innovazione S.p.A. and AMIAT S.p.A. and the municipality of Turin, as already described in Note 8, to which you are referred for further details.

The remaining part of the financial receivables from the municipality was therefore classified under “Non-current financial receivables – receivables from shareholders - related parties” (4,294 thousand euro).

Other financial receivables

These include receivables for dividends of associates to be collected, accrued income and prepaid expenses of a financial nature, sundry financial receivables and government bonds classified as available for sale.

Derivative receivables - current

These relate to the positive fair value of derivative contracts on commodities entered into by Iren Mercato.

NOTE 16 CASH AND CASH EQUIVALENTS

The item “Cash and cash equivalents” is made up as follows:

thousands of euro

	30/06/2016	31/12/2015
Bank and postal deposits	170,728	137,948
Cash and valuables in hand	402	1,628
Total	**171,130**	**139,576**

Cash and cash equivalents are represented by existing liquidity on bank and postal deposits. The Group does not hold cash equivalents, intended as short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

NOTE 17_ASSETS HELD FOR SALE

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They amount to 920 thousand euro (5,420 thousand euro at 31 December 2015).

For 440 thousand euro (4,940 thousand euro at 31 December 2015) they refer to the equity investment in Plurigas in liquidation. The investment was classified among assets held for sale because during 2014 the company ceased to do business. In the absence of a reliable and comparable market reference, and therefore assuming a fair value equal to the portion of equity held by the Group (30%), the carrying amount of the equity investment is based on the value of the dividends distributed to Iren in the first half of 2016 (4,500 thousand euro).

322 thousand euro (unchanged from 31 December 2015) relates to the equity investment in SMAG.

158 thousand euro (unchanged from 31 December 2015) refers to the associate Piana Ambiente.

In addition, assets held for sale include the investment in Fata Morgana which at 30 June 2016 was completely written down.

LIABILITIES

NOTE 18_EQUITY

Equity may be analysed as follows:

thousands of euro

	30/06/2016	31/12/2015
Share capital	1,276,226	1,276,226
Reserves and retained earnings (Losses)	483,363	429,444
Net profit /(loss) for the period	119,112	118,193
Total equity attributable to owners of the Parent	**1,878,701**	**1,823,863**
Share capital and reserves attributable to non-controlling interests	278,574	215,923
Profit (loss) - non-controlling interest	11,973	21,880
Total consolidated equity	**2,169,248**	**2,061,666**

Share capital

The share capital amounts to 1,276,225,677 euro (unchanged compared to 31 December 2015), fully paid up, and consists of 1,181,725,677 ordinary shares with a face value of 1 euro each and 94,500,000 savings shares without voting rights with a face value of 1 euro each.

The 94,500,000 savings shares, held by Finanziaria Città di Torino, are not listed, have no voting rights and, except for a different priority order in the allocation of net residual assets in the event of winding-up of the company, they are subject to the same rules as ordinary shares.

Lastly, in the case of sale, the savings shares will be automatically converted, at par, into ordinary shares.

Reserves

The breakdown of this item is provided in the following table:

thousands of euro

	30/06/2016	31/12/2015
Share premium reserve	105,102	105,102
Legal reserve	45,585	39,360
Hedging reserve	(32,561)	(36,665)
Other reserves and retained earnings (losses)	365,237	321,647
Total reserves	**483,363**	**429,444**

Hedging reserve

With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a contra-entry directly in equity under the hedging reserve. These contracts were entered in to hedge exposure to the risk of interest rate fluctuations on floating rate loans and to the risk of price changes in electricity and gas purchase contracts.

Other reserves and retained earnings (losses)

These mainly comprise the surplus generated from the merger of AMGA into AEM Torino and the later merger of Enìa into Iride, retained profits and losses and the reserve including actuarial gains and losses resulting from the measurement of post-employment benefits to employees.

In the first half of 2016, this item increased mainly as a result of the retained earnings from 2015. For further details, reference should be made to the statement of changes in equity.

NON-CURRENT LIABILITIES

NOTE 19_NON-CURRENT FINANCIAL LIABILITIES

These amount to 3,035,921 thousand euro (2,698,648 thousand euro at 31 December 2015) and consist of:

Bonds

These amount to 1,186,885 thousand euro (1,186,551 thousand euro at 31 December 2015), of which:

- 154,928 thousand euro (155,311 thousand euro at 31 December 2015) relate to two non-convertible puttable bonds issued in 2008 with maturity in 2021. The bond, with a total term of 13 years, requires that after the third year and subsequently every two years, if the banks fail to exercise the option for redemption at par value, a competitive auction mechanism is activated to determine the credit spread for the following 2 years, to be applied at a pre-set fixed rate. The third auction was conducted in September 2015 with definition of the credit spread for the period September 2015 - September 2017. The amount refers to the amortised cost, in accordance with the IAS standards;
- 1,031,956 thousand euro (1,031,240 thousand euro at 31 December 2015) referred to Private Placement and Public Bond issues. Private Placement: a) Notes maturity 2020, coupon 4.37%, amount of issue 260 million, currently in issue for 200.5 million following the buy-back (tender offer) carried out in December 2015; b) Notes maturity 2019, coupon 3%, amount of issue 100 million, currently in issue for 90.1 million following the tender offer as above. Public Bond: a) Notes maturity 2021, coupon 3%, amount of issue 300 million, currently in issue for 250.019 million following the tender offer as above; b) Notes maturity 2022, coupon 2.75%, amount 500 million, inaugural issue in November 2015, as part of an EMTN programme for a total of 1 billion euro. The bond loans were subscribed by Italian and foreign institutional investors and are listed on the Irish Stock Exchange; the Public Bonds were given a Fitch rating. The carrying amount refers to the amortised cost, in accordance with the IASs;

Non-current bank loans

These exclusively relate to the non-current portion of bank loans and amount to 1,699,077 thousand euro (1,477,052 thousand euro at 31 December 2015).

Non-current loans can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and maturity date, as shown in the following table:

thousands of euro

	fixed rate	floating rate	TOTAL
min/max interest rate	2.79% - 5.249%	0.00% - 2.624%	
maturity	2018-2027	2018-2030	
2018	61,719	59,140	120,859
2019	60,500	570,406	630,906
2020	59,954	92,944	152,898
2021	62,237	45,667	107,904
subsequent	337,451	349,059	686,511
Total payables at 30/06/2016	**581,862**	**1,117,215**	**1,699,077**
Total payables at 31/12/2015	**660,699**	**816,353**	**1,477,052**

All loans are denominated in euro.

The changes in non-current loans during the year are summarised below:

thousands of euro

	31/12/2015 Total payables	Increases	Changes in consolidation scope	Repayments	Change to amortised cost	30/06/2016 Total payables
- fixed rate	**660,699**	0	1,559	(80,486)	89	**581,862**
- floating-rate	**816,353**	20,000	327,823	(47,518)	558	**1,117,215**
TOTAL	**1,477,052**	**20,000**	**329,383**	**(128,004)**	**647**	**1,699,077**

Total non-current loans at 30 June 2016 increased compared to 31 December 2015 due to the following changes:

- increases for 20 million euro, owing to the disbursement to the Parent Company of a new loan by Banca di Piacenza;
- inclusion of two new companies within the scope of consolidation from 2016: TRM S.p.A., with the relative medium-long term debt position for 325,680 thousand euro (project financing); Atena S.p.A., with the relative loan positions for a total of 3,702 thousand euro;
- a decrease totalling 128,004 thousand euro for the short-term classification to current loans of the portion of loans due within the next 12 months;
- changes in amortised cost for the purpose of IAS accounting of loans.

Other financial liabilities

These amount to 149,959 thousand euro (35,045 thousand euro at 31 December 2015) of which 137,333 thousand euro (32,369 thousand euro at 31 December 2015) refers to the fair value of derivative contracts entered into to hedge exposure to the risk of interest rate fluctuations on floating rate loans (described in the section "Group financial risk management"), 10,277 thousand euro (not present at 31 December 2015) referring to the long term portion of the debt consequent to the transaction during the current six-month period to acquire right of use for 25% of the total capacity from the TLC network sold to BT Enia and 2,349 thousand euro (2,676 thousand euro at 31 December 2015) to sundry financial payables.

NOTE 20_EMPLOYEE BENEFITS

In the first half of 2016 post-employment benefits underwent the following changes:

thousands of euro

Amount at 31/12/2015	**135,092**
Current service costs	773
Financial expenses	1,031
Disbursements of the period	(5,487)
Changes in the scope of consolidation	5,005
Other changes	(242)
Amount at 30/06/2016	**136,172**

The item "Changes in consolidation scope" refers to the balances acquired during the first half of 2016 relating to the companies TRM S.p.A., Atena S.p.A. and Atena Trading.

Liabilities for employee benefits consist of:

Post-employment benefits

In the first half of 2016 post-employment benefits underwent the following changes:

	thousands of euro
Amount at 31/12/2015	**96,546**
Current service costs	517
Financial expenses	690
Disbursements of the period	(4,467)
Changes in consolidation scope	4,483
Other changes	36
Amount at 30/06/2016	**97,805**

Other benefits

The composition and changes over the year of defined benefit plans, other than the post-employment benefits described above, are shown hereunder.

