Annual Report

at 31 December 2011

iren

Contents

NOTICE OF CALL OF THE SHAREHOLDERS' MEETING

The shareholders are called to the ordinary meeting to be held at the Sala Campioli, Via Nubi di Magellano 30, Reggio Emilia on 14 May 2012 at 11 a.m., on first call, and if necessary on 21 May 2012, at the same time and venue on second call, to discuss the following

AGENDA:

1) Financial statements at 31 December 2011 and Directors' Report: inherent and consequent resolutions.
2) Appointment of the independent auditors pursuant to Art. 13, Italian Legislative Decree no. 39 of 27 January 2010 for the 9-year period 2012-2020: inherent and consequent resolutions.
3) Appointment of the Board of Statutory Auditors and its Chairman for 2012-2013-2014 and determination of related fees: inherent and consequent resolutions.
4) Remuneration Report (section 1, pursuant to Art. 123, paragraph 3, of the Consolidated Law on Finance): inherent and consequent resolutions.

SHAREHOLDERS' MEETING ATTENDANCE AND REPRESENTATION

Pursuant to Art. 83-sexies, Italian Legislative Decree no. 58 of 24 February 1998, all persons proving to be holders of voting rights at the end of the record date of 3 May 2012 and for whom the related notice obtained from the authorised intermediary has been received by the Company, are eligible to attend the Shareholders' Meeting.
Registrations and cancellations recorded after said date will not qualify for the legitimate exercise of voting rights at the Shareholders' Meeting.

Legally eligible persons may arrange proxy representation at the Shareholders' Meeting by means of a written proxy prepared in compliance with current regulations, and may use the proxy form available in the Investor Relations/Corporate Governance/Shareholders' Meetings section of the company website www.gruppoiren.it.

The Company has appointed Servizio Titoli S.p.A. with offices at Via Nizza 262/73, Turin, as the representative to which holders of voting rights may grant proxy, pursuant to Art. 135-undecies of Legislative Decree no. 58 of 24 February 1998, with voting instructions on all or part of the proposals on the agenda. The proxy will be valid only for agenda proposals for which voting instructions have been given. Proxy to the aforementioned representative appointed by the Company must be granted by 10 May 2012, in accordance with the prescribed methods and using the specific proxy form to be made available on the company website (www.gruppoiren.it), where instructions will also be given on how interested parties may notify the company of proxies via electronic means.

Shareholders are reminded that voting by correspondence or by electronic means is not envisaged.

APPOINTMENT OF THE BOARD OF STATUTORY AUDITORS

The Shareholders' Meeting shall appoint the Board of Statutory Auditors, composed of three standing auditors and two substitute auditors, and appoint the Chairman in compliance with the methods specified below.
The statutory auditors will remain in office for three financial years and their office will terminate on the date of the Shareholders' Meeting called to approve the financial statements relating to their last year of office.
Statutory auditors must meet the requirements of integrity and professionalism as established in current regulations.
The appointment of members of the Board of Statutory Auditors shall be based on lists divided into two sections: one for candidates as standing auditor and one for candidates as substitute auditor. The candidates will be numbered in consecutive order and in any event in a number not exceeding the number of members to be elected.
Lists may be filed by shareholders representing at least 1% of shares with voting rights at ordinary Shareholders' Meetings.
The lists must be filed with the registered office, on penalty of lapse, at least 25 days prior to the date of the Shareholders' Meeting on first call (i.e. by 19 April 2012) and will be disclosed by publication on the

company website by 23 April 2012. The lists may also be filed via fax to 011-0703563 or as an attachment to an e-mail addressed to affarisocietari@gruppoiren.it or irenspa@pec.gruppoiren.it, together with information proving the identity of the filing party.

If by the aforementioned deadline only one list has been filed, or lists filed by shareholders proving to be associated in accordance with regulations valid at that time, further lists may be filed up to the third day thereafter. In this case the 1% shareholding requirement is reduced by half.

No shareholder may file or vote upon more than one list, including through a third party or a trustee. Shareholders pertaining to the same group and shareholders party to a shareholders' agreement relating to company shares may not file more than one list, including through a third party or a trustee. Any candidate may be named in one list only, on penalty of ineligibility.

Filings and votes expressed in infringement of this restriction shall not be attributed to any list.

The lists must be accompanied by:

a) details of the identity of shareholders filing the lists, with an indication of the total percentage of shares held, confirmed by a specific notice issued by the respective intermediaries (also at a later date, provided it is issued by the deadline for publication of the lists by the company) to the certified e-mail address iren@pecserviziotitoli.it;

b) a statement from shareholders, other than those which individually or jointly hold a controlling interest or relative majority shareholding, confirming the absence of any association as envisaged in current laws and regulations;

c) a full description of the personal and professional characteristics of the candidates, and a statement from each candidate accepting the candidacy and confirming that there are no grounds for incompatibility or ineligibility, that the legal and statutory requirements are met and listing the administration and control offices held with other companies.

Any list failing to meet the above requirements shall be considered as never having been filed.

FEES

The Shareholders' Meeting will determine the fees due to statutory auditors, together with the reimbursement of expenses incurred to perform the duties of their office.

OTHER SHAREHOLDER RIGHTS

Shareholders may ask questions on items on the agenda also prior to the meeting, in accordance with the terms and conditions indicated on the company website (www.gruppoiren.it).

Shareholders who alone or with other shareholders represent at least one fortieth of the share capital with voting rights may – within ten days of publication of this notice of call – integrate the items on the agenda, indicating the additional items proposed in their application. The integration of the Agenda is not permitted for topics on which, by law, the Shareholders' Meeting resolves on the basis of proposals submitted by the directors or on the basis of a plan or report prepared by the directors. The terms and conditions for the exercise of this right are provided on the company website (www.gruppoiren.it).

DOCUMENTATION

The report prepared by the Board of Directors on items on the agenda, together with the "Annual Financial Report", the "Annual Report on Corporate Governance and Ownership Structure" and the "Remuneration Report" are available to the public, in accordance with law, at the registered office of the company, at the offices of Borsa Italiana S.p.A. and on the company website (www.gruppoiren.it), where information can also be found on the composition of the share capital and on the statutory restrictions on holding Iren shares.

Shareholders have the right to obtain a copy of the documentation by contacting the Corporate Affairs Department via fax on 011-0703563 or via e-mail to: affarisocietari@gruppoiren.it or irenspa@pec.gruppoiren.it

4 aprile 2012

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

KEY FIGURES OF THE IREN GROUP

	2011	2010 pro-forma	% change	2010
Income statement figures *(millions of euro)*				
Revenue	3,520	3,391	3.8	2,828
Gross operating profit	592	602	(1.6)	495
Operating profit	308	337	(8.4)	285
Profit before tax	14	289	(95.1)	238
Consolidated profit/(loss) for the year	(99)	186	(*)	150
Statement of financial position figures *(millions of euro)*	*At 31/12/2011*	*At 31/12/2010 pro-forma*		*At 31/12/2010*
Net invested capital	4,497	4,342	3.6	4,342
Equity	1,845	2,082	(11.4)	2,082
Net financial position	(2,652)	(2,260)	17.4	(2,260)
Financial/economic indicators	*2011*	*2010 pro-forma*		*2010*
GOP/Revenue	16.81%	17.74%		17.51%
Debt/Equity	1.44	1.08		1.08
Technical and trading figures	*2011 pro-forma*	*2010 pro-forma*		
Electrical energy sold (GWh)	13,816	14,568	(5.2)	
Heat energy produced (GWht)	2,572	2,754	(6.6)	
District heating volume (mln m^3)	72	66	10.3	
Gas sold (mln m^3)	3,108	3,132	(0.8)	
Water distributed (mln m^3)	181	187	(3.6)	
Waste handled (tons)	1,017,312	1,005,468	1.2	

(*) Change of more than 100%

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

Iren is structured as an industrial holding with main corporate offices in Reggio Emilia, operating units in Genoa, Parma, Piacenza, and Turin, and it has other companies in charge of the individual business lines. Thanks to its significant production assets, the investments made and the leadership attained in all areas of business, together with its strong territorial roots, Iren is currently the second largest multiutility group in Italy.

The holding company handles strategic, development, coordination and control activities, while the five operating companies ensure the coordination and development of business lines as follows:

- Iren Acqua Gas operates in the integrated water cycle sector;
- Iren Energia operates in the electrical and heat energy production and technological services sector;
- Iren Mercato manages the sale of electricity, gas and district heating;
- Iren Emilia operates in the gas sector, handles waste collection, environmental health and the management of local services;
- Iren Ambiente handles the design and management of waste treatment and disposal plants and the management of heat production plants for district heating in Emilia Romagna.

Production of electrical energy: thanks to a considerable number of electrical and heat energy plants for district heating production, the overall production capacity is over 7,400 GWh/year, including the portion ensured by Edipower.

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

Distribution of electrical energy: with over 7,400 km of medium and low voltage networks, the Group distributes electrical energy to over 710,000 customers in Turin and Parma.

Integrated water service: with over 14,000 km of aqueduct networks, 7,868 km of sewerage networks and 813 treatment plants, Iren provides services to over 2,400,000 residents.

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

District heating: through 759 km of dual-pipe underground networks the Iren Group supplies heating for an overall volume of over 72 million m^3, equivalent to a population served of over 550,000 individuals.

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

COMPANY OFFICERS

Board of Directors

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

Board of Statutory Auditors

Chairman	Aldo Milanese
Standing auditors	Lorenzo Ginisio
	Giuseppe Lalla
Substitute auditors	Massimo Bosco
	Emilio Gatto

Manager in charge of financial reporting

Massimo Levrino

Independent Auditors

KPMG S.p.A.

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

MISSION AND VALUES OF THE IREN GROUP

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

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

LETTER TO THE SHAREHOLDERS

Dear Shareholders,
The scenario for the energy markets in Italy and europe in 2011 proved once again to be particularly difficult: the average crude oil price rose by 40% compared to 2010; natural gas consumption returned to its 2009 levels with a considerable decrease on 2010 (-6.0%); the weak gas demand coincided with the system's increased imports capacity which continued to cause overcapacity; the minor recovery in electrical energy demand proved slower than the previous year's growth (+0.6% against the +3.2% of 2010 over 2009) and in any event lower than 2008 levels.
In this context your Company recorded an essential stability in the profit levels from continuing operations: consolidated revenue for euro 3,520 million - up 3.8% on 2010, EBITDA of euro 592 million, slightly down on the previous year (-1.6%) and profit for the year of euro 155 million net of the extraordinary and non-recurring effects that characterised the year just ended.

In 2011 your Company was strongly committed to the extraordinary transaction for the reorganisation of Edison and Edipower, a major project for the companies directly involved. Due to the very importance of this project, the particularly complex procedure saw not only the involvement of the Parties directly concerned but also the Government. As part of this procedure Iren conducted negotiations with the Government contacts in a manner consistent with its guidelines for disposal of the Edison investment, considered no longer strategic from a business point of view, with the aim of freeing up resources for investment in core projects and/or production asset acquisitions cohesive with Group business.
Negotiations continued throughout 2011 and were completed with the signing of final agreements on 15 February 2012.
Closing of the transaction must be within 20 business days of a condition precedent arising and in any event no later than 30 June 2012. The entire transaction, in fact, remains subject to confirmation from Consob that the mandatory takeover bid price - as a result of EDF's acquisition of control over Edison - does not exceed euro 0.84 per share. In this respect, on 4 April 2012 Consob confirmed a price for the Edison shares in the range of euro 0.84 to euro 0.95, the average value of which could represent a point of reference to express a balance between the Parties' interests, would therefore be consistent with the 'price paid' concept pursuant to Art. 106, paragraph 2 of the Consolidated Law on Finance.
At the time of publication of these Financial Statements, the possible effects of the Consob opinion on developments in the agreement are under consideration. The transaction is also subject to approval by the relevant Antitrust Authorities. Once the aforementioned steps are concluded and approval received from the competent authorities, Iren will become the second major shareholder of Edipower with a significant interest of around 21%.
The reorganisation agreements will result in the setup of two major energy hubs for Italy - Edison and Edipower - which, once organisational stability has been achieved and the business relaunched, will contribute to the Italy's return to economic growth, generating value for the entire country and offering a new input to the Italian production fabric.
In particular, Edipower will become the second largest national energy production centre, with production characteristics that integrate fully with those of Iren, especially in terms of hydroelectric power.
The closing of the Edison-Edipower transaction, which has allowed the financial investment in Edison to be transformed into a business investment in Edipower with all associated benefits, has in any event had an impact in terms of capital losses for the Iren Group, with a non-recurring effect on the 2011 results.

Other business developments of your Company have also shown important progress.
With regard to energy production, construction of the new Torino Nord power plant (400 MW of electric power and 220 MW of thermal power) was completed, which strengthens the Iren Group's leadership position in cogeneration combined with urban district heating, at the same time generating significant benefits in terms of energy savings (95,000 TOE saved) and improvement in air quality, in line with the sustainable development principles that characterise the Group.

In the commercial area, the objective of loyalty building and increasing the customer portfolio involved the promotion of electrical energy and gas contracts throughout the reference area and the development of a product mix able to satisfy the demands of the various customer segments.
The Group also expanded its customer base through the acquisition of the ERG business unit relating to electrical energy marketing and sales to a pool of over 15,000 business and mid-business customers.

In the area of energy procurement, the Group intensified its activities by diversifying the imports by country and contractual format (long term and spot) while finalising the Livorno regasification terminal project, which will allow procurement of liquid natural gas (LNG) and thereby further diversify sources and technologies in a sector now subject to a frequently changing scenario.
The Group also signed a supply agreement, between ERG and Iren Mercato, that integrates its annual electrical energy procurement portfolio destined mainly to supplying end customers.

In 2011 the Iren Group made significant investments aimed mainly at developing the networks, reducing water losses, upgrading energy efficiency and improving the treatment and purification plants to ensure environmental compatibility with the standards set by european directives, the Environmental Plans and the improvement objectives defined by the Iren Group, in line with its own standards of social and environmental responsibility.

In the waste management sector, 2011 saw the continued construction of the Parma Integrated Environmental Hub, dedicated to the treatment and disposal of waste which, together with the activity involving the upgrading of separated waste collection, will be a fundamental step forward for the province of Parma towards self-sufficiency in waste management.
The expansion of network waste collection and home collection systems, continued in 2011, made it possible to reach a figure of 59.1% separate waste collection in the area served, one of the highest in Italy.

The investments made by the Iren Group in 2011 amount to euro 472 million, involving development of the various business segments and representing a major contribution to the infrastructural, economic and service development of the areas in which the Group operates.

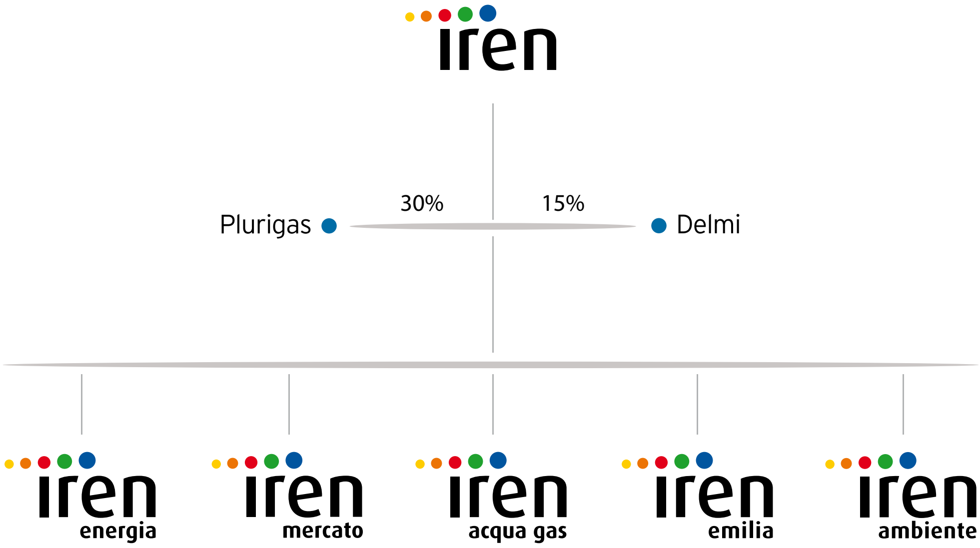
The Iren Group confirms its strong commitment to quality of service, streamlining of processes and the achievement of internal synergies: a responsibility that sees the involvement of all our employees, to whom on behalf of the entire Board of Directors I would like to express our most heartfelt thanks for their professionalism and constant dedication.

Chairman
Roberto Bazzano

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

Directors’ Report
al 31 dicembre 2011

IREN GROUP: CORPORATE STRUCTURE



The flowchart illustrates the main investee companies of Iren Holding.

IREN ENERGIA

Cogeneration production of electrical and heat energy

Iren Energia's installed capacity totals approximately 2,800 MW, of which around 1,900 MW is generated directly and around 900 MW through the investees Edipower and Energia Italiana. Specifically, Iren Energia owns 20 electrical energy production plants: 12 hydroelectric plants and 8 thermoelectric cogeneration plants, for a total capacity of approximately 1,800 MW of electrical energy and 2,300 MW of heat energy, of which 900 MW through cogeneration. All primary energy sources used – hydroelectric and cogeneration – are completely eco-compatible. The hydroelectric production plant plays a particularly important role in environmental protection as it uses a renewable and clean resource which does not emit pollutants. Hydroelectric energy reduces the need to turn to other forms of production that have a greater environmental impact. Environmental protection is a corporate priority for Iren Energia, which has always maintained that the development of hydroelectric production systems, in which it invests heavily each year, is one of the main ways to safeguard the local environment. Iren Energia's total heat production capacity is equal to 2,300 MWt, of which 40% is generated by Group-owned cogeneration plants, while the remainder comes from conventional heat generators. The annual heat production was in the region of 2,632 GWht in 2011, with district heating volumes of approximately 72 million m^3. 2011 saw a 340 MW increase in installed capacity from the operational start-up of the new Torino Nord cogeneration plant.

Distribution of electrical energy

Through its subsidiary AEM Torino Distribuzione, Iren Energia distributes electrical energy to the entire metropolitan areas of Turin and Parma (around 1,094,000 residents). In 2011, the electrical energy distributed was equal to around 4,263 GWh, of which 3,333 GWh in Turin and 930 GWh in Parma.

Gas distribution and District Heating

The district heating and gas distribution activities in the city of Turin are carried out by AES Torino (51% controlled by Iren Energia S.p.A.), which owns one of the largest district heating networks in the whole of Italy (approximately 438 km of dual-piping at 31 December 2011). In 2011, the gas network extended over 1,330 km, serving approximately 500,000 end customers.
Iren Energia also holds the district heating network of Parma, Reggio Emilia and Piacenza which covers approximately 312 km.
Lastly, Nichelino Energia - Iren Energia (67%), AES Torino (33%) - aims to develop district heating in the town of Nichelino.

Services to Local Authorities and Global Service

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

IREN MERCATO

Through Iren Mercato the Group operates in the electrical energy, gas and heat marketing sector, acts as fuel provider to the Group, performs energy efficiency certificate, green certificate and emission trading, provides customer management services to Group companies and supplies heat services and heat sales through the district heating network.

Iren Mercato operates at national level with a higher concentration of customers served in the Northern areas. The company supplies electrical energy directly, through associates - where present in the area - or through agency contracts with brokers – for customers associated with certain sector categories and large customers connected with a number of Industrial Associations.

The main power sources available to Iren Mercato operations are the thermoelectric and hydroelectric plants of Iren Energia S.p.A. Through tolling agreements Iren Mercato also has access to 10% of the electrical energy produced by Edipower plants.

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

Sale of natural gas

Total volumes of natural gas procured in 2011 were approximately 3,108 million m^3 of which approximately 1,710 million m^3 were sold to customers outside the Group, 189 million m^3 were used in the production of electrical energy for tolling contracts with Edipower and 1,136 million m^3 were used within the Iren Group both for the production of electrical and heat energy and for the provision of heating services, whilst 73 million m^3 of gas remained in storage.

Sale of electrical energy

The volumes sold in 2011, net of distribution losses, amounted to 13,816 GWh.

A cluster analysis of end customers is provided below.

Free market and power exchange:

Total volumes sold to end customers and wholesalers amount to 7,953 GWh (7,367 GWh in 2010), while the volumes traded on the power exchange amounted to 4,647 GWh (5,119 GWh in 2010).
In 2011, the availability of electrical energy from internal Iren Group production (Iren Energia, Tirreno Power) increased by approximately 8% compared to the previous year to reach 6,263 GWh (5,800 GWh in 2010). Volumes from tolling agreements with Edipower totalled 1,308 GWh against the 1,514 GWh of 2010. Less recourse was made to external sources such as the power exchange gross of energy bought and sold (4,809 GWh compared to 5,922 GWh in 2010) and wholesalers (1,080 GWh compared to 1,388 GWh in 2010).
The remaining part of sold volumes mainly refers to infragroup transactions and distribution losses.

Former non-eligible market:

Total customers managed by Iren Mercato in the higher protection segment were around 400,000. The total volumes sold amounted to 1,054 GWh.

Sale of heat energy through the district heating network

Iren Mercato manages heat sales to customers receiving district heating from the municipality of Genoa through the CAE, Turin, Nichelino and in the provinces of Reggio Emilia, Piacenza and Parma. This entails the supply of heat to customers already on the district heating network, customer relations management and the control and management of substations powering the heating systems in 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.

As of December 2011 the district heating volumes in the Piedmont area amounted to over 51 million m^3, corresponding to over 430,000 residents, i.e. 40% of Turin's inhabitants, whilst in the Emilia region around 18 million m^3 of district heating were delivered.

Heat service management

The weather had a positive influence on 2011 results, favouring heat contracts due to lower specific consumption per each hour of service provided.

The contract with the Liguria Regional Government is also operative with regard to the management of energy services in hospitals and health authority premises in which, through CAE (Global Services) and the Climatel and OCCLIM specialist companies, a number of important operational management and maintenance contracts were managed. Iren Mercato is the supplier of energy services to this initiative. A similar initiative was launched with A2A in the Lazio region ATI.

IREN ACQUA GAS

Integrated Water Services

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

From 1 October 2011, as a result of transfer of the water services business transferred from Iren Emilia, Iren Acqua Gas extended its management to the Piacenza District.

The water services reform introduced in Italy by the Galli Law essentially imposes two principles: overcoming operator fragmentation and the implementation of integrated systems to include the entire water cycle, from captation, to distribution, collection, treatment and disposal, up to its return to the environment. Through its own organisation, Iren Acqua Gas reaches a total of 177 municipalities serving over 2 million residents through its managed ATOs [Ambito Territoriale Ottimale] (Genoa, Reggio Emilia, Parma and Piacenza).

Directly and through its subsidiaries, in 2011 Iren Acqua Gas sold approximately 181 million m^3 of water in the areas managed, through a distribution network extending over 14,000 km. With regard to waste water, the company manages a sewerage network spanning approximately 7,700 km.

Gas Distribution

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

The distribution service is also provided to the Grosseto catchment area through the subsidiary Gea S.p.A..

Through its subsidiaries Iren Acqua Gas distributed 388 million m^3 of gas during 2011.

Special technological services/research

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

IREN EMILIA

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

Iren Emilia manages the natural gas distribution for 72 of the 140 municipalities in the provinces of Reggio Emilia, Parma and Piacenza. The company manages almost 5,900 km of high, medium and low pressure distribution networks with a designed maximum collection capacity of 726,879 SCMH.

Iren Emilia is active in the waste management service sector in the Piacenza, Parma and Reggio Emilia provinces, serving a total 116 municipalities and 1,129,000 inhabitants in these areas. In line with its sensitive approach to environmental protection and sustainable development, Iren Emilia has implemented widespread separate waste collection systems which, also through the management of over 122 equipped ecological stations, has allowed the area served to achieve a 59% improvement in results.

In particular, the company performs urban waste collection, street cleaning, snow clearing, cleaning and maintenance of parks and urban green areas, and dispatches recyclable waste to the correct chains for transformation into raw materials or renewable energy. Through Iren Ambiente, an Iren Group company, it ensures that waste collection takes place in such a way as to preserve and safeguard the environment and studies aspects of the waste collection problem, increasing its knowledge of technologies that are more innovative and "environmentally safe" than those used at present.

It also carries out operations management of the integrated water cycle (aqueduct, purification and sewerage) in the provinces of Parma, Piacenza and Reggio Emilia. This activity refers to a total network of 12,157 km of aqueduct networks, 6,673 km of sewerage networks, 467 waste water pumping systems and 775 purification plants, both biological treatment plants and Imhoff tanks, distributed across 110 Municipalities.

The operations management of the district heating network is carried out in the cities of Reggio Emilia, Parma and Piacenza and refers to a total network spanning almost 312 km that serves a volume of 18,453,000 million m^3. Operations management of the electrical energy distribution network is carried out in the city of Parma for 2,349 km of network and almost 123,000 delivery points to end customers.

IREN AMBIENTE

Waste Management sector

Whether directly or through investees, Iren Ambiente performs the collection, treatment, storage, recovery and recycling of urban and special waste, energy recovery (heat and electrical energy) through waste-to-energy (WtE) transformation and the operation of plants for the production of bio gas in the provinces of Parma, Reggio Emilia and Piacenza. Iren Ambiente manages a significant customer portfolio to which it provides services for the disposal of special waste and it performs the treatment, selection, recovery and final disposal of urban waste collected by Iren Emilia S.p.A.
The non-separated portion of waste collected is disposed of in various ways as part of research into the best use of waste through an industrial process involving mechanical selection to reduce the percentage destined to WtE conversion and disposal in landfills. Iren Ambiente handles over 1,000,000 tons of waste per year in 12 treatment, selection and storage plants, 2 waste-to-energy plants (Piacenza and Reggio Emilia), 1 landfill (Poiatica - Reggio Emilia) and 2 composting plants (Reggio Emilia). A new Parma Integrated Environmental Hub (IEH) is under construction, due to become operative by the end of 2012, that will include a selection and WtE plant.

Production of electrical energy from renewable sources

Iren Ambiente is also active in the production of electrical energy from renewable sources through various projects focusing mainly on the photovoltaic sector. Plants totalling 5MW have been constructed in Apulia (through the subsidiary Enia Solaris), a 1 MW plant constructed on the roof of a company building and another 29 lower capacity plants installed in headquarters of companies and municipal buildings. Through the subsidiary Iren Rinnovabili S.r.l., successful marketing development has continued in the photovoltaic sector under the logo "Raggi & Vantaggi" (50 plants contracted and constructed during the year), though this was slowed due to regulatory changes approved at the start of 2011 that significantly reduced the level of sector incentives.
The above subsidiary also operates in the hydroelectric sector, following the construction and start-up of the 1 MW hydroelectric plant in Fornace (Baiso – province of Reggio Emilia) as of 30 December 2010, with energy production and sales of approximately 6,000 MWh in 2011.
With regard to projects in the wind energy sector, after the wind measurement recordings in the Apennine area in 2010, the process for obtaining authorisation for the construction of a 6 MW wind farm was begun. Particular attention was also paid to the development of a business model for promotion of initiatives in the biogas and biomethane sectors.

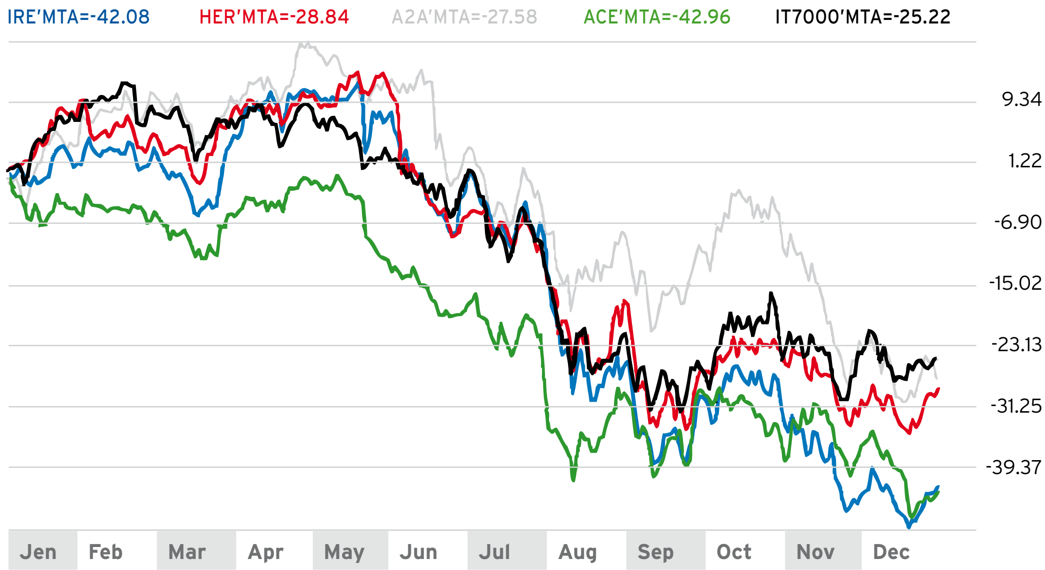
Management of district heating plants

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

INFORMATION ON THE IREN SHARE IN 2011

Iren share performance on the Stock Exchange

In 2011 the stock markets were affected by the prolonged negative trend in the international financial scenario - made worse by the financial crisis affecting a number of sovereign european states starting from May 2011, which led to rating agencies downgrading the credit ratings of various countries, including Italy, burdened by high levels of debt.
The situation deteriorated further in the second half of the year when the spread between Italian 10-year bonds and the German Bund gradually widened to reach over 500 bps in the first week of November. In addition, the negative economic scenario had a negative impact on the stock market performance of the major industrial shares.
In this context, during 2011 the Iren share fell by around 42%, whilst in the same period the All Shares index dropped by around 25%.
Specific factors, over and above the macroeconomic factors mentioned above, can be identified as having influenced the negative performance of the Iren share. The main factors involved were: increasing debt caused by borrowings for large industrial investments (such as the Torino Nord Plant and related district heating network, the new Incinerator in Parma and the new Regasification Terminal in Livorno), and exposure of the assets portfolio on the energy generation and sales market in a national context characterised by overcapacity and low energy prices.



At the end of December 2011 the Iren share price stood at euro 0.73, with average trading volumes from the start of the year of around 1.8 million per day.
In the same period the average share price was euro 1.09, bottoming out at euro 0.66 on 20 December 2011 and peaking at euro 1.42 on 19 May.

STOCK EXCHANGE DATA	eur/share in 2011
Average price	1.09
Highest price	1.42
Lowest price	0.66
Number of shares ('000)	1,276,226

IREN SHARE PRICE AND TRADING VOLUME PERFORMANCE

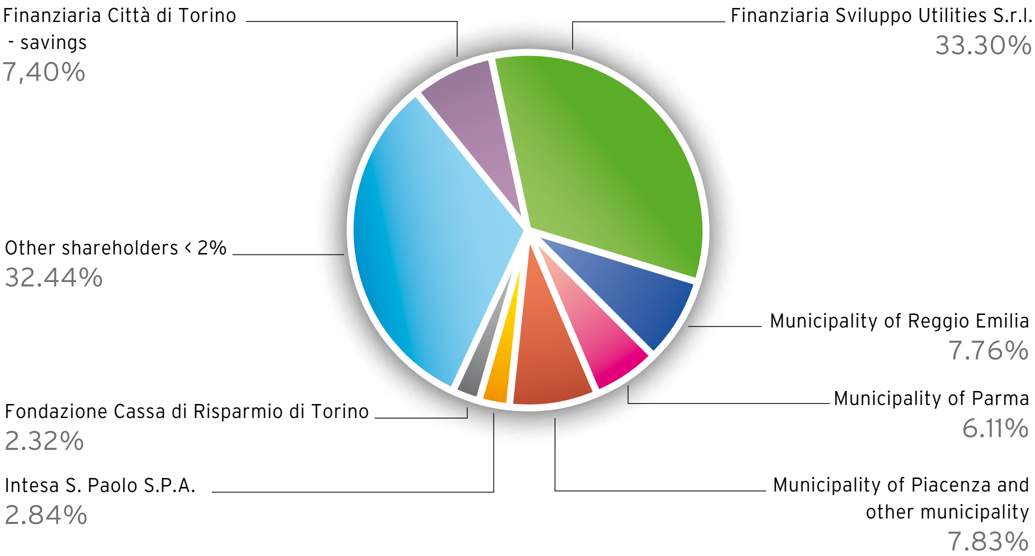
SHARE COVERAGE

The Iren Group is currently covered by ten brokers: Banca IMI, Banca Leonardo, Centrobanca, Cheuvreux, Deutsche Bank, Equita, Intermonte, Mediobanca, Banca Akros and BNP Paribas.

SHAREHOLDING STRUCTURE

At 31 December 2011, according to information available to the company, the Iren shareholding structure was as follows:

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

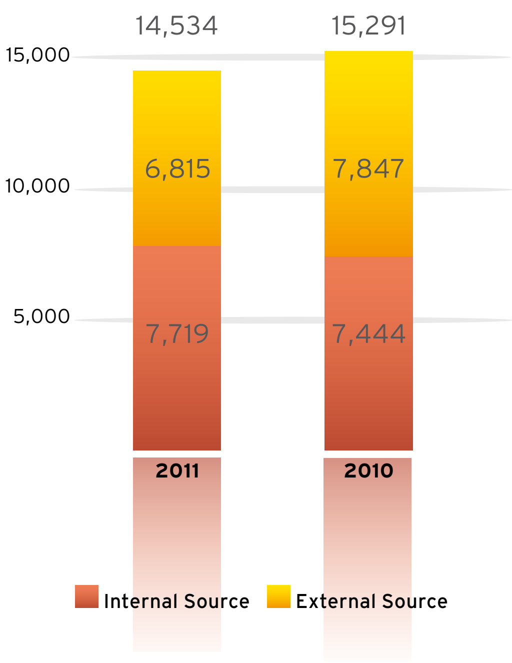


OPERATING DATA

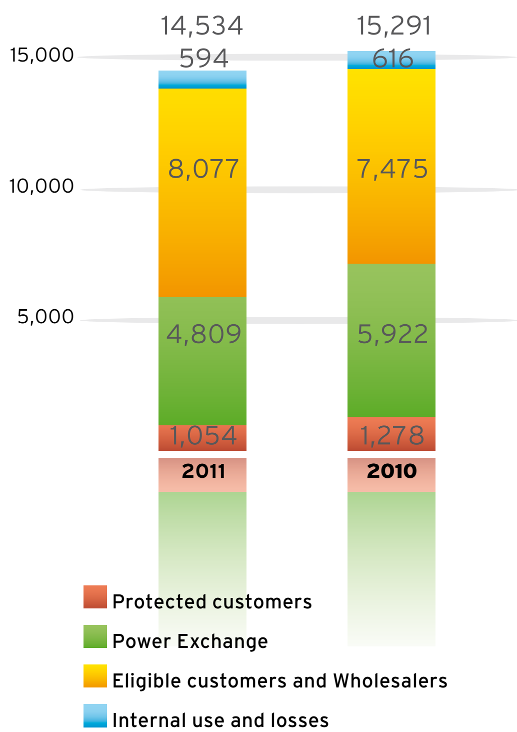
ELECTRICAL ENERGY PRODUCTION

GWh	Year 2011	Year 2010 pro-forma	% Change
SOURCES			
Gross production	7,719	7,444	3.7
a) Thermoelectric	*5,024*	*4,446*	*13.0*
b) Hydroelectric	*978*	*1,016*	*(3.7)*
c) WTE plant and renewable sources production	*131*	*130*	*0.8*
d) Edipower plant production	*1,309*	*1,515*	*(13.6)*
e) Tirreno Power plant production	*277*	*338*	*(18.0)*
Purchases from Acquirente Unico (AU)	1,088	1,341	(18.9)
Energy purchased on the Power Exchange	4,647	5,119	(9.2)
Energy purchased from wholesalers and imports	1,080	1,388	(22.2)
Total sources	**14,534**	**15,291**	**(5.0)**
APPLICATION			
Sales to protected customers	1,054	1,278	(17.5)
Sales on the Power Exchange	4,809	5,922	(18.8)
Sales to eligible end customers, wholesalers and others	8,077	7,475	8.1
Pumping and distribution losses	594	616	(3.6)
Total Application	**14,534**	**15,291**	**(5.0)**

Source Breakdown



Usage Breakdown

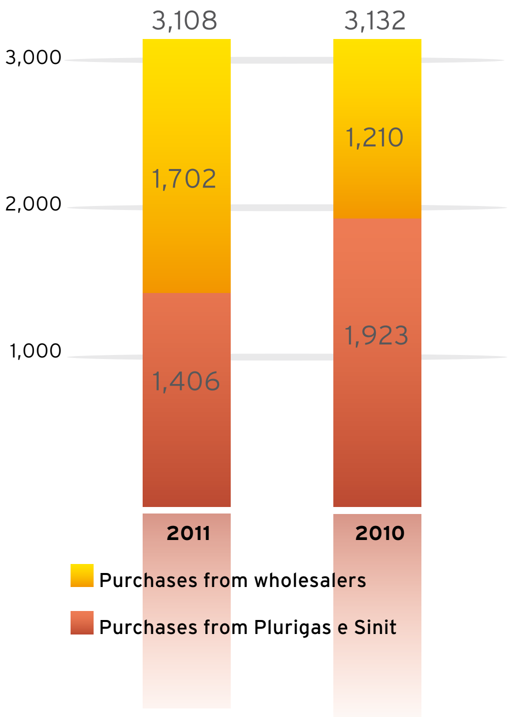


GAS PRODUCTION

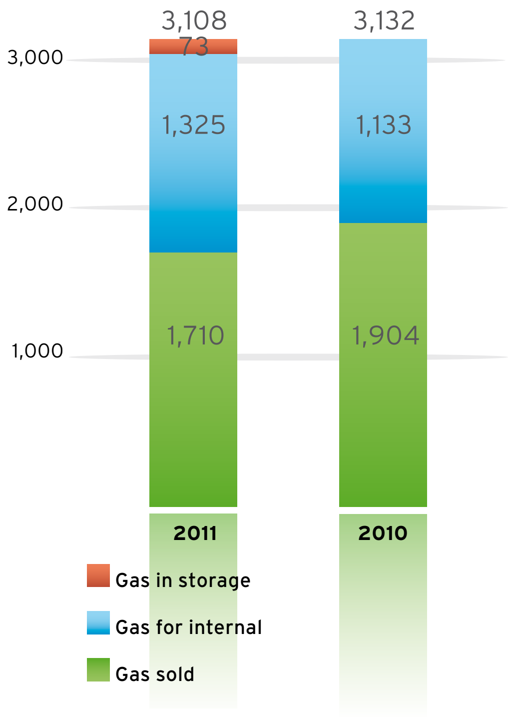
millions of m³	Year 2011	Year 2010 pro-forma	% Change
SOURCES			
Purchases (Plurigas and Sinit)	1,406	1,922	(26.8)
Purchases (other wholesalers)	1,702	1,210	40.7
TOTAL SOURCES	**3,108**	**3,132**	**(0.8)**
APPLICATION			
Gas sold by the Group	1,710	1,904	(10.2)
Gas for internal use (*)	1,325	1,228	7.9
Gas storage	73	-	n.s.
TOTAL APPLICATION	**3,108**	**3,132**	**(0.8)**

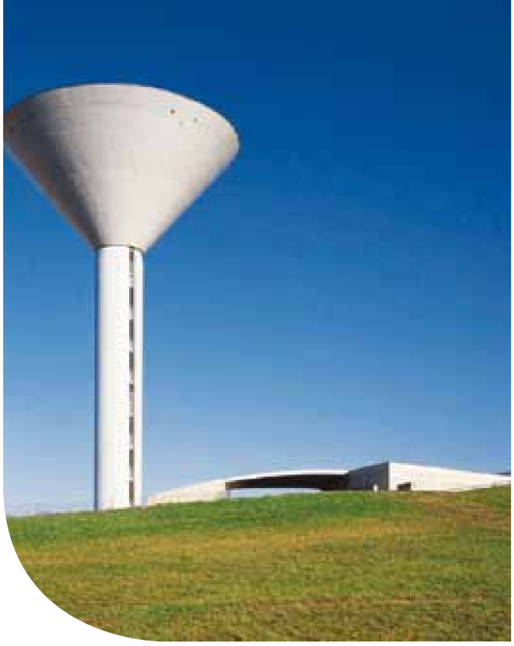
(*) Internal use involved thermoelectric plants, tolling, use in the generation of heat services and internal consumption.

Source Breakdown



Usage Breakdown





NETWORK SERVICES

	Year 2011	Year 2010 pro-forma	% Change 2011 - 2010
ELECTRICAL ENERGY DISTRIBUTION			
Electrical energy distributed (GWh)	4,263	4,282	(0.4)
No. of electronic meters	677,504	655,446	3.4
GAS DISTRIBUTION			
Gas distributed by AES Torino (mln m^3) (*)	594	704	(15.7)
Gas distributed by Iren Acqua Gas (mln m^3)	388	447	(13.2)
Gas distributed by Iren Emilia (mln m^3)	967	1,051	(7.9)
Total Gas distributed	1,949	2,202	(11.5)
DISTRICT HEATING			
District heating volume (mln m^3)	72	66	10.3
District heating network (Km)	759	704	7.8
INTEGRATED WATER SERVICE			
Water volume (mln m^3)	181	187	(3.6)

(*) Aes Torino 51%

MARKET CONTEXT

GENERAL REFERENCE CONTEXT

According to IMF forecasts, in 2011 global GDP growth was around 3.8%, down on the 2010 figure which recorded an increase of 5.2%. Though the aggregate figures indicate a general slowdown in the economic recovery of 2010 - after the 2009 recession when GDP dropped by 0.7% - considerable differences can be seen in the various geographic areas. In particular, the gap remains between the advanced economies, which in 2011 recorded a 1.6% growth (compared to 3.2% in 2010), and emerging economies that continue to grow at a steady rate (+6.4%) albeit slower than in 2010 (+7.3%). Of these, Asia confirms its position as driver of world economic development with an 8.2% growth in 2010, this too down on the previous year's figure (9.5%).

In 2011 the Brent Dated recorded an annual average of 111.3 USD/barrel, up 40% on 2010 when it closed at 79.5, and significantly higher than the 97 USD average for 2008 when it reached its daily peak record price of 147 USD/barrel. Failure to reach a similar price level has lowered the perception of peak oil prices, though it was still a year in which crude oil reached its highest all-time average.

For almost all 2011, and particularly felt from the second quarter onwards, the oil market saw a coexistence of two forces that had opposing effects on prices. On the one hand, the fear premium, associated with revolutionary uprisings in several Middle East-North African countries and fears of a potential block on their supplies: specific reference is made to the conflict in Libya (February-October) which brought the entire Libyan oil production to a halt (the pre-crisis level was 1.6 million barrels per day), and more recently to the growing tension between the West and Iran culminating in December with Teheran's threat to close the Strait of Hormuz after the US application of harsher sanctions and the preliminary agreement reached at EU level on imposing an oil embargo (the final agreement was reached on 23 January 2012 and enters into force in July). These hot beds in the geopolitical matrix were the main bullish factor in 2011, leading to the rise in Brent prices.

On the other hand, the continuing deterioration of macroeconomic scenarios in the OECD countries, especially the euro Zone, has had the opposite effect on prices, weakening the more violent increases. The widespread sovereign debt risk, the diminishing prospects for growth in the more mature economies and the explosive comeback of the financial crisis with heavily collapsing share prices that dominated the summer months, at times had the effect of keeping the fear premium down and led to a decrease in oil demand in the areas affected. According to more recent AIE forecasts (January 2012), oil consumption increased by just 0.7 million barrels per day in 2011, marking an increasingly gap between the OECD - where demand has fallen by -600,000 barrels per day - and non-OECD countries which are driving the market with a 1.3 million barrel increase.

In 2011 the EUR/USD exchange rate settled at a rate 5% higher than the 2010 average, 1.36196 vs. 1.32572. However, if in the first eight months of the year the euro appreciated against the US dollar, it recorded a significant depreciation in the final four months.

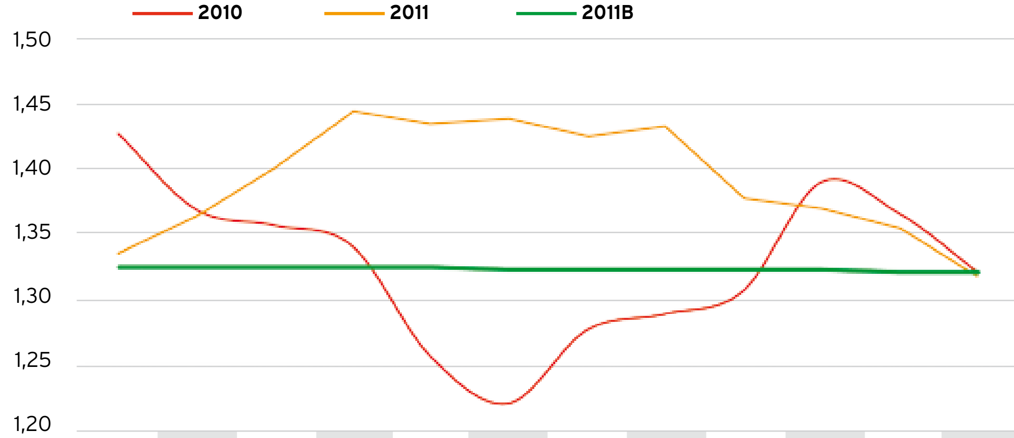
The appreciation recorded in the period January-August, with an average exchange rate of 1.41, is however attributable to the weakness of the dollar rather than the strength of the euro, which had begun to face the sovereign debt emergency in the countries most at risk, with Greece risking default. In fact, macroeconomic figures worse than the precautionary forecasts of the Federal Reserve for economic recovery affected the US dollar.

In the last few months of the year, however, whilst the US economy recovered slightly, the macroeconomic scenario in most of the euro Zone countries became gradually weaker. What at first were fears for the stability of many european countries became certainties: many countries were heavily downgraded and a number were forced to call for emergency measures, Italy first and foremost.

Regarding Italy, though the GDP growth achieved by the end of the third quarter in 2011 was +0.5% (source: ISTAT), initial forecasts point to a further slowdown in the fourth quarter of the year. The third quarter, in fact, was still positive compared to the same period in 2010 (+0.2%), but negative compared to the previous quarter (-0.2%). The industrial production index over the twelve months of 2011 also recorded zero growth compared to the previous year. Among the declining sectors, December figures show that decreases tended to be stronger in the electrical energy, gas, steam and air supply sectors (-12.9%) and -2.3% year-on-year. These were followed by the coke manufacturing and refined oil products sectors (-3.9%), again year-on-year, and the textile, clothing, leather and accessories industries (-7.3%). The year-end growth in GDP will therefore certainly be lower than the 1.3% recorded for 2010 (provisional ISTAT data).

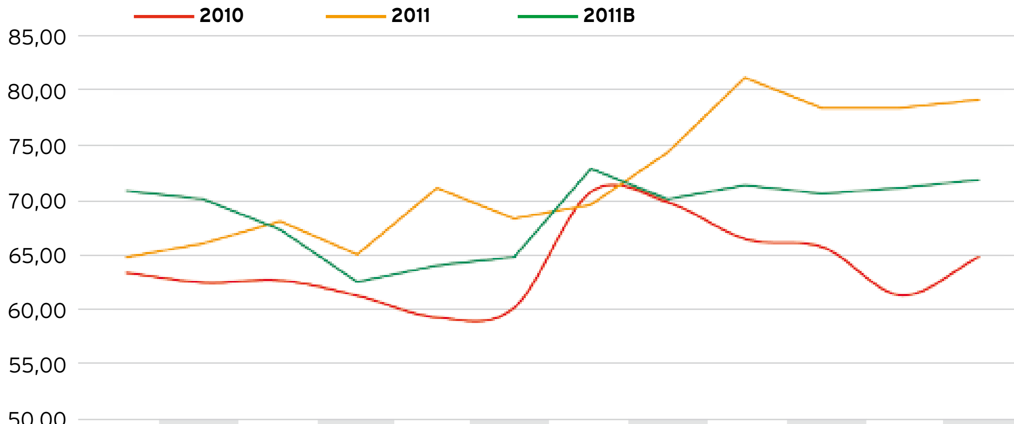
The performance of the main energy indicators is illustrated below:

$/€ EXCHANGE RATE



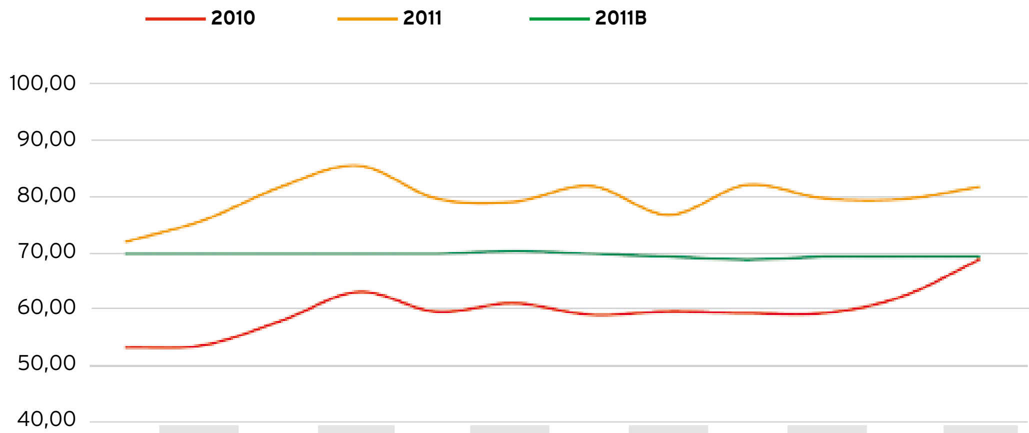
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	1.43	1.37	1.36	1.34	1.26	1.22	1.28	1.29	1.31	1.39	1.37	1.32
2011	1.34	1.37	1.40	1.44	1.44	1.44	1.43	1.43	1.38	1.37	1.36	1.32
2011B	1.33	1.33	1.33	1.33	1.33	1.32	1.32	1.32	1.32	1.32	1.32	1.32

SINGLE NATIONAL UNIT PRICE €/MWH



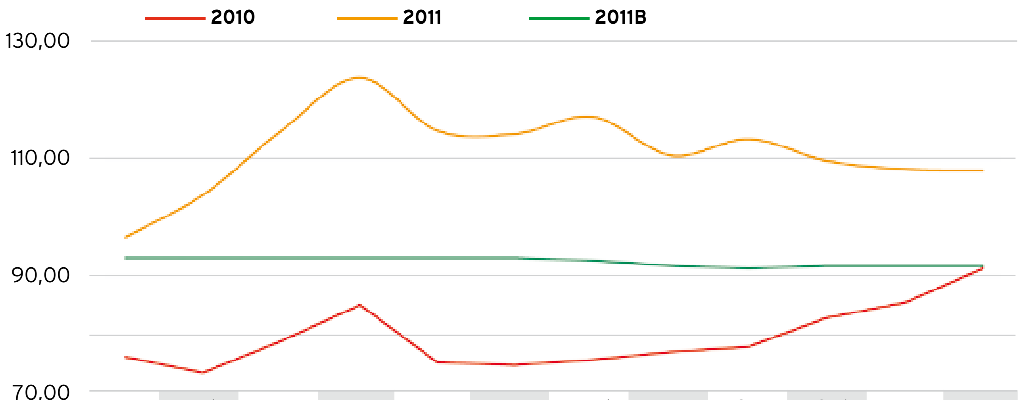
	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	63.45	62.55	62.73	61.31	59.36	60.20	70.90	69.91	66.55	65.78	61.38	64.88
2011	65.00	66.29	68.18	65.18	71.28	68.41	69.74	74.51	81.31	78.61	78.47	79.37
2011B	71.03	70.29	67.37	62.66	64.07	64.86	73.09	70.09	71.38	70.68	71.29	71.90

Brent €/bbl



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	53.39	53.79	58.14	63.30	59.80	61.30	59.23	59.83	59.53	59.54	62.46	69.10
2011	72.26	76.01	81.86	85.52	79.83	79.25	81.97	76.97	82.15	79.84	79.70	81.82
2011B	70.00	70.02	70.12	70.17	70.17	70.20	70.01	69.40	68.84	69.46	69.36	69.28

Brent $/bbl



	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
2010	76.19	73.64	78.90	84.89	75.17	74.85	75.64	77.15	77.79	82.75	85.33	91.36
2011	96.54	103.76	114.60	123.49	114.56	114.04	116.89	110.37	113.12	109.44	108.04	107.84
2011B	92.82	92.84	92.91	92.97	92.98	92.94	92.69	91.89	91.08	91.90	91.70	91.59

Source: statistics: RIE/ REF

The average single power price on the Italian power exchange was 72.23 €/MWh, up 12.6% on 2010 (64.12 €/MWh).