Additional months' salaries (long-service bonus)

	thousands of euro
Amount at 31/12/2015	**3,176**
Current service costs	45
Financial expenses	23
Amount at 30/06/2016	**3,244**

Loyalty bonus

	thousands of euro
Amount at 31/12/2015	**3,132**
Current service costs	65
Financial expenses	21
Disbursements of the period	(100)
Amount at 30/06/2016	**3,118**

Tariff discounts

	thousands of euro
Amount at 31/12/2015	**26,862**
Current service costs	146
Financial expenses	261
Disbursements of the period	(670)
Changes in consolidation scope	522
Other changes	(278)
Amount at 30/06/2016	**26,843**

Premungas fund

	thousands of euro
Amount at 31/12/2015	**5,376**
Financial expenses	36
Disbursements of the period	(250)
Amount at 30/06/2016	**5,162**

Actuarial assumptions

The assessment of the liabilities presented above is made by independent actuaries on the occasion of preparing the year-end consolidated financial statements.

The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.

For the purpose of defining the present value of the obligations, the future service is estimated based on assumptions related to changes in both the total number of employees and employee remuneration. Future service represents the amount that would be liquidated to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.

Actuarial projections of the probable discounts on electricity consumption due to current retirees or surviving spouses, as well as to current employees (and surviving spouses, if any) once terminated the working relationship, were taken into account in determining the amount of the electrical energy discount.

The following factors were considered in deciding which discount rate to adopt in the measurement approach provided by IAS 19:

- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the weighted average residual term of liabilities related to all benefits and all Group companies.

The other financial assumptions adopted in the calculations are the following:

Annual discount rate	0.91% - 2.03%
Annual inflation rate	1.50% - 2.00%
Annual rate of electricity price increase	1.50% - 2.00%
Annual increase rate of post-employment benefits	2.63% - 3.00%

NOTE 21_PROVISIONS FOR RISKS AND CHARGES

These are detailed in the following table, and refer both to the current and non-current portions:

thousands of euro

	Opening balance	Increases	Decreases	Income (Expense) from discounting	Changes in consolidation scope	Closing balance	Current portion
Dilapidation provisions	134,642	6,146	(907)	510	-	140,391	3,209
Provisions for landfill post-closure	31,705	-	(1,353)	2,321	-	32,673	4,051
Provisions for dismantling and reclaiming sites	27,673	-	(50)	1,267	7,946	36,836	2,576
Provisions for CIG/CIGS	11,598	512	-	-	-	12,110	-
Provisions for early retirement expenses	31,940	453	(7,136)	-	-	25,257	7,567
Provisions for risks on investments	10,651	-	(651)	-	65	10,065	10,065
Other provisions for risks and charges	142,498	16,451	(33,461)	349	21,253	147,090	85,299
Total	**390,707**	**23,562**	**(43,558)**	**4,447**	**29,264**	**404,422**	**112,767**

The column "Changes consolidation scope" refers to the balances acquired during the first half of 2016 relating to the companies TRM S.p.A. and Atena S.p.A.. Specifically, the item "Provisions for risks and charges" refers for 19,677 thousand euro to charges for TRM S.p.A. environmental offsets and are classified under the current portion of the provision (Note 28).

Dilapidation provisions

These provisions refer mainly to liabilities which, if the water service concessions for the Parma, Piacenza and Reggio Emilia ATOs are re-awarded, will be deducted from the indemnity paid to the Group by the incoming operator with respect to investments made in the meantime. These liabilities are estimated according to the amortisation/depreciation of the pool of assets and equipment relating to the aforementioned integrated water cycle which, as a result of the spin-offs completed in 2005 by the three companies AGAC, Tesea and AMPS (later merged into Enìa), were transferred to the financial statements of three full publicly-held companies as envisaged in Art. 113, paragraph 13 of the Consolidated Law on Local Entities. This pool of assets is used to perform the water service against the payment of a rental fee and with a contractual commitment to set aside the aforementioned provisions. The remainder of the provisions represents an estimate of the expense necessary to return assets in concession of the hydroelectric sector in perfect working order.

Provisions for landfill post-closure

These are mainly provisions for future restoration expense, also including costs for post-operating management until complete conversion of the areas involved to green areas. These costs are supported by specific expert reports. Accruals and decreases for the period were performed to adjust existing provisions to the estimated future costs to be borne and accrued at 30 June 2016. Decreases also refer to the utilisation of the provision to cover costs incurred over the period with regard to the disposal of leachate (related to closed lots of operating landfills, both owned and under concession), as well as to the aggregate expense borne in the post-operating phase until the mineralization of waste and the conversion of landfills into green areas are completed.

Provisions for dismantling and reclaiming sites

The "Provisions for dismantling and reclaiming sites" partly refers to the prudential estimate of charges to be incurred in relation to the future restoration of former AMNU land on which an incinerator was located. The remainder refers to the estimated potential charges associated with future dismantling of certain Group plants.

Provisions for CIG/CIGS

The provisions for risks mainly refers to the probable risk of greater charges relating to higher contributions to be paid to INPS for ordinary and extraordinary redundancy and mobility.

In September 2013 a number of pronouncements were made against Iren and subsidiaries, considered to be negative and rejecting the company's claims, ordering the payment of CIG, CIGS, Mobility and Unemployment contributions. The Directors consequently decided to arrange regular payment of the redundancy payment CIG (and CIGS and mobility) contributions from 2014. These provisions continue to include the prudential estimate of potential additional amounts and collection charges for a total of 12,110 thousand euro.

Provisions for early retirement expenses

The provisions refer to expenses associated with early retirement of some employees and arises from the results of an agreement between the Iren Group and the Trade Unions that provides for incentives for accompaniment to early retirement of some employees, through acceptances on a voluntary basis among the Group's workers potentially interested. The operation must be seen in the wider context of professional and demographic rebalancing of the Iren Group's personnel, in view of a plan to recruit young people.

The incentive, completely chargeable to the Iren Group (in application of Art. 4 of Italian Law 92/2012), will enable the oldest personnel to retire up to 24 months before the date of eligibility, making up in part for the delay in terminating the employment determined after the reform of the pensions system.

The provisions represent the estimated payment to the employees involved in the Plan, through the INPS, of a benefit of an amount equal to the pension that would be payable on the basis of the current rules (isopension) with payment to the INPS of the contribution until the minimum requirements for retirement are reached (in accordance with the aforementioned Law 92/2012), and a sum, for each of the employees involved, as a one-off payment as an incentive.

Provisions for risks on equity investments

This item mainly refers to risks relating to the protection against future losses of the investee Sinergie Italiane.

Other provisions for risks and charges

The provision mainly refers to the probable risk of greater charges for the construction of plants which are completed or yet to be finished, the provisions for estimated IMU/ICI tax to be paid based on the value of plant systems as envisaged in Art. 1-*quinquies* of Decree Law no. 44 of 31 March 2005, the estimate on charges related to the return of emissions quotas, charges for environmental offsets and probable charges for various disputes.

The current portion referring to the provisions described above was presented under "provisions, current portion" (Note 28).

NOTE 22_DEFERRED TAX LIABILITIES

Deferred tax liabilities of 187,115 thousand euro (141,840 thousand euro at 31 December 2015) are due to the temporary difference between the carrying amount and tax value of assets and liabilities recognised in the financial statements. The increase compared to 31 December 2015 is mainly attributable to the full consolidation of TRM.

Deferred taxation is calculated with reference to the expected tax rates applicable at the time the differences will reverse.

NOTE 23_OTHER PAYABLES AND OTHER NON-CURRENT LIABILITIES

This item can be broken down as follows:

thousands of euro

	30/06/2016	31/12/2015
Payables after one year	34,745	35,548
Deferred income for grants related to plants – non current	163,121	165,639
Non-current accrued expenses and deferred income	3,402	4,022
Total	**201,268**	**205,209**

The item "Payables after 12 months" refers to advances paid by users to guarantee water supply, to amounts related to previous years to be paid for the redundancy fund (CIG), for the extraordinary redundancy fund (CIGS) and for mobility and to the amount of the substitutive tax calculated on the capital gain deriving from the contribution of part of the property assets to the Core Multiutilities Fund to be paid at more than 12 months from the reporting date.

CURRENT LIABILITIES

NOTE 24_CURRENT FINANCIAL LIABILITIES

All financial liabilities recognised in this item are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.
Current financial liabilities can be analysed as follows:

thousands of euro

	30/06/2016	31/12/2015
Bank loans	270,065	171,216
Financial payables to joint ventures	-	1,369
Financial payables to associates	183	107
Financial payables to others	2,915	28,915
Derivative payables - current	4,778	13,004
Total	**277,941**	**214,611**

Bank loans
Current bank loans may be broken down as follows:

thousands of euro

	30/06/2016	31/12/2015
Loans - current portion	192,634	152,865
Other current payables to banks	52,036	6,329
Accrued financial expenses and deferred financial income	25,395	12,022
Total	**270,065**	**171,216**

Financial payables to joint ventures
Zero at 30 June 2016. At 31 December 2015, these related to amounts due to the Iren Rinnovabili Group.