	Actual 12/2011	Actual 12/2010	Change	% Change
Brent USD/barrel	111.30	79.50	31.80	40%
USD/EUR	1.39	1.33	0.07	5%
Brent EUR/barrel	80.00	59.90	20.10	34%
Gas demand (Bcm)	77.40	82.70	-5.30	-6%
Gas Release 2, cents/SCM	35.75	29.55	6.20	21%
CCI, cents/SCM	32.72	27.30	5.42	20%
Electricity Demand (TWh)	332.00	330.00	2.00	1%
EE nat. single price (€/MWh)	72.23	64.12	8.11	13%

Source: RIE/GME data

This international energy market context also shows a considerable divergence between energy price performance and power exchange prices, generating a significant impact on operations.

NATURAL GAS PRODUCTION IN ITALY

After the increase in 2010 brought about by colder temperatures, 2011 once again saw a considerable decrease in natural gas consumption (-6.4%), dropping back to 2009 levels. The decrease is a result of both the milder winter months (withdrawals from the distribution plants, mainly for heating, fell by 8%) and the appreciable drop in electricity production usage (-7.1%) due to the growing use of renewable sources and the switch from coal. Only industrial consumption increased slightly (+1.6%), though still remaining much lower than pre-crisis levels. The figures illustrate the gas system's difficulty in a return to growth.

Bln m^3	2011	2010	2009	2008	% Change 11/10	% Change 11/09	% Change 11/08
Uses							
Distribution plants	33.6	36.5	34	33.4	-8.00%	-1.00%	0.70%
Industrial use	13.5	13.3	12.1	14.6	1.60%	11.60%	-7.00%
Thermoelectric use	27.7	29.8	28.7	33.5	-7.10%	-3.40%	-17.20%
Other networks and system consumption (*)	2.6	3	2.9	3.1	-15.00%	-11.90%	-17.70%
Total withdrawn	**77.4**	**82.7**	**77.7**	**84.5**	**-6.40%**	**-0.30%**	**-8.40%**
Sources							
Domestic production	8	8.1	8.2	9.12	-1.30%	-2.30%	-11.90%
Imports	70.3	75.2	68.7	76.53	-6.50%	2.30%	-8.20%
Storage	-0.9	-0.6	0.8	-1.12	40.00%	-215.50%	-20.10%
Total input	**77.4**	**82.7**	**77.7**	**84.5**	**-6.40%**	**-0.30%**	**-8.40%**

Source: processing of non-final Snam Rete Gas figures for 2011

Supply side figures recorded a slight decrease in domestic production (-1.3%) and a 6.5% drop in imports. The average rate for the use of imports reached just 57%, compared to 75% in 2008. In recent years, weakening demand has coincided with the increase in system import capacity (approximately 20 bln m^3 in total) as a result of upgrading of the TAG (Russia) and TTPC-TMPC (Algeria) import pipelines in 2008/2009 and the start-up at the end of 2009 of the Rovigo regasification terminal. This led to an overcapacity situation that was mitigated in 2011 by stoppage of the import pipeline from Libya between February and October.

ELECTRICAL ENERGY PRODUCTION IN ITALY

2011 saw an overall recovery in the demand for electricity, though growth was less dynamic than that of the previous year (+0.6% vs. +3.2% in 2010 compared to 2009), increasing from 330,455 GWh to 332,274 GWh.

Energy demand also recorded positive increases in the period March-May (+1.2% on average) and in the 2-month period August-September (+5.3% on average), whereas other months of the year saw a negative growth.

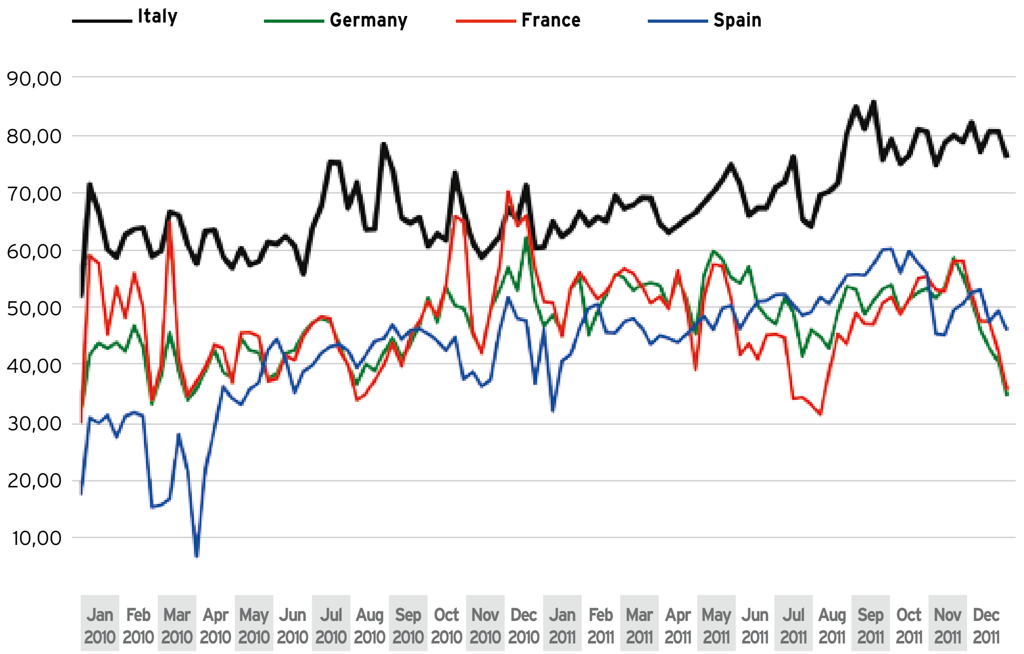
86.3% of the demand for electrical energy was met from domestic production (-0.5% compared to 2010) and the remaining 13.7% from foreign balance (+3.3%). Compared to 2010, geothermal, wind and photovoltaic energy production saw a 51.1% increase, whilst hydroelectric energy production fell by 11.4%. Thermoelectric production recorded a 1.6% decrease from 2010.

2011 again confirmed the increase in installed production in relation to renewables. The GSE produced estimates of the installed photovoltaic solar capacity at the end of 2011 indicating a figure of 12,431 MW, an increase of around 10,000 MW compared to 2010. The peak demand on the electrical energy system was 56.5 GW in July 2011 (+0.1% compared to 2010), fairly close to the peak of 56.8 GW reached in 2007.

In 2011 volumes traded on the power exchange fell by 9.6% to 180.3 TWh. Power exchange liquidity dropped 4.4 percentage points year-on-year to an average 57.6%, still down on the 6.4 percentage points lost in 2010. On the other hand, the Energy Account Platform showed a 10.1% increase in trading, reaching 42.1% of electrical energy demand (approx. 131.1 TWh). The forward market grew to the

extent that the contracts were five times the number recorded in 2010 with open positions at year end for 27.9 GWh.
The average price for energy on the power exchange in 2011 was 72.23 €/MWh, up 12.6% on 2010 (64.12 €/MWh). The spread between the national single price and the purchase price on other european power exchanges, which in 2010 was around 19 €/MWh, increased by almost a further 4 €/MWh.

Weekly power exchange prices (euro/MWh)



Source: RIE processing of IPEX, EEX, Powernext and Omel figures

SALE OF HEAT ENERGY THROUGH THE DISTRICT HEATING NETWORK IN ITALY

Many countries in Central and Northern europe have been using district heating for decades now. Among these are Germany, Denmark, Sweden, Finland and the Czech Republic where the penetration rates for district heating are high and in many cases close to 50% of the total heating needs for civil use.
The table below illustrates the main figures on the development of district heating in Italy:

	2010	2009	2008
Total volumes heated (million m³)	239	227	212
Electrical energy supplied to users (GWh)	7,072	6,734	6,257
Energy savings (TOE)	497,000	473,325	296,575
Carbon dioxide emissions avoided (t)	1,755,731	1,671,731	821,516

(Source: AIRU yearbook - 2010 figures)

The number of district heated towns and cities in Italy increased from 27 in 1995 to 95 in 2010.
The first Italian City to obtain a district heating system at the beginning of the 1970s was Brescia, followed in the 1980s by Turin which currently has the most extensive district heating network in Italy; good district heating networks exist also in Cremona, Reggio Emilia, Verona, Milan, Forlì, Mantova, Imola, Bologna, Ferrara, Lodi, Bardonecchia, Legnano, Cavalese, Brunico, etc. The technology is often used to heat many public buildings.
The situation of networks concentrated in Northern Italy for almost all district heated volumes is now consolidated (over 95% of total volume), extending across six regions: Lombardy, Piedmont, Emilia Romagna, Veneto, Trentino Alto Adige and Valle d'Aosta.

SIGNIFICANT EVENTS OF THE YEAR

REORGANISATION OF THE EDISON GROUP

On 26 December 2011 A2A, EDF, Delmi, Edison and Iren reached a preliminary agreement regarding the corporate reorganisation of Edison and Edipower.
EDF will acquire 50% of Transalpina di Energia (TdE) share capital from Delmi. TdE (50% Delmi - 50% EDF) holds 61.3% of Edison share capital with voting rights. As a result of the acquisition, EDF will hold 80.7% of Edison share capital. The implicit price for the 50% acquisition of TdE is euro 0.84 per Edison share.
At the same time, Delmi will acquire 70% of the Edipower share capital held by Edison (50%) and Alpiq (20%) at prices of euro 600 million and euro 200 million, respectively. As a result of the acquisition, the Edipower ownership structure will be Delmi (70%), A2A (20%) and Iren (10%). Contracts for the supply of gas by Edison to Edipower will also be signed, at arm's length conditions, to cover 50% of Edipower needs for the next 6 years.
The agreement was subject to approval by the Boards of Directors of A2A, EDF, Delmi, Edison and Iren by 31 January 2012, and the date for signing the final contracts is planned by 15 February 2012. Closing must be no later than 30 June 2012. The entire transaction is subject to confirmation from Consob that the mandatory takeover bid price - as a result of EDF's acquisition of control over Edison - does not exceed euro 0.84 per share, together with approval from the relevant Antitrust Authorities.

PARMA INTEGRATED ENVIRONMENTAL HUB (IEH)

On 6 October 2011, as a result of an appeal filed by Iren Ambiente, the Parma section of the Administrative Regional Court suspended the order of the Municipality of Parma which had blocked construction works on the EIH, pointing out the damage to society of that order both in consideration of the environmental validity of the EIH in solving the problem of waste disposal within the province, and in relation to the significant pecuniary damages that could be claimed from the Municipality of Parma for interrupting the construction works. Based on these considerations, the Administrative Regional Court also decided to set the hearing on the merits for 7 December 2011, the sentence on which was pronounced on 25 January 2012.

INAUGURATION OF THE TORINO NORD COGENERATION PLANT

The Torino Nord cogeneration plant, built by Iren Energia, was inaugurated on 24 November 2011. The new plant - 100% methane-powered - has a 400 MW electrical energy capacity and 220 MW heat energy capacity to serve a volume of 18 million m^3, i.e. around 180,000 persons, bringing the connected volume to 55 million m^3 (550,000 inhabitants), equal to 55% of buildings, consolidating Turin's leadership position as the most district heated city in Italy and one of europe's pioneers in this sector.
In terms of electrical energy, the Torino Nord plant offers an annual saving of 100,000 TOE (Tons of Oil Equivalent), in addition to the 200,000 TOE saved each year by the Moncalieri cogeneration plant.
The environmental benefits are considerable, with an annual decrease of 134 tons of nitrogen oxide, 400 tons of sulphur oxide and 17 tons of dust emissions.
In addition, the Vallette plant has been shut down and dismantled, and the site will be revitalised and returned to the district in the form of public parkland.

IREN-ERG FRAMEWORK AGREEMENT ON THE SALE OF ELECTRICAL ENERGY

Through the subsidiary Iren Mercato, ERG and Iren signed a binding Framework Agreement on 10 November for the signing of a supply contract, from ERG to Iren Mercato, for a total of 2 TWh per year of electrical energy for six years. The sale price will be indexed to the market price for wholesale electrical energy. Through the contract signed with ERG, Iren Mercato will be able to integrate its annual electrical energy procurement portfolio destined mainly to supplying end customers.
The Framework Agreement also envisages Iren Mercato's acquisition of the ERG business unit relating to electrical energy marketing and sales to a pool of over 15,000 business and mid-business customers, thereby guaranteeing continuity. The transaction price payable to ERG by Iren Mercato, net of trade receivables, is set at euro 3.3 million.
The contracts, entering into force from 1 January 2012, will be signed on 21 December after the Antitrust Authority's approval of the transaction.

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

The Iren Group was established on 1 July 2010 following the merger of Enìa into Iride.

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

For 2010 the income statement presents the data under the assumption that the non-recurring transaction took place at the beginning of the year to which the income statement refers, i.e. on 1 January 2010, while the statement of financial position as at 31 December 2010 already reflects the composition of the new Group and therefore there are no differences between the actual Iren Group figures and the pro forma figures.

INCOME STATEMENT

Iren Group Consolidated Income Statement for 2011

thousands of euro

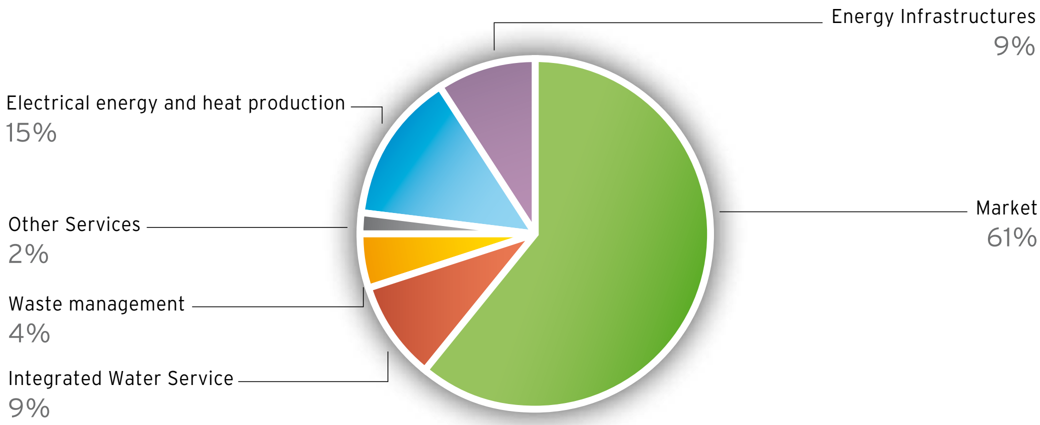
	Year 2011	Year 2010 pro-forma	% Change
Revenue			
Revenue from goods and services	3,254,248	3,143,024	3.5
Change in contract work in progress	632	1,344	(53.0)
Other revenue and income	265,232	246,564	7.6
Total revenue	**3,520,112**	**3,390,932**	**3.8**
Operating expense			
Purchase of raw materials, consumables, supplies and goods	(1,682,008)	(1,620,894)	3.8
Services and use of third-party assets	(940,605)	(860,960)	9.3
Other operating expense	(71,345)	(71,119)	0.3
Capitalised expenses for internal work	28,208	29,853	(5.5)
Personnel expense	(262,565)	(266,214)	(1.4)
Total operating expense	**(2,928,315)**	**(2,789,334)**	**5.0**
Gross Operating Profit (EBITDA)	**591,797**	**601,598**	**(1.6)**
Amortisation, depreciation, provisions and impairment losses			
Amortisation/depreciation	(209,293)	(204,177)	2.5
Provisions and impairment losses	(74,140)	(60,692)	22.2
Total amortisation, depreciation, provisions and impairment losses	**(283,433)**	**(264,869)**	**7.0**
Operating profit (EBIT)	**308,364**	**336,729**	**(8.4)**
FINANCIAL INCOME AND EXPENSE			
Financial income	27,103	25,826	4.9
Financial expense	(94,137)	(86,657)	8.6
Net financial expense	**(67,034)**	**(60,831)**	**10.2**
Result of investments in associates measured at equity	(3,806)	13,114	(*)
Impairment losses on investments	(223,321)	(440)	(*)
- of which non-recurring	(217,466)	-	(*)
PROFIT BEFORE TAX	**14,203**	**288,572**	**(95.1)**
Income tax	(114,485)	(104,742)	9.3
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS	**(100,282)**	**183,830**	**(*)**
Profit from discontinued operations	1,004	1,740	(42.3)
PROFIT/(LOSS) FOR THE YEAR	**(99,278)**	**185,570**	**(*)**
attributable to:			
- Profit (loss) – Group	(107,890)	177,121	(*)
- Profit - non-controlling interests	8,612	8,449	1.9

(*) Change of more than 100%

Revenue

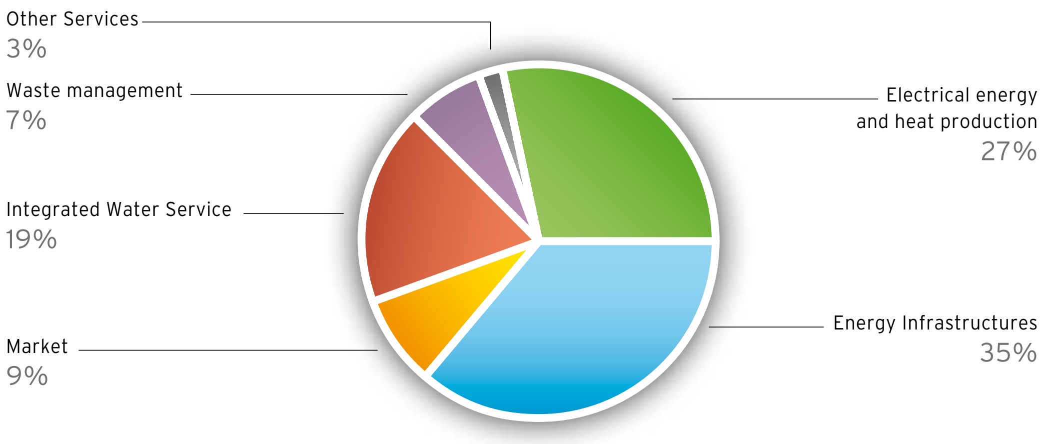
At 31 December 2011 the Iren Group had revenue of euro 3,520.1 million, up 3.8% compared to euro 3,390.9 million for 2010. The increase in revenue is due to the euro 291 million increase in energy commodity prices (of which euro 146 million in the gas sector and euro 145 million in the electrical energy sector), against a decrease of euro 123 million (of which euro 37 million in the gas sector and euro 86 million in the electrical energy sector) due to the lower volumes sold as a result of the unfavourable weather conditions of 2011, in addition to minor changes in other operating segments for a total of euro 39 million.

Revenues breakdown



The gross operating profit (EBITDA), equal to euro 591.8 million, was down 1.6% on the euro 601.6 million recorded in the corresponding period of 2010.
Specifically, the operating segments Electrical energy and heat production and Waste Management reported shrinking margins compared to the corresponding period of 2010, partly offset by the positive results of the Market, Integrated Water Cycle and Energy Infrastructures segments.

EBITDA breakdown



Operating profit

The operating profit (EBIT) amounted to approximately euro 308.4 million, down 8.4% on the euro 336.7 million recorded in the corresponding period of 2010. The declining operating profit was the result not only of the drop in gross operating profit but also of the euro 5 million increase in amortisation/depreciation, particularly the increase in the provisions for risks and impairment losses by euro 13 million.

Financial income and expense

Net financial expense totalled euro 67.0 million. Specifically, financial expense totalled euro 94.1 million, up on the 2010 figure, due to an increase in average borrowings for the year and due to an increase in the average cost of debt from 2.73% to 3.36%. Financial income reached euro 27.1 million (+4.9%).

The result of investments in associates measured at equity was negative by around euro 4 million, down on the corresponding period in 2010 due to the strongly negative result for the year of the associate Sinergie Italiane (euro 25.8 million).

The impairment losses on investments totalling euro 223.3 million mainly refer to the euro 217 million impairment losses recorded for the investees Edipower (euro 81 million) and Delmi (euro 136 million).

Profit before tax

As a result of the trends indicated above, the consolidated profit before tax reached euro 14 million, a major decrease (95%) compared to 2010.

Income tax

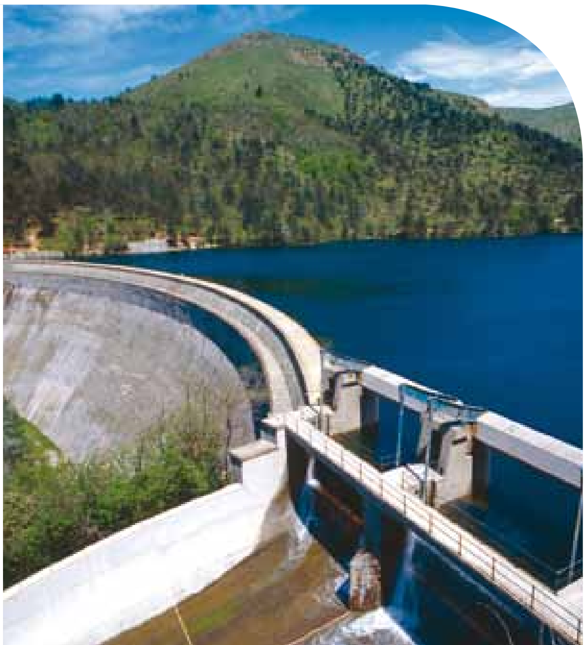
Income taxes for 2011 are estimated at euro 114.5 million, up by 9% compared to 2010, which included non-recurring components. In particular, the non-applicability for 2009 (following ministerial clarifications) of the 1% increase in the "Robin Hood Tax" rate (additional IRES) recovered in 2010 and the tax concession for investments (known as the Tremonti Ter), envisaged by Decree Law no. 78 of 1/7/2009, converted to Law no. 102/2009, which consisted in reducing company revenue by 50% of the value of investments recorded up to 30 June 2010.

In 2011 certain non-recurring events occurred which affected the tax rate. Firstly, impairment losses were recognised on a number of investments, including those in Edipower (held by Iren Energia) and in Delmi (held by the parent company Iren). These investments qualify as cases referred to in Art. 87 of the Consolidated Income Tax Act (TUIR) and cannot be deducted either during the current year or at the time of realisation. Therefore they do not generate taxation.

In addition, valid for 2011, Italian Law Decree no. 138 of 13 August 2011 imposed an increase for the 3-year period 2011-2013 in the additional IRES rate by 4% for companies subject to this tax (Iren Energia and Iren Mercato). The same regulation extended cases subject to the additional taxation to electrical energy and natural gas distribution companies (AEM Torino Distribuzione, AES, Genova Reti Gas and Gea). The additional IRES rate for 2011 is therefore 10.5%.

Furthermore, following the entry into force of Law Decree 98/2011 the IRAP tax rate rose by 0.30% for companies operating under concession arrangements. The total recalculation impact, due to the increase in IRES and IRAP tax rates, on deferred taxes was around euro 7 million. The impact on current taxes, however, was negative by approximately euro 21 million.

Therefore the adjusted tax rate for 2011, less the effects of non-deductible impairment losses, was 46% (42% in 2010), reflecting the rate increase resulting from the aforementioned regulatory measures.



Loss for the year from continuing operations

The loss for the year from continuing operations was euro 100 million, recording a significant decrease due to the impairment losses on the investments in Edipower and Delmi and due to the percentage of Sinergie Italiane losses borne by the Group.

Loss for the year

The loss for the year was euro 99 million, a considerable decrease on the euro 186 million profit recorded in 2010. This decrease was mainly due to the impairment losses recognised on the investments in Delmi and Edipower for a total of euro 217 million and to the percentage of Sinergie Italiane losses borne by the Group.

SEGMENT REPORTING

The Iren Group operates in the following business segments:

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

These operating segments are disclosed pursuant to IFRS 8. Under this Standard, segment reporting is based on elements used by the executive committee and management in making operational and strategic decisions.

For a correct reading of the income statements relating to individual businesses presented and commented on below, revenue and expense referring to joint activities were entirely allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers.

Given the fact that the Group mainly operates in the North-West area, the following segment information does not include a breakdown by geographical area.

The following tables illustrate the net invested capital and income statements (up to the operating performance) by business segment with comparative data for 2010.

For the purposes of better presentation, the following amounts relating to investments recognised under non-current assets were restated compared to the figures at 31 December 2010:

- The investment in Edipower was allocated to the Market segment (euro 226 million);
- The investment in Energia Italiana (euro 9 million) was allocated to the Generation segment;
- The investments in AGA and Zeus (euro 39.9 million) were removed from the Waste Management segment, where they were recognised under "not allocable" as they could not be directly allocated to an individual operating segment.

Segment results at 31 December 2011

millions of euro

	Generation	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,348	203	1,593	967	269	69	204	4,653
Net working capital	122	142	(39)	72	5	(28)	13	288
Other non-current assets and liabilities	(74)	(8)	(67)	(246)	(40)	8	(15)	(443)
Net invested capital (NIC)	**1,397**	**337**	**1,487**	**793**	**234**	**49**	**202**	**4,498**
Equity								1,845
Net financial position								2,653
Own funds and net financial indebtedness								**4,498**

Segment results at 31 December 2010

millions of euro

	Generation	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Non-allocable	Total
Non-current assets	1,232	287	1,494	921	221	72	339	4,566
Net working capital	61	35	(23)	57	6	(23)	23	137
Other non-current assets and liabilities	(39)	23	(85)	(205)	(37)	(14)	(4)	(361)
Net invested capital (NIC)	**1,254**	**345**	**1,386**	**773**	**190**	**35**	**358**	**4,342**
Equity								2,082
Net financial position								2,260
Own funds and net financial indebtedness								**4,342**

Segment results for 2011

millions of euro

	Generation	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	785	3,072	437	438	217	112	(1,542)	3,520
Total operating expense	(627)	(3,020)	(227)	(326)	(175)	(95)	1,542	(2,928)
Gross Operating Profit (EBITDA)	**158**	**53**	**211**	**113**	**42**	**16**	**-**	**592**
Net am./depr., provisions and impairment losses	(91)	(18)	(64)	(77)	(27)	(6)	-	(283)
Operating profit (EBIT)	**67**	**35**	**146**	**36**	**15**	**10**	**-**	**308**

Segment results for 2010

millions of euro

									of which		
	Generation	Market	Energy infrastructures	Water Cycle	Waste Management	Other services	Netting and adjustments	Total	Enia Group	Netting and adjustments	Iren Group
Total revenue and income	697	2,866	419	447	222	104	(1,364)	3,391	571	(8)	2,828
Total operating expense	(517)	(2,817)	(213)	(339)	(178)	(91)	1,364	(2,789)	(464)	8	(2,333)
Gross Operating Profit (EBITDA)	**180**	**49**	**206**	**108**	**45**	**14**	**-**	**602**	**107**	**-**	**495**
Net am./depr., provisions and impairment losses	(74)	(18)	(71)	(70)	(27)	(6)	-	(265)	(55)	-	(210)
Operating profit (EBIT)	**106**	**31**	**135**	**38**	**18**	**8**	**-**	**337**	**52**	**-**	**285**

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

Production of electricity and heat

At 31 December 2011 revenue for the segment amounted to euro 785.0 million, up 12.6% compared to euro 697.0 million in 2010.

		Year 2011	Year 2010 pro-forma	Δ %
Revenue	€/mln.	785.0	697.0	12.6%
Gross Operating Profit (EBITDA)	€/mln.	157.8	179.9	-12.3%
EBITDA		*20.1%*	*25.8%*	
Operating profit	€/mln.	66.7	106.2	-37.1%
Investments	€/mln.	131.8	181.1	-27.2%
Electrical energy produced	€/mln.	6,002	5,462	9.9%
from hydroelectric sources	€/mln.	978	1,016	-3.7%
from thermoelectric sources	€/mln.	5,024	4,446	13.0%
Heat produced	GWh_t	2,572	2,754	-6.6%
from cogeneration sources	GWh_t	2,002	2,046	-2.1%
from non-cogeneration sources	GWh_t	570	709	-19.6%

Electrical energy production totalled 6,002 GWh, up 9.9% on 2010 (+540 GWh) due to the combined effect of the higher cogeneration production (+13%) and lower hydroelectric production (-3.7%).
The (provisional) operations start-up from October of the "Torino Nord" CCGT plant produced 242 GWh of electrical energy in cogeneration.
Specifically, hydroelectric production was around 978 GWh, down 3.7% compared to the 1,016 GWh of 2010 due to lower water levels recorded, only partly offset by the post-repowering start-up of the Rosone and Telessio plants. The national trend in production from hydroelectric sources shows a more consistent reduction, -11.4% compared to 2010.
Thermoelectric production totalled around 5,024 GWh, +13% on the 4,446 GWh recorded in 2010, as a result of the contribution from the new Torino Nord plant and increased production from the Moncalieri GT2 and GT3 plants, the opposite of the national trend for production from thermoelectric sources (-1.6% compared to 2010).

Heat production amounted to 2,572 GWht, recording a drop of -6.6% compared to the 2,754 GWht of 2010, due to lower consumption resulting from milder temperatures in both the Turin and Emilia Romagna areas and despite the increase in district heating volumes which exceeded 72 million m^3, up 10.4% compared to around 66 million m^3 in 2010.
Heat energy produced in cogeneration was 78% of the total, higher than the 74% of the previous year.

Gross operating profit amounted to euro 157.8 million, down -12.3% on the euro 179.9 million recorded in 2010.

The drop in gross operating profit compared to the previous year is mainly attributable to the contraction in the spark spread on cogeneration production of electrical energy which largely characterised the last quarter of the year, and to the lower contribution from the sale of ETS certificates. These effects were partly offset by the increase in revenue from Green Certificates on hydroelectric production.

The operating profit for the segment was euro 66.7 million, down 37.1% on the euro 106.2 million of 2010. In addition to the drop in gross operating profit, this decrease is also due to higher provisions for hydroelectric lease instalments, green certificates payable and other risks.

Segment investments stood at euro 131.8 million and include euro 109 million for cogeneration, almost all of which for completion of the Torino Nord cogeneration plant and euro 16 million for hydroelectric production from repowering of the Valle Orco hydroelectric plants. Investments in the renewables segment totalled around euro 3.4 million and mainly refer to completion of the photovoltaic plants.

Market

Market segment turnover amounted to euro 3,072 million, recording an increase (+7.2%) on the euro 2,866.2 million of the corresponding period in 2010. Gross operating profit was euro 52.5 million, up euro 3.5 million (+7.2%) compared to the euro 49.0 million achieved in 2010.

		Year 2011	Year 2010 pro-forma	Δ %
Revenue	€/mln.	3,072.4	2,866.2	7.2%
Gross Operating Profit (EBITDA)	€/mln.	52.5	49.0	7.2%
EBITDA		*1.7%*	*1.7%*	
from electricity	€/mln.	-4.4	9.7	n.s.
from gas	€/mln.	48.9	34.2	43.0%
from heat	€/mln.	8.1	5.1	58.6%
Operating profit	€/mln.	35.0	31.4	11.7%
Electrical energy sold	GWh	13,816	14,568	-5.2%
Electrical energy sold net of Power Exchange purchases/sales	GWh	10,713	11,646	-8.0%
Gas purchased	Mln m^3	3,108	3,132	-0.8%
Gas sold by the Group	Mln m^3	1,710	1,904	-10.2%
Gas for internal use	Mln m^3	1,325	1,228	7.9%
Gas storage	Mln m^3	73	-	n.s.

Sale of electrical energy

Overall volumes sold on the market (end customers, power exchange and wholesalers) amount to 13,816 GWh, down by approximately 5.2% compared to 2010 (14,568 GWh).

Total volumes sold to end customers and wholesalers amount to 7,953 GWh (7,367 GWh in 2010), up 8% (+586 GWh), while the volumes traded on the power exchange amounted to 4,647 GWh (5,119 GWh in 2010). In 2011, the availability of electrical energy production from internal Iren Group production (Iren Energia and Tirreno Power) increased by approximately 8% compared to the previous year to reach 6,263 GWh (5,800 GWh in 2010). Volumes from tolling agreements with Edipower totalled 1,308 GWh against the 1,514 GWh of 2010. Less recourse was made to sources external to the Group such as the power exchange (gross of energy bought and sold of 4,809 GWh compared to 5,922 GWh in 2010) and purchased from wholesalers (1,080 GWh compared to 1,388 GWh in 2010).

Regarding the number of protected customers managed, the total volumes sold in 2011 amounted to 1,054 GWh, down on the previous year's figure (1,277 GWh) due to deregulation of the market to which the company responded with marketing development initiatives that led to transfer of a significant percentage of non-eligible market customers to the free market.
The gross operating loss from the sale of electrical energy amounts to euro 4.4 million, down euro 9.7 million on 2010.This decrease is due to non-recurring effects and to a drop in margins from continuing operations.

Sale of natural gas

The results achieved recorded an improvement on 2010 and benefited from the renegotiation of long-term and annual contracts with suppliers and from particularly competitive conditions for civilian market procurement that guarantee use of the quantities in storage.
Overall volumes of natural gas supply during the year amounted to approximately 3,108 million cubic metres (approximately 3,132 million m^3 in 2010), sold directly to customers outside the group and used for the production of electrical and heat energy.
The drop in volumes sold compared to 2010, equal to around 194 million m^3 (-10.2%) is due to unfavourable weather conditions with much milder temperatures in all areas served and to the decrease in supplies to investees to optimise the portfolio. These negative effects were partly offset by the positive results of the marketing development campaign, which more than compensated the falling trend in the customer portfolio after deregulation of the markets traditionally served.

The gross operating profit of around euro 48.9 million shows a significant increase compared to 2010 (+43.0%) of euro 14.7 million. The positive change compared to the previous year essentially benefits from the renegotiation of supplier contracts.

Market development

During 2011 the activities relating to customer loyalty schemes in areas traditionally managed and development initiatives in the Group's reference areas were further enhanced. Telesales activities instead remained constant with regard to both existing and potential customers.

2011 again saw a strong increase in the activity of competitors, who intensified their promotion in areas traditionally managed by the Group. In order to respond adequately to competitor drives on the market, the promotion channels were reinforced (agencies and telesales operators), as was the range of products offered, by defining targeted proposals for the various customer segments.

At 31 December 2011 gas customers managed directly by Iren Mercato totalled around 744,000, spread across the following reference areas: the traditional Genoa catchment area and surrounding development areas, the Turin catchment area and the traditional Emilia Romagna catchment areas. Electrical energy customers managed totalled around 691,000, these too distributed mainly in the traditionally-served areas of Turin and Parma, and in areas covered by company marketing.

Sale of heat through the district heating networks:

The gross operating profit for 2011 amounts to euro 8.1 million compared to euro 5.1 million for the corresponding period in 2010 and is therefore up by euro 3 million (+58.6%).
At 31 December 2011 the district heating volumes in the Piedmont area amounted to over 51 million m^3, corresponding to over 430,000 inhabitants or 40% of Turin residents, whilst in the Emilia Romagna area district heating volumes totalled around 18 million m^3.

Energy infrastructures

Energy Infrastructures business segments include the distribution of gas, electrical energy, heat and regasification plants.
At 31 December 2011 this segment recorded revenue of euro 437.4 million, up 4.5% on the euro 418.6 million of 2010.
Gross operating profit amounted to euro 210.8 million, up by 2.3% compared to the euro 206.1 million of 2010.
Operating profit totalled euro 146.4 million, an 8.5% improvement on the 2010 figure of euro 134.9 million.

The changes characterising the various business areas are detailed below.

		Year 2011	Year 2010 pro-forma	Δ %
Revenue	€/mln.	437.4	418.6	4.5%
Gross Operating Profit (EBITDA)	€/mln.	210.8	206.1	2.3%
EBITDA		*48.2%*	*49.2%*	
from electricity networks	€/mln.	76.1	79.3	-4.0%
from gas networks	€/mln.	96.2	91.7	5.0%
from district heating networks	€/mln.	39.5	36.0	9.8%
from regasification plant	€/mln.	-1.0	-0.8	22.7%
Operating profit	€/mln.	146.4	134.9	8.5%
Investments	€/mln.	155.3	171.1	-9.3%
in electricity networks	€/mln.	24.0	27.4	-12.6%
in gas networks	€/mln.	53.5	51.7	3.4%
in district heating networks	€/mln.	56.7	48.0	18.0%
in regasification plant	€/mln.	21.2	44.0	-51.8%
Electrical energy distributed	GWh	4,263	4,282	-0.4%
Gas distributed	Mln m^3	1,949	2,202	-11.5%
District heating volumes	Mln m^3	72	66	10.3%

Electrical Energy Distribution Networks

Gross operating profit amounted to euro 76.1 million, down 4% on the euro 79.3 million recorded in 2010.

The decrease is largely attributable to higher costs incurred for energy efficiency certificates and the fact that 2010 recorded a higher contribution from connections and higher revenue from the equalisation system in previous years that could not be replicated in 2011.

During 2011, investments of approximately euro 24 million were made (of which euro 14 million related to Turin electricity networks and euro 10 million to Parma electricity networks), mainly referring to the construction of new HV/MV and MV/LV substations, new connections and plant maintenance.

Gas Distribution Networks

Gross operating profit amounted to euro 96.2 million, up by 5% compared to the euro 91.7 million of 2010. The higher GOP is attributable mainly to the growth of distribution revenue combined with a decrease in costs as a result of the operating synergies achieved.

Capital expenditure in the segment amounted to euro 53.5 million and specifically involves extraordinary maintenance on the distribution network and replacement of the metering units, envisaged in AEEG resolutions, along with the development initiatives for the distribution network and connections in the main areas served by the Group (Genoa, Turin, Reggio Emilia and Parma).

District heating networks

The district heating networks segment recorded a gross operating profit of around euro 39.5 million, up 9.8% on the euro 36 million of 2010 as a result of the higher volumes served for 72.4 million m^3.

Investments for euro 56.7 million were made in 2011, mainly referring to the network expansion project following construction of the Torino Nord production plant (euro 35 million), in Nichelino Energia (euro 10 million) and in the Emilia Romagna area (euro 12 million).

Regasification plant

Investments for the year in this segment totalled around euro 21.2 million. At year end a preliminary agreement was signed with Saipem to solve the problems emerging at project implementation stage and it is now envisaged that testing start-up of the plant will be by the end of February 2013.
At 31 December 2011 the investment in the OLT project totalled euro 266.8 million.

Integrated water service

At 31 December 2011 the Integrated Water Service segment recorded revenue of euro 438.4 million, down 1.8% on the euro 446.6 million of 2010. The increased revenue generated by the higher tariffs decided by the ATOs in the areas managed was more than offset by the decrease in capitalised costs due to lower investments on assets under concession which, due to the application of IFRIC 12, were recognised under revenue (euro -16.7 million), and by the decrease in revenue (euro -4.3 million) relating to the disposal of certain concessions managed by Società Acque Potabili and the resulting drop in volumes invoiced (approximately 4 million m^3).

		Year 2011	Year 2010 pro-forma	Δ %
Revenue	€/mln.	438.4	446.6	-1.8%
Gross Operating Profit (EBITDA)	€/mln.	112.6	108.1	4.2%
EBITDA		*25.7%*	*24.2%*	
Operating profit	€/mln.	36.0	38.2	-5.7%
Investments	€/mln.	89.0	104.8	-15.1%
Water sold	Mln m^3	181	187	-3.6%

Gross operating profit for the year amounted to euro 112.6 million, up 4.2% on the euro 108.1 million of 2010. The positive change in GPO is attributable mainly to the increase in tariffs - envisaged in ATO plans - partly offset by lower quantities sold in the Emilia Romagna area (-2.4%) and Genoa area (-1.2%) and by higher operating costs due to electrical energy price increases for the operation of water pumping and treatment systems, together with higher costs to maintain the networks.
Operating profit for the year amounted to euro 36.0 million, down 5.7% compared to euro 38.2 million recorded in 2010. This decrease is due to the higher amounts specifically allocated to provisions for risk.
Investments in this segment totalled euro 89 million, less than the euro 104.8 million invested in 2010, and refer to the construction and maintenance of infrastructures envisaged in the ATO Plans and relating to distribution networks, sewerage systems and treatment plants.

Waste Management

At 31 December 2011 revenue in this segment amounted to euro 217 million, down 2.5% on the euro 222.5 million recorded in 2010.
This decrease is largely due to disbandment from September 2010 of the CIP6 incentive recognised on electrical energy produced by the Tecnoborgo waste-to-energy plant and to less activities performed in terms of accessory services (public parks cleaning and snow clearance). The declining figures were partly offset by increases and reversals in the waste management tariff, in addition to higher revenue from the sale of materials recycled from separate waste collection, which reached an average of 59.1%.

		Year 2011	Year 2010 pro-forma	Δ %
Revenue	€/mln.	217.0	222.5	-2.5%
Gross Operating Profit (EBITDA)	€/mln.	41.8	44.7	-6.4%
EBITDA		*19.3%*	*20.1%*	
Operating profit	€/mln.	14.7	17.9	-17.6%
Investments	€/mln.	67.0	46.6	43.8%
Waste handled	ton	1,017,312	1,005,468	1.2%
Urban waste	ton	767,896	804,899	-4.6%
Special waste	ton	249,416	200,569	24.4%

Gross operating profit in this segment amounted to euro 41.8 million, down 6.4% on the euro 44.7 million of 2010, mainly due to disbandment of the CIP6 incentive on the sale of electrical energy produced by the Tecnoborgo waste-to-energy plant and despite the increases in amounts recovered on tariffs in the entire area served and the positive contribution from the sale of recycled materials.
Operating profit totalled euro 14.7 million, recording a decrease compared to the euro 17.9 million of 2010 (-17.6%) due to the drop in gross operating profit and higher allocations to the allowance for impairment.

Investments in this segment amounted to euro 67 million and refer mainly to construction of the Parma Integrated Environmental Hub for euro 50.1 million and euro 8.8 million for the purchase of equipment for the waste collection service.
At 31 December 2011 total investments in the Integrated Environmental Hub had reached euro 109 million.

Services

Revenue totalled euro 111.6 million, up on the euro 104.4 million recorded in 2010.
The gross operating profit, equal to euro 16.1 million, increased compared to the euro 13.8 million for 2010 due to upgrading in the Telecommunications segment.

		Year 2011	Year 2010 pro-forma	Δ %
Revenue	€/mln.	111.6	104.4	6.9%
Gross Operating Profit (EBITDA)	€/mln.	16.1	13.8	16.4%
EBITDA		*14.5%*	*13.3%*	
Operating profit	€/mln.	9.5	8.2	15.4%
Investments	€/mln.	24.0	26.8	-10.5%

STATEMENT OF FINANCIAL POSITION

RECLASSIFIED STATEMENT OF FINANCIAL POSITION FOR THE IREN GROUP AS AT 31 DECEMBER 2011[1]

thousands of euro

	31.12.2011	31.12.2010	% change
Non-current assets	4,652,774	4,566,148	1.9
Other non-current liabilities	(118,297)	(118,920)	(0.5)
Net working capital	287,974	137,040	(*)
Deferred tax assets	60,412	27,241	(*)
Provisions and employee benefits	(416,909)	(325,267)	28.2
Assets held for sale	31,427	55,528	(43.4)
Net invested capital	**4,497,381**	**4,341,770**	**3.6**
Equity	1,844,706	2,081,620	(11.4)
Non-current financial assets	*(132,299)*	*(88,388)*	*49.7*
Non-current financial indebtedness	*2,051,413*	*1,829,263*	*12.1*
Net non-current financial indebtedness	1,919,114	1,740,875	10.2
Current financial assets	*(421,993)*	*(521,828)*	*(19.1)*
Current financial indebtedness	*1,155,554*	*1,041,103*	*11.0*
Net current financial indebtedness	733,561	519,275	41.3
Net financial indebtedness	2,652,675	2,260,150	17.4
Own funds and net financial indebtedness	**4,497,381**	**4,341,770**	**3.6**

(*) 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 attachment to the consolidated financial statements (paragraph XIII).

The main changes in the statement of financial position as at 31 December 2011 are commented below.

The increase in non-current assets reflects the progress of investments with particular reference to: *electrical energy production* through the Torino Nord project for euro 132 million, *energy infrastructures* (gas networks euro 54 million, district heating networks euro 56 million, electrical energy networks euro 24 million, OLT project euro 21 million), the *integrated water cycle* for euro 89 million and *waste management* euro 67 million. The impairment loss on the investees Edipower and Delmi led to a decrease in non-current assets of around euro 217 million.

The increase in net working capital was affected by the changes in trade receivables and payables and in tax items.

The higher deferred taxes are essentially due to increases in the allowance for impairment and provisions for risks, which mainly include provisions for risks associated with plants under construction, the future review of tariffs for the Integrated Water Services and increased shunt instalments.

The increase in provisions and employee benefits is mainly due to amounts allocated for the year, only partly offset by releases and uses.

The decrease in assets held for sale was affected by the deconsolidation of Aquamet as a result of the completed disposal of the Group's entire investment, equal to 60% of the share capital. At 31 December 2010 the net assets of Aquamet were recognised under assets held for sale.

The decrease in equity mainly derives from the distribution of dividends and losses for the year.

The increase in net financial indebtedness derives from outflows for investments and dividends paid. The statement of cash flows presented below provides a breakdown of the changes in 2011.

CASH FLOWS STATEMENT

Cash Flows Statement for the Iren Group

thousands of euro

	2011	2010 pro-forma	% Change
A. Opening cash and cash equivalents	**144,112**	**56,905**	**(*)**
Cash flow from operating activities			
Profit/(loss) for the year	(99,278)	186,029	(*)
Adjustments:			
Amortisation of intangible assets and depreciation of property, plant, equipment and investment property	209,293	204,177	2.5
Capital (gains) losses and other changes in assets	(9,917)	(1,553)	(*)
Net change in post-employment benefits and other employee benefits	(7,536)	(2,282)	(*)
Net change in provision for risks and other charges	40,348	597	(*)
Profit from the disposal of discontinued operations net of tax effects	(2,058)	(1,740)	18.3
Change in deferred taxes	(30,073)	(17,872)	68.3
Change in other non-current assets/liabilities	(623)	(8,856)	(93.0)
Dividends received	(558)	(6,787)	(91.8)
Share of profit (loss) of associates	3,806	(13,114)	(*)
Impairment losses on non-current assets and investments	230,553	2,092	(*)
B. Cash flow from operating activities before changes in NWC	**333,957**	**340,691**	**(2.0)**
Change in inventories	(22,704)	6,048	(*)
Change in trade receivables	(124,495)	(86,940)	43.2
Change in tax assets and other current assets	(59,029)	20,155	(*)
Change in trade payables	84,338	46,174	82.7
Change in tax liabilities and other current liabilities	(29,044)	(10,229)	(*)
C. Cash flow from changes in NWC	**(150,934)**	**(24,792)**	**(*)**
D. Cash flows from operating activities (B+C)	**183,023**	**315,899**	**(42.1)**
Cash flows from investing activities			
Investments in intangible assets, property, plant, equipment and investment property	(493,254)	(557,957)	(11.6)
Investments in financial assets	(46)	(7,707)	(99.4)
Proceeds from investments and changes in assets held for sale	9,166	24,646	(62.8)
Disposal of discontinued operations net of transferred cash flows	29,203	-	(*)
Dividends received	11,137	17,573	(36.6)
Other changes in financial assets	-	206	(100.0)
E. Total cash flows used in investing activities	**(443,794)**	**(523,239)**	**(15.2)**
F. Free cash flow (D+E)	**(260,771)**	**(207,340)**	**25.8**
Cash flows from financing activities			
Dividends paid	(121,297)	(110,589)	9.7
Other changes in equity	1,042	97,488	(98.9)
New non-current loans	655,758	219,565	(*)
Repayment of non-current loans	(109,518)	(339,518)	(67.7)
Change in financial assets	(43,927)	9,336	(*)
Change in financial liabilities	(220,641)	418,265	(*)
G. Total cash flows from financing activities	**161,417**	**294,547**	**(45.2)**
H. Cash flows for the year (F+G)	**(99,354)**	**87,207**	**(*)**
I. Closing cash and cash equivalents (A+H)	**44,758**	**144,112**	**(68.9)**

(*) Change of more than 100%

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

thousands of euro

	2011	2010 pro-forma	% Change
Free cash flow	(260,771)	(207,340)	25.8
Dividends paid	(121,297)	(110,589)	9.7
Other changes in equity	1,042	97,488	(98.9)
Variation in fair value of hedging derivatives	(11,499)	14	(*)
Financial assets (liabilities) held for sale	-	15,973	(100.0)
Change in net financial indebtedness	**(392,525)**	**(204,454)**	**92.0**

(*) Change of more than 100%

At 31 December 2011, net financial indebtedness amounted to euro 2,652 million, up by 17.4% compared to 31 December 2010 due to a negative free cash flow of euro 261 million, in addition to changes in equity, including dividends paid totalling euro 121 million.
The free cash flow, negative by euro 261 million, derives from the combined effect of the following cash flows:

- cash flows from operating activities were positive by euro 183 million and include euro 334 million in cash flows from operating activities before changes in net working capital and euro 151 million cash flows deriving from changes in net working capital.
- cash flows used in investing activities, amounting to euro 444 million, were generated from investments in property, plant, equipment, investment property and intangible assets of euro 493 million (including investments for the construction of infrastructures under concession pursuant to IFRIC 12), proceeds from investments in property, plant, equipment, investment property and intangible assets of euro 7 million, the disposal of Aquamet, Alegas, part of BT Enia and part of the investment property for euro 29 million and from the collection of euro 11 million in dividends.

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

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

In view of the above developments, meaningful comparison of figures between the two years is not possible.

INCOME STATEMENT

Revenue
Total revenue for Iren S.p.A. was euro 16 million, primarily from services provided to Group companies.

Operating expense
Operating expense amounted to euro 38 million and includes services and use of third-party assets (euro 15 million), other operating expense (euro 3 million) and personnel expense (euro 20 million).

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

Financial income and expense
The balance between financial income and expense was positive at euro 88 million. Financial income, amounting to euro 185 million, amongst other things includes dividends from subsidiaries and associates (euro 120 million) and interest income from subsidiaries (euro 62 million). Income from investments includes the extraordinary distribution of a total euro 62 million by the first-level companies Iren Acqua Gas, Iren Energia, Iren Ambiente and Iren Emilia, drawn from distributable reserves. Financial expense totalled euro 97 million.

Impairment losses on investments
As a result of the impairment loss recognised on the investment in Delmi, the total recognised for the year was euro 136 million (zero in 2010).

Loss before tax
The loss before tax is euro 72 million.

Income tax
Income taxes were positive at euro 15 million and consist mainly of income from consolidation. In fact, the company opted for participation in the national consolidation tax scheme pursuant to Art. 118 of the new Consolidated Income Tax Act (TUIR) and Iren S.p.A. therefore calculates IRES on the sum of taxable profits/losses of each company included in the consolidation area.
In return for the taxable income earned and transferred to the parent, the consolidated company commits to paying "tax settlements" to the parent equal to the amount of taxes owed on the income transferred, net of the IRES tax credits transferred.

Loss for the year

Net of taxes, the company recorded a loss for the year of euro 57 million.

Reclassified income statement of Iren S.p.A.

Thousands of euro

	2011	2010	% Change
Revenue			
Revenue from goods and services	13,250	10,359	27.9
Other revenue and income	2,403	4,510	(46.7)
Total revenue	**15,653**	**14,869**	**5.3**
Operating expense			
Raw materials, consumables, supplies and goods	(17)	(9)	88.9
Services and use of third-party assets	(15,602)	(15,685)	(0.5)
Other operating expense	(2,931)	(2,249)	30.3
Personnel expense	(19,728)	(13,881)	42.1
Total operating expense	**(38,278)**	**(31,824)**	**20.3**
Gross Operating Loss	**(22,625)**	**(16,955)**	**33.4**
Amortisation, depreciation, provisions and impairment losses			
Amortisation/depreciation	(545)	(531)	2.6
Provisions and impairment losses	(342)	(244)	40.2
Total amortisation, depreciation, provisions and impairment losses	**(887)**	**(775)**	**14.5**
Operating loss	**(23,512)**	**(17,730)**	**32.6**
Financial income and expense			
Financial income	184,474	177,651	3.8
Financial expense	(96,805)	(67,247)	44.0
Net financial income	**87,669**	**110,404**	**(20.6)**
Impairment losses on investments	(136,126)	-	(*)
- of which non-recurring	(136,126)	-	(*)
Loss before tax	**(71,969)**	**92,674**	**(*)**
Income tax	14,926	10,016	49.0
Profit/(loss) for the year from continuing operations	**(57,043)**	**102,690**	**(*)**
Profit from discontinued operations	-	-	-
Profit/(loss) for the year	**(57,043)**	**102,690**	**(*)**

(*) Change of more than 100%

STATEMENT OF FINANCIAL POSITION

Non-current assets

Intangible assets, property, plant and equipment, investment property and financial assets totalled euro 2,384 million.

Net working capital

Net working capital was positive by euro 13 million. Deferred tax assets totalled euro 23 million, whereas provisions for risks amounted to euro 29 million.

Equity

2011 closed with equity of euro 1,463 million.

Net financial indebtedness

At the end of 2011 net financial indebtedness amounted to euro 927 million. Specifically, non-current indebtedness, equal to euro 871 million, includes non-current financial liabilities of euro 1,855 million and non-current financial assets of euro 984 million. The financial assets mainly refer to loans to subsidiaries. Current financial indebtedness totalled euro 56 million and comprises current payables due mainly to banks for euro 1,052 million, current financial receivables largely from Group companies for euro 979 million and cash and cash equivalents amounting to euro 17 million.

Reclassified statement of financial position of Iren S.p.A. (1)

thousands of euro

	31.12.2011	31.12.2010	% Change
Non-current assets	2,383,709	2,444,522	(2.5)
Other non-current assets	368	414	(11.1)
Net working capital	12,983	(11,301)	(*)
Deferred tax assets	22,942	15,521	47.8
Provisions for risks and employee benefits	(29,348)	(28,999)	1.2
Net invested capital	**2,390,654**	**2,420,157**	**(1.2)**
Equity	1,463,488	1,632,760	(10.4)
Non-current financial assets	*(984,121)*	*(885,163)*	*11.2*
Non-current financial indebtedness	*1,855,587*	*1,771,438*	*4.8*
Net non-current financial indebtedness	871,466	886,275	(1.7)
Current financial assets	*(996,033)*	*(1,006,214)*	*(1.0)*
Current financial indebtedness	*1,051,733*	*907,336*	*15.9*
Net current financial indebtedness	55,700	(98,878)	(*)
Net financial indebtedness	927,166	787,397	17.8
Own funds and net financial indebtedness	**2,390,654**	**2,420,157**	**(1.2)**

(*) 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 attachment to the separate financial statements (paragraph X).

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

thousands of euro

	2011	2010	% change
Free cash flow	(12,959)	114,408	(*)
Dividends paid	(108,479)	(70,724)	53.4
Fair value changes in financial instruments and other changes in equity	(18,330)	(509)	(*)
Net financial indebtedness deriving from the Iride-Enia merger and related non-recurring transactions	-	(325,740)	-
Change in net financial indebtedness	**(139,768)**	**(282,565)**	**(50.5)**

(*) Change of more than 100%

CASH FLOWS STATEMENT

Cash flows statement of Iren S.p.A

thousands of euro

	2011	2010	% Change
A. Opening cash and cash equivalents including cash pooling balance	**405,178**	**624,616**	**(35.1)**
Cash flow from operating activities			
Profit/(loss) for the year	(57,043)	102,689	(*)
Adjustments:			
Amortisation of intangible assets and depreciation of property, plant, equipment and investment property	545	531	2.6
Net change in post-employment benefits and other employee benefits	(350)	2,130	(*)
Net change in provision for risks and other charges	698	1,662	(58.0)
Change in deferred taxes	(1,404)	(283)	(*)
Change in other non-current assets/liabilities	46	(89)	(*)
Dividends received	(157,003)	(113,650)	38.1
Net impairment losses (reversals of impairment losses) on non-current assets	136,126	-	-
B. Cash flow from operating activities before changes in NWC	**(78,385)**	**(7,010)**	**(*)**
Change in trade receivables	(6,723)	(9,171)	(26.7)
Change in tax assets and other current assets	8,558	(8,351)	(*)
Change in trade payables	(16,625)	21,103	(*)
Change in tax liabilities and other current liabilities	(9,495)	4,209	(*)
C. Cash flow from changes in NWC	**(24,285)**	**7,790**	**(*)**
D. Cash flows from/(used in) operating activities (B+C)	**(102,670)**	**780**	**(*)**
Cash flows from investing activities			
Investments in intangible assets, property, plant, equipment and investment property	(155)	(22)	(*)
Investments in financial assets	(67,137)	-	-
Dividends received	157,003	113,650	38.1
E. Total cash flows from investing activities	**89,711**	**113,628**	**(21.0)**
F. Free cash flow (D+E)	**(12,959)**	**114,408**	**(*)**
Cash flows from financing activities			
Dividends paid	(108,479)	(70,724)	53.4
Other changes in equity	-	(509)	(100.0)
New non-current loans	525,000	200,000	(*)
Repayment of non-current loans	(97,651)	(279,523)	(65.1)
Change in financial assets	(71,808)	(362,233)	(80.2)
Change in financial liabilities	(181,539)	146,178	(*)
Cash and cash equivalents acquired through the Iride-Enia merger	-	32,965	(100.0)
G. Total cash flows from/(used in) financing activities	**65,523**	**(333,846)**	**(*)**
H. Cash flows for the year (F+G)	52,564	(219,438)	(*)
I. Closing cash and cash equivalents including cash pooling balance (A+H)	**457,742**	**405,178**	**13.0**
L. Cash pooling balance with subsidiaries	**(440,336)**	**(361,607)**	**21.8**
I. Closing cash and cash equivalents (A+H)	**17,406**	**43,571**	**(60.1)**

(*) Change of more than 100%


The following table reconciles equity and the loss of the parent Iren S.p.A. at 31 December 2011 with those of the consolidated financial statements.

thousands of euro

	Equity	Loss for the year
Equity and loss for the year of the Parent	**1,463,488**	**(57,043)**
Difference between the carrying amount and associates measured using the equity method	14,639	7,562
Higher value from consolidation compared to the carrying amount of consolidated equity investments	244,187	69,201
Elimination of dividends from subsidiaries/associates	-	(123,982)
Elimination of infragroup margins	(90,251)	(3,120)
Other	(732)	(508)
Group equity and loss for the year	**1,631,331**	**(107,890)**

"Elimination of infragroup margins" refers to the elimination of gains from the disposal of business units or companies within the Group. In particular, the transaction relating to the Genoa integrated water cycle carried out by the former AMGA (positive effect of euro 4 million on the income statement and negative by euro 69 million on equity).

EVENTS AFTER THE REPORTING PERIOD AND OUTLOOK

EVENTS AFTER THE REPORTING PERIOD

Reorganisation of the Edison Group

On 28 January 2012 Iren S.p.A. Board of Directors unanimously approved the terms of the agreement for the reorganisation of Edison and Edipower, following the additional, positive negotiations with A2A after the Board meeting of 25 January and in compliance with the market disclosures of 27 December 2011 and 29 December 2011.
On 15 February 2012 the Parties signed the final agreements as envisaged in the preliminary agreement of 26 December 2011.
Closing must be within 20 business days of a condition precedent arising and in any event no later than 30 June 2012. The entire transaction, in fact, remains subject to confirmation from Consob that the mandatory takeover bid price - as a result of EDF's acquisition of control over Edison - does not exceed euro 0.84 per share. The transaction is also subject to approval of the relevant Antitrust Authorities.

PARMA INTEGRATED ENVIRONMENTAL HUB (IEH)

On 25 January 2012 the Parma Division of the Regional Tax Commission issued the sentence which confirmed that the authorisation procedure adopted for the Parma IEH was correct and accepted that the building permission was issued as part of the authorisation and VIA (Environmental Impact Assessment) procedure, consequently pronouncing the works suspension order issued by the Municipality of Parma to be illegal and therefore null and void.

SINERGIE ITALIANE

The shareholders' meeting of Sinergie Italiane was held on 28 March 2012 and approved the financial statements at 30 September 2011, also resolving in relation to covering the year's losses and subsequent recapitalisation, which is expected will be arranged by the shareholders Ambiente Energia Brianza, Ascopiave, Blugas and Iren Mercato, and in any event in the near future, in accordance with the statements of intent already issued by the shareholders to place the company under voluntary liquidation.
The post-recapitalisation ownership structure will be as follows: Ascopiave, Blugas and Iren Mercato 30.94% each of Sinergie Italiane, whilst Ambiente Energia Brianza will retain its current 7.18%.

BUSINESS OUTLOOK

Based on available information and the forecasts for the year in progress, the outlook for 2012 is a macroeconomic scenario still characterised by the persisting weakness recorded in 2011 that affected the demand for electrical energy and gas. The Iren Group forecasts consolidation in the growth of its assets as a result of the progressive contribution of the investments made.
The results of the Iren Group will however be influenced by developments in the energy industry, applicable regulations and the seasonality of the segments in which it operates, especially as regards weather conditions.
In 2012, the Iren Group will proceed with the investments scheduled in its business plan, which include: the full operational start-up of the new 390 MW "Torino Nord" cogeneration plant, near completion of the Livorno regasification plant and operational start-up by the end of the year of the Parma Integrated Environmental Hub.

REGULATORY FRAMEWORK

Below are the main new regulations issued during 2011 which influence the segments in which the Group operates.

REGULATIONS RELATING TO LOCAL PUBLIC SERVICES OF ECONOMIC IMPORTANCE

On 12 and 13 June 2011, referendums were held which repealed Art. 23-bis of Italian Decree Law no. 122 of 25 June 2008, converted to law with amendments by Art. 1, paragraph 1, Law no. 133 of 6 August 2008, as later amended by Decree Law no. 135 of 25 September 2009 converted to Law no. 166 of 20 November 2009, which had introduced substantial changes to the law on local public services of general economic interest (SGEIs), and repealed Art. 154, paragraph 1 (integrated water service tariff) of Legislative Decree no. 152 of 13 April 2006 "Determination of the integrated water service tariff limited to the element "based on adequate remuneration of invested capital"".
As the quorum of voters required by law was reached, and as the majority of voters voted in favour of repeal, the above regulations ceased to be effective. From the same date, Italian Presidential Decree no. 168 of 7 September 2010 (regulation on local public services of general economic interest, pursuant to art. 23-bis of Law Decree no. 112/2008) became null and void.
Art. 4, Law Decree no. 138 of 13 August 2011, converted to Law no. 148 of 14 September 2011, has provided new adaptation regulations governing local public services to comply with the public referendum and EU regulations. The aforementioned regulation was further amended by the Stability Law no. 183 of 12 November 2011 and by Decree Law no. 1 of 24 January 2012.
The resulting local public service regulations are at present governed by the complex regulatory framework described above and can be summarised as follows:

- The regulations in question apply to local public services except the integrated water service (without prejudice to incompatibility rules), the natural gas distribution service, the electrical energy distribution service and the management of municipal pharmacies.
- By 30 June 2012 the Regional Governments will arrange local public services into a standardised form of district authority, identified in reference to dimensions in any event not smaller than the size of the provincial area and in a manner sufficient to allow economies of scale.
- Within twelve months from 25 January 2012, the local authorities will adopt a framework resolution and submit this to the Antitrust Authority, in which the feasibility of competitive management of local public services of general economic interest is confirmed, after identifying the specific content of public and universal service obligations, liberalising all economic activities and limiting the assignment of exclusive rights to cases in which, based on market analysis, a private enterprise initiative proves inadequate to guarantee a service that meets the needs of the community.
- For district authorities with a population of over 10,000 inhabitants, the framework resolution is adopted subject to mandatory opinion in favour from the Antitrust Authority, which must pronounce its decision within sixty days.
- Without such an opinion, the local authority cannot assign exclusive rights.
- Local public service operators, if they intend to conduct business on markets other than in which they have exclusive rights, are obliged to form separate companies.

If after verification resulting in the framework resolution the local authority intends to assign exclusive

rights, service management is assigned in favour of: (i) enterprises or companies in any legal format identified through competitive public tender in which 100% public limited companies may participate except for certain specific legal restrictions; (ii) combined public/private companies for which the private partner is decided by competitive procedure which also grants the title of shareholder, with a shareholding of not less than 40%, and the assignment of specific operations-related duties associated with management of the service for its entire duration. In-house management is permitted if the economic value of the service is equal to or less than a total of euro 200,000.

The transitional regime for assignments non-compliant with the new regulations is as follows:

a) direct assignments of in-house services with an economic value of more than euro 200,000 cease without extension option and without the need for a specific resolution as of 31 December 2012; as an exception, an in-house assignment for a maximum three years may be granted in favour of the company resulting from the operational integration - completed by 31 December 2012 - of pre-existing management services provided in-house so as to qualify as a single service operator at district authority level;
b) management assignments granted directly to public/private companies with the private partner decided by competitive tender, but without the assignment of operations-related duties to that partner with regard to management of the service, cease as of 31 March 2013;
c) management assignments awarded by competitive tender for qualification as partner, with the assignment of operations-related duties with regard to management of the service, cease on the date envisaged for termination of the service contract;
d) direct assignments authorised on 1 October 2003 to public companies listed on the stock exchange at that date or to its subsidiaries pursuant to Art. 2359 of the Italian Civil Code, cease on the date envisaged for termination of the service contract, provided that the percentage investments of individual shareholders or shareholder syndicates at 13 August 2011 is gradually reduced, through public procedures or forms of private placement with professional investors and industry operators, to no more than 40% by 30 June 2013 and no more than 30% by 31 December 2015. Where these conditions are not met, the assignments will cease on the aforementioned dates, respectively;
e) direct assignments that do not qualify under any of the cases referred to in paragraphs b) to d) above shall cease without extension option and without the need for resolutions as of 31 December 2012.

Code on public works contracts

Law no. 106 of 12 July 2011, which converted Decree Law no. 70 of 13 May 2011, introduced changes to the code on public works contracts (Legislative Decree no. 163 of 12 April 2006), particularly with regard to requirements of a general nature on participation in public tenders, strict application of reasons for exclusion from public tenders, the option of assignment by negotiated procedures without publication of an invitation to tender for works of a value under euro 1 million, rules on project financing and a financial penalty in legal action relating to public works contracts when the sentence proves to be founded on clear reasons or consolidated case law orientation.

Numerous amendments were also introduced to the enactment regulations for the code on public works contracts approved by Presidential Decree no. 207 of 5 October 2010. The same law established the National Water Regulatory and Supervisory Authority with the task of defining minimum quality of service levels and tariff coordination. This Authority was later suppressed by Art. 21, paragraph 20, Law Decree no. 201 of 6 December 2011 (converted to Law no. 214 of 22 December 2011) by which the regulation and control of water services, subject to identification by interministerial decree to be issued within 90 days of entry into force of the aforementioned law decree, was assigned to the AEEG.

Anti-mafia Code

Legislative Decree no. 159 of 6 September 2011 approved the code on anti-mafia laws and prevention measures, which consolidates all provisions of the fight against organised crime into one law.

Robin Hood Tax

Art. 7, Decree Law no. 138 of 13 August 2011, converted to Law no. 148 of 14 September 2011, raised the "Robin Hood Tax", i.e. the additional IRES tax rate for companies operating in the energy sector, by four percentage points (from 6.5% to 10.5%) for the tax years 2011 to 2015.

Restrictions on the use of cash

Art. 4 of the same decree law lowered the limit envisaged in Art. 49, Legislative Decree no. 231 of 21 November 2007 to euro 2,500, above which transfers in cash, by bank post office savings book payable to the bearer are not permitted. This limit was further reduced to euro 1,000 by Art. 12, Decree Law no. 201 of 6 December 2011, converted to Law no. 214 of 22 December 2011.

REGULATORY FRAMEWORK FOR ELECTRICAL ENERGY AND GAS

The following should be noted in relation to the regulatory framework.
Legislative Decree no. 93 of 1 June 2011 transposed the "Third Energy Package" Directive (Directives 2009/72/EC, 2009/73/EC, 2008/92/EC) into Italian law, which establish a new regulatory framework for electricity and gas based on: consumer protection; reinforcing regulations on unbundling; harmonisation of regulatory authorities; establishment of the Agency for the Cooperation of Energy Regulators (ACER); and definition of the network codes.

In particular, for the gas sector the network codes will have a fundamental impact on the development of national and regional markets over the next few years, as they will constitute a new regulatory reference to change the current allocation mechanisms for cross-border transport capacities. The codes will harmonise the rules between transmission systems, facilitate the solving of "contractual congestion", and define common methods for the balancing and interoperability of the networks. The preparation of the network codes is the task of the european Network for Transmission System Operators (ENTSO) in accordance with guidelines established by the new ACER, already drafted in two consecutive documents in August and October.
With regard to structural unbundling of transport and liberalised activities in the gas supply chain, Decree 93/2011 had opted for the Independent System Operator (ISO) model, which did not envisage ownership unbundling of the network for a vertically-integrated company, but rather the strict regulation and permanent monitoring of network operator activities. However, Law Decree 1/12 (Official Journal of 25 January 2012) ordered the ownership unbundling between Snam Rete Gas and ENI, for which a Prime Minister's Decree will be issued within six months of entry into force of the Law Decree.

Regarding electricity, one of the issues that took on a supranational character was the entry into force of the Third Package, which unearthed the **10-year Development Plan for the Electricity Network**, pursuant to Art. 8 of Regulation (EC) no. 714/2009. This plan covers the modelling of the integrated network, scenario processing, adequacy estimates of demand and supply at european level and resilience assessment of the system. The Plan has to be prepared in accordance with National Development Plans and in compliance with the scenarios processed by ENTSO-E for the coming years. Though the ENTSO-E Plan is not immediately binding at national level, the energy package nevertheless calls for the National Development Plan to be consistent with the ENTSO-E Plan, which is also guaranteed by the compliance assessment to be performed by the National Regulatory Authorities and the opinion expressed by ACER.

In 2011 the **legal framework regarding gas distribution contracts** was completed. The Ministerial Decree of 19 January 2011 identified 177 district authorities, most of which coinciding with the Provincial areas and major cities. A second Decree of 18 October defined the list of Municipalities covered by each District. The municipalities will have to award contracts by public tender and delegate the role of awarding party to the leading municipality. On completion of the tender procedure the service will be assigned by means of a single concession for the entire District Authority (Art. 46-bis, Law 222/07). The Ministerial Decree of 22 April 2011 (the "social clause") contains measures regarding the transfer of personnel following change of control of the concession. Lastly, of major importance was the Ministerial Decree of 12 November 2011, which defines the public tender and bid assessment criteria. Art. 24 of the aforementioned Legislative Decree 93/2011 also established the deadline for launching public tenders for service assignments, except in the case of Minimum District Authorities.

Electricity regulations

- **Resolution ARG/elt 98/11**, "Criteria and conditions for governance of the remuneration system for available electrical energy production capacity, pursuant to Art. 2, Legislative Decree no. 379 of 19 December 2003" was published on 22 July 2011.

By this resolution the Authority superseded the previous system by creating a capacity market. In summary, the format decided by the AEEG is based on "reliability options" models, which envisage the use of options contracts on the exchange price associated with physical obligations in terms of available capacity (the model currently used on the US markets PJM and ISO-NE).

1. Within 180 days of the date of publication of the resolution, Terna will be expected to prepare and submit to the AEEG a proposal for governance of the remuneration system in question;
2. Within 45 days of receipt of this proposal, the AEEG will verify its compliance with the criteria and conditions indicated in the resolution;
3. On receipt of a positive response to the proposal from the AEEG, Terna will open the proposal to consultation;
4. On conclusion of the consultation, Terna will submit the results to the AEEG, accompanied by a report illustrating the Operator's intention to accept or reject the comments provided by the operators;
5. After further positive verification by the AEEG, Terna will submit the proposal for governance of the capacity remuneration system to the Ministry of Economic Development in order that a specific enactment decree may be issued.

- **Resolution ARG/elt 181/11** of 15 September 2011. The AEEG Resolution, accompanied by Resolution no. 42/02 on cogeneration, was updated following issue of the ministerial decrees of 4 August 2011 and 5 September 2011.

The resolution became necessary to adapt the planned framework for cogeneration to the new definition of high-yield cogeneration envisaged in the aforementioned decrees.

Gas Regulations

By Resolution ARG/Gas no. 77/11 (June 2011), the AEEG launched a review of the Wholesale Marketing Component (WMC), constituting around 45% of the pre-tax price for protected customers. The resolution was first followed by Consultation Paper no. 47/11 issued last December. In the Consultation Paper the Regulator disclosed the proposals for reform of the calculation, aiming to gradually also take into account (from the next heating season starting October 2012) the gas prices formed on the balancing market in addition to the cost of long-term trading contracts. Added to the procedures in progress were the provisions of Decree Law 1/12 (Art. 13) which already from the next update in April envisages the gradual introduction to the WMC calculation benchmarks of the gas prices formed on european markets. Consequently, by Resolution 16/12/R/gas, the AEEG decided that initial implementation of the revised calculation procedures would be by the end of March 2012. Full application of the Decree Law provisions, taking into consideration the procedures already launched by the Regulator, will instead be by the end of October 2012.

By **Resolution ARG/Gas 105/11**, the AEEG launched a procedure to reform the remuneration methods for retail natural gas sales and therefore of the RSQ component (Retail Sales Quota). In the light of responses submitted by operators to the resulting consultation paper (DCO 31/11), the AEEG considered it appropriate not to amend the regulatory setup of such business, limiting its decision (Resolution ARG/Gas 200/11) to review the component values on the basis of cost figures submitted by the operators (unbundling rules) and to differentiate the component values between domestic and non-domestic customers. The new values entered into force on 1 January 2012.

By **Resolution ARG/Gas 145/11** and subsequent ARG Gas 155/11, ARG/Gas 165/11 and ARG/Gas 182/11, the AEEG defined the framework and operating mechanisms of the new system of balancing based on economic merit, as described previously, which also led to updating of the network and storage codes.
In relation to the new balancing regulations, the AEEG also published Consultation Paper no. 22/11 (as a follow-up to Consultation Paper 46/10) on harmonisation of the new system with the procedures for allocating and settling costs between network users. This refers to the settlement procedure that affects not only transport, but also has a knock-on effect on distribution and sales settlements. A monthly balancing session and an annual adjustment session are envisaged. The balancing session will consist in an initial calculation of the physical and economic components of the transport service with balancing based on distribution network input measurement data and the meter readings, the latter measured daily or estimated using collection profiles. The adjustment session involves settlement of costs corresponding to the difference between the figures estimated in the balancing session with actual metering data that has become available in the meantime.
The two consultation papers have not yet resulted in a resolution. At present the timing of the resolution is not yet known. Operators expect that a simplified version of the proposed system will be used for first-time application.

In November 2011, the AEEG published a new consultation paper on the entry into service of the new electronic **gas metering** units (Consultation Paper no. 40/11). In the light of further study of the issue of cost-benefit analysis and technological developments, the paper proposed a remodelling of deadlines envisaged in Resolution no. 155/08, maintaining a distinction between three metering categories: for large consumers (annual consumption of more than 100,000 m^3), intermediate consumers and the mass market (domestic consumption, commercial enterprises, small traders with annual consumption of up to 5,200 m^3). For the first group, an extended deadline is proposed for the replacement of all meters installed to 31 January 2012; for the second, the target for full meter replacement is 2013; and for the third, the replacement of 80% of meters is expected in 2017.
An interesting aspect of the paper is the prospect of a national, multi-service consumption metering system able to read data not only for electricity and gas consumption, but also for water and district heating. For this purpose an incentive scheme of specific pilot projects is proposed. The Consultation Paper has not yet resulted in a resolution.

Electricity and gas regulatory measures

Resolution ARG/com 151/11 defined a new system for gathering data and information (in force from 1 January 2012) to systematically monitor the electrical energy and gas sales market of supplies to households and small customers, through indicators on the extent of openness, competition and the level of end customer satisfaction. The regulation forms part of the activities required under the Third Energy Package and Legislative Decree 93/11 assigned to the Regulator in relation to monitoring and investigation of energy market operations.

Gas Distribution

By Decree of 19 January 2011 the Minister of Economic Development announced the district authorities for the natural gas distribution sector, pursuant to Art. 46-bis, Law no. 222 of 29 November 2007, which converted Decree Law no. 159 of 1 October 2007. To complete the regulatory procedure envisaged in the aforementioned Art. 46-bis, Minister of Economic Development Decree no. 226 of 12 November 2011, published in Official Journal no. 22 of 27 January 2012, approved the regulation on public tender criteria and the assessment of bids for the assignment of gas distribution services. This regulation established that the chief Municipality in the Province acts as awarding party for management of the tender to assign new distribution concessions at district level. The deadline is set as six months from entry into force of the regulation (11 February 2012) for the Parma, Reggio Emilia, Turin 1 and Turin 2 ATOs, 24 months for the Genoa 2 ATO, 30 months for the Genoa 1 ATO and 36 months for the Piacenza 2 East ATO.
The related tenders must be launched within 15 months of the above deadlines by the chief Municipality in the province (if part of the district authority), or within 18 months by an entity identified by the Municipalities covered by the district authority (if this does not include the chief Municipality).

MAJOR HYDROELECTRIC SHUNT CONCESSIONS

Constitutional Court sentence no. 205 of 4 July 2011 pronounced the illegal nature of the provisions of Decree Law no. 78 of 31 May 2010, converted to Law no. 122 of 30 July 2010, which extended major shunt concessions for the production of electrical energy by 5 years, with the option of extension by a further 7 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, according to current regulations are subject to continued management by the operator until takeover by the new operator, which must be chosen through a public tender.

INTEGRATED WATER SERVICE

The process of reform of the integrated water service, which began with Law 36/94 (Galli Law) was revised with approval of Legislative Decree no. 152 of 3 April 2006, as amended by Legislative Decree no. 219 of 10 December 2010.
Furthermore, Law 42/2010 (by adding paragraph 186-bis to Law no. 191 of 23 December 2009) provided for elimination of the Optimal District Authorities (ATOs) one year after its entry into force. The deadline was extended to 31 March 2011 by the "Milleproroghe" [thousand extensions] decree (Law Decree no. 225 of 29 December 2010), and again extended to 31 December 2012 by the "Milleproroghe" Law Decree no. 216 of 29 December 2011.
The integrated water service is also governed by Regional Laws 25/1999 and 10/2008 for the Emilia Romagna region. In implementation of the delegated powers offered by Art. 2, paragraph 186-bis, Law no. 191 of 23 December 2009, the Emilia Romagna Region approved Regional Law no. 23 of 23 December 2011, which governs the exercise of duties by the former ATOs, suppressed by the same Law 191/2009. Legislative Decree 152/06 states that *"the tariff represents the fee for the integrated water service and is calculated taking into account the quality of the resource and the service rendered, necessary works and upgrading, management costs, adequacy of the return on invested capital, costs for safeguard works, and ATO operating costs. This with a view to ensuring full coverage of investment and operating costs based on both cost recovery principles and the principle according to which "who pollutes, pays".* All tariff quotas of the integrated water service are to be considered fees" (Art. 154 prior to partial repeal b y the Referendum).
Based on the provisions of the Normalised Method (decree of 1 August 1996), the tariff of each ATO must be determined according to a reference tariff that forms the basis for the initial tariff level and progressively guides and establishes adjustments taking into account productivity improvement objectives, the quality of the service provided and inflation. The reference tariff, expressed in the Decree of 1 August 1996, is governed by a price cap mechanism.
As regards tariff quotas referring to public sewers and water treatment services, Art. 155 of Legislative Decree 152/2006 states that these are due from users even if there are no water treatment plants or they are temporarily inactive. During 2008 this provision was cancelled by judgement no. 335 of the Constitutional Court of 10 October 2008.
The judgement of the Constitutional Court declared the constitutional illegality of:

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

The aforementioned sentence led to the exclusion of users not served by treatment plants from being charged for the related tariff quota stated in bills issued after the sentence, and led to the

users' right to reimbursement of previous amounts billed up to the moment they were barred, in accordance with procedures defined by ministerial decree. The Constitutional Court sentence, obviously resulting in a reduction in revenue - equal to the charges - achieved by the Operator, calls for tariff review action by the District Authorities to guarantee economic balance in the otherwise compromised management.

Parliament went on to issue Law no. 13 of 27 February 2009, *"Conversion to law, with amendments, of Law Decree no. 208 of 30 December 2008, containing extraordinary measures regarding water resources and environmental protection"*.
Art. 8-sexies of Law 13/2009, "Provisions regarding the integrated water service", states that:

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

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

- the deadline, now past, of 1 October 2009;
- the definition of criteria and parameters for the implementation of "repayment of the tariff quota not due for water treatment" by the Ministry of the Environment, through decrees issued within two months of entry into force of the law (see par. 4). This Ministry of the Environment Decree of 30 September 2009 was published in the Official Journal – on 8 February 2010 – and contains the criteria and parameters for repayment to users of the tariff quota relating to the water treatment service. The Decree identifies the ATO as the entity responsible for establishing the criteria and parameters for repayment to users of the tariff quota in question, and defines the minimum information that operators must provide to users regard-

ing the aforementioned plan of action;
- identification of the amount payable to each user by the operator, to be performed by the ATO by the mandatory deadline of 120 days of entry into force of the law (see par. 2), subject however to issue of the Ministry of the Environment decrees defining the criteria and parameters for implementation of that calculation and the repayment methods.

The Water Services segment is also affected (as mentioned at the start of this section) by the famous Referendum of 12-13 June 2011, the result of which partially repealed Article 154 paragraph 1 (integrated water service tariff) of Legislative Decree no. 152 of 13 April 2006 "Determination of the tariff for the integrated water service" only insofar as the portion envisaging that this should be *"based on adequate remuneration of invested capital"*.
This repeal did not produce direct and immediate effects on the current tariffs, but was 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. In fact, Art. 170, paragraph 3 of Legislative Decree 152/2006 (not affected by the repeal Referendum, and therefore still valid) states that until issue of the future decree the previous decree of 1 August 1996 will continue to apply. Therefore until issue of the new measures (which under the most recent legal provisions on this matter could be the responsibility of the AEEG), the current Normalised Method will still apply and, consequently, the tariff model approved by the competent district authorities.

WASTE MANAGEMENT SERVICE

Law Decree no. 216 of 29 December 2011 (the "Milleproroghe" decree) provided for the postponement to 31 December 2012 of the elimination of the ATOs responsible for integrated water service management and the waste management cycle.
Integrated Waste Management means the total activities carried out to optimise the management of waste, these being the transportation, treatment and disposal of waste, including street sweeping and the management of these operations.
The general regulation applicable to the Integrated Waste Management services sector is established at national level in Law Decree 138/2011 converted to Law no. 148 of 14 September 2011, later amended by Law Decree no. 1 of 24 January 2012, the Environmental Code (Legislative Decree 152/2006 as amended) and at regional level by Emilia Romagna Regional Laws 25/99, 10/2008 and 23/2011.
The ATOs responsible for the management of water resources and integrated management of urban waste pursuant to articles 148 and 201 of Legislative Decree 152/2006 (the Environmental Code) will be eliminated and the regions will be given the task of legally assigning the functions previously carried out by these organisations, in accordance with the principles of subsidiarity, differentiation and suitability.
In this respect, the Emilia Romagna Region has already arranged the issue of Law no. 23 of 23 December 2011, "Regulations on the territorial organisation of functions relating to local public environmental services", and has established the Emilia Romagna District Authority for water and waste management services in which all the municipalities and provinces in the region responsible for governing the entire regional area are members.
Moreover, the entry into force of the sector regulations on the SISTRI IT system for the traceability of waste was further postponed to 30 June 2012 by the Milleproroghe Decree (Law Decree 216/2011).
The Iren Group provides waste management services based on agreements entered into with the relevant ATO. For further details on the agreements existing at 31 December 2011 in the areas in which the Group operates, please refer to the paragraph "Concessions and Assignments".

TARIFF SYSTEM FOR WASTE MANAGEMENT SERVICES

Pursuant to Art. 238 of the Environment Decree, anyone owning or holding under any capacity, premises or uncovered areas used privately or publicly and which are not accessories or annexes to the premises themselves, located in the municipal area and producing urban waste, are required to pay a tariff.
The tariff is the consideration paid for the collection, treatment and disposal of solid urban waste. The waste management tariff is commensurate with the average ordinary quality and quantity of

waste produced per unit of surface area, in relation to the uses and type of activities carried out, also taking account of the profit indicators per usage and territorial bracket.
The tariff is set by the ATOs and applied and collected by the appointed operators of the integrated waste management service.
Accessory costs relating to urban waste management, e.g. street cleaning expense are taken into account in calculating the tariff.
The tariff consists of:
- a portion calculated in relation to the essential components of the service costs, which mainly involve investments for the works and related depreciation; and
- a portion dependent on the quantity of waste handled, the service provided and the extent of operating expense, so as to ensure total coverage of the investment and operating costs.

GREEN CERTIFICATES, ENERGY EFFICIENCY CERTIFICATES AND THE ETS

Green certificates

In terms of green certificates (hereinafter, GC), the most important regulatory change relates to Legislative Decree 28/2011 of 3 March 2011, which implements Directive 2009/29/EC on renewable sources. The main impacts for Iren include those relating to Title V on supporting regimes, i.e.:
- On the matter of electricity, under the decree, incentives will be provided for plants entering into operation after 31 December 2012, with a feed-in system diversified by source and capacity ranges for plants up to 5 MW, while those above this threshold will have the right to an incentive assigned through auctions for the lowest price managed by the GSE.
- Incentives are also envisaged for heat energy production from renewable sources.
- The plants in operation and those which enter into operation up to 31 December 2012 shall have the right to GCs. All plants benefiting from GCs will then be converted to the feed-in system starting from 2016. For the implementation methods, reference should be made to a Decree of the Ministry for the Environment, which after consulting the Authority is to be adopted within six months from entry into force of the Legislative Decree.
- The GSE will collect all GCs (at 78% of the value determined using the current mechanism) until they are extinguished. The most important change is the fact that TRL GCs will also be collected by the GSE at a price equal to the 2010 average market price.
- The decree also intervenes on authorisations (with a simplified regime), whose application may also be extended to plants of up to 1 MW, technical regulations and the promotion of renewable energy sources in construction and biomethane in transportation. The decree also contains rules for the development of transmission and distribution networks, as well as for the connection of biomethane production plants to the gas network, up to the connection with the district heating/air-conditioning networks.

Discussions are currently in progress with the Minister for Economic Development and the Environment in support of the drafting of the ministerial enactment decrees envisaged in Legislative

Decree 28/2011, which are expected to define the methods and extent of the incentives system both for electrical energy and heat energy, and the distribution methods to support the development of district heating networks. Despite repeated reminders to the Minister directly by the Group and through the trade associations, to date none of the necessary enactment decrees have been issued.

Energy efficiency certificates

On the issue of energy efficiency, it is worth noting the steady increase in annual obligations to achieve energy savings targets set for AEM Torino Distribuzione as an electrical energy distributor, as well as the setting of challenging obligations for the three-year period 2010-2012 (pursuant to Ministerial Decree dated 21/12/2007). In consideration of the critical issues that operators have in fulfilling the obligations, repeatedly notified to the competent entities, several proposals of the AEEG have been submitted for consultation to modify the energy efficiency certificate mechanism (DCO 43/10 and the technical table envisaged in EEN 7/11) which led to the issue of new guidelines (EEN 9/11, replacing Annex A of 103/03) and introduce new elements summarised as follows:

- the introduction of a durability ratio which takes into consideration cases in which the lifespan of the works exceeds its useful life as defined in current regulations (i.e. the energy efficiency certificate recognition period) and is used as a multiplier for the savings recognised during the useful life of the works so as to also focus on the savings generated beyond the certificate recognition period. The value of the lifespan and useful life for the durability ratio are indicated in Table 2 of the Guidelines on grouping the types of work and serve as a general reference (in special cases and with suitable justification, different references can be used in the project proposals and planning measures - PPPM);
- a reduction in the minimum size of projects to 20, 40 and 60 TOE, respectively, for standardised, analytical and finalised projects, regardless of the type of project owner;
- inclusion of a new category in the list in Table 2 of the Guidelines regarding efficiency improvements to electrical energy and natural gas networks;
- the option of applying a 2% bonus to certain types of standardised project if accompanied by information campaigns to end customers on the correct use of equipment and devices;
- the option of applying finalised evaluation methods also to projects comprising works for which standardised or analytical evaluation methods are available, provided the decision is justified and the projects involve works that can be assessed by different methods;
- mandatory RCV submission within 180 days of start-up of a standardised or analytical project;
- mandatory initial accounting of savings achieved by analytical or finalised projects by the end of the 24th month after initial activation (defined as the first date on which at least one participating customer begins to benefit from the energy savings);
- mandatory document archiving for a period equal to the lifespan of the works covered by the project.

The new rules will apply to all projects already submitted to the AEEG, in reference to savings achieved with effect from the date of entry into force of the new Guidelines. Specifically:

- for finalised projects, RCV submissions after entry into force of the guidelines must indicate the works category, the value of the lifespan and value of the durability ratio;
- for analytical projects, RCV submissions after entry into force of the Guidelines will be based on the updated technical sheets;
- for standardised projects, the increase in energy efficiency certificates deriving from application of the new Guidelines and the technical sheets updated with quarterly emissions still outstanding will be paid in a lump sum in advance (by 30 April 2012). This should significantly increase the quantities of energy efficiency certificates available on the market;
- lastly, the AEEG will integrate its website with the list of energy services companies that have achieved energy efficiency certificates in relation to the number of RCV submissions and the breakdown by type of energy efficiency certificates achieved, also indicating whether UNI-CEI 11352 certification has been obtained (ESCO requirements).

These amendments, if the recent Legislative Decree 28/2011 is also considered, could reduce the current gap between the obligations up to 2012 (very high) and the energy efficiency certificates available (limited), through the following measures:

- approval of various standard sheets drawn up by ENEA (the Italian National Agency for Energy Efficiency);
- periodic reconciliation of the right to certificates with the useful life of the measures;
- rendering transportation savings equivalent to gas savings;
- reducing obligations by way of savings from efficiency improvements to electricity and gas networks.

Emission trading system

With regard to the emission trading system, in 2010 all greenhouse gas emission authorisations for plants in the Turin and Genoa provinces and plants in Emilia Romagna were issued in the name of Iren Energia S.p.A., and by 31 January 2011, as envisaged in National Commission Resolution no. 14/2010, all Monitoring Plans containing updated records were submitted.
Therefore in relation to the 14 plants authorised to Iren Energia S.p.A., for 2011 the following measures of the relevant National Commission will apply:
- by Resolution of the National Commission no. 2/2001 of 18 January 2011, "Update on greenhouse gas emission authorisations", the National Commission updated the greenhouse gas emission authorisation for the Energy Hub in Via Hiroshima (RE);
- by Resolution of the National Commission no. 9/2011 of 11 March 2011, "Update on greenhouse gas emission authorisations", the National Commission updated the Emission Monitoring Plan following issue of the updated greenhouse gas emission authorisation for the Energy Hub in Via Hiroshima (RE);
- by Resolution no. 33/2011 of 25 October 2011, the "National Commission for management of Directive 2003/87/EC and support for the management of Kyoto Protocol project activities" issued Authorisation no. 1690 for greenhouse gas emissions pursuant to Art. 4, Legislative Decree 216/2006, as amended, to the Torino Nord Thermoelectric Plant.
The authorisation issue procedure began on 10 June 2011 in accordance with the methods and deadlines envisaged in Articles 5 and 6 of the aforementioned Legislative Decree, with input of data relating to the application on the Ministry of the Environment AGES database.
The same Resolution approved the Emission Monitoring Plan submitted at the same time as the application, with related attachments. Therefore with effect from the date of the Resolution the plant operator is required to monitor CO2 emissions in accordance with the approved Monitoring Plan. In accordance with new entrants and closures regulation, during the preliminary investigations for issue of the authorisation, the Ministry also launched procedures to assign CO2 quotas to the plant, which has to be considered a new entrant. All documentary evidence of the start-up will therefore have to be uploaded to the AGES website so that the Ministry will be able to count and credit the corresponding number of quotas.
In 2011 with issue of the required details to the competent National Authority, the procedures were followed to assign quotas to the new plant in Via Diete di Roncaglia in Piacenza.
In December, closure procedures began for the Le Vallette Thermoelectric Plant, with submission of the necessary form to the competent National Authority. In the next thirty days, the emissions report will be issued and verification action will begin. The quotas reported up to 12 December 2011 will have to be reimbursed by Iren Mercato on the Greta website within the next 45 days.
Every year the quantity of greenhouse gas emissions to the atmosphere have to be calculated by each plant, and notification sent to the Ministry of the Environment. The emission reports deriving from the protocol are subject to verification by an approved verifier. Verification of the calculation protocols prepared for each authorised plan and verification of the related greenhouse gas reports for 2010, prepared in 2011, was performed on the plants in Turin and Genoa by the IMQ of Milan, on the Emilia Romagna plants by RINA S.p.A of Genoa, both of which approved by the Ministry of the Environment.
The greenhouse gas report for each authorised plant, prepared in accordance with the formats issued by the Commission, was digitally signed and submitted electronically with the accompanying verification report to the Ministry of the Environment website by 30 March 2011. By 30 April 2011 Iren Mercato S.p.A. arranged reimbursement of quotas reported to the GRETA website.
With reference to Directive 2003/87/EC, in July the competent National Authority, by Resolution no. 26/2011, launched the data gathering process required to calculate the number of greenhouse gas quotas to be assigned free of charge for the period after 2012 pursuant to Decision 2011/278/EC.

All plants authorised for greenhouse gas emissions under the terms of Legislative Decree 216/2006 were involved in this process, i.e. for Iren Energia S.p.A. all the thermal and thermoelectric plants. The data was submitted on a form specifically prepared by the EU, and mandatorily accompanied by the methodology report. Both the data collection sheet and the methodology report were verified by an approved Verifier. The "2013-2020 Data Sheet" and the "Methodology Report", accompanied by Verification Certificates issued by IMQ, were submitted to the Ministry of the Environment by 3 November 2011.

CONCESSIONS AND ASSIGNMENTS

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

Distribution of Natural gas

Genoa area

The natural gas distribution service in the municipality of Genoa and the neighbouring municipalities is carried out by Genova Reti Gas S.r.l. which is wholly owned by the first-level company Iren Acqua Gas S.p.A.. The relative assignment by the municipality of Genoa was given on 29 December 1995 to the former AMGA S.p.A.
These concessions are currently operating under the extended regime pending the launch of public invitations to tender, the deadlines for which are 24 months for the Genoa 2 ATO - Province - and 30 months for the Genoa 1 ATO - Genoa City and System.

Turin area

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

(i) the text of the agreement relating to the "Gas Service" and assignment of this service to Italgas and subsequent transferral to the newly established AES Torino S.p.A.;
(ii) authorisation to transfer to the newly established AES Torino S.p.A. the branch of AEM Torino relating to district heating distribution, with related takeover by AEM Torino of the agreement entered into with the municipality on 28 November 1996 and expiring on 31 December 2036. Following the business unit contributions, effective from 31 October 2006, the heat sales business was transferred to Iride (now Iren) Mercato S.p.A and the heat production business was transferred to Iride (now Iren) Energia S.p.A..

These concessions are currently operating under the extended regime pending the launch of public invitations to tender, the deadline for which is six months from entry into force of the regulation (11 February 2012) for the Turin 1 ATO - City of Turin - and the Turin 2 ATO - Turin System.
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 from the last connection made, to the temporary association of companies established between Iren Energia S.p.A., Iren Mercato S.p.A. and AES Torino S.p.A., which together established Nichelino Energia S.r.l..

Emilia Romagna area

The methane gas distribution service in Emilia Romagna provinces is managed by Iren Emilia S.p.A.. These concessions are currently operating under the extended regime pending the launch of public invitations to tender, the deadline for which is six months from entry into force of the regulation (11 February 2012) for the Parma and Reggio Emilia ATOs, 24 months for the Piacenza 1 West ATO and 36 months for the Piacenza 2 East ATO.

Other geographic areas

The Iren Group also operates in numerous other entities throughout Italy through assignments or concessions given by the competent municipalities to joint stock companies in which Iren Group companies have a direct or indirect investment. The main assignments and concessions are:

- Province of Ancona / Macerata - ASTEA S.p.A. (21.32% owned by the G.P.O. Consortium of which Iren Emilia holds 62.35%): Municipalities of Osimo (AN) Recanati (MC), Loreto (AN) and Montecassiano (MC).
- Municipality of Vercelli - ATENA S.p.A. (40% owned by Zeus S.p.A. which is a 100% subsidiary of Iren Emilia): assigned in 1999 and expiring on 31 December 2010.
- Province of Livorno - ASA S.p.A. (40% owned by AGA S.p.A. which is 95.09% owned by Iren Emilia): Municipalities of Livorno, Castagneto Carducci, Collesalvetti, Rosignano Marittima and San Vincenzo – expiring 31 December 2010.
- Province of Grosseto – GEA S.p.A. (59.33% owned by Iren Acqua Gas): Municipality of Grosseto and Campagnatico (GR) – application to extend expiry to 31 December 2013 is pending.

These concessions are currently operating under the extended regime pending the launch of public invitations to tender according to the deadlines established in Annex 1 to Decree no. 226 of 12 November 2011.

Natural gas sales

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

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

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

Electrical energy segment

AEM AEM Torino Distribuzione S.p.A. manages the public electric energy distribution service in the city of Turin pursuant to the ministerial concession issued by the Minister of Trade and Industry to AEM Torino S.p.A. on 8 May 2001, transferred to AEM Torino Distribuzione S.p.A. pursuant to Art. 38 of Law 340/00 by a decree authorising the transfer issued on 23 February 2004 by the Minister of Productive Activities. This concession expires on 31 December 2030.
Through its local business combinations, the Iren Group distributes electrical energy in the following main areas:

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

AEM Torino Distribuzione S.p.A. distributes electrical energy in the Municipality of Parma. Pursuant

to the Bersani Decree, distributor companies must connect all applicants to their networks, without compromising service continuity and provided technical rules and the AEEG resolution issued on tariffs, contributions and costs are complied with. Distributor companies operating as at the date the Bersani Decree entered into force continue to provide distribution services on the basis of concessions granted by 31 March 2001 by the Minister of Trade and Industry and expiring on 31 December 2030. By this deadline, the service will be assigned on the basis of invitations to tender - in compliance with national and EU laws on public tenders - announced no later than the fifth year prior to expiry. In order to rationalise the distribution of electrical energy, only one distribution concession is granted per municipal area.
The concession for the distribution of electrical energy in the Municipality of Parma, previously assigned to AMPS S.p.A. and subsequently to Enia S.p.A., was transferred to AEM Torino Distribuzione S.p.A., retaining the expiry date of 31 December 2030, by Minister of Economic Development Decree issued on 22 September 2010.

INTEGRATED WATER SERVICE

Genoa area

Iren Acqua Gas holds the management assignment for the integrated water service (aqueduct, sewerage and purification) in the 67 municipalities of the province of Genoa, serving a total of 880,000 residents. The assignment was granted by Decision no. 8 of the Genoa ATO Authority on 13 June 2003. The term of this agreement was finalised as until 31 December 2032 by decision of the Genoa ATO Authority of 7 August 2009.

Management of the integrated water service in municipalities in the province of Genoa is carried out under the terms of agreements with operators that are protected and/or authorised by specific provisions of the Genoa ATO adopted with effect from 2003. The authorised and/or protected operators in the Iren Group are Mediterranea delle Acque S.p.A. (60% owned by Iren Acqua Gas), Idro-Tigullio S.p.A. (66.55% owned by Mediterranea delle Acque S.p.A.) and AMTER S.p.A. (49% owned by Mediterranea delle Acque S.p.A.).
In particular, Mediterranea delle Acque is the leading operator providing support to the first-level company Iren Acqua Gas as operator for the Genoa ATO, its services extending beyond the Municipality of Genoa to a further 37 municipalities (out of a total of 67) in the area covered by the ATO.

Area Emiliana

The Iren Group provides integrated water services in accordance with agreements signed with the relevant ATOs. The table below contains details of existing agreements in the Group's area of operations.

Ato	Regime	Agreement date	Expiry date
Reggio Emilia	ATO/Operator Agreement	30 June 2003	31 December 2011 (*)
Parma	ATO/Operator Agreement	27 December 2004	30 June 2025
Piacenza	ATO/Operator Agreement	20 December 2004	31 December 2011 (*)

(*)Service extended until new agreements are defined

Based on the laws of the Emilia Romagna Region (Art. 10 of Regional Law 25/99 for water services, as amended by Regional Law 1/2003), the agreements provide for 10-year assignments, except for the agreement relating to the Parma ATO which, based on Art. 113, paragraph 15-bis of the T.U.E.L., [consolidated law on local entities] sets the expiry of the assignment at 30 June 2025, by virtue of the disposal of 35% of the AMPS capital by the municipality of Parma in 2000 through a public offering.
With regard to the ownership status of the water service assets, pursuant to applicable laws and concurrently with the merger process through which Enìa was established, AGAC, AMPS and TESA spun off the assets of the respective Integrated Water Service, merging the entire investment of the Local Entity shareholders into Agac Infrastrutture S.p.A., Parma Infrastrutture S.p.A. and Piacenza Infrastrutture S.p.A. (the "asset" companies).
The asset companies make all the spun off assets relating to IWS management available to the Iren Group on the basis of a contract and payment of instalments by the Reggio Emilia, Parma and Piacenza ATOs.
Following the reorganisation planned as part of the merger of Enia S.p.A. into Iride S.p.A., the man-

agement of the IWS in the Parma and Reggio Emilia ATOs was transferred to Iren Acqua Gas with effect from 1 July 2010. The latter uses Iren Emilia premises for its operations, also through Iren Emilia subsidiaries.
IWS management in Piacenza was transferred from Iren Emilia to Iren Acqua Gas in September 2011.

Other geographical areas

The Iren Group also operates in numerous other entities throughout Italy in the IWS sector through assignments or concessions given by the competent municipalities to joint stock companies in which Iren Acqua Gas or other Iren Group companies have a direct or indirect investment. The main assignments and concessions are:

- Toscana Costa ATO - ASA S.p.A. (40% owned by AGA S.p.A. which is 95.09% owned by Iren Emilia) integrated water service in the Municipality of Livorno and other municipalities in the province.
- Marche Centro-Macerata ATO (ATO3) - ASTEA S.p.A. (21.82% owned by Consorzio GPO which is in turn 62.35% owned by Iren Emilia) only for the municipalities of Recanati, Loreto, Montecassiano, Osimo, Potenza Picena and Porto Recanati.
- Biella-Casale-Vercelli ATO: ATENA S.p.A. (40% owned by ZEUS S.p.A. which is a 100% subsidiary of Iren Emilia) (for the Vercelli area).
- Municipality of Ventimiglia: AIGA S.p.A. (49% owned by Iren Acqua Gas).
- Municipality of Imperia: AMAT S.p.A. (48% owned by Iren Acqua Gas).
- Alessandria ATO: ACOS S.p.A. (25% owned by Iren Emilia) for the Municipality of Novi Ligure – ASMT Servizi Pubblici S.p.A. (44.76% owned by Iren Emilia) for the Municipality of Tortona.

Waste Management Segment

Through Iren Emilia S.p.A. the Iren Group provides waste management services in accordance with agreements signed with the relevant ATOs. The table below provides details of existing agreements at the reporting date for the Group's area of operations.

Ato	Regime	Agreement date	Expiry date
Reggio Emilia	ATO/Operator Agreement	10 June 2004	20 December 2011 (*)
Parma	ATO/Operator Agreement	27 December 2004	27 December 2014
Piacenza	ATO/Operator Agreement	18 May 2004	20 December 2011 (*)

(*)Service extended until new agreements are defined

Based on the regulations for the Emilia Romagna region (for waste services, Art. 16 of Regional Law 25/99 as amended by Regional Law no. 1/2003), the agreements provide for 10-year assignments. The expiries envisaged in Law Decree 138/2011 also apply to waste management services.