Financial payables to associates
This item relates to amounts due to the company Valle Dora Energia.

Financial payables to others

These mainly refer to dividends to be paid. The significant drop compared to 31 December 2015 is due to the accounts in respect of factoring companies falling away for advances on invoices issued during the first half of the year.

Derivative payables - current

These relate to the negative fair value of derivative contracts on commodities entered into by Iren Mercato.

NOTE 25_TRADE PAYABLES

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	30/06/2016	31/12/2015
Trade payables	549,674	667,139
Trade payables to joint ventures	457	217
Trade payables to associates	5,266	36,368
Trade payables to related-party shareholders	15,176	18,362
Trade payables to minor Group companies	4,468	8,191
Advances due within one year	30,237	45,979
Guarantee deposits due within one year	16,792	21,048
Charges to be reimbursed within one year	1,392	1,392
Total	**623,462**	**798,696**

The significant decrease in trade payables compared to 31 December 2015 was due to the decrease in payables to suppliers resulting from the trend in thermal seasonality.

NOTE 26_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

All payables recognised in this item are due within twelve months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	30/06/2016	31/12/2015
VAT payable	8,891	8,384
Revenue tax/UTIF payable	13,275	-
IRPEF payable	756	9,279
Other tax liabilities	25,800	11,526
Tax liabilities due within one year	**48,722**	**29,189**
Payables to employees	40,697	33,672
Payables to C.C.S.E.	83,794	58,132
Accounts payable to social security institutions within one year	28,522	17,208
Other current liabilities	52,007	69,281
Other payables due within one year	**205,020**	**178,293**
Accrued expenses and deferred income	11,269	12,751
Total	**265,011**	**220,233**

The increase in payables for income taxes is due to pre-payments and settlement payments which are influenced by invoicing volumes for the current year and the previous year.

The increase in payables to Cassa Conguaglio del Settore Energetico (the Electricity Industry Clearing House) of the period is related to the estimates of negative equalisation of electricity and gas.

The other current liabilities include, among other things, the cost estimates for environmental expenses (passive green certificates), for the obligations related to energy efficiency certificates and payables for purification fees.

NOTE 27_CURRENT TAX LIABILITIES

"Current tax liabilities", amounting to 94,076 thousand euro (21,687 thousand euro at 31 December 2015) consist of IRES and IRAP payables. In addition, the item includes the estimate of taxes for the current half-year period.

NOTE 28_PROVISIONS FOR RISKS AND CHARGES - CURRENT PORTION

This item amounted to 112,767 thousand euro (98,405 thousand euro at 31 December 2015) and refers to the short-term portion of the provisions, divided as follows:

- provisions for risks of 58,309 thousand euro;
- provisions for environmental offset charges of 19,677 thousand euro;
- provisions for charges related to the obligation to return emission quotas of 7,313 thousand euro;
- provisions for equity investment risks of 10,065 thousand euro, mainly related to the associate Sinergie Italiane,
- provisions for charges related to voluntary retirement of personnel of 7,567 thousand euro;
- provisions for dilapidation of 3,209 thousand euro;
- provisions for dismantling and reclaiming sites and post mortem provisions of 6,627 thousand euro, which are expected to be used within the next 12 months.

For further details on the breakdown of and changes in provisions for risks and charges see Note 21.

NOTE 29_LIABILITIES RELATED TO ASSETS HELD FOR SALE

There were liabilities related to assets held for sale at 30 June 2016.

FINANCIAL POSITION

The net financial debt, calculated as the difference between short/medium/long-term financial liabilities and short/medium/long-term financial assets, can be broken down as indicated in the following table:

thousands of euro

	30/06/2016	31/12/2015
Non-current financial assets	(50,749)	(53,012)
Non-current financial indebtedness	3,035,921	2,698,648
Non-current financial debt	**2,985,172**	**2,645,636**
Current financial assets	(719,050)	(690,878)
Current financial indebtedness	277,941	214,611
Current net financial indebtedness	**(441,109)**	**(476,267)**
Net financial debt	**2,544,063**	**2,169,369**

Net Financial Position regarding related parties

Non-current financial assets relate for 4,294 thousand euro to the long-term portion of the current account used to settle accounts between the subsidiary Iren Servizi e Innovazione and the municipality of Turin, for 484 thousand euro to receivables from the municipality of Genoa, for 1,192 thousand euro to receivables from associates, and for 29,444 thousand euro to receivables from joint ventures of the Iren Rinnovabili Group.

Current financial assets relate for 94,443 thousand euro to the short-term balance of the current account between the subsidiaries Iren Servizi e Innovazione and AMIAT and the municipality of Turin, for 439,000 thousand euro to receivables from the joint venture OLT Offshore, for 2,320 thousand euro to receivables from the joint venture Acque Potabili for 3,048 thousand euro receivables from the joint venture Iren Rinnovabili and its subsidiaries, for 394 thousand euro to receivables from the associates whose single amounts are negligible.

Current financial liabilities relate for 183 thousand euro to payables to the subsidiary Valle Dora Energia.

Below is the net financial position in the format proposed by the CESR recommendation of 28 July 2006, which does not include non-current financial assets.

thousands of euro

	30/06/2016	31/12/2015
A. Cash in hand	(171,130)	(139,576)
B. Other cash and cash equivalents (details)	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	**(171,130)**	**(139,576)**
E. Current financial receivables	**(547,920)**	**(551,302)**
F. Current bank debt	77,431	18,351
G. Current portion of non-current debt	192,634	152,865
H. Other current financial debt	7,876	43,395
I. Current financial indebtedness (F)+(G)+(H)	**277,941**	**214,611**
J. Net current financial indebtedness (I) – (E) – (D)	**(441,109)**	**(476,267)**
K. Non-current bank debt	1,699,077	1,477,052
L. Bonds issued	1,186,885	1,186,552
M. Other non-current debt	149,959	35,045
N. Non-current financial indebtedness (K) + (L) + (M)	**3,035,921**	**2,698,649**
O. Net financial debt (J) + (N)	**2,594,812**	**2,222,382**

VII. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousands of euro.

The Group's consolidated income statement includes the financial figures of the subsidiaries TRM Holding S.p.A., TRM V. S.p.A. and TRM S.p.A. as from 1 January 2016 and the subsidiaries Atena S.p.A. and Atena Trading S.r.l. as from 1 May 2016; the economic results of the first half of 2016 are therefore affected by the inclusion of these entities in the consolidation scope.
It should be noted further that unlike the first half of 2015, items in the income statement also include the results for the "Ramo Ligure" business unit for the relevant period acquired by Acque Potabili S.p.A. with effect from 1 July 2015.

REVENUE

NOTE 30_REVENUE FROM GOODS AND SERVICES

This item amounts to 1,439,272 thousand euro (1,442,412 thousand euro in the first half of 2015). For further details on the trend in revenue for business segments see the tables in paragraph X Segment Reporting.

NOTE 31_CHANGE IN WORK IN PROGRESS

This item, positive, amounted to 923 thousand euro (-74 thousand euro in the first half of 2015) and refers to the accounting for revenue related to progress on the Turin LED project and other extraordinary maintenance work for the municipality of Turin.

NOTE 32_OTHER INCOME

Other income totals 115,033 thousand euro (137,034 thousand euro in the first half of 2015) and refers to contributions, revenue for energy certificates and various income. The tables below show the details of the single items.

Contributions

thousands of euro

	1st half 2016	1st half 2015
Grants related to plant	4,177	4,360
Connection contributions	2,267	5,723
Other grants	152	581
Total	**6,596**	**10,664**

The grants related to plant represent the pertaining portion of grants calculated in proportion to the depreciation rates of the assets to which they refer.

Revenue from energy efficiency certificates

thousands of euro

	1st half 2016	1st half 2015
Revenue from Emission Trading	665	1,327
Revenue from Green Certificates	44,342	36,285
Revenue from White Certificates	23,905	19,348
Total	**68,912**	**56,960**

Revenue for green certificates during the first half of 2016 include, inter alia, the accrual on the incentive relating to the TRM waste-to-energy plant and the Group's hydroelectric plants.

Other income

thousands of euro

	1st half 2016	1st half 2015
Revenue from service contracts	2,167	6,135
Revenue from rental income and leases	771	902
Capital gains on goods disposal	1,568	592
Insurance reimbursement	7,761	171
Sundry repayments	3,065	4,130
Income from fair value of commodity derivatives	-	287
Other revenue and income	24,193	57,193
Total	**39,525**	**69,410**

The item "Other revenue and income" includes, inter alia, income relating to previous years' electricity system. The figure for the comparative period includes adjustments to previous estimates on payables to suppliers and equalisation. Insurance payments refer mainly to reimbursements on damages incurred during previous periods on water plants.

COSTS

NOTE 33_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

This item is broken down as follows:

thousands of euro

	1st half 2016	1st half 2015
Purchase of electricity	123,382	113,983
Purchase of gas	257,177	366,460
Purchase of heat	24	61
Purchase of other fuels	125	802
Purchase of water	791	604
Other raw materials and inventory materials	31,372	32,866
Emission Trading	11,516	14,997
Green certificates	57	-
White certificates	17,165	11,630
Change in inventories	15,139	(6,003)
Total	**456,748**	**535,400**

The costs for raw materials, consumables, supplies and goods fell by approximately 74 million euro. The decrease is essentially a result of purchase price trends for gas, which were partially counterbalanced by the increase in white certificates, the higher level of electricity purchases and higher inventories (mainly gas storage).