Services provided to the Municipality of Turin

On 31 October 2006, Iride Servizi S.p.A. took over the following from AEM Torino S.p.A. as a result of the business unit contribution arranged as part of the reorganisation process following the merger of AMGA S.p.A. into AEM Torino S.p.A.:

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

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

FINANCIAL MANAGEMENT

GENERAL FRAMEWORK

During 2011, after a first quarter marked by rising interest rates a reversal of this trend was recorded, especially in the medium/long-term interest rate curve. After increasing the benchmark rate to 1.5% through two measures in April and July, the european Central Bank brought the benchmark back to 1% by means of two decreases implemented in November and December 2011.
Performance analysis of the 6M Euribor rate shows a gradual increase from the lowest rate of 0.94% recorded at the end of March 2010 which continued until mid-2011, when a downward trend began that brought the figure to its current 1.2%. The fixed rates published - reflected in the 5-year and 10-year IRS - rose until the end of the first quarter, after which the trend reversed to record net decreases with levels lower than the historic minimum.

ACTIVITIES PERFORMED

During 2011, activities aimed at consolidating the financial structure of the Iren Group continued. The development of funding needs is monitored through careful financial planning, which enables requirements for new financial resources to be anticipated, taking into account the repayments of outstanding loans, the development of indebtedness as a result of carrying out the investment programme, the development of working capital and the balance of short-term and long-term sources.
The organisational model adopted by the Iren Group, with the goal of financial optimisation of all Group companies, provides for Iren's adoption of a centralised treasury management, medium to long-term loans and financial risk monitoring and management. Iren has relations with the leading Italian and international banks, for the purpose of locating the types of loans best suited to its needs, and the best market conditions.
Moving on to discuss in more detail the transactions executed in 2011, we note that in June, July and September new medium-term loans were agreed and used for a total of euro 425 million, i.e. euro 100 million with Cassa Depositi e Prestiti, euro 100 million with Mediobanca, euro 150 million with Unicredit and euro 75 million with Banca Regionale europea.
In the last quarter of the year, the european Investment Bank also granted new 15-year financing to Iren for a total of euro 440 million. Guarantees from entities approved by the EIB are required for the use of such financing. An initial loan for a total of euro 240 million was agreed in December of which euro 100 million was used in 2011, euro 90 million in January 2012 and the remaining euro 50 million will be used in the first few months of 2012. The second loan for a total of euro 200 million was agreed for a first tranche of euro 100 million in December and a second tranche of euro 100 million in February 2012, with full use of the total of euro 200 million planned in 2012.
The new loans were specifically granted in support of the investment programme and make it possible to maintain a proper balance between the Group's short and long term financial exposure. At 31 December 2011 the Group's mortgage and put bond debt represented 94% of the total net financial indebtedness, and the net non-current indebtedness accounted for 72%. This percentage takes into account the classification of receivables due from the Municipality of Turin under non-current financial assets.

Within the Group, in December 2011 AES Torino (51% consolidated) obtained a new loan from a banking syndicate for a total of euro 250 million. In addition, the european Investment Bank granted AES Torino a credit facility for a total of euro 55 million to be finalised through bank intermediation to be used for partial settlement of the syndicated loan agreed in December. During 2011, OLT Offshore LNG Toscana (41.71% consolidated) obtained new financing from the shareholders Iren Mercato (financed by Iren as part of the Group cash pooling system) and E.On, equally divided to give a total of euro 50 million. The total shareholder financing to OLT as investment support amounted to euro 520 million at 31 December 2011.

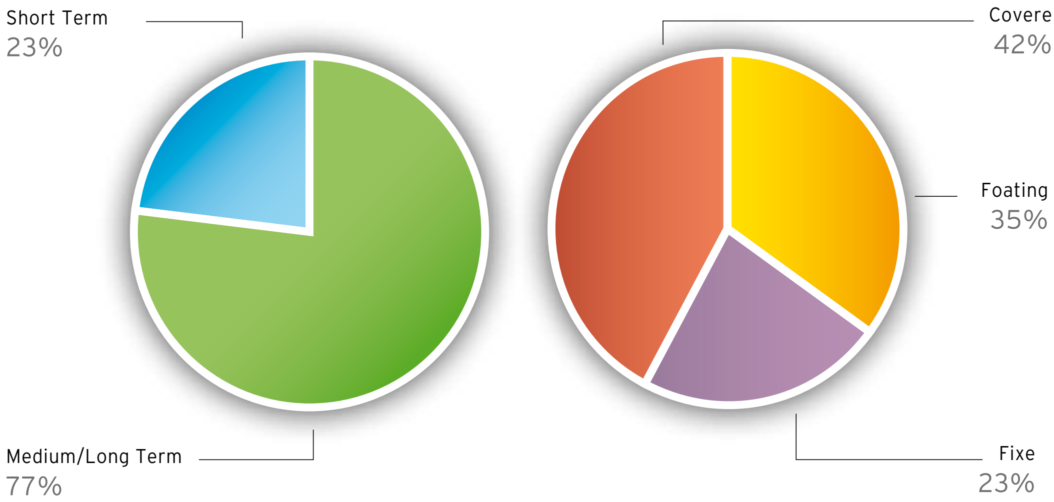
The Iren Group is exposed to various types of financial risks, including liquidity risk, interest rate risk, and currency risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit such risks. Further information can be found on the paragraph "Risk Management" in the Notes to the Financial Statements.

Two new interest rate swaps were agreed in 2011 to cover the euro 200 million debt, maturing 2016-2021 and effective from 2012. Also during the year, two new basis swaps were agreed for a total of euro 117 million which are valid for 2012. The purpose of these contracts is to swap two floating rates, in this case the 1M Euribor rate with the 6M Euribor rate. This swap completes existing interest rate hedges and reduces the year-on-year spread.
At 31 December 2011, the portion of floating rate debt not hedged by derivatives was 27% of the loan positions and 31% of the consolidated net financial indebtedness, in line with the target of the Iren Group which is to maintain a balance between fixed and floating interest rate positions or in any event protected from significant increases in interest rates.

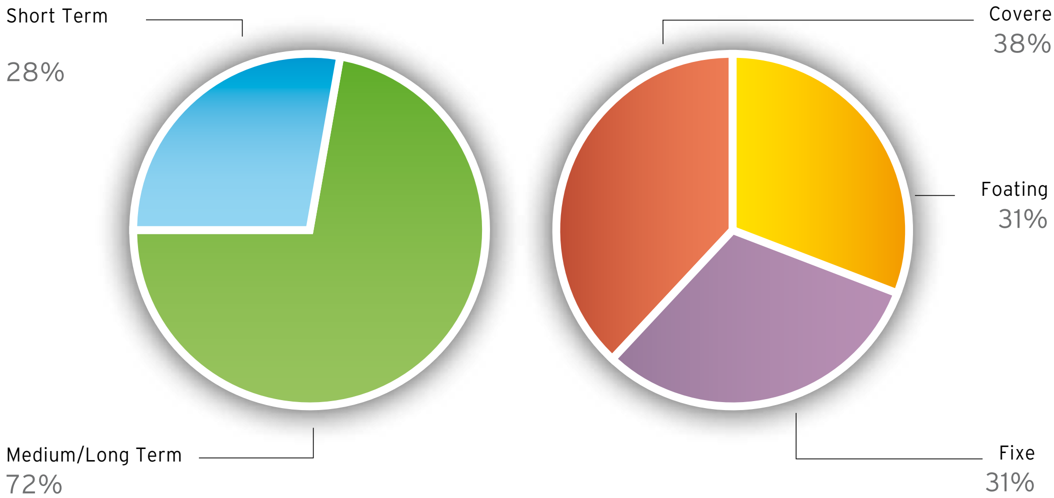
Net Financial indebtedness by maturity

Net Financial indebtedness by rate type

Position at 31/12/2010



Position at 31/12/2011



TRANSACTIONS WITH RELATED PARTIES

Transactions between the Company and its subsidiaries and related parties are governed by transparency and fairness principles. Most of these relations concern services provided to customers in general (gas, water, electrical energy, heat, etc.) and are governed by contracts normally applicable to such situations.
For non-recurring services, the transactions are governed by specific contracts the terms of which are established at arm's length for the market concerned. If no arm's length reference is available or significant, the various profiles are defined in consultation with independent experts or professionals.

Information on transactions with related parties are commented in the Notes to the consolidated and separate financial statements.

IT SYSTEMS

2011 saw intense activity in the gradual streamlining of the Group applications map, focusing on efficiency improvements, overall operating cost savings and investments streamlining.
Various projects were launched in the area of human resources, systems for unified communication and consolidation of the Group infrastructure was practically completed.
Activities continued in the various Group companies as planned for completion of the unbundling of distribution systems and consolidation of the billing systems. Again in relation to customer and billing management systems, investments continued in relation to upgrading the systems in line with new sales policies and constant regulatory amendments.
Also with regard to developments in the water sector, development projects were implemented for management and operations control processes.
Similar initiatives were implemented in Group companies to improve the investment budgeting, control and planning processes.
Alongside the investments in application environments, the infrastructural investments continued, in particular to enhance the data centres and to develop virtualisation systems.

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 Borsa Italiana Corporate Governance Code assigns specific responsibilities on this aspect. The Enterprise Risk Management model adopted by the Group includes the methodological approach to the integrated identification, assessment and management of Group risks.
For each of the following risk types:

- Financial risk (interest rate, currency, spread);
- Credit risk;
- Energy risk (risk factors associated with power and/or financial markets, such as market variables or pricing decisions);
- Operational risk (risk factors associated with asset ownership, business activities conducted, processes, procedures, information flows and with the corporate image);

specific "policies" were defined with the primary goal of providing strategic guidelines, organisational-operating principles, macro processes and techniques necessary for active management of the related risks.
This model also regulates the roles of the various parties involved in the risk management process, which is governed by the Group Board of Directors. The model requires the setup of a Group Risk Committee and specific Risk Committees responsible for the more operations-related tasks in relation to the management methods for each risk type.
The Risk Management Department, reporting to the CEO, was set up within the Iren Group. This department is formally entrusted with the following activities:

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

A summary of the Group risk management models is provided below.

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 Group Finance Department was centralised in order to optimise the collection and use of financial resources. Specifically, the centralised management of cash flows in Iren, both through cash pooling and centralisation of all collection and payments within the Iren current accounts, make it possible to allocate Group-wide available funds according to the needs arising from time to time within the single companies. Cash flow changes are recorded in infragroup accounts along with infragroup interest income and expense.
Other investees have an independent financial management structure in compliance with

the guidelines provided by the Parent.
Based on the cash pooling model, the accounts of all companies are zeroed every day by means of a netting system that transfers the balances of currency transactions to the Parent accounts.
The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored. At 31 December the short-term credit facilities used by the Parent totalled euro 509 million.
Iren seeks the forms of financing most suited to its needs and at the best conditions through its relations with the leading Italian and international banks.
In June, July and September new medium-term loans were agreed and used for a total amount of euro 425 million, specifically euro 100 million with Cassa Depositi e Prestiti, euro 100 million with Mediobanca, euro 150 million with Unicredit and euro 75 million with Banca Regionale europea.
In the last quarter of the year, the european Investment Bank also granted new 15-year financing to Iren for a total of euro 440 million. Guarantees from entities approved by the EIB are required for the use of such financing. An initial loan for a total of euro 240 million was agreed in December of which euro 100 million was used in 2011, euro 90 million in January 2012 and the remaining euro 50 million will be used in the first few months of 2012. The second loan for a total of euro 200 million was agreed for a first tranche of euro 100 million in December and a second tranche of euro 100 million in February 2012, with full use of the total of euro 200 million planned in 2012.
Within the Group, in December 2011 AES Torino (51% consolidated) obtained a new loan from a banking syndicate for a total of euro 250 million. In addition, the european Investment Bank granted AES Torino a credit facility for a total of euro 55 million to be finalised through bank intermediation to be used for partial settlement of the syndicated loan agreed in December. During 2011, OLT Offshore LNG Toscana (41.71% consolidated) obtained new financing from the shareholders Iren Mercato (financed by Iren as part of the Group cash pooling system) and E.On, equally divided to give a total of euro 50 million. The total shareholder financing to OLT as investment support amounted to euro 520 million at 31 December 2011.
At 31 December 2011, 33% of the residual amount payable on mortgages was contractualised at a fixed rate and 67% at floating rate.
With regard to liquidity risk potentially deriving from contractual clauses allowing counterparties to withdraw financing should certain events occur (default and covenant risk), the clauses in Iren loan agreements have been satisfied. In particular:
for a number of Iren medium/long-term loan agreements, a commitment to observe financial covenants is envisaged (such as Debt-EBITDA, EBITDA-Financial expense), with annual verification. Moreover, other covenants such as the Change of Control clause are envisaged, by which direct or indirect control of the Iren Group should remain with Local Authorities, as well as negative pledge clauses by which the company undertakes not to give collateral beyond a specific limit, and the Pari Passu clause, which reserves equal treatment to the lending banks and to other unsecured creditors.
The medium/long-term loan agreements of certain Group companies also envisage compliance with financial covenants (Net Financial Position-EBITDA, Net Financial Position-

Equity) which have been satisfied.

b) Currency risk

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

c) Interest rate risk

The Iren Group is exposed to fluctuations in interest rates above all for financial charges relating to indebtedness. Iren Group strategy is to limit its exposure to interest rate increases while maintaining acceptable borrowing costs.

Risks associated with increases in interest rates are monitored using a non-speculative approach and, if necessary, reduced or eliminated through swap and collar contracts with high credit standing financial counterparties, with the sole purpose of cash flow hedges. With the exception of certain marginal positions, at 31 December 2011 all contracts to limit exposure to interest rate risk were classified as cash flow hedges in that they satisfy requisites for the application of hedge accounting.

At 31 December 2011, the total fair value of the aforementioned interest rate hedges was negative by euro 42,778 thousand.

The hedging contracts agreed, together with fixed-rate loans, hedge approximately 69% of net financial indebtedness against interest rate risk, in line with the Iren Group target of maintaining a balance between floating rate loans and fixed rate loans or in any case hedged against significant increases in interest rates.

For a more complete understanding of the interest rate risks to which the Group is exposed, stress testing was performed on the sensitivity of net financial expense to changes in interest rates, commented in paragraph V. Risk Management in the notes to the consolidated financial statements.

2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables that show no particular concentration since the credit exposure is spread across a large number of counterparties. This risk is connected to the sale of electrical energy, district heating and gas to retail and business customers, and public entities.

Risk factors related to trade receivables are attributable to the risk of increases in the ageing of receivables, insolvency risk and the risk of increases in receivables subject to bankruptcy proceedings.

In order to control credit risk, operating management of which is entrusted to individual regional functions, methodologies have been defined for monitoring and control of receivables in addition to the definition of strategies for reduction of credit exposure including Customer solvency analysis on acquiring receivables, the assignment of credit recovery to external credit recovery companies and the management of legal disputes regarding amounts receivable for services rendered, with the introduction of new recovery methods.

The trade receivables management policy, credit rating tools and the monitoring and recovery activities differ in relation to the various customer categories and the various consumption bands.
Over the last few years in order to strengthen the analysis and monitoring capacities, new tools have been introduced for the acquisition of commercial information and customer payment records, operating management for the collection of overdue receivables, outsourcing the telephone enquiry activity for certain customer segments. The Group started and completed the "electronic meters" project with the aim of enhancing the promptness in cutting off customers in arrears and reducing costs.

Credit risk is hedged, for certain types of business customers, by appropriate forms of first demand bank or insurance guarantees issued by high credit standing entities.
An interest-bearing guarantee deposit is provided for some types of services (water, natural gas, "protected customer" electrical energy) in compliance with regulations governing these activities. This interest-bearing deposit must be reimbursed if the customer uses the direct debit payment facility through bank/post office current accounts.
Generally applied payment terms are compliant with regulations in force and are consistent with market standards. In the event of non payment, interest in arrears will be debited to the extent indicated in the supply contracts and as set out by regulations in force.

Allocations to the allowance for impairment accurately reflect the effective credit risk through the targeted quantification of the allocation, involving analysis of the individual receivable items recorded in the database, specifically taking into account ageing, and comparison with historical impairment loss data and calculation of the average arrears rate.

With regard to credit concentration, it is important to mention the relations between the subsidiary Iride Servizi with the Municipality of Turin. For further details reference is made in particular to Note 7 "Non-current financial assets" of the consolidated financial statements.

3. ENERGY RISK
The Iren Group is exposed to price risk, including related currency risk, on the energy commodities traded, i.e. electrical energy, natural gas, coal, etc., as both purchases and sales are either directly impacted by fluctuations in the price of such energy commodities or through indexing formulae.
The Group's strategy is to minimise the need to turn to the financial markets for hedging, both by aligning the indexing of commodities purchased and sold and by vertical and horizontal exploitation of its various business segments.
For this purpose, the Group carries out production planning for its plants and purchases electrical energy, with the aim of reconciling energy self-production and market supply with demand from Group customers.
In December 2010, two commodity swaps (on the Gas Release 07 index) were agreed upon as an energy portfolio hedge for 2011, for a total notional amount of 1 TWh and an average rate forward contract was agreed upon for USD 142,777 thousand. In the first half of 2011, two additional

average rate forward contracts were agreed for a total of USD 91,000 thousand, to hedge the last quarter of 2011. In November and December 2011, two commodity swaps (on the Gas Release 07 index) were agreed upon as an energy portfolio hedge for 2012, for a total notional amount of 1.7 TWh and an average rate forward contract was agreed upon for USD 105,000 thousand.
For 2011 the Iren Group also signed Electrical Energy purchase contracts for 166 GWh with Tirreno Power. These hedge the parties against the risk of excessive volatility in the price of electrical energy and do not involve energy trading.
The cumulative fair value of agreements still in force at 31 December 2011 is positive for euro 6,067 thousand.
Iren Mercato launched trading operations which involve the trading of physical and financial contracts on the power exchange and financial contracts directly on the underlying commodities. These contracts may refer to various indexes (PUN, ITEC, Itmix, BINE). These also include trading on the IDEX.
The contracts that give rise to these activities are classified in a specific Trading Portfolio, which had a total fair value of euro -422 thousand at 31 December 2011.
A positive value of euro 1,710 thousand was also recorded at 31 December 2011 on an EUA-CER swap contract.

4. OPERATIONAL RISKS

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

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

Each process stage is performed in accordance with standards and references defined at Group level.
The operational risk management process also aims to optimise the Group's insurance profiles in the key "property" and "liability" areas.

a. *Legislation and regulatory risks*

The legislation and regulatory framework is subject to future changes and is therefore a potential source of risk. For this purpose, the Iren Group set up internal structures to continuously monitor reference legislation in order to assess and, as far as possible, mitigate its impact. In this context, operational risks include those relating to the expiry of existing concessions, for which reference should be made to the paragraph "Regulatory Framework".

b. *Strategic Risks*

The local utilities sector is experiencing a phase of important development and consolidation. Deregulation and liberalisation mean companies have been forced to adopt a more decisive approach to competitive pressure, taking advantage of the opportunities for external and internal corporate growth offered by the new market scenarios.
The strategic development plan of the Iren Group provides for considerable investments, from the development of joint ventures in regasification plants important to gas supply, to the construction or upgrading of cogeneration plants to complete the district heating extension plan, the upgrading of hydroelectric plants, and consolidation of the Group's presence in the electrical energy and gas distribution sectors, and water and waste management sectors.
All of the above means that the Group is exposed to regulatory, technical, commercial, economic and financial risks (obtaining of licences, application of new technologies, com-

pliance with commercial schedules, analysis of competition, etc.), which the Group has to overcome through specific processes and structures, focused on covering all phases, from assessment to authorisation and implementation of such projects.

c. *Plant-related risks*

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

Insurance instruments, especially configured to specific needs, were also created to further safeguard each plant.

d. *IT Risks*

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

The Company is in fact one of the leading Italian operators on the Power Exchange and any accidental unavailability of the system could have considerable economic consequences, connected with the non-submission of energy sale or purchase bids.

To mitigate such risks, specific measures have been adopted such as the redundancy of parts of the system and appropriate emergency procedures ("Disaster recovery"), which are periodically subjected to efficiency testing.

RESEARCH AND DEVELOPMENT

Research and development performed within the Group in 2011 was mainly geared towards optimising and improving operating applications and the assessment of new technology opportunities. Below are the principal research and development activities carried out in 2011.

TURIN AREA

Cogeneration and District Heating Committee

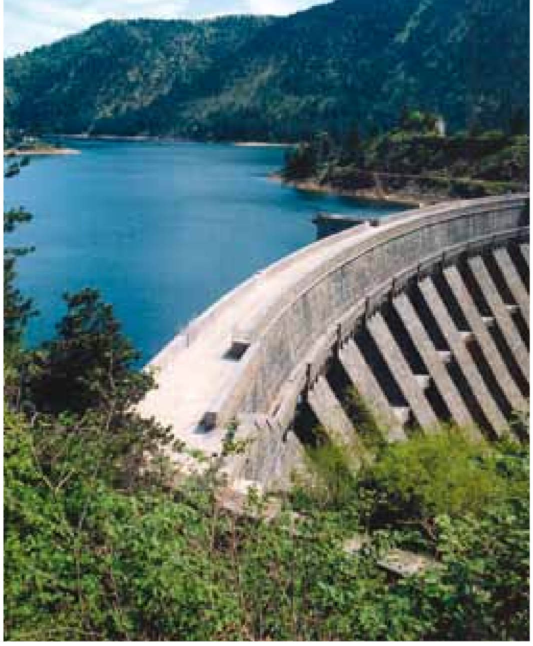
At the beginning of 2001 the "Cogeneration and District Heating Committee" was established, composed of both internal members of Iren and external members - experts in specific areas of this issue that are periodically involved in order to contribute to the achievement of pre-defined macro targets, i.e.:

1. Competitiveness: increase the competitiveness of its business in the district heating segment through systematic enhancement of the quality of the service provided and its inherent economic/financial ratios;
2. Development: promote further development of district heating in the company's areas of operation and beyond, also by comparing this business segment with other Group businesses;
3. Innovation: seek elements of technological and operating innovation which can provide synergies for competitiveness and development.

Smart City Project

In synergy with the research activities described in the above paragraph, Iren participated in the "Smart City" project. This is a european initiative covering different spheres of action, some of a strategic and long-term nature, others more operations-related, with a short term impact and already activated in financing programmes as part of the 7th Framework Project for Technological Research and Development".
Specifically, Iren participated in the "Smart Cities Heating and Cooling" initiative which, in addition to Turin Polytechnic as general project coordinator and the city of Turin, also sees the municipalities of Porto, Lyon, Munich and Budapest as key players. The overall budget for the project is euro 11 million, of which euro 7.4 million available form EU funds.
The main activity to be developed by Iren in Turin will be the study and implementation of innovative storage systems in order to achieve the following objectives:

- Optimisation of the most commonly used storage systems in the Turin district heating network (public buildings, apartment blocks, etc.) with a particular focus on one area of Turin (Mirafiori Sud) where the plan is to build a "district" storage system and extend the district heating network.



- Testing of innovative technologies through the use of new materials (change materials stage). The installation of these storage systems will achieve an environmental benefit estimated as primary energy savings of around 3,000 MWH/year, corresponding to CO2 emissions avoided of 680 tons/year.

The size of each storage system will be defined after potential user analysis (the user types include: schools, third sector/offices and "residential"), hydraulic optimisation of the network and related cost-benefit analysis have been completed.

Energy Savings and Renewable Sources

Photovoltaic plants

A 160 kWp plant was constructed on the roof of a building used as a garage in Turin's Martinetto industrial centre. The plant is currently operational.

Heating systems for Turin municipal buildings

The small, gas-powered trigeneration system (100 kW heat, air-conditioning and electricity system) installed in the offices of the Civil Defence Department in Turin has been started up.

Electrical systems in municipal buildings

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

Public lighting in Turin

The plan for the elimination of approximately 7,000 lights which still contain mercury vapour lamps was implemented, replacing them with "LED" lights for public lighting in Turin. In 2011, the municipal council approved the update of the PRIC (Regulation Plan for Public Lighting).
Evaluations are currently in progress to test special LED equipment with a small video camera mounted in the interior.
If this testing goes ahead, it will be carried out in an area of Parco del Valentino, a critical area for its frequent attacks of vandalism.

Services innovation project for the Municipality of Turin

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

- Mobile Computing Applications: the MOB-I system, already used for real-time management of scheduled maintenance and fault repair work on heating plants, was expanded to incorporate management of the municipal electrical systems, the system for traffic lights and the AFC cemetery services for the Municipality of Turin went into use;

- Website for breakdown notifications: pages have been added to the Iren portal for the notification of breakdowns and the insertion of intervention requests for municipal heating, electrical and traffic light systems. The application communicates with SAP and automatically creates and assigns the activities which it forwards to the MOB-I system. During 2011 the extension of this application to all municipal buildings continued.

The following functions were also implemented: report display of inspections and periodic maintenance, document requests and display of documents in digital format.
Regarding the section dedicated to reports on breakdowns in traffic light systems arrangements were made to provide the ground plans for all the traffic light systems managed.

Energy efficiency improvements in public buildings.
In cooperation with an external company, a study was conducted on four of the more "energy eating" buildings owned by the City of Turin with a view to identifying the action necessary to improve the buildings' energy performance.
The action possible takes into consideration the overall building-system combination and with regard to works specific to Iride Servizi, action can be taken that targets both the electrical and heating systems. Regarding buildings owned by the Group, a special working party was set up, coordinated by the Energy Manager, with the aim of identifying all possible works to improve the energy performance of the buildings.

Renewal and Construction of New Hydroelectric Plants

Requalification of Chiomonte and Susa plants.
The requalification project for the hydroelectric plants in Chiomonte (TO) and Susa (TO) involves the installation of 3 new hydroelectric groups: one 8.7 MW group at the Chiomonte plant and two groups of 4.8 MW and 1.5 MW at Susa with expected production of approximately 39 GWh/year. In June 2011, Valle Dora Energia S.r.l. (a company established by Iren ENERGIA S.p.A. with the municipalities of Susa, Chiomonte, Exilles and Salbertrand) began the authorisation process to obtain new hydroelectric concessions. The works are planned for 2014-2015.

New La Loggia plant.
The authorisation procedure for installation of a 0.6 MW hydroelectric unit on the artificial course for the fish population, to be constructed adjacent to the diversion weir on the River Po in the municipality of La Loggia (TO), expected to produce approximately 4 GWh/year, was concluded. The works are planned for 2012-2013. Preliminary activities are currently in progress for launch of the public tenders to identify the contractors which, from summer 2012, will implement the works.

New Noasca plant.
The authorisation procedure successfully continued for a new 1.2 MW plant for construction in the municipality of Noasca (TO), with expected production of around 3 GWh/year and for which the decision of the environmental compatibility authorities has already been obtained. The works are planned for 2013-2015.

New Dres plant.
The project involves the construction of a new 1.8 MW plant (Dres) in the municipality of Ceresole (TO), with expected production of around 4 GWh/year. During the preliminary examination, the Province of Turin requested that the works be subjected to Environmental Impact Assessment, as they border on the area of the Gran Paradiso National Park.
The launch of preliminary activities to drafting of the Final Project and start-up plan is expected in 2012.

New Baiso plant.
The works on the new hydroelectric plant of Baiso (RE) have been completed: the operational start-up of two 1.1 MW groups, with expected production of around 9 GWh/year, have been completed and the plant is fully operative. Final testing activities have begun and are expected to end in spring 2012.

New remote control of street lighting systems

The results of reliability and efficiency testing of the previous Remote Control System of the Street Lighting of Turin, managed by AEM Distribuzione, based on an Elsag system, and comprising the Supervision, Front-End, Communications and Peripherals (remote control apparatus - RTU) levels in the field, led the Company to launch a replacement and upgrading project. An accurate feasibility analysis, supported by evidence on various devices, led to AEM Torino Distribuzione's decision to modernize said system (which is approximately 15 years old) and migrate the entire fleet of peripherals in the field, both current and future, to wireless transmission, using GPRS technology, definitively abandoning transmission via duplex cables, which represent a critical issue in terms of line maintenance and operating costs. Under the new system, individual panels may be managed automatically, based on the tables for turning equipment on/off agreed with the City of Turin, or manually. If the central system or the GPRS transmission is out of order, the peripheral will autonomously switch on/off according to the pre-set times programmed in each single RTU. Any anomalies found in the field are accurately reported to the central location, where an operator may decide on the type of intervention to implement. The system has now been upgraded with the installation of new equipment in the remote control units which through the network control room of AEM Torino Distribuzione manage the entire area's pre-existing panels. The peripherals have all been upgraded with new equipment and expansion of the remotely-controlled hubs has begun.

Remote control of the district heating networks

The project for the remote control of the district heating network aims to provide the tools for efficient management of consumption control, the configuration of the operating parameters, the technical maintenance activity and management of the SST alarms in order to improve the services to the district heating customers. To this end the AEMNet technological platform has been planned which is able to acquire the operating parameters from the substations, process the data and offer the necessary reporting and control tools. The project consists of setting up the entire technological platform and includes both the supply and installation of the peripheral hardware to be installed at 5,600 substations as well as the connection of the transmission data and central servers and development of processing software.

Portal and database separation

2011 saw completion of the activities to create a portal dedicated to communication with Vendors and Distributors for management of the requests for service received from end customers. The activities involved the implementation of even more functions than envisaged by the AEEG in terms of communication standards between sector operators.

Again during 2011, through the added functions and rules on the AEM Torino Distribuzione portal, the Iren Mercato (market operator for protected customers) and AEM Torino Distribuzione databases were separated. In particular, the implementations involved the development of Application-to-Application communications, also allowing the handling of service requests from end customers directly through the proprietary applications, each to the extent of their respective services, guaranteeing continuous, fast alignment of the data.
To complete the database separation, the billing processes were also fully reviewed to allow each company to issue its own bills.

GENOA AREA

In 2011 Iren Acqua Gas continued to oversee hubs of technological innovation as part of the Research Project which has a priority focus on updating specific knowledge in the water area and the quality of the waters for human consumption.
To this end, it promoted and supported specific research projects carried out in collaboration with its foundation, Fondazione AMGA, Università degli Studi and national and international research centres.
Iren Acqua Gas has also retained its membership of the Water supply and sanitation Technology Platform (WssTP) established by the european Commission to monitor research in the water sector, has maintained contact with the US Water Research Foundation and has actively participated in the

TICASS Consortium (Innovative technologies for Environmental Control and Sustainable Development), the technology innovation centre of the Liguria Region.
Regarding the WssTP platform, Iren Acqua Gas is leader of the Pilot Project dedicated to aspects of the water cycle associated with urban areas, with particular reference to infrastructure management, the treatment of drinking water, pollution, sludge treatment, flood management and the efficient use of water resources.
In 2011 Iren Acqua Gas was an active member of TICASS, the Liguria Region technology innovation consortium, promoting project proposals relating to the Regional Operations Plan and participating in competitions for the award of research assignments on issues of common interest with the departments of Genoa University.
As part of the initiatives to disseminate the results of research covered by the 2011 Science Festival, IAG and its foundation organised a conference on the history of water procurement in the city of Genoa, highlighting the pioneering activity of the two private aqueducts, Nicolay and De Ferrari Galliera, that made development possible in the hillside areas of the city.
The main research issues were water analysis and control, best practices for water treatment and potabilisation, models and innovative technologies for the management of infrastructures in the water sector. These issues, involving the planning activities outlined below, were presented in Genoa at the "Festival dell'Acqua", an event held in September 2011 and jointly organised by the Iren Group and FederUtility.

Iren Acqua Gas and a number of its investee companies, including Mediterranea delle Acque, worked intensely on the following projects:

Endocrine disruptors in water destined for human consumption:
This project was started in 2009 and takes into consideration the issue of endocrine disruptors, "EDs", a heterogeneous group of substances which, imitating the effects of natural hormones or interfering with them, interact with the endocrine system and can affect health. In particular, the survey was conducted jointly with a number of Italian universities (Genoa, Pisa and Trento), the Istituto Superiore di Sanità (ISS), Mediterranea delle Acque Genoa and other Italian aqueducts (Como, Florence, Bari, Turin, Bologna, Cagliari and Venice) and aimed to assess the vulnerability of resources used for drinking water to the selected endocrine disruptors.
Based on the results achieved, no significant risk emerged of exposure to the substances in question, in consideration of the limited concentrations found in inflowing water and due to the effect of existing potabilisation treatments. The concentrations found in general show that the data readings are essentially in line with the range of values recorded at european level and in any event lower than the threshold levels from a toxicology point of view.
For presentation of the results an International Workshop was organised, held on 30 November 2011 at the Theatre of Iren Acqua Gas in Genoa. During the workshop, two publications on this specific problem were also presented: "Endocrine disruptors in water destined for human consumption: a methodological approach and appraisals" and "Endocrine disruptors in water destined for human consumption: a cognitive survey extended to a number of water systems", edited by the Istituto Superiore di Sanità of Rome.

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

The project named "Assessment of microbiological risk in the approach of Water Safety Plans and development of analytical support methods" aims to set up an investigation method for identifying new species of pathogens of european and legal interest and identifying the work methodology that can be exported to any aqueduct, making it possible to appropriately examine the criticality tied to microbiological contamination throughout the entire treatment chain. The activity is conducted in cooperation with the Istituto Superiore di Sanità and the Environmental and Life Science Department of Piemonte Orientale University, and is due for completion in 2012.

Moreover, in 2011 the final report was published for the research project promoted by Mediterranea delle Acque and Fondazione AMGA, entitled "Assessment of microbiological risk applied to a major water resource in the Genoa area (Lake Brugneto)".

Asset Management: decisional models under data uncertainty or unavailability scenarios:

project activities were implemented in liaison with Exeter University and involved application of the management methodology for infrastructures developed in certain "natural" districts of the Genoa aqueduct system. During 2011 the results achieved were presented at international workshops and conferences.

Decision model for the management of water resources:

The project activities involved the assessment of the many models available for the integration of simulation results into the corporate IT system. In addition, in 2011 research activities concerned the development of an expert system in support of decision-makers, also as part of the european project "Prepared", dedicated to the development of technology centre to overcome climate change in the management of water systems.

Finance and Regulation of the water sector:

Research continued in 2011 as part of the "Finance and Regulation of the Water Sector" project, an initiative forming part of the "european Economy and Regulation in the Water Sector Network". The research results have been published.

Estimate Models of water demand:

As part of this project, aimed at a critical analysis of the various econometric estimation models for water demand, a database was created on the tariff structures, volumes supplied and on social and economic characteristics at municipality level. The first results were presented in Berlin at the end of September 2011, at the workshop organised as part of the Prepared project.

Resources were invested in 2011 with a particular focus on setting up research groups that will allow access to EU financing through the presentation of research projects in the FP7-7° Framework Programme, LIFE +2011 or to national and regional financing.
Scouting was conducted by the groups involved in applied research in the ER technology sector with cooperation from local companies to gather data on case histories, capacity and skills, avoiding overlaps, with a view to synthesise the development needs of the Group with the needs of external partners, all of which in strict liaison with universities and national and international research organisations, both public and private.
The operating criteria used to select the research activities in which to invest resources were: a low time-to-market, a high degree of innovation and a good level of market orientation.
As a result, three lines of action emerged from the selection activities: biogas, energy efficiency and sustainable mobility.
With regard to biogas, the spheres of research include new models for integrated plants for biogas production and the treatment of digested waste; research and fine-tuning of corporate, tax and contractual aspects (the best corporate engineering solutions with a multidimensional approach) and last but not least the legal aspects (restrictions and opportunities offered under current and prospective regulations). The reference model is a 999 kW production plant with output of 8200 kwh/year, in an agricultural environment, with a short production chain fuelled only by agro-food residues and digested waste treatment to reduce nitrates and to further exploit pelletable residues.
Regarding the issue of energy efficiency, activities were undertaken in the field of micro-cogeneration, high-efficiency combustion, standardisation tools and control of consumption. The pre-set objectives tend to enhance the property market, increase the use of renewable sources and to obtain green and white certificates. The possible fields of application are Smart GRID, consumption control and management systems and micro-cogeneration.
In terms of sustainable mobility, research was conducted on new synthetic fuels to increase the use of renewable sources in the mobility sector, with all related logistics and support issues and the smart grids that are the Group's core business.

PERSONNEL

At 31 December 2011, the employees working for the Iren Group totalled 4,655, down by 2.0% compared to the figure at 31 December 2010 which was 4,752 employees. The table below provides a breakdown of personnel at 31 December 2011, divided into Holding and First-level companies (with related subsidiaries).

Company	Personnel at 31.12.2011	Personnel at 31.12.2010
Iren S.p.A.	268	270
Iren Acqua Gas and subsidiaries	1,026	1,049
Iren Ambiente and subsidiaries	241	241
Iren Emilia and subsidiaries	1,668	1,711
Iren Energia and subsidiaries	1,018	1,045
Iren Mercato and subsidiaries	434	436
Total	**4,655**	**4,752**

The decrease in 2011 is related to further development of the workforce management policy, with recruitment restrictions and staff-leaving incentives, which has led to a decrease of 98 employees.

TRAINING

Training is a fundamental tool in the professional development of human resources, developing the necessary technical, professional and managerial skills, and to make a firm contribution to the development of the entire Group. For these reasons, training is seen as a process of individual life-long and collective learning, that helps develop professional skills and improve job quality and relations.

The 2011 training plan included both technical, professional and managerial initiatives relating to consolidated activities, with a view to safeguarding and enhancing the existing experience and skills, and initiatives aimed at increasing skills to support the processes of change and integration of the Group and the individual Companies within it, also in order to contribute to building a Group culture.
Where possible, ad hoc action was preferred for Group companies (in-house) rather than the catalogue approach (external) and there was a constant involvement of staff in the planning and in the teaching and training activities, particularly for the specialist initiatives for which internal skills are of crucial importance.

The time committed and the number of hours training per person provided in 2011 at Group level increased compared to the previous year. Specifically, employees participating in at least one training course accounted for 82% of the Group's workforce (64% in 2010) and the number of hours training per person totalled 19.4 (18.9 in 2010).
Of particular note are the initiatives to develop female leadership, involving 9 of the Managers and Junior Managers in a combined training/coaching path.

QUALITY, ENVIRONMENT AND SAFETY

QUALITY

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

During 2011, development continued of the ISO 27001 system on data and information security. This risk management system will be integrated into the current operating-economic- financial risk management system in 2012.

EMAS Registration (EU Regulation 1221/2009 or the EMAS Eco-Management and Audit Scheme) was confirmed for 2011 for the Moncalieri thermoelectric production plants and the updated 2010 "Environmental Report" was approved, published on the Iren Energia S.p.A. website.

Iren Energia and AEM Torino Distribuzione, each with regard to its own sphere of activities, launched and completed the Self-Assessment procedure in accordance with the criteria of the new edition of the EFQM (european Foundation for Quality Management) model, in agreement with AICQ and the Turin Local Public Services Authority. This activity terminated with positive results in the test performed by EFQM in the first few months of 2012.

Iren Acqua Gas and Mediterranea delle Acque, Genova Reti Gas and Laboratori Iren Acqua Gas received the Excellence certification from the certification organisation (already obtained in 2000 as AMGA and Genova Acque, respectively). The pursuit of corporate excellence was achieved through control of all aspects relating to quality, environment and safety and the implementation of an integrated management system that makes it possible to constantly monitor and control these three aspects.
Again in 2011, the Genoa-based companies Amter, CAE and Idrotigullio, in addition to confirming UNIENISO 9001/08 standard certification, also obtained OHSAS 18001/07 certification.
Furthermore, and for the systems already certified, in 2011 Iren Mercato and Laboratori Iride Acqua Gas expanded their certification to the organisational units and assets acquired as a result of the merger with Enìa. Specifically, and with regard to Laboratori Iride Acqua Gas, the Reggio Emilia and Imperia laboratories retained and successfully renewed their accreditation for ISO 17025.

The first-level company Iren Emilia S.p.A. and three other territorial operating companies, Enìa PR S.r.l., Enìa RE S.r.l. and Enìa PC S.r.l., together with Iren Ambiente S.p.A., have retained their certification pursuant to the standards UNI EN ISO 9001 (Quality) and UNI EN ISO 14001 (Environment), with their strong competence acquired on the territory and the multiplicity and multidisciplinary nature of the services provided to customers and citizens.

During 2011, audits were successfully conducted on the supervision of the management system for quality, the environment and safety and verification of the supervision of the corporate management system for compliance with standards concerning emission trading verifications and the concurrent validation of the declaration regarding Co^2 emissions pursuant to Directive 2003/87/EC as amended for the competent activities and plants.
For 2012, the Iren Group will operate in the following areas with regard to certified systems:
- Two-year planning for the Accreditation of all laboratories of Laboratori Iren Acqua Gas on a multi-site basis pursuant to ISO 17025 standard.
- Extension of Iren Energia certification of assets relating to the Emilia Romagna district heating distribution network.

SAFETY AND ENVIRONMENT

Safety

In this context, the policies of the Parent Iren S.p.A and the first-level companies have always aimed to comply with the relevant safety laws while also attaining constant improvement.

During 2011, safety-related activities were carried out in compliance with BS OHSAS 18001:2007 regulations, making it possible to maintain certification for the Turin and Genoa companies.
For Iren Energia, Iride Servizi and AEM Torino Distribuzione, the periodic management committees which handle and monitor safety aspects in general continued their work.
The risk assessment for work-related stress is currently being updated for Iren Energia and its subsidiaries.
Verification of safety aspects has also continued, both at planning stage and implementation stage, with regard to the Torino Nord plant.
Health supervision of personnel has been launched, through the use of equipped check-up rooms in the various company offices. These check-ups were previously carried out externally.
A verification of the Individual Protection Devices in use is in progress, with a view to replacing said devices with others that have improved characteristics, if necessary. In this context, a wide-scale replacement of non-conductive hardhats was carried out, using a new model with a visual indicator as replacement.
New staff safety representatives appointed for Iren Energia, Iride Servizi and AEM Torino Distribuzione were also trained. The persons responsible for workplace safety and hygiene have been formally identified: the employer, executives and officers, assigning any specific delegated powers or specific assignments according to the complexity of the department.
Iren Emilia has an internal Prevention and Protection Department with the requirements necessary for the tasks of the Prevention and Safety Service Manager (RSPP) and the Members of the Prevention and Protection Service (ASPP). Iren Emilia's prevention and protection department carries out the tasks for the group's other companies located in Emilia Romagna. The employer has appointed three competent doctors to carry out health supervision tasks in the provinces of Parma, Piacenza and Reggio Emilia. This activity is carried out with the updating of documentation in order to align it with the new corporate organisation. The Prevention and Protection Department provides a safety training schedule for all the group's Emilia Romagna companies and ascertains the effectiveness of the training. The employer Iren Emilia has conferred the powers for implementation of the safety policy and the verification of its implementation to the manager of the safety department via a proxy drawn up by a notary.

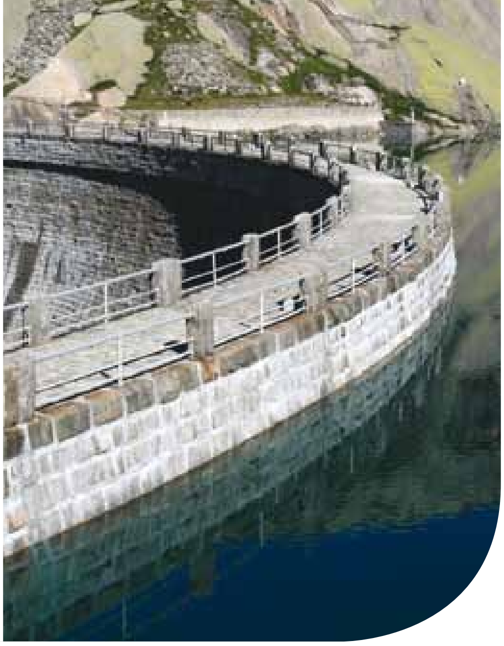
Environment

The Iren group's commitment continues as regards environmental protection in the various segments in which the Group operates. In particular, while performing their business activities, the first-level companies have focused on environmental quality criteria, as well as safeguarding and rational use of natural resources and full compliance with regulations in force.
The following resources have been deployed in order to ensure sustainable corporate growth based on constant improvement:

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

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

- maintenance of UNI EN ISO 14001:2004 Environmental Management Certification and EMAS registration for the environmental management systems;
- monitoring of environmental performance through the use of special indicators for each signifi-

cant environmental aspect;

- analytical control of the impact of plants on the environment, especially as regards emissions, air quality, waste water, noise and electromagnetic fields;
- performance of special internal audits aimed at checking the correct management of critical environmental issues for the corporate plants;
- in compliance with administration tasks, especially as regards the monitoring and controls granted by the Environmental Integrated Authorisations (I.P.P.C. Directive) and the issue of greenhouse gas emissions (Emission Trading System) for the plants involved;
- continuous involvement of the company's staff, through specific reporting and special training courses, scheduled on an annual basis and focusing on environmental issues and best practices for the management of plants, to ensure the least environmental impact;
- implementation in the various sites of the Iren Group of steps gradually proposed for the new control system of waste traceability. This system is called SISTRI, created by the Minister of the Environment and Territorial and Sea Protection to ensure an innovative and more efficient management of the entire waste treatment segment through advanced technological solutions.

IREN AND SUSTAINABILITY

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

The strong bond with its areas of operation and dialogue with Stakeholders are fundamental to Iren's economic, environmental and social sustainability, always ensuring that its day-to-day development activities are compatible with environmental protection.
Responsible use of natural resources, research for a continuously improved quality of air, water and generally the quality of life by minimising various forms of pollution and increased eco-compatible energy make the group one of the leading operators in the country insofar as its capacity to grow in harmony with the environment.
Group policies are consistent with the fundamental principles of environmental, social and economic sustainability: respect for and protection of local areas, attention to and development of employees, customer satisfaction, constant dialogue with the community and Public Administration, monitoring of the supply chain, and transparent communications with shareholders and financial institutions.

In order to communicate to its stakeholders the actions, results and objectives regarding social responsibility, the Iren Group publishes a sustainability report each year.
The document represents a tool to expresses the values, strategies and qualitative/quantitative relations with the major stakeholders.
The Iren Group prepares the sustainability report in accordance with the "Sustainability Reporting Guidelines & Electric Utility Sector Supplement" provided by the Global Reporting Initiative (GRI) in 2009; furthermore, the "principles for the preparation of the social report" prepared by the study group for social reporting [Gruppo di Studio per il Bilancio Sociale (GBS)] are taken into account as a reference for preparation of the report for the determination and distribution of added value.
The document is reviewed in accordance with the criteria issued by the International Auditing and Assurance Standards Board, and its first edition achieved a rating of A+.
The Sustainability Report, highly detailed and rich in quality information, is painstakingly prepared by Iren with the aim of promoting completeness and transparency, maintaining and increasing the faith of Stakeholders through a proactive procedure of dialogue and relations, based on the involvement of corporate departments in the development of tools and initiatives typical of Corporate Social Responsibility.

INFORMATION ON IREN'S CORPORATE GOVERNANCE

Iren S.p.A. results from the merger of Enìa S.p.A. into Iride S.p.A. (taking the name of Iren S.p.A.) which took effect on 1 July 2010.
It operates in the sectors of electrical energy (production, distribution and sale), heat energy (production and sale), gas (distribution and sale), integrated water services, waste management services (collection, transportation and disposal of waste), public lighting and additional minor services for public administration.
These activities are organised through a group of five first-level companies specialised in management of the various business areas, which operate directly or through their investees in the various segments.
This structure aims to enhance the complementary nature of the two original Groups and strengthens both the territorial roots and integration of the various business segments.
Management and coordination over subsidiaries is carried out by Iren S.p.A. as expressly provided and governed by the Articles of Association of Iren S.p.A. and in the Articles of Association of the first-level companies.
The Articles of Association of Iren S.p.A. also provide that: (i) the chairman be in charge of the coordination of first-level companies, Iren Acqua Gas and Iren Mercato, as well as their subsidiaries and/or investees and related assets (ii) the CEO be in charge of the coordination of the first-level company Iren Energia and its subsidiaries and/or investees and related assets; (iii) the general manager be in charge of coordination of the first-level companies Iren Emilia and Iren Ambiente and their subsidiaries and/or investees and related assets.

CORPORATE GOVERNANCE – POSTPONEMENT

The company operates under a traditional governance model the operating rules of which are dictated by the Articles of Association in addition to applicable primary and secondary laws.
In particular, with regard to management powers, the board of directors assumes a central role and, for issues that do not fall under the exclusive competence of this body, the Articles of Association provide for delegation by the board of directors to the Executive Committee which, in turn, is required to sub-delegate certain issues to the Chairman, CEO and General Manager.
With regard to the shareholders' meeting, the board of statutory auditors and the legally-required audit, subject to applicable laws, the Articles of Association establish tasks and operations.

With regard to Corporate Governance of the company, and specifically:
- adoption of the Corporate Governance Code for listed companies promoted by Borsa Italiana and the related implementation status;
- the report on corporate governance and ownership structure with information pursuant to Art. 123-bis, Italian Legislative Decree no. 58 of 24 February 1999, as amended (the Consolidated Law on Finance).
- the remuneration report in accordance with Art. 123-ter, Legislative Decree no. 58 of 24 February 1998, as amended, introduced by Art. 1, Legislative Decree no. 259 of 30 December 2010.

Reference should be made to the "Report on corporate governance and ownership structure" pursuant to art. 123-bis of the Consolidated Law on Finance, drafted in compliance with Edition II of the Format issued by Borsa Italiana S.p.A. in February 2012, and prepared in observance of disclosure obligations to Shareholders and to the market as envisaged by Borsa Italiana's Corporate Governance Code (2006 edition) and Art. 89-bis of the Issuers' Regulation.
This report and related annexes, pursuant to Art. 123-bis, paragraph 3 and Art. 123-ter of the Consolidated Law on Finance are disclosed together with this Directors' Report and are available to the public from the company's registered office and Borsa Italiana S.p.A..
The documents are also available in the Investor Relations section of the website www.gruppoiren.it.

In order to conform its own corporate governance model to the recommendations set forth in the Corporate Governance Code, at its meeting of 30 August 2010 the Board of Directors of Iren established:
- A remuneration committee (the "Remuneration Committee") for carrying out the functions set forth in Art. 7 of the Corporate Governance Code and the specifications made in the meeting of the Board of Directors held on 30 September 2010;

- An internal control committee (the "Internal Control Committee") to carry out the functions set forth in Art. 8 of the Corporate Governance Code.

Below is a brief description of the duties assigned to each committee and the related composition.

Remuneration committee

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

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

The establishment of this committee aims to ensure the maximum amount of information and transparency on remuneration to executive directors and key managers, as well as the procedures used for the determination of this remuneration. The Remuneration Committee acts exclusively in a consulting and recommendation capacity, while the power to determine the remuneration of the directors and key managers, pursuant to Art. 2389 paragraph 3 of the Italian Civil Code continues to rest with the Board of Directors, after consulting the Board of Statutory Auditors.

The interested parties are not present during the negotiation and adoption of Board of Directors' decisions regarding remuneration for Directors.

On 30 August 2010, Iren'S Board of Directors appointed the following directors as members of the Remuneration Committee: Paolo Cantarella (independent director), Ernesto Lavatelli and Franco Amato (independent director).

Internal control committee

The Internal Control Committee aims to ensure that the assessments and decisions of the Board of Directors with regard to the internal control system, approval of the annual and interim financial statements and the relations between the company and the independent auditors are supported by appropriate investigation. The Internal Control Committee is in charge of the tasks and functions established by the Corporate Governance Code.

In addition to assisting the Board of Directors in carrying out the aforementioned tasks, the Internal Control Committee:

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

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

a) defining the guidelines of the internal control system so that the main risks concerning Iren and its subsidiaries are properly identified, and adequately measured, managed, and monitored, in addition to establishing criteria to establish the compatibility of those risks with the proper management of the company (based on Risk Management/Corporate Compliance activity);
b) identifying an executive director to oversee operations of the internal control system;
c) evaluating the appropriateness, efficiency, and effective function of the internal control system at least once a year based on the activity of the Internal Audit/Corporate Compliance Departments;
d) describing the essential elements of the internal control system in the company governance report, expressing its evaluation on overall adequacy.

In carrying out its duties, the Internal Control Committee has access to information and company

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

Iren did not consider it necessary to establish an appointment committee within the Board of Directors, as it considers that the procedure for presentation of lists for the election of administrative bodies as established by the articles of association constitutes a guarantee of correctness and transparency in the system for the appointment of directors.