NOTE 34_SERVICES AND USE OF THIRD-PARTY ASSETS

Costs for services amounted to 451,546 thousand euro (431,072 thousand euro in the first half of 2015) and are detailed in the table below:

thousands of euro

	1st half 2016	1st half 2015
Electricity transport and electricity system expenses	220,548	185,787
Gas carriage	28,768	24,582
Third-party works, maintenance and industrial services	67,206	78,096
Collection and disposal, snow clearing, public parks	65,978	78,176
Expenses related to personnel (canteen, training, travel)	4,348	2,861
Technical, administrative and commercial consulting and advertising expenses	17,225	12,269
Legal and notary fees	2,603	2,699
Insurance	8,700	12,455
Banking costs	4,994	4,119
Telephone costs	2,094	2,570
Reading and invoicing services	5,463	5,433
Fees of the Board of Statutory Auditors	446	573
Other costs for services	23,173	21,452
Total costs for services	**451,546**	**431,072**

Subcontracts and works mainly relate to operating and maintenance costs of the plant systems and networks.
The increase basically refers to electricity transport costs and the electricity system charges.

Costs for the use of third-party assets amounted to 21,187 thousand euro (23,345 thousand euro in the first half of 2015). These include instalments paid to the market operator of the Genoa district, instalments paid to the companies which own the assets of the integrated water service in the municipalities of Parma, Piacenza and Reggio Emilia, cross easements, operating lease rentals (including rents paid for the buildings in the Core Multiutilities fund), hiring, IT fees and sundry rentals.

NOTE 35_OTHER OPERATING EXPENSES

Other operating expenses amounted to 34,352 thousand euro (38,998 thousand euro in the first half of 2015) and are detailed in the table below:

thousands of euro

	1st half 2016	1st half 2015
General expenses	4,608	4,559
Instalments and higher instalments for water shunting	7,876	7,638
Taxes and duties	8,941	10,349
Contingent liabilities	8,605	13,580
Capital losses on goods disposal	229	53
Other sundry operating expenses	4,093	2,819
Total	**34,352**	**38,998**

The drop in “Taxes and duties” relates mainly to expenses for IMU (Council Tax) on the Group’s plants and buildings; the item also includes expenses for occupying and reclaiming public land. “Other operating expenses” refer mainly to the environmental indemnities payable by the Group, which rose due to the consolidation of TRM S.p.A.. Contingent liabilities refer to the close on estimates from previous years relative to suppliers and energy certificates.

NOTE 36_CAPITALISED EXPENSES FOR INTERNAL WORK

The "Capitalised expenses for internal work" amounted to 10,130 thousand euro (10,583 thousand euro in the first half of 2015), and represent an increase in the statement of financial position realised with resources and internal production factors.

thousands of euro

	1st half 2016	1st half 2015
Capitalised labour costs	(7,280)	(8,071)
Capitalised inventory materials	(2,850)	(2,512)
Total	**(10,130)**	**(10,583)**

NOTE 37_PERSONNEL EXPENSES

Personnel costs amounted to 184,444 thousand euro (183,041 thousand euro in the first half of 2015) and are detailed in the table below:

thousands of euro

	1st half 2016	1st half 2015
Gross remuneration	129,528	127,257
Social security contributions	42,697	43,677
Post-employment benefits	517	385
Other long-term employee benefits	256	440
Other personnel expense	10,768	10,501
Directors' fees	678	781
Total	**184,444**	**183,041**

As described in Note 36, 7,280 thousand euro of costs related to employees were capitalised.

Other personnel expenses include the social security and recreational contributions, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds. Other personnel expense also includes the adjustment of provisions set aside for expenses associated with early retirement incentives.

The increase in personnel expenses related to remuneration and social security contributions was essentially due to consolidation from an economic point of view of Atena S.p.A. and Atena Trading S.r.l. starting from 1 May 2016, and to a lesser extent, the consolidation of TRM S.p.A. from the start of the period.

The personnel composition is shown in the following table.

	30/06/2016	31/12/2015	Average for the period
Senior managers	95	82	96
Junior managers	250	238	240
White collar	2,915	2,859	2,870
Blue collar	3,046	2,953	2,980
Total	**6,306**	**6,132**	**6,186**

NOTE 38_AMORTISATION/DEPRECIATION

thousands of euro

	1st half 2016	1st half 2015
Property, plant and equipment and investment property	102,937	93,571
Intangible assets	40,059	37,367
Total	**142,996**	**130,938**

Amortisation/depreciation for the period amounted to 142,996 thousand euro (130,938 thousand euro in the first half of 2015). The change in this item compared to the first half of the previous period essentially refers to the inclusion of TRM S.p.A. and Atena S.p.A. in the scope of consolidation.
For further details on depreciation/amortisation, reference should be made to the tables of changes in property, plant and equipment and intangible assets.

NOTE 39_PROVISIONS AND IMPAIRMENT LOSSES

thousands of euro

	1st half 2016	1st half 2015
Provisions for impairment of receivables	21,439	22,829
Provisions for risks and dilapidation provision	15,431	13,125
Provision releases	(8,894)	(5,660)
Impairment losses	4,146	220
Total	**32,122**	**30,514**

The item amounts to 32,122 thousand euro (30,514 thousand euro for the comparable period).
The trend in the risks provision fund refers mainly to disputes pertinent to the Group’s plants, whereas the provision releases for the period refers substantially to the risk of higher electricity system charges not materialising.
Impairment losses for the period originate largely from the drop in the market price for part of the stock of emission rights held in the portfolio.
The analysis of the provisions and related variations are given in the comment to the statement of financial position item “Provisions for risks and charges”.

NOTE 40_FINANCIAL INCOME AND EXPENSE

Financial income

Financial income amounted to 13,135 thousand euro (16,091 thousand euro in the first half of 2016) and are detailed in the table below:

thousands of euro

	1st half 2016	1st half 2015
Dividends	1,052	1,230
Bank interest income	130	37
Interest income from receivables/loans	10,259	10,282
Interest income from customers	1,490	2,095
Fair value gains on derivatives	21	459
Gains on financial assets disposal	56	1,920
Exchange rate gains	2	1
Other financial income	125	67
Total	**13,135**	**16,091**

Interest income from receivables/loans refers to interest receivable from the joint venture OLT Offshore (7,575 thousand euro) and interests accrued on current accounts between the Group and the municipality of Turin for 1,977 thousand euro.
The capital gain on disposal of financial assets during the first half of 2015 referred to the sale of the company VEA Energia e Ambiente, which up until then had been classified among "Assets held for sale".

Financial expenses

The item amounts to 65,983 thousand euro (54,747 thousand euro for the comparable period). The breakdown of financial expenses is provided in the following table:

thousands of euro

	1st half 2016	1st half 2015
Interest expense on loans	21,726	24,086
Interest expense on bonds	21,577	17,553
Interest expense on bank current accounts	22	596
Other interest expense	1,047	3,228
Capitalised financial expenses	-	(21)
Derivative fair value charges	2,032	-
Charges on realised derivatives	13,153	5,853
Loss on financial assets disposal	10	
Interest cost – Employee benefits	1,030	886
Exchange rate losses	1	1
Other financial expenses	5,385	2,565
Total	**65,983**	**54,747**

The increase in expenses on bond loans reflects among other things the interest, for the whole period, on the Public Bond issued in November 2015. Interest payable on loans and bonds includes the amounts relating to the measurement at amortised cost.

Derivative fair value expenses consist of changes in fair value and the reversal of a portion of the cash flow hedge to the income statement relating to certain hedging positions that do not meet the formal requirements for the application of hedge accounting.
As from 1 January 2016, the derivative contracts expenses include the portion referring to the full consolidation of TRM S.p.A.
Reference should be made to the note to the statement of financial position line item “Employee benefits” for details of financial expenses on employee benefits.
Other financial expenses mainly includes financial expenses for the discounting of provisions.

NOTE 41_SHARE OF PROFIT OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The result was a profit of 705 thousand euro (positive for 4,793 thousand euro in the first half of 2015) and includes reversals of impairment losses for 8,153 thousand euro and impairment losses totalling 7,448 thousand euro.
The change (4,088 thousand euro) essentially refers to the trend in the pro-quota results for ASA and OLT Offshore, which were partially mitigated by the overall positive change in the results for other subsidiaries.
In the first half of 2015, this item included the results for TRM V. and Atena, which are currently fully consolidated.

For more details see Note 5.

NOTE 42_VALUE ADJUSTMENTS ON EQUITY INVESTMENTS

These amounted to 12,599 thousand euro (not present in the first half of 2015) and refer to:

- for 10,499 euro thousand to the restatement at fair value, at the date the controlling stake was acquired of the minority interest held at 31 December 2015, in TRM V.;
- for 2,100 thousand euro to the difference between the net assets acquired by the Atena Group and the purchase cost.

NOTE 43_INCOME TAX EXPENSE

Income taxes for the first half of 2016 are estimated at 71,328 thousand euro (67,918 thousand euro in the first half of 2015) and are the result of the best estimate of the average tax rate expected for the entire year.

NOTE 44_NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS

This is not present in either the first half of 2016 or in the comparative period.

NOTE 45_PROFIT (LOSS) ATTRIBUTABLE TO NON-CONTROLLING INTERESTS

Profit of non-controlling interests, of 11,973 thousand euro (12,313 thousand euro in the first half of 2015), refers to the portion attributable to minority shareholders in companies fully consolidated but not wholly owned by the Group.

NOTE 46_EARNINGS PER SHARE

In order to calculate the basic and diluted earnings per share, the number of ordinary shares of the first half of 2016 is the weighted average, unchanged compared to the previous year, of shares outstanding over the reference period based on the provisions of paragraph 20, IAS 33.

	1st half 2016	1st half 2015
Net profit (loss) for the period (thousands of euro)	119,112	102,559
Weighted average number of shares outstanding over the year (thousand)	1,276,226	1,276,226
Basic earnings/(loss) per share (euro)	**0.09**	**0.06**

Diluted earnings per share are calculated by dividing profit by the adjusted number of shares. The adjusted number of shares is calculated by assuming the conversion of all financial instruments that could potentially dilute the ordinary shares.

	1st half 2016	1st half 2015
Net profit (loss) for the period (thousands of euro)	119,112	102,559
Weighted average number of shares (thousands)	1,276,226	1,276,226
Weighted average number of shares to calculate the diluted earnings per share (thousands)	1,276,226	1,276,226
Diluted earnings/(loss) per share (euro)	**0.09**	**0.06**

NOTE 47_OTHER COMPREHENSIVE INCOME

Other comprehensive income items amounted to +2,554 thousand euro (+9,540 thousand euro in the first half of 2015) and include the following:

- The effective portion of changes in the fair value of cash flow hedges, a negative 1,730 thousand euro, refers to derivatives hedging changes in interest rates and derivatives hedging changes in commodities' prices (electricity and gas), and includes the movement pertinent to TRM S.p.A. during the half of the year.
- The share of other profits/(losses) of companies accounted for using the equity method, positive for 4,743 thousand euro, which refers to changes in the fair value of the cash flow and commodity hedging of associates.
- The tax effect of other comprehensive income was negative for 459 thousand euro.

VIII. GUARANTEES AND CONTINGENT LIABILITIES

Guarantees relate to:

a) Sureties for own commitments of 363,618 thousand euro (346,530 thousand euro at 31 December 2015); the most significant items refer to sureties issued in favour of:
   - Reggio Emilia Provincial Government for 61,756 thousand euro for waste collection and operating and post-closure management of plants subject to Integrated Environmental Authorisation;
   - the Turin Provincial Government, for 56,906 thousand euro for waste collection and post-closure management of plants subject to A.I.A. (Integrated Environmental Authorisation);
   - ATO-R, for 41,000 thousand euro, as definitive guarantees in the Amiat/TRM tender procedure;
   - the municipality of Turin for 27,884 thousand euro as definitive guarantees in the Amiat/TRM tender procedure;
   - INPS for 26,882 thousand euro for the planned redundancy procedure for employees of companies in the Group;
   - the Electricity Market Operator (GME) for 25,300 thousand euro to guarantee the market participation contract;
   - Terna, for 20,176 thousand euro to guarantee injection and withdrawal dispatching contracts and to guarantee the electricity transport service contract;
   - SNAM Rete Gas for 18,242 thousand euro, of which 942 thousand euro in the interest of OLT Offshore LNG Toscana in relation to the construction of a delivery point;
   - the Customs Authority, for 16,537 thousand euro to guarantee the regular payment of revenue tax and additional local and provincial duties on electricity consumption and gas excise;
   - Parma Provincial Government, for 11,397 thousand euro for waste collection and operating and post-closure management of plants subject to A.I.A. (Integrated Environmental Authorisation);
   - CONSIP for 9,200 thousand euro for electricity supply contracts;
   - the Ministry of the Environment, for 6,268 thousand euro;
   - the Piacenza Provincial Government, for 4,695 thousand euro for waste collection and post-closure management of plants subject to A.I.A. (Integrated Environmental Authorisation);
   - the municipality of Alessandria for 3,332 thousand euro to participate in the tender to manage district heating services;
   - the municipality of Parma for 3,184 thousand euro to guarantee the Cornocchio plant and for maintenance contracts;
   - ATERSIR for 3,060 thousand euro for agreements with the Emilian areas S.I.I. and S.G.R.U.;
   - TRM SpA, for 3,000 thousand euro, as definitive guarantee in the AMIAT/TRM tender procedure;
   - REAM Sgr SpA, for 2,356 thousand euro, to guarantee future lease payments of properties transferred to the real estate fund called Fondo Core MultiUtilities;
   - the municipality of Moncalieri for 1,486 thousand euro, to guarantee the construction of urbanisation works;
   - Italgas for 2,264 thousand euro to guarantee the natural gas distribution contract;
   - FCT Holding, for 2,000 thousand euro, as definitive guarantee in the AMIAT/TRM tender procedure;

b) Guarantees provided on behalf of subsidiaries and associates for 322,239 thousand euro, primarily to guarantee credit facilities and sales/Parent Company Guarantee contracts on behalf of Iren Mercato Spa;

The most significant amounts, regarding the guarantees given on behalf of associates, refer to the associate Sinergie Italiane (namely guarantees for credit facilities and letters of patronage for 34,333 thousand euro, unchanged compared to 31 december 2015). The liquidators concluded the main procurement contracts and since 1 October 2012 the Company’s operating activity therefore includes only the purchase of gas from the Russian Gazprom supplier and the sale of gas to shareholders or their subsidiaries, including Iren Mercato. Therefore the company’s financial exposure is progressively lowering with the consequent decrease in shareholders’ guarantee obligations.

We can also note the sureties issued in favour of Banca Intesa for 4,001 thousand euro to guarantee the mortgage of the associate company Mestni Plinovodi.

COMMITMENTS

With regard to the subsidiary Mediterranea delle Acque, a commitment within the framework Agreement with the shareholder F2i rete idrica S.p.A. is in place. Article 15 of this agreement envisages that Iren Acqua Gas is bound to pay damages in the event of liabilities, losses or damage suffered by F2i or Mediterranea delle Acque or its investees, resulting from incorrect or unfair statements included in the agreement, with specific reference to outstanding tax disputes among which the dispute with the Tax Authorities for the recognition of depreciation/amortisation deducted by Mediterranea delle Acque regarding the water operating segment transferred in December 1999 from Amga S.p.A. to the newly incorporated Genova Acque S.p.A. (later renamed Mediterranea delle Acque following the merger with Genoa private aqueducts).

We can also note that certain pre-existing funding contracts with Cariparma contained an ownership clause, referring to the commitment by Iren S.p.A. to retain control over Iren Ambiente S.p.A. and by Iren Ambiente S.p.A. to retain direct or indirect ownership of a share package amounting to at least 70% of the share capital of Varsi Fotovoltaico, which has an existing loan agreement with Cariparma.

CONTINGENT LIABILITIES

Mediterranea delle Acque: Dispute with the Tax Authorities

With reference to the legal dispute with the Tax Authorities, relating to the assessment notices for the years 2003, 2004, 2005, 2006, 2007, 2008, 2009, 2010 and 2011 under the terms of Art. 37-*bis* paragraph 4 of Italian Presidential Decree 600/73 contribution of Business Unit, described in detail in the financial statements at 31 December 2015, the events and updates that occurred during 2016 and up until the approval of this report by the Board of Directors are presented below.

With regard to the pronouncements on the years 2003, 2004 and 2005, as already described in the previous financial statements, the Provincial Tax Commission of Genoa ruled in favour of the Tax Authorities with respect to the taxes only, the company lodged an appeal with subsequent appearance before the Regional Tax Commission on 8 July 2011.
The Tax Authorities also lodged appeals within the terms provided, limited to the fines, in relation to which the pronouncement of the Regional Tax Commission had ruled in favour of the company.

Also with regard to the pronouncements on the year 2006, the Provincial Tax Authorities of Genoa ruled in favour of the Tax Authorities with respect to the taxes only; the company promptly challenged the pronouncement before the Regional Tax Authorities.

The appeals relating to the years 2003, 2004, 2005 and 2006 were discussed with the Regional Tax Commission of Genoa on 20 May 2016.
To date, the Company is waiting on the Commission’s decisions, as the relative pronouncement has not yet been published.

On 08 August 2012, a notice of assessment was served for 2007, again relating to the deduction of the depreciation/amortisation for that year of amounts arising from the business transfer performed on 23 December 1999 by AMGA S.p.A. (higher taxes demanded 1,503,342 euro).
The company filed the related appeal and appeared before the court on 11 December 2012. The Provincial Tax Commission of Genoa ruled in favour of the Tax Authorities with respect to the taxes only, a ruling filed on 24 April 2015.