STATEMENT REGARDING COMPLIANCE WITH REGULATIONS ON CORPORATE GOVERNANCE

Iren'S system of corporate governance is in line with the provisions set forth in the Consolidated Finance Law and the Corporate Governance Code. In particular, the Articles of Association are compliant with the provisions of the Consolidated Law on Finance and other provisions of the law or regulations applicable to listed companies.
In particular, the Articles provide that:

- Directors must fulfil the requirements of the law and the regulations (Art. 147-quinquies, of the Consolidated Law on Finance);
- At least two members of the Board of Directors must possess the independence requirements established by applicable regulations (Art. 147–ter, paragraph four of the Consolidated Law on Finance);
- The appointment of all members of the Board of Directors must take place on the basis of lists (Art. 147-ter, paragraph one of the Consolidated Law on Finance);
- Minority shareholders are entitled to appoint at least two members to the Board of Directors (Art. 147-ter, paragraph three of the Consolidated Law on Finance);
- One standing and one substitute statutory auditor must be elected from the list presented by the minority shareholders (Art. 148, paragraph 2 of the Consolidated Law on Finance);
- The Chairman of the Board of Statutory Auditors and a substitute auditor must be appointed by the minority shareholders (Art. 148 paragraph 2-bis);
- One individual in charge of financial reporting must be appointed and the requirements for his/her professionalism and powers and tasks assigned must be established (Art. 154-bis of the Consolidated Law on Finance).

Maximum number of commitments in other companies

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

Treatment of corporate information

The management of communication outside the company of corporate information falls under the responsibility of the CEO, making use of the services of the Investor Relations department which acts in coordination with the "Institutional and External Relations" and "Corporate Affairs" departments under the direction of the body in charge of Iren'S financial communications.
At its meeting of 10 December 2010, and in line with the provisions of the Exchange Regulation, the Board of Directors adopted the "regulation for internal management and external communication of confidential and/or privileged information." This procedure expressly governs the communication obligations pursuant to Art. 114, paragraph 7 of the Consolidated Law on Finance, as amended by Art. 9 of Law 62/2005 (market abuse), and Art. 152-sexies et seq. of the Consob Issuer Regulation with reference to the organisational and company situation of the Iren Group. Specifically, in accordance with the provisions of the above-mentioned self-regulatory law, regulations and provisions, relevant persons (those parties falling under the definition provided under Art. 152-sexies of the Issuer Regulation), are required to inform Consob and the public, within 5 market trading days, of transactions involving the purchase, sale, subscription or exchange of shares issued by the issuer or related financial instruments, carried out by themselves or by persons closely related to them, when these cumulatively exceed euro 5,000 per year. The aforementioned Regulation is available on the website www.gruppoiren.it.
In compliance with the regulations to prevent market abuse, a register has been created at Iren and, pursuant to article 115-bis of the TUF, lists the people who have access to privileged information due to their working or professional activities or because of their duties.

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

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

Internal control manager

In its meeting of 30 September 2010 and having heard the opinion of the Internal Control Committee, the Board appointed Anna Socco and Maurilio Battioni as the internal control managers, in charge of checking that the internal control system is always adequate, fully operational and functional. The appointment took place immediately following the appointment of Mr. Bazzano as the executive director in charge of supervising operations of the internal control system.

The Internal Control Managers carry no responsibility for any operational areas and do not receive remuneration for the office assigned to them.

Iren established an Internal Audit department: the managers are identified as those in charge of the aforementioned department. To this end, an adequate budget has been assigned for the performance of their duties.

The Internal Control Managers:

- have direct access to all the information necessary to carry out their assignment;
- report on the work carried out to the internal control committee and the Board of Statutory Auditors.

Both on presentation of the interim report at 30 June 2011 and the draft financial statements for 2011, the Iren Internal Control Managers presented a summary report to the Internal Control Committee on their activities in the first and second halves of 2011, respectively, for the purpose of checking the adequacy and operations of the Company's Internal Control System.

Specifically, the Managers' reports provided information on the following issues:

- presentation of the current configuration of Iren'S internal control system, with reference to its fundamental elements;
- presentation of the results of the controls carried out by the Internal Audit department at the main Group companies in order to monitor the internal control system in the most significant Iren procedures and those of its main subsidiaries: with reference to each check carried out, the summary framework of findings will be presented, along with any recommendations and the follow-up monitoring of any corrective action initiated or in place;
- summary of the action taken, within Iren and in the first-level companies, regarding implementation of the organisational, management and control models pursuant to Legislative Decree 231/01 approved by the respective Boards of Directors, and concerning the activities implemented pursuant to the provisions of Law 262/05.

Other bodies and commitments

Iren has adjusted its corporate governance system to the provisions of the Consolidated Law on Finance and the Corporate Governance Code through adoption of the necessary resolutions by the Issuer's Board of Directors.

Furthermore, Giulio Domma was appointed Investor Relations Manager, and on 1 July 2010 Massimo Levrino was appointed manager in charge of financial reporting pursuant to Art. 154-bis of the Consolidated Law on Finance and with approval of the Board of Statutory Auditors.

Requirements for the directors

All members of the company's Board of Directors meet the integrity requirements as stated in Art. 147-quinquies of the Consolidated Law on Finance.

Directors Paolo Cantarella, Gianfranco Carbonato, Alcide Rosina, Franco Amato, Enrico Salza and Alberto Clò also fulfil the requirements of independence as provided by Art. 148, paragraph 3 of the Consolidated Law on Finance and Art. 3.C.1 of the Corporate Governance Code.

Organisational model pursuant to Legislative Decree 231/2001

Iren and the Iren Group companies have adopted an organisational, management and control model defined in accordance with Legislative Decree 231/2001, organised into the various sections as set out by said Legislative Decree and in accordance with the indications contained in the code of conduct prepared by Confindustria and Confservizi and adopted by the Iren Group (the "Model").

The model aims at representing a structured and organised system of procedures and control activities which would prevent, as far as possible, the perpetration of actions that could form the basis of offences envisaged by Legislative Decree 231/2001.

Identification of the actions exposed to the risk of committing an offence and their consequent legal procedures aim to increase the awareness in those who work in the name of or on behalf of Iren insofar as committing the punishable offence while also allowing Iren to intervene in order to prevent or stop commission of the offences in question, through activity monitoring.

The model, approved by the Board of Directors at its meeting of 14 November 2007, includes:

(i) the description of the regulatory framework;
(ii) the description of the company's activities, a summary of the governance model and the general organisational structure of the company;
(iii) the description of the methods followed to draw up the Model;
(iv) the composition and operation of the Supervisory Body;

(v) the disciplinary and penalties system;
(vi) the training and communication plan;
(vii) the criteria for updating the model;
(viii) the description of the Company's business which could be at risk for the commission of offences as provided by Legislative Decree 231/2001, with the provision of the relative control procedures.

The types of offences identified are as follows:
(i) offences in relations with Public Administration;
(ii) corporate offences;
(iii) market abuse;
(iv) offences committed in infringement of regulations on the prevention of accidents in the workplace;
(v) other types of offences.

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

Transactions with related parties

On 30 November 2010, Iren's Board of Directors adopted the "Internal regulation for transactions with related parties" which was issued in implementation of:
a) the provisions on transactions with related parties pursuant to Art. 2391-bis of the Italian Civil Code;
b) the provisions of Art. 114, Italian Legislative Decree no. 58 of 24 February 1998 (the "Consolidated Law on Finance");
c) the regulation containing provisions on transactions with related parties adopted by Consob with Resolution no. 17221 of 12 March 2010, later amended by Resolution no. 17389 of 23 June 2010 (the "Consob Regulation").

This Regulation applies with effect from 1 January 2011.
The provisions on disclosures envisaged in the Consob Regulation and in this regulation are applicable from 1 December 2010.
The "Internal regulation on transactions with related parties" (also hereinafter referred to as the "TRP Regulation" is published on the Iren website (www.gruppoiren.it) and, in summary, provides for:
a) identification of related parties;
b) the meaning of transaction with related parties;

c) transactions for minor amounts;
d) transactions of a lesser significance and related procedure;
e) transactions of a higher significance and related procedure;
f) exclusions;
g) set-up of the Committee for Transactions with Related Parties;
h) transactions decided by the Shareholders' Meeting;
i) amendments to the Articles of Association to be submitted to the extraordinary shareholders' meeting of Iren;
j) forms of advertising.

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

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

Any interest of these corporate officers in transactions between the Parent and the First-level Companies is declared at the time of approval by the respective Boards of Directors.

The Company and its subsidiaries disclose related party transactions in accordance with transparency and fairness principles, as noted in the Directors' Report (pursuant to Art. 2391-bis of the Italian Civil Code). Most of these relations concern services provided to customers in general (gas, water, electrical energy, heat, etc.) and are governed by contracts normally applicable to such situations.
For non-recurring services, the transactions are governed by specific contracts the terms of which are established at arm's length for the market concerned. If no arm's length reference is available or significant, the various profiles are defined in consultation with independent experts or professionals.
The duties and responsibilities of the Independent Directors' Committee, which according to the Consob Regulation must express its opinion on the execution of transactions of major and minor significance with related parties and, in general, also perform all other duties assigned on transactions with related parties, were entrusted by the Board of Directors (at its meeting of 30 November 2010) to its Internal Control Committee, the membership of which is extended for issues concerning such transactions.
In particular, in order to guarantee the independence requirement and "negative correlation" in a given transaction ("negative correlation" meaning that there is no relationship to the counterparty to a specific transaction and its related parties), the Internal Control Committee is expanded to include other independent directors (pursuant to Art. 148, paragraph 3, Legislative Decree 58/98 and to Art. 3 of the Corporate Governance Code issued by Borsa Italiana) who are members of the Company's Board of Directors, attributing to the Chairman of the Internal Control Committee the task of identifying - based on age seniority and also taking into account the tasks already assigned pursuant to the Internal Regulation - a subcommittee (the "designated members") composed of

three independent directors negatively correlated to the transaction under review.
To this end, at its meeting of 30 November 2010 and pursuant to Art. 7.1 of the Internal Regulation on Transactions with Related Parties regarding the extended composition of the Internal Control Committee, limited to duties concerning transactions with related parties, the Board of Directors confirmed that the following members of the company's Board of Directors:

- Franco Amato;
- Paolo Cantarella;
- Gianfranco Carbonato;

still meet the requirements of Art. 148 paragraph 3 of Legislative Decree 58/98 (the Consolidated Law on Finance), as amended, those of the Corporate Governance Code of Borsa Italiana S.p.A. and that adopted by the company, and therefore qualify as independent directors pursuant to article 3 (h) of the Consob Regulation on transactions with related parties.

In 2011 the following related party transactions were executed: (i) one with the Municipality of Turin, through the subsidiary Iride Servizi S.p.A., relating to the amendment of certain clauses of the current service agreements with the city; (ii) one with the Municipality of Parma, through the subsidiary Iren Ambiente S.p.A. regarding the suspension of construction works on the waste-to-energy plant in the city of Parma. In compliance with the TRP Regulation, a special sub-committee of independent and "unrelated" directors is designated to each transaction, to examine and express an opinion on the interest of the company in that particular transaction, and on the convenience and essential fairness of the related conditions.
In addition, at the end of 2011 a transaction was outlined with the related party BANCA IMI S.p.A. for appointment as the financial advisor in an extraordinary transaction. For this transaction, too, a special sub-committee of "unrelated" independent directors was designated, which examined and expressed its opinion on the company's interest in the transaction, its convenience and the essential fairness of the related conditions.

OTHER INFORMATION

PERSONAL DATA PROTECTION CODE

As part of the activities envisaged in Legislative Decree 196/03, the "Personal Data Protection Code", action was taken that was useful in assessing the data protection system in Group companies subject to these regulations. The action highlighted substantial adequacy of the formalities required under the regulations on the protection of personal data handled by these companies.

STATEMENTS PURSUANT TO ART. 2.6.2 OF THE STOCK EXCHANGE REGULATIONS

With regard to the certifications required by Art. 2.6.2 paragraph 15 of the Exchange Regulation relating to compliance with the conditions set forth under Art. 36 et seq. of the Consob Market Regulation, the company does not control companies established in and governed by countries which are not members of the european Union and which are of a significant interest pursuant to the provisions under section VI, par. II of the regulation adopted by Consob with Resolution no. 11971/1999, as amended. Therefore the provisions contained in Art. 36, paragraph 1 the Market Regulation do not apply. With regard to the conditions set forth in Art. 37 of the Market Regulation, the company is not subject to management and coordination by another company.

REPORT ON CORPORATE GOVERNANCE AND OWNERSHIP STRUCTURE AND THE REMUNERATION REPORT

The Report on Corporate Governance and Ownership Structure and the Remuneration Report, approved by the Board of Directors and published with the Directors' Report, include information not mentioned in the previous section on Corporate Governance, as envisaged in Art. 123-bis and Art. 123-ter, Italian Legislative Decree no. 58 of 24 February 1998, as amended.

PROPOSALS OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS' MEETING

PROPOSALS RELATING TO THE AGENDA ITEM *"Financial Statements at 31 December 2011 and the Directors' Report: inherent and consequent resolutions."*

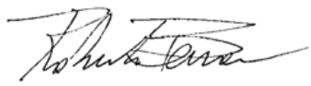
Dear Shareholders,

In relation to the above, we propose that you:
- approve the financial statements at 31 December 2011 which closed with a loss of euro 57,042,700.32;
- to cover the loss for the year from other reserves taxable on distribution.

We also propose that the losses carried forward of euro 36,506,746.19 be covered from other reserves taxable on distribution.

Furthermore, we propose approval of an extraordinary dividend distribution of euro 0.013 per share assigned to the 1,181,725,677 ordinary shares and the 94,500,000 savings shares with a par value of euro 1, payable from 21 June 2012 against the coupons dated 18 June 2012, for a total of euro 16,590,933.80 of which euro 7,555,031.91 drawn from the contribution reserve and euro 9,035,901.89 drawn from the extraordinary reserve.

For the Board of Directors
Chairman
Roberto Bazzano



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

Consolidated Financial Statements

at 31 December 2011

STATEMENT OF FINANCIAL POSITION

thousands of euro

	Note	31.12.2011	of which related parties	31.12.2010	of which related parties
ASSETS					
Property, plant and equipment	(1)	2,837,578		2,642,531	
Investment property	(2)	1,943		2,687	
Intangible assets with a finite useful life	(3)	1,280,769		1,168,458	
Goodwill	(4)	131,651		132,117	
Investments accounted for using the equity method	(5)	230,818		324,106	
Other investments	(6)	170,015		296,249	
Non-current financial assets	(7)	132,299	128,780	88,388	82,361
Other non-current assets	(8)	27,826		29,463	
Deferred tax assets	(9)	174,850		134,046	
Total non-current assets		**4,987,749**		**4,818,045**	
Inventories	(10)	67,931		45,227	
Trade receivables	(11)	1,239,730	150,717	1,115,235	168,367
Current tax assets	(12)	4,400		5,755	
Other receivables and other current assets	(13)	269,887	3,005	209,504	2,081
Current financial assets	(14)	377,235	355,751	377,281	367,728
Cash and cash equivalents	(15)	44,758	4,376	144,548	
Total current assets		**2,003,941**		**1,897,550**	
Assets held for sale	**(16)**	**31,622**	**420**	**77,857**	**569**
TOTAL ASSETS		**7,023,312**		**6,793,452**	

thousands of euro

	Note	31.12.2011	of which related parties	31.12.2010	of which related parties
EQUITY					
Equity attributable to owners of the Parent					
Share capital		1,276,226		1,276,226	
Reserves and retained earnings		462,995		432,700	
Profit/(loss) for the year		(107,890)		143,104	
Total equity attributable to owners of the Parent		**1,631,331**		**1,852,030**	
Non-controlling interests		213,375		229,590	
TOTAL EQUITY	**(17)**	**1,844,706**		**2,081,620**	
LIABILITIES					
Non-current financial liabilities	(18)	2,051,413	210,604	1,829,263	
Employee benefits	(19)	86,791		94,327	
Provisions for risks and charges	(20)	231,057		195,133	
Deferred tax liabilities	(21)	114,438		106,806	
Other payables and other non-current liabilities	(22)	146,123		148,383	
Total non-current liabilities		**2,629,822**		**2,373,912**	
Current financial liabilities	(23)	1,155,554	208,709	1,041,103	3,628
Trade payables	(24)	1,040,014	124,649	955,677	175,561
Other payables and other current liabilities	(25)	216,220	1,018	270,444	3,387
Current tax liabilities	(26)	37,740		12,560	
Provisions for risks and charges - current portion	(27)	99,061		35,807	
Total current liabilities		**2,548,589**		**2,315,591**	
Liabilities related to assets held for sale	(28)	195		22,329	
TOTAL LIABILITIES		**5,178,606**		**4,711,832**	
TOTAL EQUITY AND LIABILITIES		**7,023,312**		**6,793,452**	

INCOME STATEMENT

thousands of euro

	Note	2011	of which related parties	2010	of which related parties
REVENUE					
Revenue from goods and services	(29)	3,254,248	226,672	2,600,075	262,382
Change in contract work in progress	(30)	632		1,274	
Other revenue and income	(31)	265,232	17,559	226,538	6,580
Total revenue		**3,520,112**		**2,827,887**	
OPERATING EXPENSE					
Raw materials, consumables, supplies and goods	(32)	(1,682,008)	(479,810)	(1,370,811)	(401,961)
Services and use of third-party assets	(33)	(940,605)	(111,083)	(713,128)	(150,614)
Other operating expense	(34)	(71,345)	(3,481)	(63,511)	
Capitalised expenses for internal work	(35)	28,208		19,454	
Personnel expense	(36)	(262,565)		(204,699)	
Total operating expense		**(2,928,315)**		**(2,332,695)**	
GROSS OPERATING PROFIT		**591,797**		**495,192**	
AMORTISATION, DEPRECIATION, PROVISIONS AND IMPAIRMENT LOSSES					
Amortisation/depreciation	(37)	(209,293)		(165,095)	
Provisions and impairment losses	(38)	(74,140)		(44,617)	
Total amortisation, depreciation, provisions and impairment losses		**(283,433)**		**(209,712)**	
OPERATING PROFIT		**308,364**		**285,480**	
FINANCIAL EXPENSE	**(39)**				
Financial income		27,103	11,374	16,648	6,980
Financial expense		(94,137)	(67)	(75,100)	(11)
Net financial expense		**(67,034)**		**(58,452)**	
Share of profit of associates accounted for using the equity method	(40)	(3,806)		11,052	
Impairment losses on investments	(41)	(223,321)		(440)	
- of which non-recurring		*(217,466)*		-	
PROFIT BEFORE TAX		**14,203**		**237,640**	
Income tax expense	(42)	(114,485)		(88,990)	
PROFIT/(LOSS) FOR THE YEAR FROM CONTINUING OPERATIONS		**(100,282)**		**148,650**	
Profit from discontinued operations	(43)	1,004		1,740	
PROFIT/(LOSS) FOR THE YEAR		**(99,278)**		**150,390**	
attributable to:					
- owners of the Parent		(107,890)		143,104	
- non-controlling interests	(44)	8,612		7,286	
Earnings per ordinary and savings share	**(45)**				
- basic (euro)		(0,08)		0,14	
- diluted (euro)		(0,08)		0,14	

STATEMENT OF COMPREHENSIVE INCOME

thousands of euro

	Note	2011	2010
Profit/(loss) for the year - Owners of the parent and non-controlling interests (A)		**(99,278)**	**150,390**
Other comprehensive income	(46)		
- effective portion of changes in fair value of cash flow hedges		(11,002)	(433)
- change in fair value of available-for-sale financial assets		8,067	(13,409)
- share of other profits (losses) of companies accounted for using the equity method		(5,852)	2,516
Tax effect of other comprehensive income		3,098	(551)
Total other comprehensive expense for the year, net of tax effect (B)		**(5,689)**	**(11,877)**
Total comprehensive income/(expense) for the year (A)+(B)		**(104,967)**	**138,513**
attributable to:			
- owners of the Parent		(113,479)	131,302
- non-controlling interests		8,512	7,211

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserve	Legal reserve	Hedging reserve
31/12/2009	**832,042**	**105,102**	**20,258**	**(15,074)**
Legal reserve			3,604	
Dividends to shareholders				
Changes in business combinations	444,184			(3,387)
Var. in consolidation area and in interests				
Other changes				
Comprehensive income for the year				1,432
of which:				
- Profit for the year				
- Other comprehensive income				1,432
31/12/2010	**1,276,226**	**105,102**	**23,862**	**(17,029)**
Legal reserve			5,134	
Dividends to shareholders				
Retained earnings				
Change in interests				
Changes in consolidation scope				
Capital increase of subsidiaries				
Other changes				
Total loss recognised in the year				(13,708)
of which:				
- Loss for the year				
- Other comprehensive income				(13,708)
31/12/2011	**1,276,226**	**105,102**	**28,996**	**(30,737)**

thousands of euro

Available for sale reserve	Other reserves and retained earnings (losses carried forward)	Total reserves and retained earnings (losses carried forward)	Profit/(loss) for the year	Equity attributable to owners of the Parent	Equity attributable to non-controlling interests	Total equity
-	**302,659**	**412,945**	**6,397**	**1,251,384**	**135,219**	**1,386,603**
		3,604	(3,604)	-		-
	(67,931)	(67,931)	(2,793)	(70,724)	(3,549)	(74,273)
5,115	67,455	69,183		513,367		513,367
	23,387	23,387		23,387	93,804	117,191
	3,314	3,314		3,314	(3,095)	219
(13,234)		(11,802)	143,104	131,302	7,211	138,513
			143,104	143,104	7,286	150,390
(13,234)		(11,802)		(11,802)	(75)	(11,877)
(8,119)	**328,884**	**432,700**	**143,104**	**1,852,030**	**229,590**	**2,081,620**
		5,134	(5,134)	-		-
	(10,975)	(10,975)	(97,504)	(108,479)	(12,818)	(121,297)
	40,466	40,466	(40,466)	-		-
	1,355	1,355		1,355	(597)	758
		-		-	(11,592)	(11,592)
		-		-	283	283
	(96)	(96)		(96)	(3)	(99)
8,119		(5,589)	(107,890)	(113,479)	8,512	(104,967)
			(107,890)	(107,890)	8,612	(99,278)
8,119	-	(5,589)		(5,589)	(100)	(5,689)
-	**359,634**	**462,995**	**(107,890)**	**1,631,331**	**213,375**	**1,844,706**

CASH FLOWS STATEMENT

thousands of euro

	2011	2010
A. Opening cash and cash equivalents	**144,112**	**40,373**
Cash flow from operating activities		
Profit/(loss) for the year	(99,278)	150,390
Adjustments:		
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	209,293	165,095
Capital gains (losses) and other equity changes	(9,917)	(1,553)
Net change in post-employment benefits and other employee benefits	(7,536)	(1,331)
Net change in provision for risks and other charges	40,348	(2,479)
Loss from the sale of discontinued operations net of tax effects	(2,058)	(1,740)
Change in deferred tax assets and liabilities	(30,073)	(16,367)
Variation in non-current assets	(623)	(10,756)
Dividends received	(558)	(185)
Portion of loss of associates	3,806	(11,052)
Net impairment losses (reversals of impairment losses) on non-current assets	230,553	440
B. Cash flows from operations before variations in NWC	**333,957**	**270,462**
Variation in inventories	(22,704)	6,853
Variation in trade receivables	(124,495)	33,120
Variation in tax assets and other current assets	(59,029)	12,681
Variation in trade payables	84,338	62,222
Variation in tax liabilities and other current liabilities	(29,044)	(52,477)
C. Cash flow from/(used in) variations in NWC	**(150,934)**	**62,399**
D. Operating cash flows (B+C)	**183,023**	**332,861**
Cash flows from/(used in) investing activities		
Investments in intangible assets and in property, plant and equipment and investment property	(493,254)	(490,139)
Investments in financial assets	(46)	(7,707)
Proceeds from the sale of investments and changes in assets held for sale	9,166	25,459
Transfer of discontinued operations net of cash disposed of	29,203	-
Dividends received	11,137	10,957
Other variations in financial assets	-	(3,230)
E. Total cash flows used in investing activities	**(443,794)**	**(464,660)**
F. Free cash flows (D+E)	**(260,771)**	**(131,799)**
Cash flows from/(used in) financing activities		
Dividends paid	(121,297)	(74,273)
Other changes in equity	1,042	98,585
New non-current loans	655,758	217,750
Repayment of non-current loans	(109,518)	(320,652)
Variation in financial assets	(43,927)	8,076
Variation in financial liabilities	(220,641)	268,224
Cash and cash equivalents acquired through the Iride-Enia merger	-	37,828
G. Total cash flows from financing activities	**161,417**	**235,538**
H. Cash flows for the year (F+G)	**(99,354)**	**103,739**
I. Closing cash and cash equivalents (A+H)	**44,758**	**144,112**

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

INTRODUCTION

Iren S.p.A. is an Italian multiutility company, listed on the Italian Stock Exchange (Borsa Italiana), created on 1 July 2010 through the merger of Iride and Enìa.

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

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

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

In comparing the financial amounts included in the financial statements at 31 December 2010 and 31 December 2011, it should be noted that the first amounts do not include the contribution of the Enia Group related to the first six months of 2010 by reason of the fact that the Iride Group merged with the Enia Group on 1 July 2010.

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

The schedules disclosed have been reclassified at 31 December 2010 to adjust to the classification adopted for related items at 31 December 2011. The main reclassifications are described in these notes.

As regards the statement of cash flows, in 2011 capital gains/losses and other equity changes are shown adjusting the operating cash flows and New non-current loans and related reimbursements. To this regard, the 2010 corresponding figures have been reclassified.

The company's consolidated financial statements at 31 December 2011 include those of the Company and its subsidiaries (jointly referred to as the "Group" and individually as "Group entities") and the Group's investment in associates and jointly-controlled entities.

I. CONTENT AND STRUCTURE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Iren Group at 31 December 2011 have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the provisions set forth in implementation of art. 9 of Legislative Decree no. 38/2005. The IFRS include all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).
These consolidated financial statements at 31 December 2011 consist of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.
In the statement of financial position, assets and liabilities are classified as "current/non-current". Assets and liabilities, classified as discontinued or held for sale, are shown separately. Current assets, which include cash and cash equivalents, are those that shall be realised, transferred or con-

sumed during the ordinary operating cycle of the Group or during the twelve months following year end. Current liabilities are those that shall be settled during the ordinary operating cycle of the Group or during the twelve months following year end.
The income statement is classified on the basis of the nature of costs. In addition to the operating profit/(loss), the income statement also shows the gross operating profit/(loss) obtained by deducting total operating expense from total revenue.
The indirect method is used in the cash flows statement. The cash configuration analysed in the cash flows statement includes cash availability and cash in bank current accounts.
The financial statements have been drawn up based on the historical cost principle, except for certain financial instruments measured at fair value.
In addition, the financial statements of consolidated entities are drawn up at the reporting date of the reference year.

II. CONSOLIDATION POLICIES

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

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

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

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

Transactions eliminated on consolidation

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

III. CONSOLIDATION SCOPE

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

Parent:
Iren S.p.A.

Companies consolidated on a line-by-line basis:
The five First-level companies were consolidated on a line-by-line basis and, through their consolidated financial statements, their subsidiaries:

1) Iren Energia and its subsidiaries:
- Iride Servizi and subsidiaries:
  - AEMNET
  - Sasternet
- AEM Torino Distribuzione
- CELPI (classified as asset held for sale)
- Nichelino Energia

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

3) Iren Acqua Gas and its subsidiaries:
- Genova Reti Gas
- GEA
- Laboratori Iride Acqua Gas
- Mediterranea delle Acque and its subsidiaries:
  - Idrotigullio
  - Immobiliare delle Fabbriche

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

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

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

Companies consolidated proportionally:

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

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

Changes in the scope of consolidation

In 2011, changes in the consolidation scope of the Iride Group involved:

- the deconsolidation of Aquamet as a result of the finalisation of the transfer of the entire investment held by the Group, equal to 60% of the share capital. At 31 December 2010 the assets and liabilities of Aquamet were recognised under assets held for sale and liabilities related to assets held for sale. The transfer had an insignificant effect on equity attributable to owners of the parent, while it involved a reduction of approximately euro 11,592 thousand in non-controlling interests;
- the deconsolidation of the joint venture Acque Potabili Siciliane by effect of the measure of the Court of Palermo awarded on 28 October 2011, with which the company was declared insolvent and therefore shareholders could not exercise their rights on the share capital until completion of the bankruptcy proceeding.

Moreover, during 2011, the following changes occurred within the consolidation scope:

- the change in the percentage of investment in the consolidated Laboratori Iren Acqua Gas, from 73.13% to 90.89% due to the share capital increase reserved to Iren Acqua Gas S.p.A., subscribed through transfer of the business unit relating to the laboratories, which was previously part of Iren Acqua Gas S.p.A.;
- the change in the percentage of investment in the consolidated Enia Solaris, from 85% to 100% due to the Group's purchase of 15% of the Company's shares on 16 December 2011.

IV. ACCOUNTING POLICIES

The policies applied in the preparation of the Iren Group consolidated financial statements at 31 December 2011 are set out below. The accounting policies described below were applied consistently by all Group entities and have not changed with respect to those adopted at 31 December 2010, except for elements described in section "Changes in accounting policies".

Property, plant and equipment

- *Property, plant and equipment*

Property, plant and equipment are recognised at contribution, purchase or internal construction cost. This cost includes all costs directly attributable to bringing the asset to the location and condition necessary for it to be available for use (including, when relevant and the company has the related present obligation, the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located), net of trade discounts and rebates.
Financial expense related to the purchase of items of property, plant and equipment is capitalised for the part of the cost of the asset until it becomes operative.
When significant components of property, plant and equipment have different useful lives, they are accounted for separately.
In particular, under this policy, land and buildings located on the land are to be recognised separately; therefore, only the buildings are depreciated, while the carrying amount of land is impaired, as described in the following section "Impairment losses".
Ordinary maintenance expenditure is expensed in full. Maintenance expenditure that increases the carrying amount of the asset is charged to the asset to which it relates and depreciated over its

estimated useful life. Such expenditure includes expenditure that reasonably leads to an increase in future economic benefits, such as the lengthening of useful life, increase in production capacity, improvement in product quality and adoption of production processes that entail a significant reduction in production costs.
Assets under construction include expenditure related to the construction of plants incurred until the reporting date. These investments are depreciated once the asset becomes operative.
Property, plant and equipment, including freely transferable assets, are depreciated systematically on a straight-line basis annually using economic-technical rates determined in line with their residual useful lives.
The rates applied are set out in the following table:

	Min. rate	Max. rate
Buildings	0.9%	11.1%
Lightweight constructions	3.5%	10.0%
Vehicles	10.0%	25.0%
Sundry equipment	6.7%	100.0%
Furniture and office machines	5.9%	100.0%
Hardware	15.0%	100.0%
Facilities	0.8%	100.0%

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

- Assets under finance lease

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

Investment property

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

Intangible assets

Intangible assets are recognised in the statement of financial position when it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably. They are recognised at contribution, acquisition or production cost, including any directly attributable costs.
Intangible assets with finite useful lives are amortised on a systematic basis over their useful lives so that the carrying amount at year end matches their residual life or recoverable amount based on the company’s plans to develop production. Amortisation begins when the asset is available for use.

Development costs are capitalised if all of the following features can be demonstrated:

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

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

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

	Years	
	from	to
Industrial patents and similar rights	3	5
Licences, trademarks and similar rights	3	50
Software	2	8
Other intangible assets with finite useful life	3	20

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

Goodwill

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

Non-current assets held for sale

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

Service concession arrangements

Starting from 1 January 2010, the Iren Group applies IFRIC 12, endorsed by the European Union on 25 March 2009. This standard defines the recognition and measurement criteria to be adopted in agreements between public and private sectors related to development, financing, management and maintenance of infrastructures under licence agreement. In particular, should the grantor control the infrastructure by regulating and controlling the characteristics of the services supplied and the applicable prices, as well as by maintaining a residual interest in the activity, the operator will purchase either the right to use said infrastructure, or the financial asset, or both, based on the agreements made. Therefore, the operators that are included in the above cases, cannot recognise the assets dedicated to the supply of the service as property, plant and equipment in the statement of financial position under assets, regardless of the acknowledgement of ownership in favour of the same operators included in the service concession arrangements.
In particular, the operator purchases a financial asset to the extent that it has an unconditioned contract right to payment or another financial asset from, or upon instruction of the grantor with reference to the building services. The purchased financial asset is subject to provisions set forth in IAS 32, IAS 39 and IFRS 7.
The operator purchases an intangible asset to the extent that it has a right (licence) to receive the payment of the users of the public utility. The right to receive payments from users is not an unconditioned right to receive payments as the amounts depend on how much the utility is used. The intangible asset recognised is subject to the provisions of IAS 38.
If the operator is paid for the building services partly with a financial asset and partly with an intangible asset, the two amounts composing the payment to the operator shall be recognised separately. The payment received or to be received for both items is initially recognised at the fair value of the amount received or to be received and disclosed in the relevant revenue item.
With reference to the grants received on non-current assets, included in the application of IFRIC 12, such grants were classified under Other liabilities, divided between current and non-current, while the related disbursement is included in Other revenue.

Impairment losses

IAS/IFRS require a company to assess whether there are any specific indications of impairment. The company performs an impairment test, which consists of estimating the recoverable amount of the asset and comparing it to its net carrying amount.
The recoverable amount is the higher of fair value less costs to sell (if an active market exists) and the value in use of an asset. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating units, inclusive of taxes, by applying a discount rate, before taxes, represented by the current market assessments of the time value of money and risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. If the impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased to the estimated new recoverable amount. The latter amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised. The reversal of an impairment loss is recognised immediately to the income statement.
Assets that are not subject to amortisation (goodwill and other intangible assets with an indefinite useful life) and intangible assets that are not yet available for use are tested for impairment annually, even though no indication of impairment exists.

Financial instruments

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

- Instruments measured at fair value through profit or loss (FVTPL). They are:
  - assets/liabilities classified as held for trading (i.e. acquired principally for the purpose of selling or repurchasing in the near term);

    - non-hedging derivatives;
    - financial instruments that, when initially recognised, were designated as FVTPL.
- loans and receivables (L&R). These are financial assets/liabilities (other than derivatives) which feature fixed or determinable prices and are not quoted on active markets.
- held-to-maturity investments (HTM). These are financial assets/liabilities, other than derivatives, with fixed prices or prices determinable with a fixed maturity term that the company intends, or is able to hold to maturity (e.g. bonds).
- available-for-sale financial assets (AFS). This residual category captures all financial assets not classified in the above-mentioned categories (e.g. equity investments lower than 20% in companies over which the Group does not exercise a significant influence).

- Investments measured using the equity method

These are investments in associates, i.e. over which the company has significant influence. They are measured using the equity method by recognising an amount equal to the investor's share of equity as per the most recent financial statements available, adjusted to account for the difference between the price paid and equity at the acquisition date.
The investor's share of profit or loss arising from application of the equity method is recognised as a "Share of profit or loss of associates measured using the equity method", while the share of other comprehensive income of associates is recognised in the statement of comprehensive income.
The difference between the purchase cost and the value, pertaining to the owners of the Parent, of current and potential assets and liabilities, which can be identifiable in the associate at the acquisition date, is recognised as goodwill, included in the carrying amount of the investment, and tested for impairment, with the same procedures as described in the section above.
The risk deriving from losses which exceed the investor's share of equity is provided for in a provision for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

- Other investments

Investments in other companies, classified as available for sale (AFS), are measured at fair value. Profits and losses from changes in fair value are taken directly to equity (Fair value reserve) until they are sold or impaired. In this case, the total loss is reversed from equity and taken to the income statement for an amount equal to the difference between the acquisition cost and the current fair value. If the fair value cannot be reliably determined, investments are measured at cost adjusted for impairment losses, the effect of which is recognised in the income statement.
The risk deriving from losses which exceed the carrying amount of the investment is provided for in a provision for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

- Financial assets held for trading

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

- Available-for-sale financial assets

Upon initial recognition, available-for-sale financial assets are measured at the fair value of the consideration paid (acquisition cost, including the related costs).
Subsequent to initial recognition, they are measured at fair value, without deducting any transaction costs that may be incurred upon sale or disposal. Changes in fair value are recognised in equity and transferred to the income statement only when the available-for-sale assets are derecognised or have undergone an impairment loss.
If fair value of investments in instruments representing equity cannot be determined reliably, such assets are measured at cost.

- Hedging

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

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

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

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

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

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

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

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

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

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

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

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

- Other financial assets and liabilities

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

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

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

- Trade receivables and payables

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

- Cash and cash equivalents

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

Inventories

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

Equity

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

Employee benefits

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

Provisions for risks and charges

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

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

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

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

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

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

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

Revenue

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

Revenue from the sale of goods is recognised when:

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

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

Revenue from services is recognised when:

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

Grants related to assets and grants related to income

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

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

Other revenue and incomei

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

Costs for the purchase of goods and services

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

Financial income and expense

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

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

Income is recognised on the following bases:

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

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

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

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

Income tax expense

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

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

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

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

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

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

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

Discontinued operations

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

Translation criteria

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

Emissions Trading Scheme

The Emissions Trading Scheme, which came into force in the European Union on 1 January 2005, is part of the 'flexible mechanisms' acknowledged by the Kyoto Protocol in order to reach greenhouse gas emission targets. The target for Italy is a 6.5% reduction in CO2 emissions by 2012 over 1990.
The Group will actively participate in the emission trading scheme to reduce the emission of greenhouse gases and contribute to reaching the Group's targets with respect to the domestic reduction plan.
The emission quotas, both acquired or received free of charge, are entered as intangible assets. These quotas are initially measured at fair value, represented by the market value at allocation or by the actual purchase price. The two amounts are substantially similar. Emission quotas are not amortised, but eventually impaired if their fair value decreases below the carrying amount. As regards emissions made during the year (measured at fair value), an amount is allocated to the provision for risks, which will be used when the related rights are cancelled. Upon sale of the emission rights, the amount cashed is entered less the emission rights and the possible capital gain/loss.
Emission quotas held for trading, which are still unsold at year end, are recognised in the statement of financial position under Inventories of finished products and goods. These quotas will be measured at the lower of cost and market value.

Energy efficiency certificates

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

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

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

- Green Certificates deriving from the annual production of electrical energy from renewable sources are recognised on an accrual basis;
- White Certificates are accounted for in a slightly different way according to the fact that the company is bound or not bound to return the TEEs. The entities that are bound to return the TEEs shall recognise both the grant related to the year and the cost incurred or to be incurred for the TEEs purchased to meet obligations. If the purchased certificates exceed the requested number, the exceeding certificates are rediscounted.

Earnings per share

- Basic earnings per share

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

- Diluted earnings per share

Diluted earnings per share are calculated based on the profit or loss attributable to ordinary shareholders of the parent.
For the purposes of calculating diluted earnings per share, the number of ordinary shares is the weighted average number of ordinary shares plus the weighted average number of ordinary shares that would be issued on the conversion of all the dilutive potential ordinary shares into ordinary shares. This conversion takes place at the beginning of the year or at the date of the issue of the potential ordinary shares.

CHANGES IN ACCOUNTING POLICIES

As from the 2011 financial statements, the Iren Group has decided to change the accounting policies on emission trading. Until the 2010 financial statements, given the absence of a standard interpretation at international level, for Emissions Trading accounting the Group has made use of elements contained in the above-mentioned document issued in April 2007 and adopted the "net method", i.e. recognizing any excess emissions at market price as a cost in accordance with IAS 37, recognizing only rights acquired against payment under assets (pursuant to IAS 38). With the 2011 financial statements, the Directors elected to measure at fair value also the quotas assigned on a free basis, and the related obligation to return these quotas. This by reason of the fact that the actual measurement of the emission quotas included in the Group securities account is better reflected with this method.

The Group decided not to retroactively apply the restatement by reason of the fact that the effects of this change, also in light of indications given in Framework 30, are deemed as irrelevant. Moreover, , with special reference to financial covenants, full compliance to financial indicators would be ensured even in the event of retroactive application.

For the purposes of clarifying the effects of the change in accounting policies to the users of the financial statements, the amounts related to gross operating profit, profit/(loss) for the year, intangible assets and provision for risks and charges, which would have resulted in financial years from 2008 to 2011 if the standard was applied retroactively, are shown in the table hereunder.

thousands of euro

	2008	2009 proforma(*)	2010 proforma(**)	2011
Gross Operating Profit	372,948	572,451	595,706	585,517
Operating profit	231,954	318,520	330,837	302,084
Profit/(loss) for the year	118,426	53,840	181,913	(102,906)
Intangible assets	94,450	752,057	1,200,167	1,280,769
Provisions for risks and charges - current portion	51,271	71,652	61,236	99,061

(*) The statement of financial position reports data under the assumption that the non-recurring merger between the Iride Group and the Enìa Group took place at the end of the year, i.e. at 31 December 2009; the income statement presents the data under the assumption that the non-recurring transaction took place at the beginning of the year to which the income statement refers, that is on 1 January 2009.

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

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS FROM 1 JANUARY 2011

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

- IAS 24 - *Related party disclosures:* this standard refers to the simplification of the type of disclosure required in transactions with related parties controlled by the Government and clarifies the definition of related parties.

- IFRIC 14 - *Prepayments of Minimum Funding Requirements:* it allows the companies which pay advance payments as part of minimum funding requirements, to recognise these amounts as assets.

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

The adoption of the above-mentioned accounting policies has had no impact on the financial position or results of operations of the Group.

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

On 7 October 2010, the IASB issued some amendments to IFRS 7 – *Financial Instruments: Disclosures*, applicable for accounting periods starting on or after 1 July 2011. These amendments, endorsed by competent bodies of the European Union with Regulations published on 23 November 2011, aim at making the users of the financial statements to better understand risk exposures connected with the transfer of financial assets, as well as the effects of such risks on the entity's financial position. Moreover, amendments require greater disclosure in the event an excessive amount of these transactions be carried out near the end of the accounting period. The adoption of this amendment will not have any effect on the measurement of captions disclosed in the financial statements.

Moreover, the following accounting standards, as well as amendments and interpretations which are not yet applicable and have not been adopted in advance by Iren Group are to be noted:

- On 12 November 2008, the IASB issued *IFRS 9 - Financial instruments.* This standard was then amended. The standard, applicable retrospectively as from 1 January 2015, is the first step of a process aiming at fully replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities.

- On 20 December 2010, the IASB issued a minor amendment to *IAS 12 – Income taxes*, which clarifies how to calculate deferred taxes on investment property measured at fair value. The amendment introduces the assumption that deferred taxes related to investment property measured at fair value in accordance with IAS 40 shall be recognised taking account the fact that the carrying amount of these assets will be recovered through sale. Following this amendment, SIC-12 – *Income taxes – Recovery of revalued non-depreciable assets*, will no longer be applicable. The interpretation is applicable retrospectively starting on 1 January 2012.

- On 12 May 2011, the IASB issued *IFRS 10 – Consolidated Financial Statements*, which will replace the *SIC-12 Consolidation – Special purposes entities* and some parts of *IAS 27 – Consolidated and separate financial statements*, which will be called Separate Financial Statements and will govern accounting of equity investments in the separate financial statements. The new standard is based on the existing standards and aims at defining the concept of control as the key factor for including a company in the parent's consolidated financial statements. This standard also supplies a guide to determine the existence of control where it is difficult to assess it. The interpretation is applicable retrospectively starting on 1 January 2013.

- On 12 May 2011, the IASB issued *IFRS 11 – Joint Arrangement*, which will replace *IAS 31 – Interests in Joint Ventures* and *SIC-13 – Jointly Controlled Entities – Non-monetary Contributions by Ventures.* The new standard supplies criteria to identify joint venture agreements based on rights and obligations deriving from agreements, rather than based on the legal form of the same agreements, and it rules that the only accounting method of equity investments in joint ventures in the consolidated financial statements is the equity method. This standard is applicable retrospectively as from 1 January 2013. After the issue of *IAS 28 – Investments in Associates*, this standard was amended to include equity investments in companies under joint-control in its scope of application, as from the effective date of the standard itself.

- On 12 May 2011, the IASB issued *IFRS 12 – Disclosure of Interests in Other Entities*, which is a new and complete standard on additional information that shall be supplied on any type of equity interest, including disclosures on subsidiaries, joint-venture agreements, associates, special purpose entities and other entities of this type that are not consolidated. This standard is applicable retrospectively starting on 1 January 2013.

- On 12 May 2011, the IASB issued *IFRS 13 – Fair Value Measurement*, which clarifies how the fair value should be measured for accounting purposes. This standard is applied to all IFRS which require or allow for the fair value measurement, or the disclosure of information based on fair value. The standard is applicable prospectively starting on 1 January 2013.

- On 16 June 2011, the IASB issued an amendment to *IAS 1 - Presentation of Financial Statements* in which companies are requested to change the grouping of items presented in other comprehensive income/(expense), according to their possible reclassification or non reclassification in future time to income statement. The amendment is applicable to years beginning after or on 1 July 2012.

- On 16 June 2011, the IASB issued an amendment to *IAS 19 – Employee benefits*, which eliminates the option to defer the recognition of actuarial gains and losses using the corridor approach. The amendment requires that the financial statements disclose the deficit or surplus of defined benefit plans in their entirety. It also requires the separate recognition in income statement of the cost components related to the working activity and net financial charges, as well the recognition of actuarial gains and losses resulting from the new measurement, each year, of assets and liabilities under other comprehensive income/(expense). The amendment is applicable retrospectively starting on 1 January 2013.

- On 19 October 2011, the IASB issued *IFRIC 20 - Stripping Costs in the Production Phase of a Surface Mine;* this interpretation focuses on accounting for costs associated with waste removal in surface mining. The interpretation is applicable to years beginning after or on 1 January 2013.

- On 16 December 2011, the IASB issued another amendment to *IAS 32 – Financial Instruments: presentation*, to clarify the application of some criteria for the offsetting of financial assets and liabilities included in IAS 32. Amendments are applicable retrospectively for financial years starting on or after 1 January 2014.

- On 16 December 2011, the IASB issued another amendment to *IAS 7 – Financial Instruments: disclosures*. The amendment requires information on the effects or potential effects of offsetting agreements of financial assets and liabilities in the statement of financial position. The amendments are applicable for the financial years starting on or after 1 January 2013 and interim periods following this date. Information must be supplied retrospectively.

Use of estimates

In order to prepare the financial statements in compliance with IFRS, estimates and related assumptions are based on previous experience and other case factors, which are deemed reasonable and were adopted to define the carrying amount of assets and liabilities to which they refer. Estimates have been used to measure property, plant and equipment, investment property and intangible assets subject to impairment, as well as to recognise provisions for credit risks, risks for obsolete inventory items, amortisation/depreciation and impairment losses on assets, employee benefits, to determine the fair value of derivatives and available-for-sale financial assets, taxes and other provisions for risks. These estimates and assumptions are regularly 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.

V. RISK MANAGEMENT

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

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

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

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

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

1. FINANCIAL RISKS

Iren Group's activity is exposed to various types of financial risks, including liquidity risk, currency risk and interest rate risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to 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 Group Finance Department was centralised in order to optimise the collection and use of financial resources. Specifically, the centralised management of cash flows in Iren, both through cash pooling and centralisation of all collection and payments within the Iren current accounts, make it possible to allocate Group-wide available funds according to the needs arising from time to time within the single companies. Cash movements are recognised in infragroup bank accounts along with infragroup interest income and expense.
Other investees have an independent financial management structure in compliance with the guidelines provided by the Parent.
Based on the cash pooling model, the accounts of all the companies are zeroed every day by means of a netting system that transfers the balances of currency transactions on the accounts of the Parent.
The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored. At 31 December 2011, the short-term bank credit facilities used by the Parent totalled Euro 509 million.

The table below illustrates the nominal cash flows required to settle financial liabilities:

thousands of euro

	Carrying amount	Contractual cash flows	within 12 months	1-5 years	over 5 years
Mortgage and bond payables (*)	2,504,183	(2,896,979)	(577,363)	(1,543,171)	(776,445)
Hedging of interest rate risk	42,778	(40,701)	(13,946)	(27,397)	642

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

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

Iren has relations with the leading Italian and international banks, for the purpose of searching for the types of loans most suitable to its needs, and the best market conditions.
In June, July and September new non-current loans were agreed for a total amount of euro 425 million, specifically euro 100 million with Cassa Depositi e Prestiti, euro 100 million with Mediobanca, euro 150 million with Unicredit and euro 75 million with Banca Regionale Europea.
In the last quarter of the year, the European Investment Bank also granted new 15-year financing to Iren for a total of Euro 440 million. Guarantees from entities approved by the EIB are required for the use of such financing. An initial loan for a total of Euro 240 million was agreed in December of which Euro 100 million was used in 2011, Euro 90 million in January 2012 and the remaining Euro 50 million will be used in the first few months of 2012. The second loan for a total of Euro 200 million was agreed for a first tranche of Euro 100 million in December and a second tranche of Euro 100 million in February 2012, with full use of the total of Euro 200 million planned in 2012.
Within the Group, in December 2011 AES Turin (51% consolidated) obtained a new loan from a banking syndicate for a total amount of euro 250 million. Moreover, the European Bank for Investments granted AES Torino a credit facility for a total amount of euro 55 million to be finalised through bank intermediation to be used for partial settlement of the syndicated loan agreed in December. OLT Offshore LNG Toscana (41.7% consolidated) has obtained in 2011 new loans from the shareholders Iren Mercato (financed by Iren within the Group cash pooling) and E.On in equal shares and for a total amount of euro 50 million. The total shareholder loan to OLT to support investments is equal to euro 520 million at 31 December 2011.
At 31 December 2011, 33% of the residual amount payable for mortgages was contractualised at a fixed interest rate and 67% 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), the clauses in Iren loan agreements are fulfilled; in particular, for a number of Iren non-current loan agreements, a commitment to observe financial covenants is envisaged (such as Debt-EBITDA, EBITDA-Financial expense), with checks on an annual basis. Moreover, other covenants such as the Change of Control clause have been provided for, which sets forth that the Iren Group's should be kept under indirect or direct control of Local Authorities, as well as clauses concerning negative pledges, under which the company undertakes not to give collateral beyond a specific limit, and the *Pari Passu* clause, which reserves an equal treatment to lending banks with respect to the treatment for other unsecured creditors.
The non-current loan agreements of certain Group companies also envisage the observance of financial covenants (Net Financial Position-EBITDA, Net Financial Position-Equity) which have been satisfied.

b) Currency risk

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

c) Interest rate risk

The Iren Group is exposed to fluctuations in interest rates above all for financial charges regarding indebtedness. Iren Group's objective is to limit its exposure to interest rate increases while maintaining acceptable borrowing costs.

The risks associated with the increase in interest rates are monitored non-speculatively and, if necessary, reduced or eliminated by signing hedging swap and collar contracts with high credit standing financial counterparties, with the sole purpose of cash flow hedges. With the exception of certain marginal positions, at 31 December 2011 all contracts to limit exposure to the interest rate risk were classified as cash flow hedges in that they satisfy requisites for the application of hedge accounting. The fair value of the above-mentioned interest rate hedges was a negative Euro 42,778 thousand at 31 December 2011.
The hedging contracts agreed, together with fixed-rate loans, hedge approximately 69% of net financial indebtedness against interest rate risk, in line with the Iren Group target of maintaining a balance between floating rate loans and fixed rate loans or in any case hedged against significant increases in interest rates.
For a more complete understanding of the interest rate risks to which the Group is subject, stress testing was performed on the sensitivity of net financial expense and evaluation components in derivatives contracts to changes in interest rates.
As regards financial charges, this analysis was performed on the basis of reasonable assumptions as follows:

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

With regard to existing hedges at year end, a 100 basis points translation increase and decrease were applied to the forward curve of interest rates used to measure the fair value of the hedges.

The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2011.

thousands of euro

	100 bps increase	100 bps decrease
Increase (decrease) in net financial charges	7,575	(7,437)
Increase (decrease) in fair value charges for derivatives	(271)	(38)
Increase (decrease) in hedging reserve	30,739	(32,634)

2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables that show no particular concentration since the credit exposure is spread across a large number of counterparties. This risk is connected to the sale of electrical energy, district heating and gas to retail and business customers, public entities.

Risk factors related to trade receivables are attributable to the risk of increases in the ageing of receivables, insolvency risk and the risk of increases in receivables subject to bankruptcy proceedings.

In order to control credit risk, operating management of which is entrusted to individual regional functions, methodologies have been defined for monitoring and control of receivables in addition to the definition of strategies for reduction of credit exposure including Customer solvency analysis on acquiring receivables, the assignment of credit recovery to external credit recovery companies and the management of legal disputes regarding amounts receivable for services rendered, with the introduction of new recovery methods.

The trade receivables management policy and tools of creditworthiness, as well as monitoring and recovery activities differ in relation to the various categories of customers and the various consumption dimension levels.
Over the last few years in order to strengthen the analysis and monitoring capacities, new tools have been introduced for the acquisition of commercial information and customer payment records,

operating management for the collection of overdue receivables, outsourcing the telephone inquiry activity for certain customer segments. The Group has started and is completing the project for "electronic meters" with the aim of enhancing the promptness in the decoupling of customers in arrears and reducing costs.

Credit risk is hedged, for certain types of business customers, by appropriate forms of bank or insurance guarantees upon demand issued by first rate credit entities.
An interest-bearing guarantee deposit is provided for some types of services (water, natural gas, "protected customer" electrical energy) in compliance with regulations governing these activities. This deposit must be reimbursed if the customer adopts the payment through bank/post current accounts.
Generally applied payment terms are compliant with regulations in force and are consistent with market standards. In the event of non payment, interest in arrears will be debited to the extent indicated in the supply contracts and as set out by regulations in force.

Accruals to the allowance for impairment accurately reflect the effective credit risk through the targeted quantification of the accrual, involving the analysis of the individual receivable items recorded in the database, specifically taking into account ageing, as well as comparison with historical impairment loss data and determination of the average non-payment rate.

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

3. ENERGY RISK

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

In December 2010, two commodity forward contracts (Commodity swap on Gas Release 07 rate) were agreed upon as an energy portfolio hedge for 2011, for a total notional amount of 1 TWh and an average rate forward contract was agreed upon for USD 142,777 thousand. In the first half of 2011, two further Average Rate Forward contracts were signed, for a total amount of USD 91,000 thousand, to hedge the last quarter to 2011. In November and December 2011, commodity swap contracts (Commodity swap on Gas Release 07 rate) were agreed upon, as an energy portfolio hedge for 2012, for a total notional amount of 1.7 TWh and two average rate forward contracts were entered into for USD 105,000 thousand.

For 2011, the Iren Group also signed Electrical Energy purchase contracts for 166 GWh with Tirreno Power. These hedge the parties against the risk of excessive volatility in the price of electrical energy and do not involve energy trading.
The fair value of agreements that were still in force on 31 December 2011 is in aggregate positive of euro 6,067 thousand.
Iren Mercato launched trading operations which involve the trading of physical and financial contracts on the electrical market and financial contracts directly on the underlying commodities. These contracts may refer to various indexes (PUN, ITEC, Itmix, BINE). These also include trading on the IDEX.
The contracts that give rise to these activities are classified in a specific Trading Portfolio, which had a total fair value of euro -422 thousand at 31 December 2011.
At 31 December 2011, a positive amount of euro 1,710 thousand is also reported for a EUA-CER swap contract.

Recognition of derivatives

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

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

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

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 component realised is recognised to adjust the income or expense referred to and that derived from the measurement of the derivative at the end of the year amongst other expense or other income;
- in the case of interest rate risk hedges, in financial income or expense.

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

Fair value

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

thousands of euro

	31.12.2011		31.12.2010	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Assets for hedging derivatives	473	473	1,989	1,989
Loans - non-current portion and bonds	(2,004,987)	(2,087,892)	(1,799,801)	(1,829,229)
Loans - current portion	(499,203)	(568,689)	(159,145)	(213,987)
Liabilities for hedging derivatives	(43,251)	(43,251)	(26,065)	(26,065)
Total	**(2,546,968)**	**(2,699,359)**	**(1,983,022)**	**(2,067,292)**
Unrecognised loss		**(152,391)**		**(84,270)**

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

Fair value hierarchy

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

- Level 1: prices quoted (not adjusted) on active markets for similar assets or liabilities
- Level 2: input data different from prices quoted, as per Level 1, which are observable for assets or liabilities, both directly (as per prices), and indirectly (or derived from prices)
- Level 3: input data related to assets or liabilities, which are not based on observable market data (non observable data).

thousands of euro

31.12.2011	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets		36	140,273	140,309
Financial assets designated at fair value through profit or loss				-
Financial assets held for trading				-
Derivative financial assets		**15,155**		**15,155**
Total assets	-	15,191	140,273	155,464
Derivative financial liabilities		**(50,578)**		**(50,578)**
Gross total	**-**	**(35,387)**	**140,273**	**104,886**

thousands of euro

31.12.2010	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets		137	268,424	268,561
Financial assets designated at fair value through profit or loss				-
Financial assets held for trading				-
Derivative financial assets		2,423		2,423
Total assets	**-**	**2,560**	**268,424**	**270,984**
Derivative financial liabilities		(29,349)		(29,349)
Gross total	**-**	**(26,789)**	**268,424**	**241,635**

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

Moreover, no transfers occurred amongst the various Levels of the fair value hierarchy.

The investment in Delmi, amounting to euro 140,273 thousand, is included in level 3. Although essentially based on the company's Equity (see Note 6 and related comments), its value also reflects Edison Group's complex process to exit the Italian shareholding structure. As regards the above, no sensitivity analysis is applicable and therefore is not submitted.

4. OPERATIONAL RISKS

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

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

Each process stage is performed in accordance with standards and references defined at Group level.
The operational risk management process also aims at optimizing the Group's insurance profiles in the key "property" and "liability" areas.

a. Legislation and regulatory risks

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

b. Strategic Risks

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

c. Plant-related risks

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

d. IT Risks

The main IT risks are related to the availability of core systems, amongst which the interfacing with the Power Exchange by Iren Mercato.
The Company is in fact one of the leading Italian operators on the Power Exchange and any accidental unavailability of the system could have considerable economic consequences, connected with the non-submission of energy sale or purchase offers.

To mitigate such risks, specific measures have been adopted, such as the redundancy of parts of the system and appropriate emergency procedures ("Disaster recovery"), which are periodically subjected to efficiency testing.

Capital management

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

VI. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

On 30 November 2010, Iren's Board of Directors adopted the "Internal regulation for transactions with related parties" which was issued in implementation:

a) of the provisions relating to transactions with related parties pursuant to article 2391-bis of the civil code;
b) the provisions set forth under article 114 of Legislative Decree 58 of 24 February 1998 (the "Consolidated Law on Finance");
c) the regulation containing provisions on transactions with related parties, adopted by Consob with its resolution 17221 of 12 March 2010 and subsequently amended with resolution 17389 of 23 June 2010 (the "Consob Regulation").

The "Internal regulation on transactions with related parties", which was applied from 1 January 2011, is published on Iren's website (www.gruppoiren.it) and, in summary, provides for:

a) identification of related parties;
b) the meaning of transaction with related parties;
c) transactions of a significant amount;
d) transactions of a lesser significance and the relative procedure;
e) transactions of a higher significance and the relative procedure;
f) exclusions;
g) establishment of the committee for transactions with related parties;
h) transactions for which the shareholders' meeting is competent;
i) amendments to the articles of association to be submitted to the extraordinary shareholders meeting of Iren;
j) forms of advertising.

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

Transactions with subsidiaries and associates

Intercompany Services - In order to make best use of the organisational synergies arising from the merger of Iride and Enìa, the Iren structure was designed in accordance with a holding model, with sufficient staff structures to support the coordination activity of the Group and to deal with the most challenging matters of general interest. Therefore, Iren can provide professional services to the first-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.
These activities are governed by special supply contracts at arms' length terms.

Financial management - Organisational solutions were adopted with the aim of centralising financial management for the entire Group under the direct responsibility of Iren S.p.A., in order to optimise the structure and conditions of access to third party financing.

To this end, non-current loans are taken out from financial institutions by Iren, whereby the funds are subsequently transferred to the Group's companies to support the investments made by these companies based on intercompany facility agreements.
The Board of Directors approved the regulation of financial transactions between the Parent and the First-level Companies, regarding both the cash pooling of the resources available within the Group for day to day requirements (working), and for the management of the resources needed to support non-current investments. The conditions of infragroup contracts, signed based on the above regulation, were defined according to the conditions at which the Parent procures on the financial market.

Tax consolidation scheme - Starting from 2010, Iren S.p.A. adopted the tax consolidation scheme pursuant to art. 117 et seq. of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.
Since 2010, all financial and legal transactions between the parties are governed by the specific infragroup agreement between the companies involved and the parent, Iren S.p.A..
From 2010, the tax consolidation scheme therefore includes, in addition to the parent Iren S.p.A., the following companies: AEM Torino Distribuzione, CELPI, Iride Servizi, AEMNET, Iren Acqua Gas, Iren Mercato, Iren Energia, CAE AMGA Energia, AGA, AES Torino, Mediterranea delle Acque, Zeus, Immobiliare delle Fabbriche, Nichelino Energia, Enìa Parma, Enìa Piacenza, Enìa Reggio Emilia, Eniatel, Tecnoborgo, Iren Ambiente e Iren Emilia and Genova Reti Gas.
In particular, this contract covers the way in which the IRES taxable amounts are transferred and the related remuneration charge, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.
Italian Law 244 of 24 December 2007 (2008 Finance Law), with effect starting from the 2008 tax period, radically changed the group taxation rules. It abolished all consolidation adjustments provided for by art. 122 of the Consolidated Income Tax Act, abrogated the rules regarding infragroup transfers pursuant to art. 123 of the Consolidated Income Tax Act and introduced the possibility, under certain conditions, to deduct from the consolidated income surplus interest expense of the participating companies that may have accrued due to the new interest expense deductibility provisions set forth in art. 96 of the Consolidated Income Tax Act.
As a result of the regulatory modifications mentioned above, the parties agreed on the need to update the previous Regulation in effect, in conformity with the provisions of art. 22 of the Regulation. The update protects the principles stated above.
After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay to the parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.
The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the parent is able to determine the total group Income for IRES purposes.
The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to art. 127 paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.

With reference to Group companies that operate in the production, trading, transportation or distribution sectors of natural gas or electric energy, also generated by renewable sources, they are subjected to 6.5% IRES additional tax (increased to 10.5% for 2011, 2012 and 2013). This additional tax must be paid autonomously by the above-mentioned companies, even if they are part in the tax consolidation.

Group VAT option – The Iren Group opted for Group VAT Settlement in 2011, sending their adherence to this option within the terms of law.
In terms of procedures, for 2011, the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding settlements and VAT periodic payments.
The companies that took part in the settlement procedure are the parent Iren S.p.A. and the following companies: Iren Energia S.p.A., Iride Servizi S.p.A., Iren Acqua Gas S.p.A., Iren Mercato S.p.A., AEM Torino Distribuzione S.p.A., AEM NET S.p.A., CAE AMGA Energia S.p.A., AES Torino S.p.A., CELPI, Genova Reti Gas, Nichelino Energia, Idrotigullio, Enìa Reggio Emilia S.p.A., Enìa Parma S.p.A., Enìa Piacenza S.p.A., Iren Ambiente S.p.A., Iren Emilia S.p.A., and Enìa Solaris S.p.A..

Other significant transactions with associates

Furthermore, in 2011, Iren Mercato operations continued through a gas supply contract entered into with the associates Plurigas and Sinergie Italiane. This allowed the company to supply not only the Genoa and Emilia catchment areas, but also some trading companies belonging to the Iren Group.

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

Transactions with shareholder Municipalities-related parties

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

Furthermore, special attention is paid to the local authorities on whose territory Iren is also active through its subsidiaries.
Through Iride Servizi, the Iren Group provides various services to the Municipality of Turin in support of its activities for the administered community, such as management of street lighting and traffic light services, management of heating and electrical systems and municipal buildings or buildings used to provide services to the community, global services and similar. The services rendered by Iride Servizi are governed by specific long-term agreements. In relation to these agreements, negotiations were held with the Municipality of Turin to amend several contractual clauses, including the clause regarding the consideration for ordinary maintenance activities in the existing contracts. With reference to the only agreements for the heating and electrical systems management, expiring on 31 December 2014, negotiations were carried out for a new assignment up to 31 December 2017. As per the Internal regulation on transactions with related parties, the specific committee of independent directors was involved. The committee classified the transaction to be carried out with the Municipality of Turin as a transaction of lesser significance, given that the value of said transaction did not meet the thresholds to be classified as of higher significance, and issued a written opinion on 13 May 2011, which was favourable to the Company's interest in carrying out the above transactions, as well as on the economic viability and substantial correctness of the related conditions. The Board of Directors of the listed parent Iren S.p.A. and the Board of Directors of the subsidiary Iride Servizi both acknowledged this opinion, and the latter assigned its specific body to finalise the related deeds/contracts.

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

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

Iren Emilia provides

a) the Municipalities of Reggio Emilia, Parma and Piacenza with the waste collection and disposal services at terms similar to those applied to the other customers;
b) the Municipality of Piacenza with drinking water and sewers based on supply contracts similar to those signed with the other customers;
c) the Municipality of Parma with public lighting services;
d) the Municipality of Reggio Emilia with maintenance of public parks and snow removal;
e) the Municipality of Piacenza with maintenance of public parks, snow removal and cemetery services.

Transactions with related parties

According to the "Internal regulation on transactions with related parties", in December 2011, Iren's Directors defined Intesa San Paolo Group as related party. By reason of the fact that it has been defined as related party at year end only, these financial statements will disclose as amounts from related parties only the balances connected with companies in the Intesa San Paolo Group existing at 31 December 2011.
The Group has financial relations with the Intesa San Paolo Group and mainly relate to various loan types such as mortgage loans, credit lines and current accounts.
Information on financial transactions with related parties is shown in paragraph "XIII. Annexes to the consolidated financial statements", considered an integral part of these notes.

Transactions with Directors

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

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

Any interests that these authorised bodies have in operations between the Parent and the First-level Companies will be declared when they are being approved by the respective Boards of Directors.
As regards the remuneration of key managers, reference is made to the table of remunerations of Directors, Statutory Auditors and key management personnel attached to the separate financial statements of Iren S.p.A..

VII. EVENTS AFTER THE REPORTING PERIOD

Edison Group reorganisation

On 28 January 2012, the Board of Directors of Iren S.p.A. approved unanimously the terms of the agreement for the reorganisation of Edison and Edipower after further and successful negotiations with A2A following the meeting of the Board of Directors held on last 25 January and in compliance with communications released to the markets on 27 December 2011 and 29 Decembers 2011.
On 15 February 2012 the final agreements were subscribed by the Parties, as provided for in the preliminary agreement of 26 December 2011.
The closing will have to occur within 20 working days from the occurrence of the condition precedent and in any case not after 30 June 2012. The entire transaction is in fact conditioned by Consob's confirmation that the price of the take-over bid, following Edison's acquisition of control by EDF, is not higher than 0.84 per share. This transaction is also subordinated to the approval by the competent Antitrust authorities.

Parma Integrated Environmental Hub (IEH)

On 25 January 2012, the Parma section of the Administrative Regional Court issued the ruling confirming that the authorisation procedure adopted for the Parma Integrated Environmental Hub was compliant with regulations and the building licence was issued within the authorisation procedure and the VIA (Environmental Impact Assessment). Therefore, the order for suspension of works issued by the Municipality of Parma was declared groundless and therefore cancelled.

Sinergie Italiane

The shareholders' meeting of Sinergie Italiana for the approval of financial statements at 30 September 2011, was held on 28 March 2012. The meeting resolved on the cover of the loss and following recapitalisation which is expected will be carried out by the shareholders of Ambiente Energia Brianza, Ascopiave, Blugas and Iren Mercato in light of the voluntary liquidation of the company, as already expressed by shareholders.
Once the above-mentioned transactions have been carried out on the capital, shares will be owned by Ascopiave, Blugas and Iren Mercato, each holding 30.94% of Sinergie Italian, while Ambiente Energia Brianza will keep the current 7.18% shareholding.

VIII. OTHER INFORMATION

CONSOB COMMUNICATION no. DEM/6064293 of 28 July 2006

Significant non-recurring events and transactions

On 27 December 2011, A2A S.p.A., EDF S.A., Delmi S.p.A., Edison S.p.A. and Iren S.p.A. announced their agreement on the corporate reorganisation of Edison S.p.A. and Edipower S.p.A.. EDF S.A. will purchase 50% of the share capital of Transalpina di Energia S.r.l. (TdE) from Delmi S.p.A.. By effect of the acquisition, EDF S.A. will hold 80.7% of Edison S.p.A.'s share capital. Simultaneously, Delmi S.p.A. will purchase 70% of Edipower S.p.A.'s share capital, currently held by Edison S.p.A. (50%) and by Alpig S.A. (20%). In particular, EDF S.A. acquires 50% of TdE S.r.l., a company in which it already holds the remaining 50%, from Delmi S.p.A.. In its turn, TdE owns 61.3% of the share capital with voting right in Edison S.p.A., at a price of euro 704 million, while Delmi S.p.A. acquires 70% of Edipower S.p.A. from Edison S.p.A. (50%) and Alpig (20%), for a total price of euro 804 million. Within this context, albeit not final, this transaction was deemed as "highly probable" and therefore Edipower shares (euro 81,340 thousand), as well as Delmi shares (euro 136,126 thousand) were impaired to adjust the carrying amounts to the amounts expressed by the reorganisation of Edison S.p.A. and Edipower S.p.A. For further details, reference is made to note 6 "Other investments" and note 41 "Impairment losses on investments".

Positions or transactions deriving from atypical and/or unusual transactions

In 2011, the Group was not involved in atypical and/or unusual transactions, as defined in the Communication, i.e. transactions that may, due to their significance/relevance, nature of the counterparties, subject of the transaction, methods for determining the transfer price and timing of the event (near year end), give rise to concerns about: the correctness/completeness of the financial statements disclosures, conflict of interest, safeguard of the company's assets, protection of minority shareholders.

Publication of the Financial Statements

The Financial Statements were authorised for publication by Iren S.p.A.'s Board of Directors during the meeting held on 3 April 2012. The Board of Directors authorised the Chairman, the CEO and the Managing Director to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders.
The shareholders' meeting to be called to approve the separate financial statements of the Parent has the right to request amendments to the aforementioned consolidated financial statements.

IX. 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

La composizione della voce attività materiali, distinta tra costo storico, fondo ammortamento e valore netto, viene riportata nella tabella seguente:

thousands of euro

	Cost at 31/12/11	Acc. depreciation at 31/12/11	Carrying amount at 31/12/11	Cost at 31/12/2010	Acc. depreciation at 31/12/2010	Carrying amount at 31/12/2010
Land	75,984	(1,510)	74,474	74,147	(1,510)	72,637
Buildings	337,747	(104,865)	232,882	329,690	(96,110)	233,580
Leased buildings	6,735	(1,828)	4,907	6,740	(1,625)	5,115
Land and buildings	**420,466**	**(108,203)**	**312,263**	**410,577**	**(99,245)**	**311,332**
Plant and machinery	2,833,188	(1,112,482)	1,720,706	2,667,371	(1,017,747)	1,649,624
Leased plant and machinery	1,010	(581)	429	1,011	(476)	535
Plant and machinery	**2,834,198**	**(1,113,063)**	**1,721,135**	**2,668,382**	**(1,018,223)**	**1,650,159**
Industrial and commercial equipment	82,070	(50,038)	32,032	77,522	(45,217)	32,305
Leased industrial and commercial equipment	-	-	-	-	-	-
Industrial and commercial equipment	**82,070**	**(50,038)**	**32,032**	**77,522**	**(45,217)**	**32,305**
Other assets	117,494	(92,849)	24,645	115,318	(89,137)	26,181
Other leased assets	1,883	(1,535)	348	1,606	(1,384)	222
Other assets	**119,377**	**(94,384)**	**24,993**	**116,924**	**(90,521)**	**26,403**
Assets under construction and payments on account	**747,155**	**-**	**747,155**	**622,332**	**-**	**622,332**
Total	**4,203,266**	**(1,365,688)**	**2,837,578**	**3,895,737**	**(1,253,206)**	**2,642,531**

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

thousands of euro

	Opening balance	Changes in the consolidation scope	Increases	Decreases	Reclassifications	Closing balance
Land	74,147	-	1,166	(11)	682	75,984
Buildings	329,690	-	4,623	(4,083)	7,517	337,747
Leased buildings	6,740	-	-	(5)	-	6,735
Land and buildings	**410,577**	**-**	**5,789**	**(4,099)**	**8,199**	**420,466**
Plant and machinery	2,667,371	-	84,369	(17,944)	99,392	2,833,188
Leased plant and machinery	1,011	-	-	(1)	-	1,010
Plant and machinery	**2,668,382**	**-**	**84,369**	**(17,945)**	**99,392**	**2,834,198**
Industrial and commercial equipment	77,522	(36)	5,885	(1,411)	110	82,070
Leased equipment	-	-	-	-	-	-
Industrial and commercial equipment	**77,522**	**(36)**	**5,885**	**(1,411)**	**110**	**82,070**
Other assets	115,318	(85)	6,300	(4,313)	274	117,494
Other leased assets	1,606	-	305	(28)	-	1,883
Other assets	**116,924**	**(85)**	**6,605**	**(4,341)**	**274**	**119,377**
Assets under construction and payments on account	**622,332**	**-**	**226,808**	**(1,204)**	**(100,781)**	**747,155**
Total	**3,895,737**	**(121)**	**329,456**	**(29,000)**	**7,194**	**4,203,266**

The balance in the column Changes in the consolidation scope, equal to euro 121 thousand, relates to the deconsolidation of the joint-venture in Acque Potabili Siciliane.
The balance in the column Reclassifications, equal to euro 7,194 thousand, relates to the transfer of assets connected with the Integrated Water Service assets, excluded from the IFRIC 12 scope of application, from intangible assets to property, plant and equipment.

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

thousands of euro

	Opening balance	Changes in the consolida-tion scope	Depreciation over the year	Decreases	Reclassifi-cations	Closing balance
Accumulated depreciation, land	(1,510)	-	-	-	-	(1,510)
Accumulated depreciation, buildings	(96,110)	-	(9,846)	1,474	(383)	(104,865)
Accumulated depreciation, leased buildings	(1,625)	-	(203)	-	-	(1,828)
Accumulated depreciation, buildings	**(99,245)**	**-**	**(10,049)**	**1,474**	**(383)**	**(108,203)**
Acc. depreciation, plant and machinery	(1,017,747)	-	(111,756)	17,023	(2)	(1,112,482)
Acc. depreciation, leased plant and machinery	(476)	-	(90)	-	(15)	(581)
Acc. depreciation, plant and machinery	**(1,018,223)**	**-**	**(111,846)**	**17,023**	**(17)**	**(1,113,063)**
Acc. depreciation, ind. and comm. Equipment	(45,217)	7	(6,096)	1,253	15	(50,038)
Acc. depreciation, leased ind. and comm. equip.	-	-	-	-	-	-
Acc. depreciation, ind. and comm. equip.	**(45,217)**	**7**	**(6,096)**	**1,253**	**15**	**(50,038)**
Accumulated depreciation of other assets	(89,137)	32	(8,148)	4,404	-	(92,849)
Acc. depreciation of other leased assets	(1,384)	-	(165)	14	-	(1,535)
Accumulated depreciation of other assets	**(90,521)**	**32**	**(8,313)**	**4,418**	**-**	**(94,384)**
Total	**(1,253,206)**	**39**	**(136,304)**	**24,168**	**(385)**	**(1,365,688)**

The amount in the column Changes in the consolidation scope, equal to euro 39 thousand, relates to the deconsolidation of the joint-venture in Acque Potabili Siciliane.
The balance in the column Reclassification, equal to euro 385 thousand, relates to the transfer of assets connected with the Integrated Water Service assets, excluded from the IFRIC 12 scope of application, from intangible assets to property, plant and equipment.

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

Plant and machinery
This item refers to costs for electrical energy production plants, heat production plants, electrical energy distribution networks, gas distribution networks, heat distribution networks and plants related to waste disposal services. Freely transferable assets are included in assets of electrical energy production plants.
Investments for the year, equal to euro 84,369 thousand, mainly refer to:
- enlargement of the district heating network, including thermal exchange substations, meters and remote reading appliances, for the municipalities of Turin, Nichelino, and the Emilia Romagna region, amounting to euro 46,186 thousand;

- installation of new electronic meters for end customers and new connections to the distribution network of electrical energy, totalling euro 14,438 thousand;
- repowering of plants in Valle Orco, amounting to euro 4,069 thousand.

Industrial and commercial equipment

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

Other assets

This item refers to costs for the purchase of office furniture and machines and vehicles.
Investments for the year, equal to euro 6,605 thousand, mainly refer to the purchase of new vehicles and new hardware.

Assets under construction and payments on account

Assets under construction and payments on account include the various charges borne for investments under construction and not working yet, mainly referring to the projects connected with the Torino Nord co-generation Plant (euro 296,874 thousand), OLT (euro 276,349 thousand) as well as the Parma Integrated Environmental Hub (euro 98,349 thousand). Investments for the year, equal to euro 226,808 thousand, mainly refer to:
- building of the "Torino Nord" cogeneration plant, amounting to euro 109,283 thousand;
- repowering of plants in Valle Orco, amounting to euro 7,454 thousand;
- heat production plants of the energy power plant of Reggio Emilia, totalling euro 4,547 thousand;
- development of the heat transportation and distribution network, amounting to euro 5,217 thousand;
- implementation of the Polo Ambientale Integrato (Integrated Environmental Hub) project for the Emilia Romagna region, amounting to euro 55,582 thousand;
- transformation of the gas carrier Golar Frost, purchased by OLT Offshore, into a regasification plant, within the construction project of the Livorno regasification terminal (OLT project), amounting to euro 20,889 thousand.

For further information on investments for the year, reference is made to the pertaining section in the Directors' Report.
Ordinary depreciation for 2011, totalling euro 136,498 thousand, were calculated based on the rates previously indicated and held to represent the residual useful life of the relevant asset.
The group holds assets acquired through finance leases, for a total amount of euro 5,684 thousand (euro 5,872 thousand at 31 December 2010), mainly related to industrial buildings.
Lastly, no assets are granted to guarantee liabilities.

Note 2_Investment property

The following table highlights the breakdown of the item:

thousands of euro

	Cost at 31/12/11	Acc. depreciation at 31/12/11	Carrying amount at 31/12/11	Cost at 31/12/2010	Acc. depreciation at 31/12/2010	Carrying amount at 31/12/2010
Land	260	-	260	446	-	446
Buildings	2,826	(1,143)	1,683	3,494	(1,253)	2,241
Total	**3,086**	**(1,143)**	**1,943**	**3,940**	**(1,253)**	**2,687**

The amounts indicated refer to investment property of the subsidiaries Mediterranea delle Acque (euro 293 thousand), and Immobiliare delle Fabbriche (euro 664 thousand), the portion of the investment property of Acque Potabili, proportionally consolidated (equal to euro 986 thousand) and mainly refer to buildings held to obtain lease payments.

NOTE 3_INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

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

thousand of euro

	Cost at 31/12/11	Acc. amortisation at 31/12/11	Carrying amount at 31/12/11	Cost at 31/12/10	Acc. amortisation at 31/12/10	Carrying amount at 31/12/10
Development costs	524	(475)	49	524	(424)	100
Industrial patents and similar rights	47,882	(29,254)	18,628	38,451	(23,006)	15,445
Licences, trademarks and similar rights	1,628,134	(517,777)	1,110,357	1,502,879	(462,714)	1,040,165
Other intangible assets	112,208	(59,041)	53,167	66,763	(50,711)	16,052
Assets under development and payments on account	98,568	-	98,568	96,696	-	96,696
Total	**1,887,316**	**(606,547)**	**1,280,769**	**1,705,313**	**(536,855)**	**1,168,458**

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

thousand of euro

	Opening balance	Changes in the consolidation scope	Increases	Decreases	Reclassifications	Impairment losses	Closing balance
Development costs	524	-	-	-	-	-	524
Industrial patents and similar rights	38,451	(27)	5,823	(9)	3,644	-	47,882
Licences, trademarks and similar rights	1,502,879	(1,889)	99,871	(3,645)	30,918	-	1,628,134
Other intangible assets	66,763	-	49,786	(283)	1,721	(5,779)	112,208
Assets under development and payments on account	96,696	(1,300)	48,164	(134)	(44,858)	-	98,568
Total	**1,705,313**	**(3,216)**	**203,644**	**(4,071)**	**(8,575)**	**(5,779)**	**1,887,316**

The amount in the column Changes in the consolidation scope, equal to euro 3,216 thousand, relates to the deconsolidation of the joint-venture in Acque Potabili Siciliane.

The balance of the column Reclassifications, totalling euro 8,575 thousand, relates for euro 7,194 to the transfer from intangible assets to property, plant and equipment of assets related to the Integrated Water Service segment which are not included in the IFRIC 12 scope of application, and for euro 1,381 thousand, to the transfer from intangible assets to assets held for sale related to the Integrated Water Service carried out in the municipalities of the Lazio region, by the joint venture in Società Acque Potabili.

The balance of the column Impairment losses for this year mainly consists of the value adjustment of emission trading quotas at fair value.

Changes in accumulated amortisation are shown in the following table:

thousand of euro

	Opening balance	Changes in the consolidation scope	Amortisation over the year	Decreases	Reclassifications	Closing balance
Acc. amortisation, development costs	(424)	-	(51)	-	-	(475)
Acc. amort. of ind. patents and similar rights	(23,006)	7	(6,322)	7	60	(29,254)
Acc. amort. of licences, trademarks and similar rights	(462,714)	149	(58,050)	2,311	527	(517,777)
Acc. amort. of other int. assets	(50,711)	-	(8,492)	231	(69)	(59,041)
Total	**(536,855)**	**156**	**(72,915)**	**2,549**	**518**	**(606,547)**

The amount in the column Changes in the consolidation scope, equal to euro 156 thousand, relates to the deconsolidation of the joint-venture in Acque Potabili Siciliane.
The balance of the column Reclassifications, totalling euro 518 thousand, relates for euro 385 to the transfer from intangible assets to property, plant and equipment of assets related to the Integrated Water Service segment which are not included in the IFRIC 12 scope of application, and for euro 133 thousand, to the transfer from intangible assets to assets held for sale related to the Integrated Water Service carried out in the municipalities of the Lazio region, by the joint venture in Società Acque Potabili.

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

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

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

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

Note 4_Goodwill
Goodwill totals euro 131,651 thousand (31 December 2010: euro 132,117 thousand) and mainly refers to goodwill for:
- the majority of Acqua Italia S.p.A. (now Mediterranea delle Acque), where the positive difference between the purchase cost and fair value of acquired and identifiable assets and liabilities was recognised as goodwill for euro 23,202 thousand (allocated to water CGU);
- Enel's acquisition of the 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 euro 64,608 thousand (allocated to energy infrastructures CGU, especially electric grids);
- the business unit purchased from Enel at the end of 2000 and referred to electric facilities of the town of Parma, for an amount of euro 10,441 thousand (allocated to energy infrastructures CGU, especially electric grids);
- shares in Enìa Energia (now merged into Iren Mercato), acquired by Sat Finanziaria S.p.A. and Edison, for an amount of euro 16,731 thousand (allocated to market CGU).

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

The Iren Group impairment tests is organised on two levels:
- Cash-generating Units, corresponding to the business sectors described in the foreword to these noted based on the Group's Business Plan. This method allows for a more effective disclosure of goodwill and future investment plans and supplies a homogeneous analysis of information communicated to the market. In particular, the cash-generating units are represented by Energy Infrastructures, Generation, Market, Integrated Water Service, Waste Collection, Other (residual).

- For First-level companies (Iren Acqua Gas, Iren Ambiente, Iren Emilia, Iren Energia and Iren Mercato), upon the occurrence of specific impairment triggers with special reference to goodwill, assets and value recoverability of their equity investments.

Within the assessments made, the recoverable amount was determined by calculating the value in use of an asset or referring to fair value. In order to obtain the best estimate of the value in use, assessment was made by using pre-tax operating cash flows, which derive from the most recent and thorough economic and financial projections over a five-year period, or a longer period according to the type of business, as well as pre-tax value terminal, calculated by using the perpetual yield, if applicable, and by verifying the same according to implied multiples (the final value should range between 6 and 8 times EBITDA output).
The discount rate is defined by the pre-tax weighted average cost of capital (WACC) and it is included in the 6.4 – 7.4% range, according to the specific business line.
In general, and prudentially, the "g" growth rate was used to calculate the terminal value equal to zero at real values. In the event of standalone plans used at nominal values, the "g" growth rate used was equal to programmed inflation.

The impairment test performed on 31 December 2011 on CGUs, corresponding to the business sectors described in the foreword to these notes, highlighted no impairment losses.

Sensitivity to changes in the basic assumptions
Any changes in the basic assumptions might involve a loss due to impairment. In particular, directors have identified the pre tax weighted average cost of capital (WACC) for which an increase is reasonably possible. This would involve a reduction in the recoverable amount below the carrying amount. The Directors deem that the following changes, shown in the table hereunder, should be made in the pre-tax weighted average cost of capital so that the recoverable amount be equal to the carrying amount for the CGU Generation and Integrated Water Service.

	Increase in WACC necessary for the carrying amount to be equal to the recoverable amount
CGU Generation	1,33
CGU Integrated Water Service	1,98

In light of the current volatility of markets and the uncertain economic perspectives in future times, the company deems suited to highlight that the regulated business are subject to a specific sector legislation which governs margins. These business, therefore, have stable margins that can be foreseen also in turbulent market periods.

Goodwill impairment at 31 December 2011, equal to euro 466 thousand, is mainly due to amounts received from the proportional consolidation of the Società Acque Potabili joint venture.
For further information on impairment tests performed on the Edipower equity investment measured at equity and on Delmi equity investments available for sale, reference is made to Note 6 "Other investments". For further information on impairment tests made on other equity investments measured at equity, reference is made to Note 5.

Note 5_Investments accounted for using the equity method

Investments accounted for using the equity method are those in associates owned by the Group, and amount to euro 230,818 thousand (31 December 2010: euro 324,106 thousand).
The companies measured using the equity method, belonging to the Group at 31 December 2011, are shown in an annex.
Changes for the year are shown in the following table:

thousands of euro

	31/12/2010	Reclassifications	Increases (Decreases)	Profit/ (loss) for the year	Impairment losses	Dividends	Measurements with direct effect on equity	31/12/2011
A2A Alfa	744	-	-	978	-	-	-	1,722
ABM Next	300	-	-	-	-	(46)	-	254
Aciam	315	-	-	(11)	-	-	-	304
Acos	6,865	-	-	759	-	(165)	-	7,459
Acos Energia	277	-	-	502	-	-	-	779
Acquaenna	1,380	-	-	-	-	-	-	1,380
Acqueinforma	5	-	-	-	-	-	-	5
Aguas de San Pedro	4,260	-	-	748	-	-	106	5,114
Aiga	308	-	-	27	-	-	-	335
Alegas	1,381	-	(1,381)	-	-	-	-	-
Amat	5,619	-	-	22	(2,644)	-	-	2,997
Amat Energia	2	-	2	(1)	(3)	-	-	-
Amter	679	-	-	131	-	(89)	-	721
Asa	11,883	-	-	452	-	-	(2,102)	10,233
Asmt Servizi Industriali	5,887	-	-	46	(2,284)	-	-	3,649
Atena	8,334	-	-	700	-	-	-	9,034
Bt Enìa tlc	6,834	(2,110)	(4,996)	272	-	-	-	-
Castel	433	-	-	-	-	-	-	433
Ceppo	254	-	(254)	-	-	-	-	-
Consorzio Servizi Integrati	50	-	-	-	-	-	-	50
Domus Acqua	28	-	-	-	-	-	-	28
Edipower	220,509	-	-	8,725	(81,340)	(4,266)	1,372	145,000
Fingas	8,193	-	-	(22)	-	-	-	8,171
Gas Energia	735	-	-	75	-	-	-	810
Gesam Gas	6,956	(6,770)	-	-	-	(186)	-	-
Gica	131	-	-	-	-	-	(131)	-
Global Service	6	-	-	-	-	-	-	6
Il tempio	32	-	-	-	-	-	-	32
Iniziative Ambientali	438	-	-	22	-	-	-	460
Livorno Holding	6	-	-	-	(6)	-	-	-
Mestni Plinovodi	9,227	-	-	147	-	-	-	9,374
Mondo Acqua	142	-	-	-	-	-	-	142
Plurigas	19,169	-	-	7,520	-	(5,580)	(2,205)	18,904
Rio Riazzone	229	-	-	(9)	-	-	-	220
S.M.A.G.	-	-	36	(30)	-	-	-	6
Salerno Energia Vendite	1,164	-	-	627	-	(230)	-	1,561
Sea Power & Fuel	3	-	6	-	-	-	-	9
Sinergie Italiane	-	-	-	-	-	-	-	-
Sosel	508	-	-	157	-	(22)	-	643
Tirana Acque	47	-	-	-	-	-	-	47
Valle Dora Energia	498	-	-	-	-	-	-	498
Vea Energia e Ambiente	274	-	-	164	-	-	-	438
TOTALE	**324,105**	**(8,880)**	**(6,587)**	**22,001**	**(86,277)**	**(10,584)**	**(2,960)**	**230,818**

Edipower is considered an associate, even though the investment percentage is less than 20%. Indeed, Iride holds a significant influence considering the agreements and tolling agreements currently in place between the shareholders. Following the Edison/Edipower reorganisation and based on the figures supplied by the expert appraisal, the investment was impaired by euro 81,340 thousand. For further details, reference is made to the following note 6 "Other investments".

Impairment tests performed on the carrying amount of other associates highlighted an impairment for Amat (euro 2,644 thousand) and ASMT Servizi Industriali (euro 2,284 thousand) by reason of the fact that directors deemed that the recoverable amount of these investments was lower than the carrying amount.

As regards the equity investment in Sinergie Italiane, an amount of euro 25,804 thousand was allocated to the provision for risks due to the company's loss for the year. For further details, reference is made to Note 20, Provision for risks and charges.

The investment in Gesam Gas was reclassified under assets held for sale by reason of the fact that the sale of this company was concluded in February 2012.

During the year, the group sold a portion of its shares held in BT Enia. At 31 December, the Group still holds 12.01% of the company's shares. The company was therefore reclassified under "Other investments".

Note 6_Other investments

This item relates to investments in companies over which the Group has neither control nor significant influence. Since their fair value could not be reliably determined, these investments, except for Delmi, were maintained at cost, adjusted for any impairment losses.
The list of other investments at 31 December 2011 is shown in an annex.
Changes for the year are shown in the following table:

thousands of euro

	31/12/2010	Increases (Decreases)	Impairment losses	Reclassifications	31/12/2011
Acque Potabili Siciliane	20	-	-	-	20
Agenzia Parma Energia	3	(3)	-	-	-
Astea Energia	7	-	-	-	7
Atena Patrimonio	12,030	-	-	-	12,030
ATO2 Acque società consortile	10	-	-	-	10
Autostrade Centro Padane	1,248	-	-	-	1,248
BT Enia	-	-	-	2,110	2,110
C.R.P.A.	52	-	-	-	52
CFR SPA	13	-	-	-	13
Consorzio Leap	10	-	-	-	10
Consorzio Prometeo	2	(2)	-	-	-
Consorzio Topix	5	-	-	-	5
Cosme	2	-	-	-	2
CSP Innovazione nelle ICT	28	-	-	-	28
Delmi	267,834	-	(127,562)	-	140,272
Energia Italiana	12,928	-	-	-	12,928
Environment Park	397	2	-	-	399
IAM SPA	25	-	-	-	25
Nord Ovest Servizi	780	-	-	-	780
RE Innovazione	8	-	-	-	8
Rupe	10	-	-	-	10
Sarmato Energia	777	(777)	-	-	-
SDB Società di biotecnologie	13	(3)	-	-	10
SI.RE	15	-	-	-	15
Sogea	2	-	-	-	2
Stadio di Albaro	27	-	-	-	27
T.I.C.A.S.S.	4	-	-	-	4
TOTAL	**296,250**	**(783)**	**(127,562)**	**2,110**	**170,015**

With reference to the calculation of fair value in the investment in Delmi S.p.A., the Directors of Iren show the following.

As shown in the Financial Statements at 31 December 2010, Delmi, classified as available for sale, is not quoted on an active market. During 2011, negotiations were carried on with the aim of confirming the willingness of Iren's directors to confer an industrial value to the transaction in question. In particular:

- On 27 December 2011, A2A S.p.A., EDF S.A., Delmi S.p.A., Edison S.p.A. and Iren S.p.A. announced their agreement on the corporate reorganisation of Edison S.p.A. and Edipower S.p.A.. EDF S.A. will purchase 50% of the share capital of Transalpina di Energia S.r.l. (TdE) from Delmi S.p.A.. By effect of this acquisition, EDF S.A. will hold 80.7% of Edison S.p.A.'s share capital. The amount related to the purchase of 50% of TdE S.r.l. is fixed based on the price of 0.84 euro per Edison S.p.A. share, less the portion pertaining to the company's indebtedness. Simultaneously, Delmi S.p.A. will purchase 70% of Edipower S.p.A.'s share capital, currently held by Edison S.p.A. (50%) and by Alpig S.A. (20%) at a price equal to euro 600 million and euro 200 million, respectively. This transaction represents the turning point of a path started in 2005 with the joint acquisition of the Edison Group by A2A (and other Delmi's shareholders) and EDF. Two important energy hubs will be created following these agreements, which, thanks to the stable organisation and the launching of activities, will contribute to the recovery of the economic development of the Country, while generating value all over the territory and giving new impulse to the Italian industry.
- On 30 January 2012, the Shareholders' Committee, the Shareholders' Meeting and the Board of Directors of Delmi unanimously approved the disposal of the company's equity investment in TdE S.r.l. to EDF S.A. (TdE is a holding company that owns 61% of Edison S.p.A.) and the purchase of 70% of - On 15 February 2012, A2A S.p.A., Delmi S.p.A., EDF S.A., Edison S.p.A. and Alpig signed the final agreements provided for in the preliminary agreement of 26 December 2011.
- On 15 February 2012, A2A S.p.A., Delmi S.p.A., EDF S.A., Edison S.p.A. and Alpig signed the final agreements provided for in the preliminary agreement of 26 December 2011 related to the reorganisation of investments in Editon S.p.A. and Edipower S.p.A..
- Namely, Delmi S.p.A. acquires 70% of Edipower S.p.A. from Edison S.p.A. (50%) and Alpig (20%) at a total price of euro 804 million. EDF S.A. acquires 50% of TdE S.r.l. from Delmi S.p.A.. EDF already owns the remaining 50% of TdE S.rl., which, in its turn, holds 61.3% of the voting rights of Edison S.p.A. at a price of euro 704 million. The main elements of a gas supply contract from Edison S.p.A. to Edipower S.p.A. have been agreed upon. This supply will cover 50% of Edipower S.p.A. needs over a 6-year period at arms' length.

Based on the above descriptions, Delmi's Financial Statements at 31 December 2011, approved by the Board of Directors on 16 March 2012, measured Tde as follows:

- Energia S.r.l. investment in Transalpina di Energia S.r.l. was measured by taking account of the aggregate agreements entered into by Delmi S.p.A., A2A S.p.A. and EDF S.A., as described above.
- The Directors deemed that, albeit prices were fixed independently through separate negotiations, the two transactions under evaluation could be included in one master agreement, within one single strategic plan, and therefore would not exist independently one from another.
- Taking account of the above and of the fact that at end 2011 the governance bodies of the companies involved had already substantially defined the reorganisation in question, on a general line it is right to provide for a joint accounting of the two transactions in the financial statements at 31 December 2011 already, by reason of the fact that this solution reflects the substance of the agreement.
- Therefore, the accounting treatment, as it is set forth in the IFRS, led to consider 70% of Edipower S.p.A. fair value in the financial statements at 31 December 2011, net of the future financial disbursement that will occur at closing, as carrying amount for the 50% Transalpina equity investment of Energia S.r.l..
- The approval of the reorganisation of Edison S.p.A. is a potential impairment indicator of the 50% investment held by TdE. Therefore, this investment should be tested for impairment pursuant to IAS 36. In order to define the recoverable amount, the cash flows deriving from reorganisation agreements, considered jointly, have been taken into account as specified hereunder:
  1. Sale of TdE investments (euro 704 million cash-in);
  2. Purchase of 70% in Edipower S.p.A. (euro 804 million cash-out);
  3. Cash inflows deriving from the acquisition of the Edipower S.p.A. investment, equal to 70% of the fair value of the same, as determined by an expert (70% of euro 1,450 million, equal to euro 1,015 million).
- As regards the gas procurement contracts, Delmi deems that the same do not affect the recoverable amount as they will be entered into at arms' length.
- In particular, Edipower S.p.A.'s fair value was calculated based on estimates of cash flows of the sever-year forecasts (2012-2019) provided for by the Edipower's management.

  The expert has established that the main measurement method should be the Financial one, in particular the Unlever Discount Cash Flow. Therefore explicit flows have been discounted and added with a terminal value determined through the estimate of an operating cash flow deriving from the average flows of working capital resulting from the 2012-2019 plan, adjusted by the value of non discretionary investments necessary to maintain the normal conditions of corporate operations. In defining the terminal value, a variable growth rate (from 0% to 1%) was taken into account and the discounting rate (WACC) used to discount the cash flows was equal to 7%.

- According to the results obtained, the carrying amount of Edipower S.p.A. was estimated in an interval ranging from euro 1,455.6 and 1,639.1 million. The expert has also performed an additional control evaluation by using implied multiples. From this measurement, the resulting carrying amount of Edipower S.p.A. ranged from euro 1,115.4 and 1,469.8 million.
- Finally, the expert estimated that the carrying amount of Edipower S.p.A. ranged between average carrying amounts of euro 1,300 and 1,550 million.
- While choosing the measurement criterion to be adopted, Delmi deemed that the criterion funded on estimated cash flows, which might be generated by Edipower S.p.A., would allow to clarify the amount that the provisional plan may disclose assuming that the company is going concern. The application of market criteria, and especially of stock exchange multiples, is instead affected, in this particular historical moment, by market elements and the duration of the crisis has involved an increasing price volatility of comparable companies.
- With respect to the above, Delmi's Directors elected to adopt the minimum amount of the range highlighted by the measurement with the financial method, i.e. euro 1,450 million. This amount also reflects the average value of measurements carried out with the two methods and it is therefore comparable with the method of Multiples.
- In light of the above, the recoverable amount was determined in euro 915 million. The overall impact to income statement is equal to euro 851 million and Delmi's Equity is therefore equal to euro 935 million at 31 December 2011.

In light of the above, Iren's Directors deem it suited to use such information to define a fair value calculation model that better reflects the allocation of the investment in Delmi and medium-term strategic objectives. In particular, to determine the fair value of equity investment held in Delmi at 31 December 2011 based on Iren's investment in the Company's Equity is deemed correct. Delmi's equity, in fact, reflects the consequent measurement at fair value of the only asset owned, ie. TdE, by effect of the above-mentioned reasons.

By applying the above-mentioned method, a reduction of euro 136,126 thousand is recorded with respect to the initial carrying amount, equal to euro 276,399 thousand. Directors deem that this amount is significant based on the provisions of IAS 39.61. The entire amount, which includes the negative "Fair value reserve", amounting to euro 8.5 million and recognised in the financial statements at 31 December 2010, is charged to income statement and no amount under deferred taxes is recognised pursuant to the provisions of par. 1 of Art. 101 of TUIR.

Consistently with the above-mentioned descriptions, the carrying amount of the equity investment held by the Group in Edipower, equal to 10%, was adjusted to the portion of the amounts expressed by the above expert appraisal (euro 145 million).

The entire transaction is in fact conditioned by Consob's confirmation that the price of the take-over bid, following Edison's acquisition of control by EDF, is not higher than 0.84 per share. This transaction is also conditioned to the approval by the competent Antitrust authorities. Closing shall occur not after 30 June 2012.

Note 7_Non-current financial assets

The item, equal to euro 132,299 thousand (31 December 2010: euro 88,388 thousand), refers to securities other than equity investments, financial assets and fair value of derivatives.

Securities other than investments

This item contains securities that are measured pursuant to the provisions of IAS 39 - *Financial Instruments: Recognition and Measurement,* as held for sale or as held-to-maturity investments.

thousands of euro

	31/12/2011	31/12/2010
"Maestrale" closed-end real estate fund	-	137
Securities as collateral with bodies	36	38
Total	**36**	**175**

Securities as collateral with bodies are classified as held-to-maturity investments, and are measured at amortised cost.

Financial receivables and fair value of derivatives

thousands of euro

	31/12/2011	31/12/2010
Non-current financial receivables due from joint ventures	-	45
Non-current financial receivables due from associates	812	1,027
Non-current financial receivables due from shareholders - related parties	127,468	81,289
Non-current financial receivables - leases	130	501
Non-current financial receivables due from others	3,380	3,362
Fair value of derivatives – non-current share	473	1,989
Total	**132,263**	**88,213**

Financial receivables due from associates, amounting to euro 812 thousand, refer to receivables due from AIGA, ABM Next and Acquaenna, with insignificant individual amounts.

Receivables due from shareholders - related parties regard receivables due from the Municipality of Turin on which interest accrues for the Group, and concern the classification of the non-current share of receivables on the current account that governs the trading and financial transactions between the subsidiary Iride Servizi S.p.A. and the Municipality of Turin.
These receivables total euro 244,507 thousand, and are divided amongst various statement of financial position items according to their classification by type and maturity: Trade receivables (Note 11) and Current financial assets – financial receivables from Parents (Note 14), as shown in the following table.

thousands of euro

	31/12/2011	31/12/2010
Trade receivables for services on invoices issued	19,904	29,686
Trade receivables for services on invoices to be issued	6,190	1,709
Trade receivables for electrical energy and other supplies	15,917	9,450
Allowance for impairment	(6,750)	(6,750)
Total trade receivables	**35,261**	**34,095**
Non-current portion of financial receivables in current account	127,468	81,289
Total non-current financial receivables	**127,468**	**81,289**
Current portion of financial receivables in current account	70,000	118,000
Financial receivables for interest invoiced	8,090	11,753
Financial receivables for interest to be invoiced	3,688	3,337
Total current financial receivables	**81,778**	**133,090**
Total	**244,507**	**248,474**

The balance of trade receivables due from the Municipality of Turin has increased by around euro 1,166 thousand (net of the allowance for impairment) and the balance of current and non-current financial receivables has decreased by euro 5,133 thousand. The Iren Group's total exposure from the Municipality of Turin has therefore decreased by euro 3,967 thousand since 31 December 2010.
The situation of receivables due from the Municipality was constantly monitored by the Company together with the Municipal officials so that proper steps would be taken to permit the settlement.
Therefore, based on a measurement carried out by Directors, the portion of financial receivables payable within next year is equal to around euro 70,000 thousand, and the remaining amount of financial receivables due from the Municipality will be disclosed under Non-current financial receivables (euro 127,468 thousand).
The above division of receivables is consistent with the actions aimed at reducing the amount of receivables that the Company performed over 2011.
The reduction of the above financial assets, with respect to 31 December 2010, is associated to ac-

tions performed in accordance with the agreements between Iride Servizi S.p.A. and the Municipality of Turin during 2010, which set out the following:

- credit stability by achieving a substantial equality of invoicing and related payment flows;
- progressive reduction of the stock of payables of the Municipality through ordinary and extraordinary interventions performed by the Town Council.

Financial receivables due from lease companies relate to a finance lease agreed in 2004 for the sale of the Lingotto refrigeration plant located in Turin. This contract has a term of 9 years. The non-current portion amounts to euro 130 thousand (31 December 2010: euro 501 thousand), while the current portion, included in current financial assets, amounts to euro 371 thousand (31 December 2010: euro 344 thousand).

The non-interest bearing loan for the future share capital increase, paid to Nord Ovest Servizi, and a non-interest bearing loan to Medgas are included in Receivables due from others.
The fair value of derivatives amounts to euro 473 thousand (31 December 2010: euro 1,989 thousand) and the related description is included in section "Risk Management", chapter V.

Note 8_Other non-current assets

These are detailed in the following table:

thousands of euro

	31/12/2011	31/12/2010
Guarantee deposits	2,730	7,663
Tax assets after 12 months	1,858	1,990
Other non-current assets	8,949	5,652
Non-current prepayments and accrued income	14,289	14,158
Total	**27,826**	**29,463**

Tax assets after 12 months include IRPEF advances on post-employment benefits and were made in accordance with Law no. 140/1997. In accordance with the relevant legislation, this amount has been recovered since 1 January 2000 and is revaluated annually on the basis of the same criteria used to revalue the post-employment benefits.