On 08 March 2013, a notice of assessment was served for 2008, again relating to the deduction of the depreciation/amortisation for that year of amounts arising from the business transfer performed on 23 December 1999 by AMGA S.p.A. (higher taxes demanded 1,267,248 euro).

The company filed the related appeal on 24 April 2013 and appeared before the court on 9 May 2013. In this case too the Provincial Tax Commission of Genoa ruled in favour of the Tax Authorities with respect to the taxes only, a ruling filed on 24 April 2015.

The judgements relating to the years 2007 and 2008 were appealed by the Company on 6 November 2015.
The Tax Authorities also lodged appeals within the terms provided, limited to the fines, in relation to which the Regional Tax Commission had ruled in favour of the company. In relation to these years we are waiting for a hearing to be set.

During 2013 Liguria Regional Department of the Tax Authorities carried out a tax audit in relation to the years 2009, 2010 and 2011. This audit was completed in April 2014.
On 09 September 2014, a notice of assessment was served for 2009, again relating to the deduction of the depreciation/amortisation for that year of amounts arising from the business transfer performed on 23 December 1999 by AMGA S.p.A. (higher taxes demanded 1,267,248 euro).
The Company lodged the related appeal on 29/10/2014. The case was discussed on 20 April 2015. The Provincial Tax Commission of Genoa upheld the company's appeal in full with a judgement filed on 28 May 2015.
The Tax Authorities also lodged an appeal within the terms and the company presented rebuttal pleas on 6 November 2015.

On 21 and 28 May 2015 notices of assessment have been served for the years 2010 and 2011 for which an application for assessment with acceptance has been filed.

The above notices, after an attempt at compromise, were challenged before the Provincial Tax Commission of Genoa on 6 November 2015. The discussion of the above notices took place on 24 February 2016. At the moment we are awaiting the Judgement of the Provincial Tax Commission of Genoa.

In relation to the dispute described above the Tax Authority entered in the roll the amounts due on the basis of the law in relation to the years 2003-2004-2005-2006 for a total of 4,745,569 euro including ancillary expenses. The related amounts were promptly paid within the respective expiry dates. The amounts paid were accounted for under the item other non-current receivables.

Following the filing of Judgements no. 868/1/15 and no. 867/1/15, of 13.01.2015, on 24.04.2015, on 12 May 2015 the Tax Authorities served the Company with the payment orders no. TLCIPPN00002/2015 and no. TLCIPPN00003/2015 with which it demanded payment of a total of 2,349,485.01 euro (of which 1,627,780.67 euro for IRES and 219,279.35 euro for IRAP), including interest, in relation to the years 2007 and 2008; the Company presented an application for administrative suspension, accepted on 9 July 2015, and then made the payment of the said demands on 21.12.2015. The amounts paid were accounted for under the item other non-current receivables.

During December 2015 the Liguria Regional Department of the Tax Authorities carried out a new tax audit in relation to the tax periods 2012 and 2013. This audit was completed in December 2015.

At the moment no notices of assessment have been served for 2012 and 2013 in relation to the deduction of depreciation/amortisation for those years of amounts arising from the business transfer performed on 23 December 1999 by AMGA S.p.A.

Both in the light of the opinion issued by the tax consultants that assist it, and considering the favourable pronouncement indicated above in relation to the year 2009, the Company believes that the risk deriving from the dispute can be classified as a contingent liability under the terms of IAS 37, as it is a possible but not probable expense: as a consequence, in keeping with the indications of the relevant accounting standard, it has been disclosed in the notes to the statements prepared from time to time, without setting aside any provisions. This is based on the opinion that it is unlikely that the Company will have to pay any amount in relation to this obligation taking into account the strong defence raised during the proceedings. An examination of the grounds of the unfavourable judgements - on the matter of tax - of first instance, made also with the support of the company's legal consultants, did not lead to a revision of the probabilistic opinion formulated above: they seem, in fact, faulty from a logical and legal point of view, and we believe that the decision will be overturned in the subsequent levels of judgement. The lawyers were therefore asked to prepare the appeal claim, which was lodged in accordance with law.

The total acceptance of the appeal related to the year 2009 referred to above has further strengthened this conviction.

At this stage of proceedings, and the above-mentioned reasons (duly motivated in other deeds issued during the proceedings), and based on the reasons specified in the first instance pronouncement, the Company believes that the appeal will be successful and that the assessment notices will be cancelled.
Therefore, the Company does not deem it necessary to set aside a specific provision as it is not probable that economic resources will be used to settle the tax claims.

Pursuant to paragraph 86 of IAS 37, the following information regarding contingent liabilities is supplied:

a) in the event that the orientation of the first instance rulings is consolidated, for all years still open for income tax purposes, the company will consider as non-tax deductible all amortisation/depreciation calculated by Mediterranea delle Acque on gains resulting from transfers from AMGA SPA, at that time not subject to taxation, and amounting to around 93 million euro. This would result in a total tax payable plus interest of approximately 30.32 million euro, of which around 0.43 million euro in higher taxes for the first half of 2016;
b) if the outcome is unfavourable, it is however impossible to establish the time when the matter will become unfavourable for the Company and when the aforementioned amounts will become payable (also taking account of tax collection dynamics which, although in the presence of a pending ruling, provide for a preliminary payment of a portion of the tax assessed in the event that the case is lost);
c) the Company deems it a mere possibility that resources expected to produce economic benefits will have to be used to fulfil tax obligations.

IX. SEGMENT REPORTING

Segment reporting, based on the Group's management and internal reporting structure, is given below in accordance with IFRS 8.
Given the nature of the activity performed by Group companies, a geographical segment analysis is not relevant.
It is noted that as from 1 January 2016, information is provided according to business segments as detailed below, and the comparison period has therefore been restated in line with the subdivision according to segment used as from 2016.

OPERATING SEGMENTS

The Iren Group operates in the following business segments:

- Energy (Hydroelectric Production, Combined Heat and Power, District Heating Networks, Thermoelectric Production)
- Market (Sale of electricity, gas, heat)
- Networks (Electricity Distribution Networks, Gas Distribution Networks, Integrated Water Service)
- Waste Management (Waste collection and disposal)
- Other services (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 economic results relating to individual businesses, revenue and expense referring to joint activities were fully allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers.

Given the fact that the Group mainly operates in the Italian north-west area, the following segment information does not include a breakdown by geographical area.

Net invested capital compared to the figures at 31 december 2015 and income statements (up to the operating performance) are presented below by business segment and include a comparison with the figures for the first half of 2015.

Statement of financial position by sector at 30 June 2016

millions of euro

	Energy	Market	Networks	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,875	78	2,088	900	22	151	**5,114**
Net Working Capital	(33)	14	112	31	45	-	**168**
Other non-current assets and liabilities	(63)	20	(398)	(129)	1	-	**(569)**
Net invested capital (NIC)	**1,778**	**112**	**1,802**	**802**	**68**	**151**	**4,713**
Shareholders' equity							**2,169**
Net financial position							**2,544**
Own funds and net financial indebtedness							**4,713**

Statement of financial position by sector at 31 December 2015

millions of euro

	Energy	Market	Networks	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,940	74	1,973	400	24	237	**4,648**
Net Working Capital	91	(62)	125	(17)	17	-	**154**
Other non-current assets and liabilities	(94)	28	(408)	(99)	1	-	**(571)**
Net invested capital (NIC)	**1,937**	**40**	**1,690**	**285**	**42**	**237**	**4,231**
Shareholders' equity							**2,062**
Net financial position							**2,169**
Own funds and net financial indebtedness							**4,231**

Income Statement by sector First half of 2016

millions of euro

	Energy	Market	Networks	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	403	1,084	400	254	32	(617)	1,555
Total operating expense	(284)	(1,001)	(251)	(191)	(27)	617	(1,138)
Gross Operating Profit (EBITDA)	**119**	**83**	**148**	**63**	**4**	**-**	**417**
Net am./depr., provisions and impairment losses	(59)	(24)	(61)	(31)	(1)	-	(175)
Operating profit (EBIT)	**60**	**59**	**87**	**33**	**3**	**-**	**242**

Income Statement by sector First half of 2015

millions of euro

	Energy	Market	Networks	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	398	1,199	392	234	55	(698)	1,579
Total operating expense	(295)	(1,137)	(234)	(198)	(36)	698	(1,201)
Gross Operating Profit (EBITDA)	**103**	**62**	**158**	**36**	**18**	**-**	**378**
Net am./depr., provisions and impairment losses	(66)	(16)	(54)	(24)	(1)	-	(161)
Operating profit (EBIT)	**38**	**46**	**104**	**12**	**17**	**-**	**217**

X. ANNEXES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

FULLY CONSOLIDATED COMPANIES

COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

INVESTMENTS IN OTHER COMPANIES

RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (Consob Communication no. 6064293 dated 26 July 2006)