Prepayments mainly include the long-term prepaid portion, relating to energy service contracts signed by the subsidiary CAE AMGA Energia S.p.A..

Note 9_Deferred tax assets

This item amounts to euro 174,850 thousand (31 December 2010: euro 134,046 thousand) and refers to deferred tax assets arising from elements deductible in future years. They also include the tax effect on adjustments made on IFRS first-time adoption. The change, compared to 31 December 2010, is primarily due to amortisation/depreciation exceeding the tax value, as well as to accruals to the provision for risks.

Reference should be made to the income statement, note 42 "Income tax expense", for further details.

Current assets

Note 10_Inventories

Inventories primarily comprise methane and consumables intended for maintenance and construction of the Group plants. The measurement criterion used, as described in the accounting policy and measurement criteria, is the weighted average cost.
The summary of the changes occurred over the year is as follows:

thousands of euro

	31/12/2011	31/12/2010
Raw materials	66,958	44,214
Allowance for inventory write-down	(2,614)	(2,531)
Carrying amount	**64,344**	**41,683**
Contract work in progress	3,587	3,544
Total	**67,931**	**45,227**

The significant change, with respect to 31 December 2010, is due to the acquisition of a portion of gas inventories of the associate Sinergie Italiane by the Market division.
The allowance for inventory write-down was set up in order to consider obsolete and slow-moving inventories.

At 31 December 2011, there are no inventories earmarked to guarantee liabilities.

Note 11_Trade receivables

These are detailed in the following table:

thousands of euro

	31/12/2011	31/12/2010
Receivables from customers	1,161,092	982,795
Allowance for impairment	(82,836)	(73,884)
Net receivables from customers	**1,078,256**	**908,911**
Trade receivables from joint ventures	13,203	10,934
Trade receivables from associates	62,868	66,604
Trade receivables from other Group companies	10,758	37,957
Trade receivables from shareholders – related parties	85,450	101,107
Allowance for impairment from shareholders – related parties	(10,805)	(10,278)
Total	**1,239,730**	**1,115,235**

Receivables from customers

These mainly relate to receivables due for electrical energy, gas, water and heat supplies, waste disposal services and sundry services. The balance takes into account the allowance for impairment of euro 82,836 thousand (euro 73,884 thousand at 31 December 2010).

Receivables from joint ventures

This item includes receivables from the Group joint ventures, proportionately consolidated. They relate to normal trade transactions performed at market conditions. For further details, reference is made to the table of transactions with related parties shown in the annex.

Receivables from associates

They relate to normal trade transactions performed at market conditions. For further details, reference is made to the table of transactions with related parties shown in the annex.

Receivables from other Group companies

They relate to receivables from certain non-consolidated Group companies, relating to ordinary trading transactions performed at market conditions.

Receivables from shareholders - related parties

Receivables from shareholders - related parties refer to trading transactions performed at arm's length with territorial authorities (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and, marginally, with FSU. The balance takes into account the allowance for impairment of euro 10,805 thousand (euro 10,278 thousand at 31 December 2010). For further details, reference is made to 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

	31/12/2010	uses	Provisions of the year	Changes in the consolidation scope	31/12/2011
Allowance for impairment	73,884	(13,293)	22,826	(581)	82,836
Allowance for impairment – receivables from shareholders – related parties	10,278	-	527	-	10,805
Total	**84,162**	**(13,293)**	**23,353**	**(581)**	**93,641**

The provision was used to cover losses on receivables. The provisions of the year take into consideration the usual and thorough analyses as well as the current economic situation.

Note 12_Current tax assets

They amount to euro 4,400 thousand (31 December 2010: euro 5,755 thousand) and include receivables for IRES and IRAP advances made by the Group companies to the Tax Authorities.

Note 13_Other receivables and other current assets

These are detailed in the following table:

thousands of euro

	31/12/2011	31/12/2010
Receivables for revenue tax/UTF	29,329	6,856
VAT credit	15,966	8,829
Other tax assets	4,771	3,743
Tax assets due within 12 months	**50,066**	**19,428**
Receivables from CCSE	50,951	57,463
Green certificates	124,836	73,717
Advances to suppliers	1,513	1,347
Receivables for Group tax consolidation and VAT	3,004	2,081
Other current assets	21,153	38,413
Other current assets	**201,457**	**173,021**
Prepayments and accrued income	18,364	17,055
Total	**269,887**	**209,504**

The increase in receivables for green certificates is due to green certificates accrued during 2011, but still unsold or undelivered by GSE.

The increase in receivables for revenue tax/UTF is due to the increase in oil price expressed in euro and to lower volumes of gas sold due to the mild weather.

Note 14_Current financial assets

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

The details of current financial assets including derivatives are provided below:

thousands of euro

	31/12/2011	31/12/2010
Available-for-sale financial assets	-	590
Financial receivables due from joint ventures	154,916	226,655
Financial receivables due from associates	117,675	7,983
Financial receivables from related party Municipalities	81,778	133,090
Other financial receivables	8,184	8,529
Other financial assets	14,682	434
Total	**377,235**	**377,281**

Available-for-sale financial assets

Investments and securities included in this category are measured at fair value, and their variations are taken to equity.

At 31 December 2010, the item, amounting to euro 590 thousand, was related to the investment in CESI.

Financial receivables due from shareholders - related parties

They regard receivables on which interest accrues for the Group, and amount to euro 81,778 thousand (euro 133,090 thousand at 31 December 2010). They refer to the short-term balance of the current account which governs the trade and financial transactions between IRIDE Servizi S.p.A. and the Municipality of Turin, as already described in Note 7, to which reference is made for further details.

The Directors calculated the amount on the basis of an estimate that identifies the part of the receivables reasonably due within the year; the remaining part of the financial receivables from the Municipality was therefore classified under "non-current financial receivables – receivables due from shareholders - related parties" (euro 127,468 thousand).

Financial receivables from Group companies

They amount to euro 272,591 thousand (euro 234,638 thousand at 31 December 2010) and refer, for euro 1,806 thousand (euro 89,277 thousand at 31 December 2010), to receivables from AES Torino for the portion which is not netted yet, resulting from the proportional consolidation, of the centred management of treasury and related interests, for euro 153,110 thousand (euro 137,378 thousand at 31 December 2010) they relate to receivables from the OLT Offshore joint venture, pertaining to the portion which is not netted yet, resulting from the proportional consolidation of the loan granted to IREN Mercato, for euro 110,000 thousand (not included at 31 December 2010), to receivables from the associate Edipower, related to the shareholder loan and for euro 6,614 thousand (unchanged compared to 31 December 2010) for receivables from the associate ASA related to the loan granted by IREN Mercato. The remaining portion refers to receivables from associates for non significant individual amounts. For further details reference is made to the schedule of transactions with related parties shown in the annex.

Other financial receivables

These amount to euro 8,184 thousand (31 December 2010: euro 8,529 thousand). They include the portion of the amount paid by OLT Offshore as guarantee of the contract entered into with SAIPEM, amounts due for dividends to be collected, the short-term portion of finance lease receivables, prepayments and accrued income of a financial nature and other financial receivables.

Other financial assets

This item amounts to euro 14,682 thousand (31 December 2010: euro 434 thousand) and refers to the positive fair value of a commodities derivatives contracts signed by Iren Mercato.

Note 15_Cash and cash equivalents

Cash and cash equivalents may be analysed as follows:

thousands of euro

	31/12/2011	31/12/2010
Bank and postal accounts	44,268	144,113
Cash-in-hand and cash equivalents	484	430
Other cash and cash equivalents	6	5
Total	**44,758**	**144,548**

Cash equivalents represent short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value.

Note 16_Assets held for sale

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They amount to euro 31,622 thousand (euro 77,857 thousand at 31 December 2010).
This transaction refers to assets amounting to euro 20,155 thousand (euro 19,974 thousand at 31 December 2010) of the subsidiary Consorzio GPO, mainly composed (euro 19,225 thousand) of the 21.32% investment in the share capital of ASTEA.
The total includes euro 681 thousand (euro 3,294 thousand at 31 December 2010) relating to real estate assets of the subsidiaries Mediterranea delle Acque S.p.A. and Immobiliare delle Fabbriche S.p.A., for which negotiations are in progress with potential buyers for disposal of properties held for sale, now at sale price definition and finalisation stage.
These real estate assets are recognised taking into account the Group's commitment to sell. Therefore, the classification is based on the assumption that the carrying amount will be recovered through a transfer and not through the use in business operations. The amount recognised was determined at the lower of the carrying amount and fair value less costs to sell.

The amount of euro 3,459 thousand (euro 1,874 thousand at 31 December 2010) refers to the proportionate intangible assets of Acque Potabili, under water licence agreement in the Lazio region municipalities in the provinces of Rome (Rocca di Papa, Olevano Romani, Capranica Prenestina, Gerano, Rocca Canterano, Canterano) and the water concession in the municipality of Castrolibero, in the province of Cosenza, Zoagli, in the province of Genova, Casalborgone and San Sebastiano Po, in the province of Torino, and the building in Via Gondar, Rome, for which the sale is highly probable.
Assets held for sale, already recognised in the previous year, have the same value while awaiting the conclusion of the final agreement to be signed next year.

As for euro 6,770 thousand, the item relates to the investment in Gesam Gas, which at 31 December 2010, was listed within investments measured at equity by reason of the fact that in February 2012 the disposal of this investment was concluded at a price higher than the carrying amount disclosed in the financial statements.

The amount of euro 231 thousand (not present at 31 December 2010) refers to assets of the subsidiary CELPI which, starting from 2 December 2011, is no longer operating as it was put into liquidation.

The amount of euro 168 thousand (euro 1,499 thousand at 31 December 2010) refers to assets of the subsidiary Tema S.c.a.r.l. which, starting from 15 October 2010, is no longer operating as it was put into liquidation.

The amount of euro 158 thousand (euro 456 thousand at 31 December 2010) refers to the associate Piana Ambiente. At 31 December 2010, the item included the equity investment in Fata Morgana (euro 686 thousand), which, at 31 December 2011, was written off.

Moreover, at 31 December 2010, the amount of euro 50,074 thousand relates to the subsidiary Aquamet, for which, on 26 February 2010, a "preliminary share disposal agreement" was signed, under which Iren Acqua Gas S.p.A. is committed to the sale of its investment to Mediterranea Energia S.c.a.r.l., which has manifested an interest as buyer. This transaction was closed in the first half of 2011.

LIABILITIES

Note 17_Equity

Equity may be analysed as follows:

thousands of euro

	31/12/2011	31/12/2010
Share capital	1,276,226	1,276,226
Reserves and retained earnings	462,995	432,700
Net profit (loss) for the year	(107,890)	143,104
Total equity attributable to owners of the Parent	**1,631,331**	**1,852,030**
Share capital and reserves attributable to non-controlling interests	204,762	222,304
Non-controlling interests	8,613	7,286
Total consolidated equity	**1,844,706**	**2,081,620**

Share capital

The share capital amounts to euro 1,276,225,677 (unchanged compared to 31 December 2010), fully paid up and consisting of 1,181,725,677 ordinary shares with a nominal amount of euro 1 each and 94,500,000 savings shares without voting rights with a nominal amount of euro 1 each.

Savings shares

The 94,500,000 savings shares of Iren, held by Finanziaria Città di Torino, are not listed, have no voting rights and, except for a different order of priority in the allocation of net residual assets in case of company dissolution, they are subject to the same regulation as ordinary shares.
Lastly, in the case of sale, the savings shares will be converted automatically, at par, into ordinary shares.

Reserves

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

thousands of euro

	31/12/2011	31/12/2010
Share premium reserve	105,102	105,102
Legal reserve	28,996	23,862
Extraordinary reserve	13,324	24,248
Goodwill arising on share exchange	56,793	56,793
Contribution reserve	7,555	7,555
IFRS first-time adoption	(36,507)	(36,507)
Fair value reserve - Financial instruments	-	(8,119)
Hedging reserve	(30,737)	(17,029)
Consolidation reserve	223,517	181,843
Other reserves	94,952	94,952
Total reserves	**462,995**	**432,700**

Legal reserve

As provided by article 2430 of the Italian Civil Code, following the allocation of 5% of the prior year's profit, the legal reserve increased by euro 5,134 thousand and amounted to euro 28,996 thousand at 31 December 2011 (euro 23,862 thousand at 31 December 2010).

Hedging reserve

With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a balancing entry directly in equity under the hedging reserve. These contracts have been agreed to hedge exposure to the interest rate risk of variable rate loans and to the price risk with respect to electrical energy and gas purchase contracts.

IFRS first-time adoption

This reserve includes adjustments resulting from the first-time adoption of IFRS.

Fair value reserve - financial instruments
At 31 December 2010, the Fair value reserve – financial instruments, was negative by euro 8,119 thousand and mainly included the effects of the fair value measurement of the equity investment in Delmi. The equity investment in Delmi was adjusted for impairment during the year and the reserve previously recognised has been entirely reversed to the income statement. For further information, reference should be made to Note 6.

Goodwill arising on share exchange
It amounts to euro 56,793 thousand (unchanged compared to 31 December 2010). The amount of euro 94,319 thousand derives from the merger of AMGA into AEM Torino, as the difference between equity of AMGA (merged company) and the amount of the increase in share capital of AEM Torino (merging company). The merger was accounted for with effect from 1 January 2006, the year-closing date closest to the signing of the joint venture agreements between the Municipalities on 30 January 2006. During 2010, goodwill of euro 57,426 thousand resulted from the merger of Enìa into Iride, after the reinstatement of former Enìa fair value reserves of financial instruments (euro 5,115 thousand) and the hedging reserve (negative by euro 2,856 thousand). This amount, supplemented by that related to the previous merger, was used to comply with law obligations as for the reinstatement of reserves taxable on distribution of the merged company and amounting to euro 94,952 thousand.

Share capital and reserves attributable to non-controlling interests
Compared to 31 December 2010, the change in Share capital and reserves attributable to non-controlling interests is mainly due to the deconsolidation of Aquamet, consolidated with a share of 40% of equity attributable to non-controlling interests.

Non-current liabilities

Note 18_Non-current financial liabilities
These total euro 2,051,413 thousand (31 December 2010: euro 1,829,263 thousand), and consist of:

Bonds
They amount to euro 158,305 thousand (euro 155,798 thousand at 31 December 2010) and relate to the Parent for two 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 to a pre-set fixed rate. The proceeding for the first auction has already been completed in 2011, with the definition of the credit spreads for the next 2 years.
The amount refers to the amortised cost, pursuant to IFRS.

Non-current bank loans and borrowings
They relate exclusively to the non-current portion of loans granted by banks and amount to euro 1,846,681 thousand (euro 1,644,003 thousand at 31 December 2010).
They can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and expiry date, as shown in the following table:

thousands of euro

								31/12/2011	31/12/2010
	Min/max rate	Term	2013	2014	2015	2016	following	Total payables	Total payables
- fixed rate	3.94% - 5.57%	2013-2026	52,059	52,496	66,110	71,466	296,851	538,982	484,069
- floating rate	1.64% - 6.34%	2013-2023	259,872	670,080	122,600	68,107	187,040	1,307,699	1,159,934
TOTAL			**311,931**	**722,576**	**188,710**	**139,573**	**483,891**	**1,846,681**	**1,644,003**

Loans are all in euro.

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

thousands of euro

	31/12/2010				31/12/2011
	Total payables	Increases	Repayments	Exchange rate differences and amortised cost adjustments	Total payables
- fixed rate	**484,069**	100,000	(44,073)	(1,014)	538,982
- floating rate	**1,159,934**	526,166	(376,047)	(2,354)	1,307,699
TOTAL	**1,644,003**	**626,166**	**(420,120)**	**(3,368)**	**1,846,681**

Total non-current loans at 31 December 2011 increased compared to 31 December 2010 due to the following variations:

- euro 626,166 thousand increase due to the disbursement of new non-current loans. Namely, the Parent was granted new credit lines, totalling euro 100 million, with Cassa Depositi e Prestiti, euro 100 million with Mediobanca, euro 150 million with Unicredit, euro 75 million with BRE-Gruppo UBI, euro 100 million with IEB. Moreover, non-current loans amounting to euro 195 million were granted to AES Torino (51% consolidated), and euro 5 million to SAP (30.855% consolidated);
- reduction, totalling euro 420,120 thousand, related to the reclassification as current liabilities of loans with maturity in the next 12 months;
- secondary variations in amortised cost and exchange rate differences.

Finance lease liabilities

Finance lease liabilities relate to assets held by the Group under finance leases. These amount to euro 1,130 thousand (31 December 2010: euro 1,481 thousand).

Details of finance lease liabilities at 31 December 2011 are shown in the following table.

thousands of euro

	Due within one year	1 - 5 years	over 5 years
Recognised liabilities	551	1,130	-
Summary of instalments to be paid	572	1,143	-
Financial expense	21	13	-

Other financial liabilities

They amount to euro 45,296 thousand (euro 27,981 thousand at 31 December 2010) and refer, for the amount of euro 43,251 thousand (euro 26,065 thousand at 31 December 2010) to the fair value of derivatives agreed upon to cover the exposure to the interest rate risk of floating rate loans (described in the section "Risk management") and, for the amount of euro 2,045 thousand (euro 1,917 thousand at 31 December 2010) to sundry financial payables.

Note 19_Employee benefits

Changes in this item in 2011 were as follows:

thousands of euro

At 31/12/2010	**94,327**
Current service costs	742
Financial expense	3,725
Disbursements of the year	(6,557)
Advances	(972)
Actuarial gains	(4,318)
Changes in consolidation scope	(19)
Other changes	(137)
At 31/12/2011	**86,791**

Liabilities for employee benefits consist of:

Post-employment benefits

Post-employment benefits underwent the following movements during 2011:

	thousands of euro
At 31/12/2010	**70,341**
Current service costs	422
Financial expense	2,663
Disbursements of the year	(4,742)
Advances	(972)
Actuarial gains	(3,804)
Changes in consolidation scope	(19)
Other changes	(106)
At 31/12/11	**63,783**

Other benefits

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

Additional months' salaries (long-service bonus)

	thousands of euro
At 31/12/2010	**3,125**
Current service costs	120
Financial expense	132
Disbursements of the year	(372)
Actuarial gains	(198)
Other changes	(12)
At 31/12/2011	**2,795**

Loyalty bonus

	thousands of euro
At 31/12/2010	**1,929**
Current service costs	79
Financial expense	89
Disbursements of the year	(290)
Actuarial losses	205
Other changes	(19)
At 31/12/2011	**1,993**

Electricity discount

	thousands of euro
At 31/12/2010	**17,808**
Current service costs	121
Financial expense	796
Disbursements of the year	(1,049)
Actuarial gains	(624)
Other changes	-
At 31/12/2011	**17,052**

Premungas fund

	thousands of euro
At 31/12/2010	1,124
Financial expense	45
Disbursements of the year	(104)
Actuarial losses	103
At 31/12/2011	**1,168**

Actuarial valuations
The above-mentioned liabilities are measured by independent actuaries.

The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.
Future service is estimated in order to define the present value of the obligations on the basis of the assumptions related to changes in both the total number of employees and employee remuneration. These will be paid to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.
Actuarial projections of the probable discounts on electrical energy consumption due to current retirees or surviving spouses as well as current employees (and surviving spouses, if any) were taken into account in determining the amount of the electricity discount.
The following factors were considered in deciding which discount rate to adopt in the measurement approach provided by IAS 19:
- stock market of reference;
- the date the measurement is made;
- expected average term of the liabilities.

The average residual term of liabilities was obtained as the average weighted residual term of liabilities related to all benefits and all Group companies.
The other financial assumptions adopted in the calculations are the following:
- the nominal discount rate adopted in the current macroeconomic situation is 4.8%.
- annual inflation rate: equal to 2% for the entire measurement period;
- annual revaluation rate for the amount of the electricity discount: equal to the annual inflation rate for the entire measurement period;
- annual rate of increase for remuneration due to career development and contract renewals: equal to 3.5% for the entire period of valuation (a point and a half higher than the forecast annual rate of inflation); this assumption takes into account the likely trend of employee remuneration depending on the length of service and takes into account seniority increases, role changes within a category, promotions and future contractual increases until leaving the group of workers in service.

The main demographic assumptions adopted in the calculations are the following:
a) mortality of employees, both during and after employment, and family members, broken down by age and gender: ISTAT 2007 (source: ISTAT, 2009 Italian Statistics Yearbook);
b) rates of employee disability, broken down by age and gender, based on an actuarial study covering the period 1998-2009;
c) reduction of employees for sundry reasons (dismissal, resignation), broken down by age and gender, based on the company's history for the 1998-2009 period;
d) rate of leaving a surviving spouse as calculated by ISTAT;
e) average age of the surviving spouse taken from the INPS projection model.

Assumptions on advances are the following:
- likelihood of request of a first advance, for a length of service of between 8 and 40 years, equal to 20% for each year of service;
- maximum number of advances that can be requested equal to one;
- amount of the advance of post-employment benefits: 50% the first time.

NOTE 20_PROVISIONS FOR RISKS AND CHARGES

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

thousands of euro

	Opening balance	Increases	Decreases	(Incomes)/ Expense to be discounted	Closing balance	Current portion
Provision for renewal of third party assets	72,372	11,293	(1,332)	673	83,006	2,627
Provisions for landfill post-closure	29,730	1,621	(2,241)	6	29,116	2,289
Provision for dismantling and restoring sites	8,365	-	(54)	(82)	8,229	5,190
Provision for CIG/CIGS	39,357	6,233	(2,200)	1,977	45,367	-
Provision for former employees	1,258	-	-	-	1,258	-
Provision for risks on investments	3,396	29,640	-	-	33,036	32,992
Other provisions for risks and charges	76,462	63,924	(10,962)	682	130,106	55,963
Total	**230,940**	**112,711**	**(16,789)**	**3,256**	**330,118**	**99,061**

Provision for renewal of third party assets

The provision for the renewal of transferable assets reflects the measurement of the expense necessary to return the assets freely and in perfect working order at the end of the licence period.

Provisions for landfill post-closure

These are mainly provisions for future recovery expense, also including costs for the post-operating management until complete conversion of the involved areas to green areas. These costs are supported by special expertise. Accruals and decreases for the year were made to adjust the existing provisions to the estimated future costs to be borne and accrued at 31 December 2011. Decreases also refer to the uses of the provision to cover costs borne over the year regarding the disposal of leachate (related to closed lots of still operating landfills, both owned and under concession), as well as to the aggregate expense borne in the post-operating phase until the mineralization of waste and the conversion of landfills into green areas are completed.

Provision for dismantling and restoring sites

The "Provision for dismantling and restoring sites" partly refers to the prudential estimate of charges with respect to the future restoring of the former AMNU site land, in which an incinerator was located. This provision also includes a prudential estimate of charges referring to the future dismantling of the plant in Reggio Emilia, the increase of which is exclusively due to the discounting of the liability under evaluation.

Provision for CIG/CIGS

The provision for risks mainly refers to the potential risk of greater charges relative to higher contributions to be paid to INPS for the ordinary and extraordinary redundancy and mobility.

Provision for former employees

The provision for former employees under Laws no. 610/52 and no. 336/73 is to cover the expense arising from the application of these two laws (sliding scale pensions and benefits for ex-servicemen and similar).

Provision for risks on investments

This item primarily relates to the cover of the loss and following recapitalization of the associate Sinergie Italiane, for which, on 28 March 2012, the shareholders' meeting was held. The meeting approved the financial statements at 30 September 2011 and resolved on the cover of the loss and following recapitalization which is expected will be made by the shareholders Ambiente Energia Brianza, Ascopiave, Blugas and Iren Mercato, in view of the company's liquidation, according to intentions already expressed by the above-mentioned shareholders.

Other provisions for risks and charges

The provision mainly refers to the probable risk of greater charges for the construction of plants which are finished or still to be finished, the provisions for estimated ICI tax to be paid calculated on the value of plant systems as envisaged in art. 1-*quinquies* of Italian Law Decree no. 44 of 31 March 2005 and probable charges for various disputes.

The current portion referring to the provisions described above was reclassified under "provisions, current portion" (Note 27).

Note 21_Deferred tax liabilities

Deferred tax liabilities of euro 114,438 thousand (31 December 2010: euro 106,806 thousand) arise from the temporary differences between the carrying amount and the amount recognised for taxation purposes of recognised assets and liabilities.
Deferred taxation is calculated with reference to the expected tax rates applicable in the year in which the differences will reverse.
Reference should be made to the income statement, Note 42 "Income tax expense" shown in the annex, for further details.

Note 22_Other payables and other non-current liabilities

This item consists of the following items:

thousands of euro

	31/12/2011	31/12/2010
Payables due after more than one year	10,827	11,234
Deferred income for grants related to plant – non current	131,519	132,867
Non-current accrued expenses and deferred income	3,777	4,283
Total	**146,123**	**148,384**

Non-current accrued expenses and deferred income relate to the portion of revenue falling due after the following year and arising from activities mainly requested by telecommunications users, invoiced in the year and in the previous years, but accruing in the future.
Other payables relate to advances paid by users to guarantee water supply.

Current liabilities

Note 23_Current financial liabilities

All financial liabilities recognised in this item are due within 12 months. The carrying amount of these liabilities approximates their fair value as the impact of discounting is negligible.
Current financial liabilities can be analysed as follows:

thousands of euro

	31/12/2011	31/12/2010
Bank loans	1,022,746	868,597
Payables to shareholders – related parties	3,752	3,628
Other financial liabilities	121,728	165,593
Payables for current derivatives	7,328	3,285
Total	**1,155,554**	**1,041,103**

Bank loans

Current bank loans may be analysed as follows:

thousands of euro

	31/12/2011	31/12/2010
Loans - current portion	499,203	159,145
Other current payables to banks	520,366	707,980
Accrued financial expenses and deferred financial income	3,177	1,472
Total	**1,022,746**	**868,597**

Payables to shareholders – related parties

Payables to shareholders - related parties amount to euro 3,752 thousand (31 December 2009: euro 3,628 thousand) and relate to financial payables due to the parent FSU S.r.l. for the agreement regarding the assignment by FSU S.r.l. of management of temporary cash surpluses to Iren S.p.A., and amounts due for interest expense on financial transactions in the year.

Other financial liabilities

They total euro 121,728 thousand (31 December 2010: euro 165,593 thousand) and mostly refer to the proportional portion of OLT Offshore payables due to its shareholder E.On (around euro 108,441 thousand) in addition to the payable to UBI Factor (around euro 9,200 thousand) for the confirming operation signed by the subsidiary IREN Mercato. The current portion of finance lease payments totalled euro 551 thousand (euro 564 thousand at 31 December 2010).

Payables for current derivatives

Ammontano a 7.328 migliaia di euro (3.285 migliaia di euro al 31 dicembre 2010) e si riferiscono al fair value negativo dei contratti derivati sulle commodities stipulati da Iren Mercato.

Note 24_Trade payables

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2011	31/12/2010
Accounts payable to creditors	870,667	752,164
Trade payables to joint ventures	13,060	7,832
Trade payables to associates	95,917	143,230
Trade payables to shareholders – related parties	15,673	24,499
Trade payables to minor Group companies	25,145	8,617
Advances due within one year	3,914	2,860
Guarantee deposits due within one year	14,256	15,093
Charges to be reimbursed within one year	1,382	1,382
Total	**1,040,014**	**955,677**

Note 25_Other payables and other current liabilities

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

thousands of euro

	31/12/2011	31/12/2010
VAT payable	39,515	40,756
Revenue tax/UTIF payable	-	23,310
IRPEF payable	9,472	9,111
Other tax liabilities	9,799	11,951
Tax liabilities due within one year	**58,786**	**85,128**
Payables to employees	31,992	33,676
Payables to C.C.S.E.	60,436	63,064
Other current liabilities	34,982	55,390
Accounts payable to social security institutions within one year	12,988	13,367
Other payables due within one year	**140,398**	**165,496**
Accrued expenses and deferred income	17,036	19,820
Total	**216,220**	**270,444**

Note 26_Current tax liabilities

"Current tax liabilities", amounting to euro 37,740 thousand (at 31 December 2010: euro 12,560 thousand), include IRES and IRAP. As previously described, the Group exercised the option, pursuant to Art. 118 of the new Consolidated Income Tax Act (TUIR), for tax consolidation. This option envisages that consolidated companies transfer their IRES payables/receivables to the parent Iren S.p.A., which will determine the IRES (Corporate Income Tax) tax on a taxable income, calculated as the total taxable profits and losses recorded by the individual consolidated companies. In return for the taxable income earned and transferred to the parent, the consolidated company undertakes to pay the Parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.

Note 27_Provisions for risks and charges - current portion

The item amounts to euro 99,061 thousand (euro 35,807 thousand at 31 December 2010) and refers to the portion of the provision for risks of euro 55,963 (euro 18,659 thousand at 31 December 2010), including charges related to the obligation to return emission quotas, as well as the provision for risks on investments, totalling euro 32,992 thousand, primarily related to the associate Sinergie Italiane, the provision for the renewal of third party assets of euro 2,627 thousand (euro 8,749 thousand at 31 December 2010) and the provision for dismantling and restoring sites and provisions for landfill after closure amounting to euro 7,479 thousand (euro 8,399 thousand at 31 December 2010) expected to be used by the following year.

Note 28_Liabilities related to assets held for sale

They amount to euro 195 thousand and they relate to the reclassification of liabilities of the subsidiaries CELPI, Consorzio GPO and Tema.
At 31 December 2010, they were equal to euro 22,329 thousand and were primarily related to the reclassification of liabilities of the subsidiary Aquamet S.p.A..

Financial indebtedness

The net financial indebtedness, calculated as the difference between current/non-current financial assets and liabilities, may be analysed as indicated in the following table:

thousands of euro

	31/12/2011	31/12/2010
Non-current financial assets	(132,299)	(88,388)
Non-current financial liabilities	2,051,413	1,829,263
Net non-current financial liabilities	**1,919,114**	**1,740,875**
Current financial assets	(421,993)	(521,828)
Current financial liabilities	1,155,554	1,041,103
Net current financial liabilities	**733,561**	**519,275**
Net financial indebtedness	**2,652,675**	**2,260,150**

The following table shows the gross financial indebtedness, without considering the financial liabilities of OLT Offshore LNG to the shareholders E.On and Golar, equal to euro 110,016 thousand (euro 98,018 thousand at 31 December 2010) which, following the proportional consolidation of OLT (41.71%), are included in current financial liabilities. Directors deem that a better information would be given, in terms of financial risk, by excluding the portion of financial liabilities of OLT Offshore LNG to the shareholders E.On and Golar by reason of the fact that these liabilities find their ideal balancing entry in the portion of the financing granted by IREN Mercato to OLT, recognised under current financial assets.

thousands of euro

	31/12/2011	31/12/2010
Non-current financial liabilities	2,051,413	1,829,263
Current financial liabilities	1,155,554	1,041,103
(less) indebtedness OLT vs E.On and Golar	(110,016)	(98,018)
Gross financial indebtedness	**3,096,951**	**2,772,348**

Net Financial Position regarding related parties

Non-current financial assets include euro 127,468 thousand (31 December 2010: euro 81,289 thousand) relating to the non-current portion of the balance of the current account through which the trading and financial transactions between the subsidiary Iride Servizi and the Municipality of Turin are settled, and euro 812 thousand (31 December 2010: euro 1,027 thousand) to amounts due from associates and, euro 500 thousand to fixed-term deposits at the Intesa Sanpaolo Group. At 31 December 2010, these included euro 45 thousand in amounts due to the joint venture Società Acque Potabili.

Non-current financial liabilities relate, for the amount of euro 210,604 thousand, to non-current loans granted by Intesa San Paolo Group and the negative fair value of hedging derivatives entered into with Intesa San Paolo Group.

Current financial assets refer as for euro 81,778 thousand (31 December 2010: euro 133,090 thousand) to the short position on the current account between the subsidiary Iride Servizi and the Municipality of Turin, as for euro 1,806 thousand (31 December 2010: euro 89,277 thousand) to receivables from the proportionately consolidated AES Torino for centralised treasury management services and interest, as for euro 153,110 thousand (31 December 2010: euro 137,378 thousand) to receivables from the proportionately consolidated joint venture OLT Offshore, related to a loan granted by Iren Mercato, as for euro 110,000 thousand (not present at 31 December 2010) to receivables from the associate Edipower and related to shareholder loan, as for euro 6,614 thousand (unchanged with respect to 31 December 2010) to receivables from the associate ASA related to a loan granted by Iren Mercato and as for euro 4,202 thousand to the positive fair value of hedging contracts entered into with Intesa San Paolo Group and the positive position on the current account with Intesa San Paolo. The remaining portion, equal to euro 1,061 thousand, refers to receivables from associates for individual non significant amounts. For further details reference is made to the schedule of transactions with related parties shown in the annex.

Current financial liabilities relate as for euro 3,752 thousand (31 December 2010: euro 3,628 thousand) to payables due to FSU s.r.l. for the agreement regarding the assignment of the management of temporary cash surpluses to Iren S.p.A. by FSU s.r.l. and to amounts due to interest expense on financial transactions over the year, and as for euro 204,957 thousand to the current loans granted to Intesa San Paolo Group and negative fair value of hedging derivatives entered into with Intesa San Paolo.

Below is the net financial position as per the structure proposed by the CESR recommendation of 28 July 2006, which does not include non-current financial assets.

thousands of euro

	31/12/2011	31/12/2010
A. Cash	(44,758)	(144,548)
B. Other cash equivalents (details)	-	-
C. Securities held for trading	-	-
D. Cash (A) + (B) + (C)	**(44,758)**	**(144,548)**
E. Current financial assets	**(377,235)**	**(377,281)**
F. Current bank payables	523,543	709,452
G. Current portion of non-current liabilities	499,203	159,145
H. Other current financial liabilities	132,808	172,506
I. Current financial liabilities (F)+(G)+(H)	**1,155,554**	**1,041,103**
J. Current net financial indebtedness (I) - (E) - (D)	**733,561**	**519,274**
K. Non-current bank payables	1,846,681	1,644,003
L. Bonds issued	158,305	155,798
M. Other non-current liabilities	46,426	29,462
N. Non-current financial liabilities (K) + (L) + (M)	**2,051,412**	**1,829,263**
O. Net financial indebtedness (J) + (N)	**2,784,973**	**2,348,537**

X. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following tables are in thousands of euro.
In comparing the financial amounts included in the financial statements at 31 December 2010 and 31 December 2011, it should be noted that the first amounts do not include the contribution of the Enia Group related to the first six months of 2010 by reason of the fact that the Iride Group merged with the Enia Group on 1 July 2010.

For any remarks on the financial performance for 2011, reference is made to the section "Financial position, results of operations and cash flows of Iren Group" of the Directors' Report which describes the economic analysis by business sector compared to the 2010 Group pro forma consolidated financial statements.

REVENUE

Note 29_Revenue from goods and services
This item is equal to euro 3,254,248 thousand (euro 2,600,075 thousand in 2010).

Note 30_Change in contract work in progress
This item increased by euro 632 thousand (euro 1,274 thousand in 2010) and mainly refers to contract work in progress performed for the renewal of the road surface coating after damage caused by works.

Note 31_Other revenue and income
Other revenue includes:

Grants

thousands of euro

	2011	2010
Grants related to plant	6,063	2,722
Other grants	924	687
Total	**6,987**	**3,409**

The grants related to plant represent the portion pertaining to the grants calculated in proportion to the depreciation rates of the assets to which they refer.

Revenue from energy efficiency certificates

thousands of euro

	2011	2010
Revenue from Emission Trading	54,294	21,963
Revenue from Green Certificates	75,846	106,769
Revenue from White Certificates	18,109	5,825
Total	**148,249**	**134,557**

The increase in revenue for Emission Trading is due to the change in the accounting policy applied to emission quotas.
The decrease in revenue from Green Certificates is due to lower volumes of certificates sold; the same reduction occurred in purchases for green certificates.
The increase in revenue from White Certificates is due to the greater contribution of the Emilia Romagna area, which, in 2011, is over twelve months.

Other income

	2011	2010
		thousands of euro
Revenue from service contracts	18,987	20,559
Revenues from rental income and leases	1,203	1,976
Revenue from optical fibre rental	4,557	4,276
Capital gains from the sale of goods	1,110	3,195
Revenue from previous years/Prior year income	55,074	33,938
Insurance recoveries	275	277
Sundry repayments	6,105	6,526
Income from fair value of commodity derivatives	8,616	-
Other revenue and income	14,069	17,825
Total	**109,996**	**88,572**

Prior year income arises above all from the settlement of previous years' items with reference to the estimates made in prior years. The most significant amounts included in this item are:

- euro 19,587 thousand - compensation for green certificates for previous years due upon issue of the new IAFR qualification of the Moncalieri power plant and following redefinition of calculation modalities related to production in previous years. Moreover, during the year, the price set for the withdrawal of green certificates accrued over prior years, defined by GSE, was more favourable compared to estimates made at 31 December 2010;
- euro 8,407 thousand, equalisation system on electrical energy distribution for previous years;
- euro 6,280 thousand, measurement at fair value of the surplus of emission quotas assigned in previous years.

In 2010, taxes related to previous years, amounting to euro 1,590 thousand, were included in this item. These amounts are now reclassified under income taxes.

EXPENSE

NOTE 32_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

The item is broken down as follows:

	2011	2010
		thousands of euro
Purchase of electrical energy	504,299	488,509
Purchase of gas	1,053,986	752,860
Purchase of heat	227	113
Purchase of other fuels	12,663	33,828
Purchase of water	3,025	3,919
Other raw materials (liquid gas, gas odoriser, chloridric acid...)	22,204	21,503
Sundry inventory mat. (including fuels and lubricants)	41,155	23,866
Emission Trading	44,975	1,189
Green certificates	3,647	34,816
White certificates	18,478	2,074
Changes in inventories	(22,651)	8,134
Total	**1,682,008**	**1,370,811**

With reference to energy certificates, the following is highlighted.

The purchase of green certificates relates to obligations under art. 11, Legislative Decree no. 79/99, which envisages that producers and importers of electrical energy from non-renewable sources must distribute electricity from renewable sources to an extent equal to the electrical energy produced from non-renewable and non-cogenerated sources. The mandatory portion, initially set at 2%, in the period 2004-2006 was increased each year by 0.35 percentage points (art. 4, subsection 1, Legislative Decree 387/2003), whereas the annual increase for the period 2007-2012 was established as 0.75% by Law no. 244 of 24 December 2007 (2008 Finance Act). For further details, reference is made to the Directors' Report, section "Legislation - Green Certificates, Energy efficiency certificates and ETS".

The Emissions Trading Scheme, which came into force in the european Union on 1 January 2005, is part of the "flexible mechanisms" acknowledged by the Kyoto Protocol in order to reach greenhouse gas emission targets. The target for Italy is a 6.5% reduction in CO2 emissions by 2012 over 1990.
The Group actively participates in the emission trading system to reduce the emission of greenhouse gases and contribute to reaching the Group's targets with respect to the domestic reduction plan. For further details, reference is made to the Directors' Report, section "Legislation - Green Certificates, Energy efficiency certificates and ETS".

The white certificates are provided for and regulated by Legislative Decree 79/99 and Legislative Decree 164/00 and following amendments. The latter introduced the obligation respectively for the distributors of electrical energy and gas to increase the energy efficiency of end uses of energy. For further details, reference is made to the Directors' Report, section "Legislation - Green Certificates, Energy efficiency certificates and ETS".

Note 33_Services and use of third-party assets

Costs for services are detailed in the following table:

thousands of euro

	2011	2010
Transport of electrical energy	272,299	162,592
Electrical system costs	94,948	77,614
Tolling fees	51,669	65,049
Gas carriage	16,602	10,345
Heat carriage	37,266	31,224
Third party works for networks, plants	171,597	148,895
Collection and disposal, snow removal, public parks	96,332	51,227
Maintenance expense	10,178	7,358
Expenses related to personnel (canteen, training, travels)	6,201	6,033
Professional services (studies, design, analysis)	10,115	8,282
Technical and administration consulting	15,959	14,219
Trade and advertising expenses	8,921	7,338
Legal and notary fees	6,238	8,162
Insurance	8,809	7,680
Banking costs	7,122	5,801
Telephone costs	5,492	4,657
Costs related to service contracts	24,444	19,909
Reading and invoicing services	11,101	5,859
Fees of the Board of Statutory Auditors	1,584	1,699
Other costs for services	40,841	40,888
Total	**897,718**	**684,831**

The tolling fees refer to amounts paid to Edipower under tolling contracts. Such contracts regulate Edipower's generation of electrical energy on behalf of the trading parents, which, besides paying the tolling fees, undertake to supply the fuel necessary for production.

Fees for heat carriage relate to the transport of heat by the proportionately consolidated AES Torino S.p.A..

Tenders and works mainly relate to operating and maintenance costs for systems and networks.

Costs for the use of third-party assets amount to euro 42,887 thousand (2010: euro 28,297 thousand). These include instalments paid by the market operator of the Genoa district to the municipalities pursuant to resolutions no. 8 dated 13 June 2003 and no. 16 dated 22 December 2003 of the Optimal District Authority (Agenzie di Ambito territoriale ottimale - AATOs), instalments paid to the companies which own the assets in the integrated water service in the municipalities of Parma, Piacenza and Reggio Emilia, easement for crossing land, and instalments for operational leases, hiring and sundry rentals.

Note 34_Other operating expense

Other operating expense is shown in the following table:

thousands of euro

	2011	2010
General expense	6,878	8,301
Instalments and initial down payments paid to obtain permits for shunts	8,386	6,786
Logistics expense	1,547	2,075
Taxes and duties	17,843	14,553
Prior year expense	23,172	27,177
Losses from the sale of goods	1,545	1,642
Expense from fair value of commodity derivatives	7,287	41
Other sundry operating expense	4,687	2,936
Total	**71,345**	**63,511**

In 2010, staff leaving incentives, amounting to euro 4,229 thousand, were included in this item. They are now included in personnel expense, and taxes relative to prior years, totalling euro 374 thousand, are now reclassified under income taxes.

Prior year expense mainly relates to differences on estimates made in previous years and relate, as for euro 6,018 thousand, to the equalisation system on electrical energy distribution for previous years.

Note 35_Capitalised expenses for internal work

This item regards increases in assets recorded in the statement of financial position developed using internal resources.

thousands of euro

	2011	2010
Capitalised labour costs	20,480	13,000
Capitalised inventory materials	7,728	6,454
Total	**28,208**	**19,454**

Note 36_Personnel expense

Personnel expense is made up as follows:

thousands of euro

	2011	2010
Gross remuneration	183,572	141,682
Social security charges payable	58,809	45,118
Post-employment benefits	422	342
Other long-term employee benefits	320	474
Other expense	17,050	15,184
Directors' fees	2,392	1,899
Total	**262,565**	**204,699**

In 2011, staff leaving incentives have been included in this item, while, in 2010, they were included in sundry operating expense. To this regard, the corresponding figures have been reclassified for euro 4,229 thousand.
"Other expense" includes the social security and recreational contribution to ADAEM, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds.

The personnel composition is shown in the following table.

	31/12/2011	31/12/2010	Average for the year
Managers	73	74	74
Junior managers	197	201	200
White collars	2,670	2,697	2,680
Blue collars	1,682	1,780	1,708
Total	**4,622**	**4,752**	**4,662**

Note 37_Amortisation/depreciation

thousands of euro

	2011	2010
Property, plant and equipment and investment property	136,379	111,708
Intangible assets	72,914	53,387
Total	**209,293**	**165,095**

For further details on amortisation/depreciation, reference should be made to the tables of variations in property, plant and equipment, investment property and intangible assets.

Note 38_Provisions

thousands of euro

	2011	2010
Allowance for impairment	23,353	20,309
Provision for risks and renewal of third party assets	53,547	24,873
Releases	(9,005)	(2,218)
Impairment losses	6,245	1,653
Total	**74,140**	**44,617**

The analysis of the provisions and variations therein are given in the comment to the Statement of financial position caption "Provisions for risks and charges". Releases refer to releases of provisions for risks. Impairment losses primarily refer to the impairment of emission quotas recorded under intangible assets.

Note 39_Financial income and expense

Financial income

The breakdown of financial income is provided in the following table:

thousands of euro

	2011	2010
Dividends	558	186
Bank interest income	260	371
Interest income from receivables/loans	11,621	7,559
Interest income from customers	6,630	3,512
Fair value gains on derivatives	242	783
Income on derivatives	1,245	1,119
Gains from sale of financial assets	497	288
Exchange rate gains	19	123
Other financial income	6,031	2,707
Total	**27,103**	**16,648**

Interest income from receivables/loans includes interest accrued on the current account between Iride Servizi and the Municipality of Turin for euro 3,688 thousand (euro 3,337 thousand in 2010). The remainder mainly refers to interest income from the proportionately consolidated OLT Offshore (euro 4,127 thousand), AES Torino (euro 2,137 thousand) and Società Acque Potabili (euro 172 thousand).

Financial expense

The breakdown of financial expense is provided in the following table:

thousands of euro

	2011	2010
Interest expense on loans	55,326	36,756
Interest expense on bond loans	3,915	415
Interest expense on bank current account	20,534	7,322
Other interest expense	5,881	3,659
Capitalised financial charges	(19,401)	(9,134)
Derivatives fair value charges	428	20
Charges on derivatives	15,928	22,195
Loss from sale of financial assets	380	-
Interest cost – Employee benefits	3,725	3,314
Exchange rate losses	142	314
Other financial expense	7,279	10,239
Total	**94,137**	**75,100**

Reference should be made to the note to the statement of financial position item "Employee benefits" for details of financial expense on employee benefits.
Other financial expense mainly includes financial expense due to discounting of provisions (euro 4,039 thousand) and expense relating to measurement of loans and bond loans at amortised cost (euro 2,507 thousand).

For further information on the financial income/(expense), reference is made to the Directors' Report.

Note 40_Share of profit of associates accounted for using the equity method

The loss is euro 3,806 thousand (a profit of euro 11,052 thousand in 2010) and is composed of reversals of impairment losses amounting to euro 22,072 thousand and impairment losses totalling euro 25,878 thousand.
Impairment losses are mainly due to the loss for the year of the associate Sinergie Italiane. Further details regarding these investments are set forth in Note 5 "Investments accounted for using the equity method".

Note 41_ Impairment losses on investments

They amount to euro 223,321 thousand. They mainly refer to the impairment loss on the Delmi investment (euro 136,126 thousand), Edipower investment (euro 81,340 thousand), Amat investment (euro 2,644 thousand), ASMT investment (euro 2,284 thousand) and GICA investment (euro 918 thousand). Impairment losses on Delmi and Edipower investments relate to non-recurring events and transactions, as described in paragraph "VIII. Other information".
The table hereunder shows a summary of the impact of this non-recurring transaction on the total of the financial statements item.

thousands of euro

	Non-recurring	Total	% Impact
Impairment losses on investments	217,466	223,321	97%

For further details on impairment losses on Delmi and Edipower investments, reference is made to Note 6 "Other investments" and Note 5 "Investments accounted for using the equity method".

Note 42_Income tax expense

The 2011 income taxes are estimated to be Euro 114,485 thousand (Euro 88,990 thousand in 2010) and are the result of the best estimate of the average rate expected for the entire year.

thousands of euro

	2011	2010
Current tax	146,571	105,624
Deferred tax assets	(25,191)	(15,418)
Prior year taxes	(6,895)	(1,216)
Total	**114,485**	**88,990**

In 2011, prior year taxes were included in income taxes; in 2010, these amounts were included in other revenue and income and sundry operating expense. To this regard, the corresponding figures have been reclassified for euro 1,216 thousand.

The Group tax rate for 2010 was 38%, due to the impact of non-recurring events, in particular:

i) The provision of art. 56, Italian Law no. 99 of 23 July 2009 envisaging a 1% increase in the additional IRES (the "Robin Hood Tax") for entities which, amongst other things, produce and market gas and electrical energy will not be applied on 2009 but on 2010. A gain was therefore generated.

ii) The use by some Group companies of the so-called "Tremonti ter" tax relief, as per Art. 5 of Law Decree no. 78 of 1 July 2009, converted into law on 3 August 2009, envisaging a 50% deduction of the cost borne for investments made over the year between 1 July 2009 and 30 June 2010 for new machinery and equipment, included in division 28 of the 2007 Ateco Table.

The adjusted tax rate in 2010, less the aforementioned extraordinary effects, would therefore be 42%.

In 2011, the non-recurring events which influenced the effective tax rate are as follows:

iii) impairment loss on Edipower investment (held by Iren Energia) and on Delmi investment (held by the parent Iren). These are equity investments that are included in the types as per Art. 87 Tuir and that cannot be deducted from neither the current year or upon their effective disposal. They are therefore not subjected to taxation.

iv) The 4% increase in the additional IRES for the companies that were already subjected to this taxation (Iren Energia and Iren Mercato) and the payment of the additional tax also for the companies that distribute electrical energy and natural gas (AEM Torino Distribuzione, AES, Genova Reti Gas and Gea) occurred after the coming into force of Law Decree no. 138 of 13 August 2011. The additional tax rate is therefore 10.5%. Moreover, the IRAP rate was increased by 0.30% for the companies that operate under concession arrangements, following the coming into force of Law Decree 98/2011. The aggregate impact of the differential between deferred tax assets and deferred tax liabilities recalculated is equal to around euro 7 million. Conversely, the impact on current taxation is negative for around euro 21 million.

Therefore, the adjusted tax rate for 2011, excluding the non-recurring effects related to non-deductible impairment losses are equal to 46%.

Recovery of State Aid

With its Decision C 27/99 of 5 June 2002, the european Commission concluded the procedure related to the tax treatment provided for by subsections 69 and 70 of article 3 of Law no. 549 of 28 December 1995 (the so-called "tax exemption"). Such treatment granted a three-year tax exemption to joint-stock companies in which the government has a majority interest set up in accordance with Law no. 142 of 8 June 1990.

The Italian Government, the leading counsels of the former AEM Torino and the former AMGA and the companies affected by the judgement that have appealed against it before the Court of First Instance of the european Communities appealed against this judgement to the Court of Justice of the european Communities.

During these years, the legislator has issued various measures in order to define the recovery modalities of aids deemed as illegal.

Following these measures, the Tax Authorities proceeded to the recovery of aids with "order-communications".

For the position of the former AEM Torino, Iride S.p.A. (now Iren) proposed recourse to the competent Provincial Tax Commission, and paid the amount requested as there were no conditions for obtaining its suspension, with the right of repetition in the case of a positive outcome of the disputes in progress. The Provincial Tax Commission rejected the appeals filed.

The order regarding the former AMGA S.p.A. has instead been annulled in self-defence with the documents produced to the competent office by the company.

Pursuant to Art. 24 of Italian Decree Law no. 185 of 29 November 2008, on 30 April 2009 the Tax Authorities sent Iride S.p.A. (now Iren) six tax assessments (for a total of around euro 60 million) related to the recovery of state aid declared inconsistent with the Community regulations, regarding the position of the former AEM Torino and former AMGA of Genoa, during the so-called "tax moratorium" period (1996 through 1999).

On that occasion, the Tax Authorities proceeded to assessments in accordance with instructions supplied by the Central Assessment Authority.

Iride (now Iren) also provided for the payment of the claimed amounts and filed appeals against the above assessments at the competent Province Tax Commissions.

On 11 June 2009, the First Instance Court of the european Community issued an order regarding the proceedings started, amongst other, by the former AEM Torino and former AMGA of Genoa, while rejecting the appeals.

Iride S.p.A. (now Iren) appealed against the above order at the Court of Justice of the european Community, with reference to the positions of both AEM Torino and AMGA.

Based on Art. 19 of Decree Law no. 135 of 25 September 2009, the Government intervened on the alleged State aid defining that only gains realised by the former municipal companies are not subject to tax recovery.

Following the new proceeding, on 2 October 2009 the Tax Authorities sent further notices of assessment, totalling around euro 75 million, which Iride (now Iren) promptly paid to avoid further charges and interest.

On 11 January 2010, the appeal regarding the former AEM Torino for 1997 was discussed at the Province Tax Commission of Turin. On that date the Commission issued its judgement which partly accepted the appeal. In particular, the Commission deemed that the energy market, in those years, was not a free market regime. Therefore, the State aid granted, for that portion of activity, were deemed as legal.