TRANSACTIONS WITH RELATED PARTIES

FULLY CONSOLIDATED COMPANIES

Company	Registered office	Currency	Share capital	% interest	Shareholder company
Iren Ambiente S.p.A.	Piacenza	Euro	63,622,002	100.00	Iren
Iren Energia S.p.A.	Turin	Euro	918,767,148	100.00	Iren
Iren Mercato S.p.A.	Genoa	Euro	61,356,220	100.00	Iren
IRETI S.p.A.	Tortona (AL)	Euro	196,832,103	100.00	Iren
Amiat S.p.A.	Turin	Euro	46,326,462	80.00	Amiat V
Amiat V. S.p.A.	Turin	Euro	1,000,000	93.06	Iren Ambiente
Atena S.p.A.	Vercelli	Euro	120,812,720	59.96	IRETI
Atena Trading S.r.l.	Vercelli	Euro	556,000	100.00	Atena
Bonifica Autocisterne S.r.l.	Piacenza	Euro	595,000	51.00	Iren Ambiente
Consorzio GPO	Reggio Emilia	Euro	20,197,260	62.35	IRETI
GEA Commerciale S.p.A.	Grosseto	Euro	340,910	100.00	Iren Mercato
Idrotigullio S.p.A.	Chiavari (GE)	Euro	979,000	66.55	Mediterranea delle Acque
Immobiliare delle Fabbriche S.r.l.	Genoa	Euro	90,000	100.00	Mediterranea delle Acque
Iren Gestioni Energetiche S.p.A.	Genoa	Euro	10,000,000	100.00	Iren Mercato
Iren Servizi e Innovazione S.p.A.	Turin	Euro	52,242,791	100.00	Iren Energia
Laboratori Iren Acqua Gas S.p.A.	Genoa	Euro	2,000,000	90.89	IRETI
Mediterranea delle Acque S.p.A.	Genoa	Euro	19,203,420	60.00	IRETI
Monte Querce S.c.a.r.l.	Reggio Emilia	Euro	100,000	60.00	Iren Ambiente
TRM Holding S.p.A.	Turin	Euro	120,000	100.00	Iren Ambiente
TRM V. S.p.A.	Turin	Euro	1,000,000	49.00	Iren Ambiente
				51.00	TRM Holding
TRM S.p.A.	Turin	Euro	86,794,220	80.00	TRM V

COMPANIES ACCOUNTED FOR USING THE EQUITY METHOD

Joint ventures

Company	Registered office	Currency	Share capital	% interest	Shareholder company
Acque Potabili	Turin	Euro	7,633,096	44.92	IRETI
Iren Rinnovabili	Reggio Emilia	Euro	285,721	70.00	Iren Ambiente
Olt Offshore Toscana LNG S.p.A.	Milan	Euro	145,750,700	43.99	Iren Mercato

Associates

Company	Registered office	Currency	Share capital	% interest	Shareholder company
A2A Alfa S.r.l.	Milan	Euro	100,000	30.00	Iren Mercato
Acos Energia S.p.A.	Novi Ligure	Euro	150,000	25.00	Iren Mercato
Acos S.p.A.	Novi Ligure	Euro	17,075,864	25.00	IRETI
Acquaenna S.c.p.a.	Enna	Euro	3,000,000	46.00	IRETI
Aguas de San Pedro	S.Pedro Sula (Honduras)	Lempiras	159,900	30.00	IRETI
Aiga S.p.A.	Ventimiglia	Euro	104,000	49.00	IRETI
Amat S.p.A.	Imperia	Euro	5,435,372	48.00	IRETI
Amter S.p.A.	Cogoleto (GE)	Euro	404,263	49.00	Mediterranea delle Acque
ASA S.p.A.	Livorno	Euro	28,613,414	40.00	IRETI
ASTEA	Recanati	Euro	76,115,676	21.32	Consorzio GPO
Asti Energia e Calore S.p.A.	Asti	Euro	120,000	34.00	Iren Energia
Atena S.p.A.	Vercelli	Euro	120,812,720	59.96	IRETI
Domus Acqua S.r.l.	Domusnovas	Euro	96,000	29.00	IRETI
Ecoprogetto Tortona S.r.l.	Bolzano	Euro	1,000,000	40.00	Iren Ambiente
Fata Morgana S.p.A. (2)	Reggio Calabria	Euro	2,225,694	25.00	IRETI
Fin Gas srl	Milan	Euro	10,000	50.00	Iren Mercato
Global Service Parma	Parma	Euro	20,000	30.00	IRETI
Il Tempio S.r.l.	Reggio Emilia	Euro	110,000	45.45	IRETI
Iniziative Ambientali S.r.l.	Novellara (RE)	Euro	100,000	40.00	Iren Ambiente
Mestni Plinovodi	Koper (Slovenia)	Euro	15,952,479	49.88	IRETI
Mondo Acqua	Mondovì (CN)	Euro	1,100,000	38.50	IRETI
Nord Ovest Servizi	Turin	Euro	7,800,000	10.00	IRETI
				15.00	AMIAT
Piana Ambiente S.p.A. (2)	Gioia Tauro	Euro	1,719,322	25.00	IRETI
Plurigas S.p.A. (2)	Milan	Euro	800,000	30.00	Iren
Rio Riazzone S.p.A.	Castellarano (RE)	Euro	103,292	44.00	Iren Ambiente
Salerno Energia Vendite	Salerno	Euro	2,447,526	39.40	GEA Commerciale
Sinergie Italiane S.r.l. (1)	Milan	Euro	1,000,000	30.94	Iren Mercato
So. Sel. S.p.A.	Modena	Euro	240,240	24.00	IRETI
Tirana Acque (1)	Genoa	Euro	95,000	50.00	IRETI
Valle Dora Energia S.r.l.	Turin	Euro	537,582	49.00	Iren Energia

(1) Company in liquidation
(2) Company in liquidation classified among assets destined to be wound up

INVESTMENTS IN OTHER COMPANIES

Company	Registered office	Currency	Share capital	% interest	Shareholder company
Acque Potabili Siciliane (bankrupt as from 29.10.2013)	Palermo	Euro	5,000,000	56.77 9.83	Acque Potabili Mediterranea delle Acque
Astea Energia	Osimo (AN)	Euro	120,000	5.95	Iren Mercato
Autostrade Centro Padane	Cremona	Euro	30,000,000	1.46	IRETI
BT ENIA Telecomunicazioni	Parma	Euro	4,226,000	12.01	IRETI
C.R.P.A.	Reggio Emilia	Euro	2,201,350	2.27	IRETI
CIDIU SPA	Collegno (TO)	Euro	4,335,314	4.82	AMIAT
CONSORZIO ITALIANO COMPOSTATORI CIC	Bologna	Euro	294,716	0.13	AMIAT
Consorzio L.E.A.P.	Piacenza	Euro	135,000	0.95	Iren Ambiente
Consorzio Topix	Turin	Euro	1,685,000	0.30	Iren Energia
CSP Innovazione nelle ICT S.c.r.l.	Turin	Euro	641,000	6.10	Iren Energia
Environment Park S.p.A.	Turin	Euro	11,406,780	3.39 7.41	Iren Energia AMIAT
Italeko AD (1)	Sofia (Bulgaria)	Lev	50,000	10.00	AMIAT
Reggio Emilia Innovazione	Reggio Emilia	Euro	871,956	0.99	Iren Ambiente
Società di Biotecnologie S.p.A.	Turin	Euro	536,000	1.00	Iren Servizi e Innovazione
Stadio Albaro (1)	Genoa	Euro	1,230,000	2.00	Iren Gestioni Energetiche
T.I.C.A.S.S.	Genoa	Euro	130,000	3.51	IRETI

(1) Company in liquidation

RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (Consob Communication no. 6064293 dated 26 July 2006)

thousands of euro

IAS/IFRS STATEMENT OF FINANCIAL POSITION		RECLASSIFIED STATEMENT OF FINANCIAL POSITION	
Property, plant and equipment	3,383,845	Property, plant and equipment	3,383,845
Investment property	13,656	Investment property	13,656
Intangible assets	1,395,322	Intangible assets	1,395,322
Goodwill	170,106	Goodwill	170,106
Investments accounted for using the equity method	143,566	Investments accounted for using the equity method	143,566
Other equity investments	7,171	Other equity investments	7,171
Total (A)	**5,113,666**	**Non-Current Assets (A)**	**5,113,666**
Other non-current assets	56,538	Other non-current assets	56,538
Other payables and other non-current liabilities	(201,268)	Other payables and other non-current liabilities	(201,268)
Total (B)	**(144,730)**	**Other non-current assets (liabilities) (B)**	**(144,730)**
Inventories	83,442	Inventories	83,442
Non-current trade receivables	72,816	Non-current trade receivables	72,816
Trade receivables	786,585	Trade receivables	786,585
Current tax assets	19,816	Current tax assets	19,816
Other receivables and other current assets	208,054	Other receivables and other current assets	208,054
Trade payables	(623,462)	Trade payables	(623,462)
Other payables and other current liabilities	(265,011)	Other payables and other current liabilities	(284,688)
Current tax liabilities	(94,076)	Current tax liabilities	(94,076)
Total (C)	**188,164**	**Net working capital (C)**	**168,487**
Deferred tax assets	283,000	Deferred tax assets	283,000
Deferred tax liabilities	(187,115)	Deferred tax liabilities	(187,115)
Total (D)	**95,885**	**Deferred tax assets (liabilities) (D)**	**95,885**
Employee benefits	(136,172)	Employee benefits	(136,172)
Provisions for risks and charges	(291,655)	Provisions for risks and charges	(291,655)
Provisions for risks and charges - current portion	(112,767)	Provisions for risks and charges - current portion	(93,090)
Total (E)	**(540,594)**	**Provisions and employee benefits (E)**	**(520,917)**
Assets held for sale	920	Assets held for sale	920
Liabilities related to assets held for sale	-	Liabilities related to assets held for sale	-
Total (F)	**920**	**Assets (Liabilities) held for sale (F)**	**920**
		Net invested capital (G=A+B+C+D+E+F)	**4,713,311**
Equity (H)	**2,169,248**	**Equity (H)**	**2,169,248**
Non-current financial assets	(50,749)	Non-current financial assets	(50,749)
Non-current financial liabilities	3,035,921	Non-current financial liabilities	3,035,921
Total (I)	**2,985,172**	**Non-current financial indebtedness (I)**	**2,985,172**
Current financial assets	(547,920)	Current financial assets	(547,920)
Cash and cash equivalents	(171,130)	Cash and cash equivalents	(171,130)
Current financial liabilities	277,941	Current financial liabilities	277,941
Total (L)	**(441,109)**	**Current financial indebtedness (L)**	**(441,109)**
		Net financial debt (M=I+L)	**2,544,063**
		Own funds and net financial indebtedness (H+M)	**4,713,311**

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Trade Receivables	Financial Receivables, Cash and cash equivalents	Other receivables	Trade Payables	Financial payables
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	9,366	484	-	5,631	-
Municipality of Parma	8,239	-	-	731	-
Municipality of Piacenza	1,652	-	2	3,822	-
Municipality of Reggio Emilia	3,867	-	560	1,386	-
Municipality of Turin	81,682	98,737	-	3,647	726
Finanziaria Sviluppo Utilities	20	-	-	-	-
JOINT VENTURES					
OLT Offshore LNG	212	439,000	-	-	-
Acque Potabili	5,537	2,321	-	214	-
Iren Rinnovabili S.p.A.	1,034	32,136	222	243	-
ASSOCIATES					
Acos Energia S.p.A.	243	-	-	(7)	-
Acos S.p.A.	16	328	-	-	-
Acquaenna S.c.p.a.	3,158	315	-	384	-
Aguas de San Pedro S.A.	-	454	-	-	-
Aiga S.p.A.	208	474	-	38	-
Amat S.p.A.	64	-	-	4	-
Amter S.p.A.	3,630	-	-	552	-
ASA S.p.A.	4,145	-	-	278	-
ASTEA	-	789	-	-	-
Asti Energia e Calore	325	487	-	-	-
Domus Acqua S.r.l.	157	-	-	-	-
Global Service Parma	4,628	-	-	1,162	-
Il Tempio S.r.l.	-	309	-	-	-
Iniziative Ambientali S.r.l.	3	-	-	-	-
Mestni Plinovodi	-	399	-	-	-
Mondo Acqua	310	-	-	-	-
Nord Ovest Servizi	-	20	-	-	-
Piana Ambiente S.p.A.	70	-	-	-	-
Plurigas S.p.A. (in liquidation)	6	-	-	(259)	-
Rio Riazzone S.p.A.	-	-	-	24	-
S.M.A.G. srl	178	-	-	1,509	-
Salerno Energia Vendite	509	-	-	53	-
Sinergie Italiane S.r.l.	-	-	9,096	71	-
So. Sel. S.p.A.	6	78	-	1,501	-
Valle Dora Energia Srl	4	-	-	-	183
OTHER RELATED PARTIES					
Subsidiaries of municipality of Turin	14,232	-	-	1,391	-
Subsidiaries of municipality of Genoa	5,530	-	-	-	-
Subsidiaries of municipality of Parma	7,650	-	1	711	-
Subsidiaries of municipality of Piacenza	69	-	-	1,142	-
Subsidiaries of municipality of Reggio Emilia	18	-	-	1,183	-
TOTAL	**156,768**	**576,331**	**9,881**	**25,411**	**909**

thousands of euro

	Other payables	Revenue and income	Costs and other charges	Financial income	Financial expenses
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	-	2,915	1,804	-	-
Municipality of Parma	-	13,149	559	-	-
Municipality of Piacenza	-	8,807	1,283	-	-
Municipality of Reggio Emilia	-	15,233	141	-	-
Municipality of Turin	11	96,262	579	1,977	-
Finanziaria Sviluppo Utilities	-	14	-	-	-
JOINT VENTURES					
OLT Offshore LNG	-	88	-	7,575	-
Acque Potabili	-	57	2	40	-
Iren Rinnovabili S.p.A.	127	437	183	563	-
ASSOCIATES					
Acos Energia S.p.A.	-	1	4	-	-
Acos S.p.A.	-	17	-	164	-
Acquaenna S.c.p.a.	-	118	-	6	-
Aguas de San Pedro S.A.	-	-	-	-	-
Aiga S.p.A.	-	-	-	5	-
Amat S.p.A.	-	-	-	-	-
Amter S.p.A.	-	540	161	-	-
ASA S.p.A.	-	42	39	-	-
ASTEA	-	-	-	469	-
Asti Energia e Calore	-	307	-	12	-
Domus Acqua S.r.l.	-	3	-	-	-
Global Service Parma	-	2,135	-	-	6
Il Tempio S.r.l.	-	-	-	1	-
Iniziative Ambientali S.r.l.	-	1	-	-	-
Mestni Plinovodi	-	-	-	399	-
Mondo Acqua	-	225	-	-	-
Nord Ovest Servizi	-	-	-	20	-
Piana Ambiente S.p.A.	-	-	-	-	-
Plurigas S.p.A. (in liquidation)	-	-	-	-	-
Rio Riazzone S.p.A.	-	-	-	-	-
S.M.A.G. srl	-	36	1,583	-	-
Salerno Energia Vendite	-	1	-	-	-
Sinergie Italiane S.r.l.	-	-	21,312	-	-
So. Sel. S.p.A.	-	5	1,614	-	-
Valle Dora Energia Srl	-	5	52	-	-
OTHER RELATED PARTIES					
Subsidiaries of municipality of Turin	-	300	715	-	-
Subsidiaries of municipality of Genoa	-	5,324	-	-	-
Subsidiaries of municipality of Parma	-	844	1,577	3	-
Subsidiaries of municipality of Piacenza	-	3	571	-	-
Subsidiaries of municipality of Reggio Emilia	-	8	3,450	-	-
TOTAL	**138**	**146,877**	**35,629**	**11,234**	**6**

Statement regarding the condensed interim report pursuant to Art. 154-*bis* of Italian Legislative Decree 58/1998

1. The undersigned Massimiliano Bianco, Chief Executive Officer, and Massimo Levrino, Administration, Finance and Control Manager and Corporate Financial Reporting Manager of Iren S.p.A., hereby certify, also in view of the provisions of Art. 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24th February 1998:

   - the adequacy in respect of the company's characteristics and
   - the effective application of the administrative and accounting procedures for preparation of the condensed interim report during the first half of 2016*.*

2. It is also certified that:

   2.1 the condensed interim financial report:

   a) have been drawn up according to the international accounting standards applicable and recognised in the European Union pursuant to Regulation (EC) no. 1606/2002 of the European Parliament and of the Council of 19 July 2002;

   b) are in agreement with the figures in the accounting books and documents;

   c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

   2.2 the interim report on operations includes a reliable analysis of references to significant events that occurred in the first six months of the year and their impact on the condensed consolidated interim report, together with a description of the main risks and uncertainties for the remaining six months of the year. The interim report on operations also includes a reliable analysis of information on significant transactions with related parties.

4 August 2016

The Chief Executive Officer	Administration and Finance Director and Financial Reporting Manager appointed under Law 262/05
Massimiliano Bianco	Massimo Levrino

pwc

REVIEW REPORT ON THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

To the Shareholders of
Iren SpA

Foreword

We have reviewed the accompanying condensed consolidated interim financial statements of Iren SpA and its subsidiaries (the "Iren Group") as of 30 June 2016, comprising the statement of financial position, the income statement, the statement of other comprehensive income, the statement of changes in equity, the statement of cash flows and the related notes. The Directors of Iren SpA are responsible for the preparation of the condensed consolidated interim financial statements in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34), as adopted by the European Union. Our responsibility is to express a conclusion on these condensed consolidated interim financial statements based on our review.

Scope of review

We conducted our work in accordance with the criteria for a review recommended by Consob in Resolution No. 10867 of 31 July 1997. A review of condensed consolidated interim financial statements consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than a full-scope audit conducted in accordance with International Standards on Auditing (ISA Italia) and, consequently, does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion on the condensed consolidated interim financial statements.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the accompanying condensed consolidated interim financial statements of the Iren Group as of 30 June 2016 are not prepared, in all material respects, in accordance with International Accounting Standard 34 applicable to interim financial reporting (IAS 34), as adopted by the European Union.

Turin, 5 August 2016

PricewaterhouseCoopers SpA

Signed by

Piero De Lorenzi
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

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