On 14 March 2011, the Regional Tax Commission of Turin rejected the appeal filed in on tax assessments for the years 1998 and 1999 for former AEM. In particular, they were assessment notices with which the Tax Authorities recovered the unpaid taxes during the years of "tax exemption", except for one-off taxes (electrical margin, dividends to Municipalities, capital gains).

On 8 June 2011, following the opinion expressed by the technical expert appointed by the court on the correct calculation of interest on the recovery of State aids, the Regional Tax Commission of Genova accepted the appeal lodged by the former AMGA as the requests of the Tax Authorities were deemed as illegal.

With ruling no. 1/14/2012 of 11 July 2011 on the recovery of the former AEM Torino for 2007, the Regional Tax Commission of Turin accepted the appeal lodged by the Tax Authorities.
The following table shows deferred tax assets and liabilities and their impact.

thousands of euro

	2011	2010
Deferred tax assets		
Directors' and statutory auditors' fees	847	910
Non deductible provisions	73,479	58,764
Taxable contributions	552	534
Differences in value of fixed assets	60,664	48,049
Derivatives (IAS 19)	12,747	4,923
Tax losses carried forward indefinitely	1,175	654
Other	25,386	20,212
Total	**174,850**	**134,046**
Deferred tax liabilities		
Differences in value of fixed assets	95,486	92,938
Grants related to plant	275	438
Provision for impairment of tax assets, separate fin.stat.	1,143	1,061
Adjustment to post-employment benefits	3,930	2,692
Derivatives (IAS 19)	3,632	234
Finance lease	1,184	938
Other	8,787	8,504
Total	**114,437**	**106,805**
Total change	**33,172**	
of which:		
Equity	3,098	
Income statement (*)	30,074	

(*) The change in income statement is summarised in "deferred tax liabilities" and partly in "Prior year taxes".

Note 43_Profit from discontinued operations

Pursuant to IFRS 5, this item has a positive balance of euro 1,004 thousand (euro 1,740 thousand in 2010), and regards:

- the capital gain on the transfer of the investment in Alegas (euro 719 thousand);
- the capital gain on the transfer of the investment in BT Enia (euro 1,003 thousand);
- the impairment loss on Fata Morgana (euro 687 thousand) and Piana Ambiente (euro 300 thousand);
- the capital gain on the sale of the investment in the consolidated company Aquamet (euro 13 thousand);
- the capital gain on the sale of a portion of the property of the subsidiaries Mediterranea delle Acque and Immobiliare delle Fabbriche (euro 323 thousand);
- the loss of CELPI, classified as asset held for sale (euro -14 thousand);
- the profit of Consorzio GPO, classified as asset held for sale (euro 151 thousand);
- the loss of Terna, classified as asset held for sale (euro -204 thousand);

In 2010, this item referred to the results of Aquamet, classified as assets held for sale.

Note 44_Profit for the year attributable to non-controlling interests

Profit for the year attributable to non-controlling interests, which amounts to euro 8,613 thousand (euro 7,286 thousand in 2010), relates to the share of profit of non-controlling interests of companies that are consolidated but not wholly owned by the Group.

Note 45_Earnings per share

In order to calculate the basic and diluted earnings per share the number of ordinary shares for 2011 is the weighted average, with an irrelevant effect, outstanding in the reference year based on provisions set out in IAS 33.20.

	2011	2010
Profit/(loss) for the year (thousands of Euro)	(107,890)	143,104
Weighted average number of shares outstanding during the year (thousand)	1,276,226	1,054,134
Basic earnings/(loss) per share (euro)	**(0.08)**	**0.14**

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 the financial instruments that could potentially dilute the ordinary shares.

	2011	2010
Profit/(loss) for the year (thousands of Euro)	(107,890)	143,104
Weighted average number of shares (thousand)	1,276,226	1,054,134
Weighted average number of shares to calculate the diluted earnings per share (thousand)	1,276,226	1,054,134
Basic earnings/(loss) per share (euro)	**(0.08)**	**0.14**

Note 46_Other comprehensive income

The effective portion of changes in the fair value of cash flow hedges, negative by euro 11,002 thousand, refers to interest rate hedges and commodity price hedges (electrical energy and gas).
The portion of other profits/(losses) of companies measured using the equity method, a loss of euro 5,852 thousand, refers to changes in the fair value of the cash flow and commodity hedging of associates.
The change in fair value of available-for-sale financial assets, positive by euro 8,067 thousand, relates to the release to income statement of the reserve for equity investments in Delmi due to impairment, and in CESI, sold during the year.
The tax effect of other comprehensive income is a positive euro 3,098 thousand.

XI. GUARANTEES AND CONTINGENT LIABILITIES

These relate to:

a) Sureties for Group commitments of euro 428,427 thousand (31 December 2010: euro 469,109 thousand); the most significant items being sureties issued to:
   - Reggio Emilia Province, amounting to euro 85,864 thousand, for waste collection and operating and after closure management of plants subject to A.I.A. (Integrated Environmental Authorisation).
   - SNAM Rete Gas, amounting to euro 63,952 thousand, of which euro 61,500 in the interest of OLT Offshore LNG Toscana with reference to the construction of a delivery point, euro 1,710 to guarantee upgrading of the supply point for the Moncalieri plant;
   - Tax Authorities, amounting to euro 56,469 thousand, for Group VAT offsetting procedures;
   - Enel Distribuzione, amounting to euro 42,914 thousand, as a guarantee for the electrical energy transport service contract;
   - the Customs Authority, amounting to euro 27,017 thousand, to guarantee the regular payment of revenue taxes and additional provincial duties on electrical energy consumption;
   - the Electricity Market Operator (GME), amounting to euro 40,600 thousand, to guarantee the market participation contract;
   - Terna, amounting to euro 26,950 thousand, to guarantee injection and withdrawal dispatching contracts and to guarantee the electrical energy transport service contract;
   - Enel Trade, amounting to euro 21,670 thousand, to guarantee the obligations taken on as part of the Single Agreement and Master Agreements signed;
   - CONSIP, amounting to euro 2,904 thousand, to guarantee the award of lots;

- Banca Intesa, amounting to euro 7,669 thousand, to guarantee the Mestni loan;
- SCR PIEMONTE, amounting to euro 7,310 thousand, to guarantee the bid for the supply of electrical energy to the Piedmont Region;
- Moncalieri municipal authorities, amounting to euro 2,949 thousand, to guarantee the construction of urbanisation works;
- Nichelino municipal authorities, amounting to euro 1,679 thousand, to guarantee soil occupation for installing district heating networks;
- Ministry of Public Works – Albanese Republic, amounting to euro 385 thousand, to guarantee works on Bovilla aqueducts;
- european Commission Delegation for Albania, amounting to euro 866 thousand, to guarantee construction of the sewer system;
- the Municipality of Genoa, amounting to euro 256 thousand, to guarantee works on gas network;
- the Ministry of Environment, amounting to euro 11,091 thousand;
- ITALGAS, amounting to euro 496 thousand, to guarantee the payment of natural gas supply;
- ACEA, amounting to euro 631 thousand, to guarantee the electrical energy transport contract;

b) Guarantees given on behalf of subsidiaries and associates, amounting to euro 340,021 thousand, primarily to guarantee credit facilities;

The most important 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 euro 225,510 thousand). To this purpose, the shareholders' meeting held on 28 March 2012, after acknowledging the loss for the year, resolved to cover entirely cover the loss through new injections by the shareholders, amongst which Iren Mercato, and to restore share capital, envisaging a capital increase, to the face value of euro 1 million. The intervention by shareholders is in view of the company's liquidation, according to intentions already expressed by the above-mentioned shareholders, aimed at ensuring the recovery of guarantees given.

Commitments

With regard to the subsidiary Mediterranea della 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 acknowledgement of amortisation deducted by Mediterranea delle Acque regarding the water business segment transferred from Amga S.p.A. to the newly incorporated Genova Acque S.p.A. in December 1999 (then named Mediterranea delle Acque following the merger with Acquedotti privati genovesi).

Moreover, on 16 February 2010, Iren S.p.A. resolved to fully support the OLT project according to budget financial plans defined and approved to make the required resources available upon the company's request and until implementation of the project financing. The commitment to Saipem, which originally amounted to euro 387,603 thousand, showed a residual amount of euro 31,008 thousand at 31 December 2011.

Contingent liabilities

Mediterranea delle Acque: Dispute with the Tax Authorities

With regard to the dispute with the Tax Authorities – Office 1 of Genoa, regarding the assessment notices for the years 2003, 2004 and 2005, pursuant to art. 37 bis, par. 4 of Italian Presidential Decree 600/73, as thoroughly described in the financial statements at 31 December 2010, events and updates occurred during 2011 are described hereunder.

With regard to the pronouncement of the Provincial Tax Commission of Genoa, which ruled in favour of the Tax Authorities for 2003, limited to taxes, the Company paid a total of euro 1,281,193.30 on 18 March 2011, within the term provided; the company lodged an appeal with subsequent appearance before the Regional Tax Commission on 2 March 2011.

With regard to the pronouncements on the years 2004 and 2005, which also ruled in favour of the Tax Authorities, limited to taxes, the company lodged an appeal with subsequent appearance before the Regional Tax Commission on 8 July 2011.

The Tax Authorities also lodged an appeal 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. On 21 September 2011, the tax bills related to IRES for the years 2004 and 2005 (including interest and expense), for a total amount of euro 2,192,837.88 were notified to the company (Recording pursuant to Art. 68 of Leg. Decree 546/92 following CTP ruling no. 300/01/10 and no. 304/01/10 lodged on 21/12/2010).
The Company, also in light of the opinion expressed by fiscal consultants, deems that the risk deriving from the dispute can be referred to the so-called contingent liabilities as per IAS 37 as this is a possible but improbable expense: therefore, pursuant to the provisions set out by the reference accounting standard, the matter was disclosed in the notes to the financial statements without accruing any provisions. This is based on the opinion that it is unlikely that the Company will have to pay any amount in relation to this obligations taking account of the strong defence raised during the proceedings.
The above-mentioned opinion was confirmed also by the company's legal consultants who examined the reasons for the first instance ruling: these reasons, in fact, seem to be incorrect under a logical and juridical point of view and the company deems that the ruling will be restated in the following judgement instances. The lawyers were therefore charged to draw up the appeal deed, which was lodged within due terms.
At this stage of proceedings, and for the above-mentioned reasons (duly motivated in other deeds issued during the proceedings), and based on the reasons specified in the pronouncement related to the assessment notice, the Company deemed that the assessment notices are likely to be entirely accepted and cancelled. Therefore, the Company does not deem it necessary to accrue a specific provision as it is not probable that economic resources will be used to settle tax claims.

Pursuant to IAS 37.86, the following information regarding contingent liabilities is supplied:

a. in the event the proceeding outcome be different from that expected by the Company, for all years still to open to tax assessment for income tax purposes, all amortisation/depreciation to be calculated by Mediterranea delle Acque (formerly San Giacomo S.r.l.) on gains resulting from transfers from AGMA, at that time not subject to taxation and amounting to euro 93 million, should be considered by the Company as not deductible. This expense might involve the following:
   - prior year expense, amounting to euro 14 million, due to higher taxes for the years from 2003 to 2010 (including interest totalling euro 1.4 million);
   - a higher tax charge for 2011, equal to euro 1.3 million;
   - the accrual to the provision for deferred tax liabilities, amounting to euro 17.8 million, due to higher taxes, to be calculated to 2025.
b. if the outcome is unfavourable, it is however impossible to establish when the matter will turn to be unfavourable for the Company and when the above-mentioned amounts will be payable (also taking account of tax collection times that, although in the presence of a pending ruling, provide for a preliminary allocation of a portion of the assessed tax);
c. the Company deems it probable that resources will have to be used to fulfil tax obligations.

XII. SEGMENT REPORTING

Segment reporting, based on the Group's management and internal reporting structure, is given below in accordance with IFRS 8.
Given the nature of the activity carried out by Group companies, a geographical segment analysis is not relevant.

Operating segments

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

These operating segments are disclosed pursuant to IFRS 8. Under this Standard, the disclosure about operating segments should be based on the elements which the executive committee and the management use in taking operational and strategic decisions.
For a correct reading of the income statements on the single business segments, disclosed hereunder, it should be specified that revenue and costs referred to common assets were entirely allocated to business based on the effective use of services supplied or a technical-economic driver.
Given the fact that the Group mainly operates in the North-West area of Italy, the following segment information does not include information broken down by geographical areas.

Net invested capital and income statements (up to the operating performance) are presented below by segment and with 2010 corresponding figures.
For the purposes of better presentation, the following amounts relating to investments recognised under non-current assets were restated compared to the data recognised in the financial statements at 31 December 2010:
- Edipower investment was allocated to the Market sector (euro 226 million);
- Energia Italiana investment (euro 9 million) was allocated to the Generation sector;
- The investments in AGA and Zeus (euro 39.9 million) were removed from the environmental segment where they had been allocated, and recognised in the "Non allocable" column, as they cannot be directly attributed to a single operating segment.

With respect to figures in the income statement for 2010, the various business segments have been restated for consistency purposes to the definition area of the CGU and the IFRIC 12 application criterion on the first six months of the Enìa Group has been adjusted to comply with that currently applied by the Group.
For any remarks on the performance of operating segments, reference is made to section "Financial position, results of operations and cash flows of Iren Group - Analysis by business segments" of the Directors' report.

Segment results at 31 December 2011

millions of euro

	Generation	Market	Energy infrastructures	Water cycle	Waste Management	Other services	Non allocable	Total
Non-current assets	1,348	203	1,593	967	269	69	204	4,653
Net working capital	122	142	(39)	72	5	(28)	13	288
Other non-current assets (liabilities)	(74)	(8)	(67)	(246)	(40)	8	(15)	(443)
Net invested capital (NIC)	**1,397**	**337**	**1,487**	**793**	**234**	**49**	**202**	**4,498**
Equity								1,845
Net financial position								2,653
Own funds and net financial indebtedness								**4,498**

Segment results at 31 December 2010

millions of euro

	Generation	Market	Energy infrastructures	Water cycle	Waste Management	Other services	Non allocable	Total
Non-current assets	1,232	287	1,494	921	221	72	339	4,566
Net working capital	61	35	(23)	57	6	(23)	23	137
Other non-current assets (liabilities)	(39)	23	(85)	(205)	(37)	(14)	(4)	(361)
Net invested capital (NIC)	**1,254**	**345**	**1,386**	**773**	**190**	**35**	**358**	**4,342**
Equity								2,082
Net financial position								2,260
Own funds and net financial indebtedness								**4,342**

2011 segment results

millions of euro

	Generation	Market	Energy infrastructures	Water cycle	Waste Management	Other services	Netting and adjustments	Total
Total revenue and income	785	3,072	437	438	217	112	(1,542)	3,520
Total operating expense	(627)	(3,020)	(227)	(326)	(175)	(95)	1,542	(2,928)
Gross Operating Profit	**158**	**53**	**211**	**113**	**42**	**16**	**0**	**592**
Net am./depr., provisions and impairment losses	(91)	(18)	(64)	(77)	(27)	(6)	0	(283)
Operating profit	**67**	**35**	**146**	**36**	**15**	**10**	**0**	**308**

2010 segment results

millions of euro

									of which		
	Generation	Market	Energy infrastructures	Water cycle	Waste management	Other services	Nettings and adjustments	Total pro forma	ENÌA Group	Nettings and adjustments	Iren Group
Total revenue and income	697	2,866	419	447	222	104	(1,364)	3,391	571	(8)	2,828
Total operating expense	(517)	(2,817)	(213)	(339)	(178)	(91)	1,364	(2,789)	(464)	8	(2,333)
Gross Operating Profit	**180**	**49**	**206**	**108**	**45**	**14**	**0**	**602**	**107**	**0**	**495**
Net am./depr., provisions and impairment losses	(74)	(18)	(71)	(70)	(27)	(6)	0	(265)	(55)	0	(210)
Operating profit	**106**	**31**	**135**	**38**	**18**	**8**	**0**	**337**	**52**	**0**	**285**

XIII. ANNEXES TO THE CONSOLIDATED FINANCIAL STATEMENTS

CONSOLIDATED COMPANIES

Company	Registered office	Currency	Share/ quota capital	% owner-ship	Participating company
Iren Acqua Gas S.p.A.	Genova	Euro	386,963,511	92.94	Iren
				7.06	Iren Emilia
Iren Ambiente S.p.A.	Piacenza	Euro	72,622,002	100.00	Iren
Iren Emilia S.p.A.	Reggio Emilia	Euro	196,832,103	100.00	Iren
Iren Energia S.p.A.	Torino	Euro	818,855,779	100.00	Iren
Iren Mercato S.p.A.	Genova	Euro	61,356,220	100.00	Iren
AEM Torino Distribuzione S.p.A.	Torino	Euro	126,127,156	100.00	Iren Energia
AEMNET S.p.A.	Torino	Euro	6,973,850	100.00	Iride Servizi
AGA S.p.A.	Genova	Euro	11,000,000	99.64	Iren Emilia
Bonifica Autocisterne	Piacenza	Euro	595,000	51.00	Iren Ambiente
C.EL.PI. Scrl in liquidazione	Torino	Euro	293,635	99.93	Iren Energia
CAE AMGA Energia S.p.A.	Genova	Euro	10,000,000	100.00	Iren Mercato
Climatel S.r.l.	Savona	Euro	10,000	100.00	O.C.Clim
Consorzio GPO	Genova	Euro	20,197,260	62.35	Iren Emilia
Enia Parma S.r.l.	Parma	Euro	300,000	100.00	Iren Emilia
Enia Piacenza S.r.l.	Piacenza	Euro	300,000	100.00	Iren Emilia
Enia Reggio Emilia S.r.l.	Reggio Emilia	Euro	300,000	100.00	Iren Emilia
Enia Solaris S.r.l.	Parma	Euro	100,000	100.00	Iren Rinnovabili
Eniatel S.p.A.	Piacenza	Euro	500,000	100.00	Iren Emilia
GEA Commarciale S.p.A.	Grosseto	Euro	340,910	100.00	Iren Mercato
GEA S.p.A.	Grosseto	Euro	1,381,500	59.34	Iren Acqua Gas
Genova Reti Gas S.r.l.	Genova	Euro	1,500,000	100.00	Iren Acqua Gas
Idrotigullio S.p.A.	Chiavari (GE)	Euro	979,000	66.55	Mediterranea delle Acque
Immobiliare delle Fabbriche	Genova	Euro	2,500,000	100.00	Mediterranea delle Acque
Iren Rinnovabili S.p.A.	Reggio Emilia	Euro	119,000	100.00	Iren Ambiente
Iride Servizi S.p.A.	Torino	Euro	52,242,791	93.78	Iren Energia
				6.22	Iren Emilia
Laboratori Iren Acqua Gas	Genova	Euro	550,392	90.87	Iren Acqua Gas
Mediterranea delle Acque S.p.A.	Genova	Euro	19,203,411	60.00	Iren Acqua Gas
Monte Querce	Reggio Emilia	Euro	100,000	60.00	Iren Ambiente
Nichelino Energia S.r.l.	Torino	Euro	8,500,000	67.00	Iren Energia
				33.00	AES Torino
O.C.Clim S.r.l.	Savona	Euro	100,000	100.00	CAE AMGA Energia
SasterNet S.p.A.	Genova	Euro	7,900,000	85.00	Iride Servizi
Tecnoborgo S.p.A.	Piacenza	Euro	10,379,640	50.50	Iren Ambiente
				0.50	Iren
Tema S.c.a.r.l.	Chieti	Euro	100,000	51.00	Iren Emilia
Undis Servizi S.r.l.	Sulmona	Euro	20,000	100.00	Iren Emilia
Zeus S.p.A.	Genova	Euro	20,320,000	100.00	Iren Emilia

COMPANIES CONSOLIDATED PROPORTIONATELY

Company	Registered office	Currency	Share capital	% owner-ship	Participating company
Acque Potabili Crotone	Torino	Euro	100,000	100.00	Società Acque Potabili
Acquedotto Monferrato	Torino	Euro	600,000	100.00	Società Acque Potabili
Acquedotto Savona	Savona	Euro	500,000	100.00	Società Acque Potabili
AES Torino S.p.A.	Torino	EUR	110,500,000	51.00	Iren Energia
Namtra Investments Ltd	Cipro	Euro	1,353,000	100.00	Olt Offshore Toscana LNG
Olt Offshore Toscana LNG S.p.A.	Milano	Euro	145,750,700	41.71	Iren Mercato
Società Acque Potabili S.p.A.	Torino	Euro	3,600,295	30.86	Iren Acqua Gas

COMPANIES MEASURED USING THE EQUITY METHOD

Company	Registered office	Currency	Share/quota capital	% owner-ship	Participating company
A2A Alfa	Milano	Euro	100,000	30.00	Iren Mercato
ABM Next	Bergamo	Euro	25,825	45.00	Società Acque Potabili
Aciam S.p.A.	Avezzano	Euro	235,539	29.09	Iren Ambiente
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	Iren Emilia
Acquaenna S.c.p.a.	Enna	Euro	3,000,000	46.00	Iren Acqua Gas
Acqueinforma	Grosseto	Euro	15,000	34.00	Iren Acqua Gas
Aguas de San Pedro	S.Pedro Sula (Honduras)	Lempiras	159,900	30.00	Iren Acqua Gas
Aiga S.p.A.	Ventimiglia	Euro	104,000	49.00	Iren Acqua Gas
AMAT Energia	Imperia	Euro	20,000	20.00	Iren Mercato
Amat S.p.A.	Imperia	Euro	5,435,372	48.00	Iren Acqua Gas
Amter S.p.A.	Cogoleto	Euro	404,263	49.00	Mediterranea delle Acque
ASA S.p.A.	Livorno	Euro	28,613,414	40.00	AGA
ASMT Serv. Ind.S.p.A.	Tortona	Euro	3,856,240	44.75	Iren Emilia
ASTEA	Recanati	Euro	76,115,676	21.32	Consorzio GPO
Atena S.p.A.	Vercelli	Euro	8,203,255	40.00	Zeus
Castel S.p.A.	Cremona	Euro	935,000	23.10	Iren Acqua Gas
Consorzio Servizi Integrati	Genova	Euro	100,853	50.00	Iren Mercato
Domus Acqua S.r.l.	Domusnovas	Euro	96,000	29.00	Iren Acqua Gas
Edipower S.p.A.	Milano	Euro	1,441,300,000	10.00	Iren Energia
Fata Morgana S.p.A.	Reggio Calabria	Euro	2,225,694	25.00	Iren Emilia
Fin Gas srl	Milano	Euro	10,000	50.00	Iren Mercato
Gas Energia S.p.A.	Torino	Euro	3,570,000	20.00	Iride Servizi
Gesam Gas	Lucca	Euro	1,132,000	40.00	Iren Mercato
GICA s.a.	Lugano	CHF	7,400,000	24.99	Iren Mercato
Global Service Parma	Parma	Euro	20,000	30.00	Iren Emilia
Il Tempio S.r.l.	Reggio Emilia	Euro	110,000	45.50	Iren Emilia
Iniziative Ambientali S.r.l.	Novellara	Euro	100,000	40.00	Iren Ambiente
Livorno Holding S.r.l.	Livorno	Euro	10,000	44.57	Iren Mercato
Mestni Plinovodi	Koper (Slovenia)	Euro	15,952,479	49.88	Iren Acqua Gas
Mondo Acqua	Mondovì	Euro	800,000	38.50	Iren Acqua Gas
Piana Ambiente S.p.A.	Gioia Tauro	Euro	1,719,322	25.00	Iren Emilia
Plurigas	Milano	Euro	800,000	30.00	Iren
Rio Riazzone S.p.A.	Roma	Euro	103,292	44.00	Iren Ambiente
S.M.A.G.	Genova	Euro	100,000	30.00	Iren Acqua Gas
Salerno Energia Vendite	Salerno	Euro	2,447,526	39.40	GEA Commerciale
Sea Power & Fuel S.r.l.	Genova	Euro	10,000	50.00	Iren Mercato
Sinergie Italiane	Milano	Euro	3,000,000	27.60	Iren Mercato
So. Sel. S.p.A.	Modena	Euro	240,240	24.00	Iren Emilia
Tirana Acque in liquidazione	Genova	Euro	95,000	50.00	Iren Acqua Gas
Valle Dora Energia S.r.l.	Torino	Euro	537,582	49.00	Iren Energia
VEA Energia e Ambiente	Pietra Santa	Euro	96,000	37.00	Iren Mercato

INVESTMENTS IN OTHER COMPANIES

Company	Registered office	Currency	Share/quota capital	% owner-ship	Participating company
Astea Energia	Osimo	Euro	117,640	7.00	Iren Mercato
Atena Patrimonio	Vercelli	Euro	73,829,295	14.65	Zeus
ATO2 Acque	Biella	Euro	80,000	12.50	Iren Acqua Gas
Autostrade Centro Padane	Cremona	Euro	15,500,000	1.46	Iren Emilia
BT ENIA Telecomunicazioni	Parma	Euro	4,226,000	12.01	Iren Emilia
C.R.P.A. S.p.A.	Reggio Emilia	Euro	1,851,350	5.40	Iren Emilia
CFR S.p.A.	Reggio Emilia	Euro	11,000,000	0.11	Undis Servizi
Consorzio L.E.A.P.	Piacenza	Euro	1,055,000	0.95	Iren Ambiente
Consorzio SI. RE.	Savona	Euro	100,000	15.00	Mediterranea delle Acque
Consorzio Topix	Torino	Euro	1,645,000	0.30	Aemnet
Cosme Srl	Genova	Euro	320,000	1.00	Iren Acqua Gas
CSP Scrl	Torino	Euro	641,000	6.10	Iren Energia
Delmi	Milano	Euro	1,466,868,500	15.00	Iren
Energia Italiana S.p.A.	Torino	Euro	26,050,000	11.00	Iren Energia
Environment Park S.p.A.	Torino	Euro	11,406,780	3.39	Iren Energia
IAM S.p.A.	Reggio Calabria	Euro	1,033,000	2.25	Undis Servizi
Nord Ovest Servizi	Torino	Euro	7,800,000	10.00	Iren Acqua Gas
RE innovazione	Reggio Emilia	Euro	882,872	0.87	Iren Ambiente
Rupe S.p.A.	Genova	Euro	3,185,310	0.39	Immobiliare delle Fabbriche
S.D.B. S.p.A.	Torino	Euro	536,000	1.00	Iride Servizi
Sogea	Genova	Euro	400,000	0.10	Iren Acqua Gas
Stadio Albaro	Genova	Euro	1,230,000	2.00	CAE Amga Energia
T.I.C.A.S.S.	Genova	Euro	74,000	5.72	Iren Acqua Gas

FINANCIAL STATEMENTS DATA OF THE MAIN CONSOLIDATED COMPANIES, COMPANIES CONSOLIDATED ON A LINE-BY-LINE BASIS, PROPORTIONATELY AND USING THE EQUITY METHOD

Consolidated companies

Company	Currency	Share/quota capital	Total Assets	Equity	Total revenue	Profit/(loss) for the year
Iren Acqua Gas S.p.A.	Euro	386,963,511	1,165,616,424	615,833,209	157,764,851	38,668,115
Iren Ambiente S.p.A.	Euro	72,622,002	309,871,809	101,431,770	103,432,710	12,088,843
Iren Emilia S.p.A.	Euro	196,832,103	775,985,522	341,307,672	494,194,681	18,565,650
Iren Energia S.p.A.	Euro	818,855,779	2,327,399,787	1,200,239,620	743,721,954	11,072,554
Iren Mercato S.p.A.	Euro	61,356,220	1,444,106,346	79,630,835	3,029,050,025	(16,180,871)
AEM Torino Distribuzione S.p.A.	Euro	126,127,156	512,547,214	212,990,102	147,056,656	27,491,910
Aemnet S.p.A.	Euro	6,973,850	11,537,946	7,500,345	4,352,073	639,807
AGA S.p.A.	Euro	11,000,000	19,702,816	7,579,247	58,412	(241,108)
Bonifica Autocisterne	Euro	595,000	962,813	489,272	1,196,345	(32,356)
C.EL.PI. Scrl in liquidazione	Euro	293,635	328,944	278,595	13,750	(8,720)
CAE Amga Energia S.p.A.	Euro	10,000,000	56,997,813	27,055,268	36,165,640	2,844,911
Climatel S.r.l.	Euro	10,000	380,915	86,815	267,211	1,254
Consorzio GPO	Euro	20,197,260	21,111,688	21,031,774	-	151,718
Enia Parma S.r.l.	Euro	300,000	65,741,206	5,557,850	115,019,972	412,737
Enia Piacenza S.r.l.	Euro	300,000	28,361,683	1,958,418	64,986,289	250,773
Enia Reggio Emilia S.r.l.	Euro	300,000	55,358,279	2,179,672	111,447,561	506,656
Enia Solaris S.r.l.	Euro	100,000	26,982,705	4,777,583	1,504,307	25,292
Eniatel S.p.A.	Euro	500,000	3,237,762	1,587,593	2,738,387	432,545
GEA Commerciale S.p.A.	Euro	340,910	12,771,824	1,772,004	16,613,654	559,001
GEA S.p.A.	Euro	1,381,500	19,012,399	11,476,954	3,948,820	531,733
Genova Reti Gas S.r.l.	Euro	1,500,000	25,890,247	9,143,806	47,843,670	6,996,920
Idrotigullio	Euro	979,000	35,310,346	8,434,756	15,835,745	1,334,918
Immobiliare delle Fabbriche	Euro	2,500,000	11,021,047	10,580,443	37,354	203,935
Iren Rinnovabili S.p.A.	Euro	119,000	17,772,363	5,920,675	3,903,635	(66,955)
Iride Servizi S.p.A.	Euro	52,242,791	286,775,489	83,550,207	88,487,218	5,181,434
Laboratori Iren Acqua Gas	Euro	2,000,000	10,595,994	5,040,896	6,924,867	394,023
Mediterranea delle Acque S.p.A.	Euro	19,203,420	631,034,506	436,138,546	116,973,547	17,453,488
Monte Querce	Euro	100,000	627,269	100,000	16,123	-
Nichelino Energia S.r.l.	Euro	8,500,000	30,120,068	8,815,385	2,644,036	367,826
O.C.Clim S.r.l.	Euro	100,000	10,098,878	3,180,447	8,612,050	93,685
SasterNet S.p.A.	Euro	7,900,000	22,264,994	17,201,752	4,866,275	2,012,181
Tecnoborgo S.p.A.	Euro	10,379,640	35,638,581	17,727,767	20,885,826	908,202
Tema S.c.a.r.l.	Euro	100,000	168,414	(55,937)	-	(203,970)
Undis Servizi	Euro	20,000	2,886,742	53,953	3,649,770	136
Zeus S.p.A.	Euro	20,320,000	21,438,723	21,388,102	-	479,780

Proportionately-consolidated companies

Company	Currency	Share capital	Total Assets	Equity	Total revenue	Profit/(loss) for the year
Acque Potabili Crotone	Euro	100,000	15,114,565	3,398,407	1,457	(496,881)
Acquedotto Monferrato	Euro	600,000	12,790,646	2,701,221	398,718	(82,990)
Acquedotto Savona	Euro	500,000	33,202,492	7,088,616	15,764,167	732,989
AES Torino S.p.A.	Euro	110,500,000	668,475,563	292,840,685	162,852,405	49,508,503
Olt Offshore Toscana LNG S.p.A.	Euro	145,750,700	679,724,251	137,718,535	60,722	(1,652,506)
Società Acque Potabili S.p.A.	Euro	3,600,295	252,222,794	104,279,840	65,648,654	(1,382,463)

Companies measured using the equity method

Company	Currency	Share/quota capital	Total Assets	Equity	Total revenue	Profit/(loss) for the year
A2A Alfa	Euro	100,000	1,432,688	1,380,769	-	(64,576)
ABM Next (1)	Euro	25,825	1,360,190	400,882	1,999,938	328,394
Aciam S.p.A.	Euro	235,539	17,451,318	1,084,000	11,624,538	124,193
Acos Energia S.p.A.	Euro	150,000	15,147,436	3,502,296	23,986,461	1,805,745
Acos S.p.A.	Euro	17,075,864	31,909,928	22,442,774	9,481,645	500,044
Acquaenna S.c.p.a.(1)	Euro	3,000,000	54,538,470	5,753,672	15,733,920	2,753,672
Aguas de San Pedro S.A. de C.V.	Lempiras	159,900	1,604,860	360,372	1,273,900	54,389
Aiga S.p.A.(1)	Euro	104,000	5,433,564	629,138	2,233,475	23,317
AMAT Energia (1)	Euro	20,000	18,575	3,545	13,306	(6,599)
Amat S.p.A.(1)	Euro	5,432,372	37,438,704	6,088,071	7,660,106	53,085
Amter S.p.A.(1)	Euro	404,263	4,646,955	1,312,432	4,012,400	183,320
ASA S.p.A.	Euro	21,507,344	180,629,284	23,410,163	79,422,070	892,166
ASMT Serv. Ind.S.p.A.	Euro	3,856,240	19,583,313	5,309,770	12,037,667	274,272
ASTEA	Euro	76,115,676	130,831,479	79,800,439	47,703,937	938,952
Atena S.p.A.	Euro	8,203,255	42,181,979	10,562,214	38,768,576	(79,913)
Castel S.p.A.(1)	Euro	935,000	77,911,918	1,309,032	552,706	303
Consorzio Servizi Integrati (1)	Euro	100,853	59,346,612	100,853	42,554,024	-
Domus Acqua S.r.l.(1)	Euro	96,000	975,334	189,554	395,315	32,545
Edipower S.p.A. (1)	Euro	1,441,300,000	3,856,923,775	2,080,752,021	1,041,726,087	44,895,000
Fingas	Euro	10,000	16,204,372	16,193,482	-	(44,258)
Gas Energia S.p.A. (1)	Euro	3,570,000	17,834,808	4,045,252	12,025,527	77,030
GESAM GAS S.p.A. (1)	Euro	1,132,000	16,623,934	2,795,706	43,217,733	982,160
GICA s.a. (1)	Chf	7,400,000	3,636,901	2,247,498	1,657,931	(1,353,888)
Global Service Parma	Euro	20,000	4,752,466	19,998	5,283,619	-
Il Tempio S.r.l.	Euro	110,000	4,085,378	18,767	132,427	(67,383)
Iniziative Ambientali S.r.l.	Euro	100,000	10,274,749	1,149,090	-	(2,656)
Livorno Holding S.r.l. (1)	Euro	10,000	17,085	10,418	-	(3,348)
Mestni Plinovodi (1)	Euro	15,952,479	33,766,111	17,523,377	10,682,700	285,348
Mondo Acqua (1)	Euro	800,000	4,814,282	954,104	3,534,212	4,022
Plurigas	Euro	800,000	465,317,941	68,207,455	1,681,841,976	25,054,294
Rio Riazzone S.p.A.	Euro	103,292	759,038	498,730	249,914	(611)
S.M.A.G. srl (1)	Euro	100,000	1,633,862	(101,202)	2,013,751	(203,088)
Salerno Energia Vendite (1)	Euro	2,447,526	22,347,730	3,651,512	39,543,836	828,975
Sea Power & Fuel S.r.l. (1)	Euro	10,000	6,118	5,818	-	(655)
Sinergie Italiane S.r.l.(2)	Euro	3,000,000	773,146,501	(88,737,035)	2,208,580,001	(92,160,046)
So. Sel. S.p.A.	Euro	240,240	7,855,070	1,591,917	11,237,472	118,525
Tirana Acque in liquidazione (1)	Euro	95,000	559,897	(589,891)	-	(31,149)
Valle Dora Energia S.r.l.	Euro	537,582	643,933	541,082	83,200	31,437
VEA Energia e Ambiente (1)	Euro	96,000	3,158,010	790,226	5,753,357	312,619

(1) Values at 31 December 2010
(2) Values at 30 September 2011

DEFERRED TAX ASSETS AND LIABILITIES FOR 2011

	differences			
	opening	accrual	reversal	residual
Deferred tax assets				
Directors' and statutory auditors' fees	3,141	2,496	2,414	3,224
Non deductible provisions	192,566	68,592	33,868	227,290
Taxable contributions	1,466	-	86	1,380
Differences in value of fixed assets	160,260	36,317	8,338	188,239
Derivatives (IAS 19)	18,262	19,881	439	37,704
Tax losses carried forward indefinitely	6,940	2,019	874	8,085
Other	66,278	26,689	25,678	67,290
Total taxable base/deferred tax assets	**448,915**	**155,994**	**71,697**	**533,212**
Deferred tax liabilities				
Differences in value of fixed assets	189,966	188,418	47,861	330,523
Grants related to plant	3,146	-	1,886	1,260
Allowance for impairment of tax assets, separate fin.stat.	50,149	-	46,775	3,374
Adjustment to post-employment benefits	9,364	4,999	1,681	12,682
Derivatives (IAS 19)	(2,414)	2,351	8	(71)
Finance lease	2,601	976	586	2,991
Other	38,532	28,504	16,240	50,796
Total taxable base/deferred tax assets	**291,344**	**225,248**	**115,038**	**401,555**
Net deferred tax assets (liabilities)	**157,570**	**(69,254)**	**(43,341)**	**131,657**

thousands of euro

taxes to IS	taxes to E	taxes IRES	IRAP	total
7	-	847	1	847
13,317	-	70,206	3,272	73,479
28	-	496	56	552
13,927	-	58,170	2,494	60,664
195	5,529	10,953	1,793	12,747
531	-	1,175	-	1,175
7,021	2	24,126	1,261	25,386
35,025	**5,531**	**165,974**	**8,877**	**174,850**
2,766	-	85,905	9,581	95,486
28	-	248	27	275
82	-	1,143	-	1,143
1,098	27	3,930	-	3,930
796	2,570	3,622	10	3,632
178	-	1,079	104	1,184
3	(165)	8,614	173	8,787
4,951	**2,432**	**104,542**	**9,896**	**114,438**
30,074	**3,098**	**61,432**	**(1,019)**	**60,413**

DEFERRED TAX ASSETS AND LIABILITIES FOR 2010

	differences				
	opening	Enia Group Transfer	accrual	reverse	residual
Deferred tax assets					
Directors' and statutory auditors' fees	1,962	277	2,235	1,332	3,141
Non deductible provisions	112,820	41,666	65,406	27,326	192,566
Taxable contributions	1,305	191	23	53	1,466
Differences in value of fixed assets	86,147	29,541	51,775	7,202	160,260
Derivatives (IAS 19)	21,094	(2,423)	836	1,244	18,262
Tax losses carried forward indefinitely	6,327	449	212	48	6,940
Other	46,273	5,532	31,985	17,511	66,278
total taxable base/deferred tax assets	**275,929**	**75,233**	**152,471**	**54,718**	**448,915**
Deferred tax liabilities					
Differences in value of fixed assets	226,254	41,900	7,713	84,351	189,966
Grants related to plant	1,180	2,003	-	37	3,146
Provision for impairment of tax assets, separate fin.stat.	6,499	43,649	-	-	50,149
Adjustment to post-employment benefits	6,581	2,012	3,170	2,400	9,364
Derivatives (IAS 19)	1,653	-	368	4,435	(2,414)
Finance lease	1,809	452	908	567	2,601
Other	15,920	13,339	16,195	8,471	38,532
Total taxable base/deferred tax assets	**259,896**	**103,355**	**28,355**	**100,262**	**291,344**
Net deferred tax assets (liabilities)	**16,033**	**(28,122)**	**124,116**	**(45,544)**	**157,570**

thousands of euro

		taxes		
taxes	taxes	IRES	IRAP	total
to IS	to E			
220	2	885	25	910
3,584	4,014	56,164	2,600	58,764
(20)	-	478	56	534
9,324	1,568	45,489	2,560	48,049
(654)	(2,046)	4,923	-	4,923
471	-	654	-	654
(396)	106	19,630	582	20,212
12,529	**3,644**	**128,223**	**5,823**	**134,046**
(2,316)	(7,742)	82,986	9,952	92,938
(12)	-	389	49	438
-	-	1,061	-	1,061
129	35	2,692	-	2,692
(1,185)	68	223	10	234
125	-	858	80	938
370	7	7,943	561	8,504
(2,888)	**(7,632)**	**96,152**	**10,653**	**106,805**
15,418	**11,276**	**32,071**	**(4,830)**	**27,241**

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Trade receivables	Financial receivables	Other transacttions	Trade payables	Financial payables	Other transacttions	Revenue and income	Costs and other charges	Financial income	Financial expense
Municipality of Genoa	17,307	-	-	6,102	-	-	22,543	2,443	-	-
Municipality of Parma	15,091	-	-	211	-	-	1,504	1,728	-	-
Municipality of Piacenza	3,959	-	-	4,918	-	-	3,597	2,751	-	-
Municipality of Reggio Emila	2,999	-	-	2,308	-	-	2,946	791	-	-
Municipality of Turin	35,261	209,246	1	2,134	-	584	80,370	-	3,688	-
Finanziaria Sviluppo Utilities	28	-	-	-	3,752	-	28	-	-	67
Intesa Sanpaolo group	-	5,406	-	-	415,561	-	-	-	-	-
AES Torino	1,266	1,806	3,004	12,656	-	434	2,195	40,352	2,137	-
OLT Offshore LNG	913	153,110	-	-	-	-	291	-	4,127	-
Namtra	-	-	-	-	-	-	-	-	-	-
Società Acque Potabili	10,858	-	-	404	-	-	5,287	62	172	-
Acquedotto Savona	159	-	-	-	-	-	1,049	-	-	-
Acquedotto Monferrato	7	-	-	-	-	-	3	-	-	-
Acque Potabili Crotone	-	-	-	-	-	-	-	-	-	-
Acque Potabili Siciliane	-	-	-	-	-	-	-	-	-	-
A2A Alfa	-	-	-	-	-	-	-	-	-	-
ABM Next	-	102	-	-	-	-	-	-	-	-
Aciam S.p.A.	187	848	-	-	-	-	169	-	29	-
Acos Energia S.p.A.	4,810	-	-	(6)	-	-	15,078	7	-	-
Acos S.p.A.	98	164	-	-	-	-	107	-	-	-
Acquaenna S.c.p.a.	3,192	276	-	-	-	-	179	-	-	-
Acqueinforma	-	-	-	-	-	-	-	-	-	-
Aguas de San Pedro S.A.	776	-	-	-	-	-	457	-	-	-
Aiga S.p.A.	97	434	-	-	-	-	-	-	-	-
AMAT Energia	-	-	-	10	-	-	-	-	-	-
Amat S.p.A.	156	-	-	-	-	-	734	2	-	-
Amter S.p.A.	1,704	88	-	3	-	-	544	-	-	-
ASA S.p.A.	9,300	6,614	-	1,638	-	-	363	18	-	-

thousands of euro

	Trade receivables	Financial receivables	Other transacttions	Trade payables	Financial payables	Other transacttions	Revenue and income	Costs and other charges	Financial income	Financial expense
ASMT Serv. Ind.S.p.A.	277	-	-	12	-	-	199	25	-	-
ASTEA	8,304	-	-	-	-	-	29,605	-	234	-
Atena S.p.A.	49	492	-	211	-	-	168	-	492	-
Castel S.p.A.	12	-	-	-	-	-	-	-	-	-
Consorzio Servizi Integrati	17,464	-	-	5,033	-	-	23,096	8,454	484	-
Domus Acqua S.r.l.	30	-	-	-	-	-	-	-	-	-
Edipower S.p.A.	1,387	110,004	-	10,664	-	-	7	58,082	4	-
Fata Morgana	2	-	-	-	-	-	-	-	-	-
Fingas	-	-	-	-	-	-	-	-	-	-
Gas Energia S.p.A.	-	-	-	-	-	-	-	-	-	-
GESAM GAS S.p.A.	-	-	-	24	-	-	-	16	-	-
GICA s.a.	-	-	-	-	-	-	-	-	-	-
Global Service Parma	-	-	-	3,685	-	-	-	2,598	-	-
Il Tempio S.r.l.	1	316	-	-	-	-	-	-	7	-
Iniziative Ambientali S.r.l.	1	-	-	-	-	-	-	-	-	-
Livorno Holding S.r.l.	-	-	-	-	-	-	-	-	-	-
Mestni Plinovodi	75	-	-	-	-	-	-	-	-	-
Mondo Acqua	255	-	-	-	-	-	358	-	-	-
Piana Ambiente S.p.A.	254	-	-	-	-	-	1	-	-	-
Plurigas S.p.A.	8,919	-	-	22,442	-	-	43,795	191,479	-	-
Rio Riazzone S.p.A.	-	-	-	19	-	-	-	-	-	-
S.M.A.G. srl	41	-	-	603	-	-	-	-	-	-
Salerno Energia Vendite	4,340	-	-	-	-	-	6,329	-	-	-
Sea Power & Fuel S.r.l.	-	-	-	-	-	-	-	-	-	-
Sinergie Italiane S.r.l.	1	-	-	49,869	-	-	5	281,913	-	-
So. Sel. S.p.A.	12	-	-	1,584	-	-	12	3,528	-	-
Tirana Acque	-	-	-	-	-	-	-	-	-	-
Valle Dora Energia Srl	22	1	-	125	-	-	24	125	-	-
VEA Energia e Ambiente	1,103	-	-	-	-	-	3,188	-	-	-

RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB COMMUNICATION NO. 6064293 DATED 26 JULY 2006)

thousands of euro

IFRS STATEMENT OF FINANCIAL POSITION		RECLASSIFIED STATEMENT OF FINANCIAL POSITION	
Property, plant and equipment	2,837,578		
Investment property	1,943		
Intangible assets	1,280,769		
Goodwill	131,651		
Investments accounted for using the equity method	230,818		
Other investments	170,015		
Total (A)	**4,652,774**	**Non-Current Assets (A)**	**4,652,774**
Other non-current assets	27,826		
Other payables and other non-current liabilities	(146,123)		
Total (B)	**(118,297)**	**Other non-current liabilities (B)**	**(118,297)**
Inventories	67,931		
Trade receivables	1,239,730		
Current tax assets	4,400		
Other receivables and other current assets	269,887		
Trade payables	(1,040,014)		
Other payables and other current liabilities	(216,220)		
Current tax liabilities	(37,740)		
Total (C)	**287,974**	**Net working capital (C)**	**287,974**
Deferred tax assets	174,850		
Deferred tax liabilities	(114,438)		
Total (D)	**60,412**	**Deferred tax assets (D)**	**60,412**
Employee benefits	(86,791)		
Provisions for risks and charges	(231,057)		
Provisions for risks and charges - current portion	(99,061)		
Total (E)	**(416,909)**	**Provisions and employee benefits (E)**	**(416,909)**
Assets held for sale	31,622		
Liabilities related to assets held for sale	(195)		
Total (F)	**31,427**	**Assets held for sale (F)**	**31,427**
		Net invested capital (G=A+B+C+D+E+F)	**4,497,381**
Equity (H)	**1,844,706**	**Equity (H)**	**1,844,706**
Non-current financial assets	(132,299)		
Non-current financial liabilities	2,051,413		
Total (I)	**1,919,114**	**Non-current financial indebtedness (I)**	**1,919,114**
Current financial assets	(377,235)		
Cash and cash equivalents	(44,758)		
Current financial liabilities	1,155,554		
Total (L)	**733,561**	**Current financial indebtedness (L)**	**733,561**
		Net financial indebtedness (M=I+L)	**2,652,675**
		Own funds and net financial indebtedness (H+M)	**4,497,381**

INDEPENDENT AUDITORS' FEES

Pursuant to art. 149-duodecies of the enactment regulation of Italian Legislative Decree 58/1998, fees for the year due to KPMG S.p.A. can be summarised as follows:

thousands of euro

Service	Service provider	To	Fees
Audit	Parent auditor	Parent	134
Attestation services (1)	Parent auditor	Parent	198
Tax consulting services	Parent auditor	Parent	-
Other services (2)	i) Parent auditor	Parent	15
	ii) Parent auditor network	Parent	-
Audit	i) Parent auditor	i) Subsidiaries	857
	ii) Parent auditor network	ii) Subsidiaries	-
Attestation services (3)	i) Parent auditor	i) Subsidiaries	350
	ii) Parent auditor network	ii) Subsidiaries	-
Tax consulting services	i) Parent auditor	i) Subsidiaries	-
	ii) Parent auditor network	ii) Subsidiaries	-
Other services (4)	i) Parent auditor	i) Subsidiaries	48
	ii) Parent auditor network	ii) Subsidiaries	-
		Total	**1,602**

(1) Attestation services refer to the review of the interim financial statements, the check and the attestation of the unbundling report and the performance of agreed-upon procedures to check compliance with procedures of the Sustainability Report.
(2) Other services refer to translation of financial statements and methodology support for the preparation of the financial statements.
(3) Attestation services refer to the review of the interim financial statements, the signing of the unified tax form, the Modello 770 form and the check and attestation of the unbundling report.
(4) Other services refer to the performance of agreed-upon procedures on data transmitted to AEEG as regards fees applications.

STATEMENT REGARDING THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. The undersigned, Andrea Viero, Managing Director, and Massimo Levrino, Administration and Finance Director and Manager in charge of financial reporting of Iren S.p.A. hereby confirm, also in consideration of the provisions of art. 154-bis, subsections 3 and 4, Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in respect of the company's characteristics and

- the effective application during 2011 of administrative and accounting procedures in preparing the consolidated financial statements.

2. Furthermore, it is hereby declared that:

2.1 the consolidated financial statements:

a) are prepared in compliance with applicable IFRS endorsed by the european Community pursuant to EC Regulation 1606/2002 of the european Parliament and Council dated 19 July 2002;

b) correspond with books and accounting records;

c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the issuer's situation and of the entirety of the companies included in the consolidation, together with the description of the major risks and uncertainties to which they are exposed.

3 April 2012

The Managing Director
Mr. Andrea Viero

Administration and Finance Director
and Manager in Charge appointed under Law 262/05
Mr. Massimo Levrino

KPMG S.p.A.
Revisione e organizzazione contabile
Corso Vittorio Emanuele II, 48
10123 TORINO TO

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Telefax +39 011 8171651
e-mail it-fmauditaly@kpmg.it

(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Iren S.p.A.

1 We have audited the consolidated financial statements of the Iren Group as at and for the year ended 31 December 2011, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The parent's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 9 April 2011 for our opinion on the prior year consolidated financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the consolidated financial statements of the Iren Group as at and for the year ended 31 December 2011 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of the Iren Group as at 31 December 2011, the results of its operations and its cash flows for the year then ended.

4 The directors of Iren S.p.A. are responsible for the preparation of a directors' report on the financial statements and the report on the corporate governance and ownership structure, published in the Investor Relations section of Iren S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the above reports on the corporate governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the above reports on the corporate governance and ownership structure are consistent with the consolidated financial statements of the Iren Group as at and for the year ended 31 December 2011.

Turin, 23 April 2012

KPMG S.p.A.

(signed on the original)

Roberto Bianchi
Director of Audit

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

Separate Financial Statements

at 31 December 2011

STATEMENT OF FINANCIAL POSITION

Figures in euro

	Note	31 december 2011	of which related parties	31 december 2010	of which related parties
ASSETS					
Property, plant and equipment	(1)	6,996,453		7,527,915	
Intangible assets	(2)	141,980		-	
Investments in subsidiaries, joint ventures and associates	(3)	2,236,297,601		2,169,160,526	
Other investments	(4)	140,272,674		267,834,208	
Non-current financial assets	(5)	984,120,817	982,678,082	885,163,053	883,174,385
Other non-current assets	(6)	367,608		413,960	
Deferred tax assets	(7)	24,855,366		17,943,274	
Total non-current assets		**3,393,052,499**		**3,348,042,936**	
Trade receivables	(8)	20,820,112	20,766,835	14,098,041	14,075,457
Current tax assets	(9)	159,018		663,448	
Other receivables and other current assets	(10)	49,102,182	36,805,641	57,155,281	53,203,604
Current financial assets	(11)	978,627,234	978,585,943	962,642,892	962,438,269
Cash and cash equivalents	(12)	17,406,189		43,571,059	
Total current assets		**1,066,114,735**		**1,078,130,721**	
Assets held for sale				**-**	
TOTAL ASSETS		**4,459,167,234**		**4,426,173,657**	

Figures in euro

	Note	31 december 2011	of which related parties	31 december 2010	of which related parties
EQUITY					
Share/capital		1,276,225,677		1,276,225,677	
Reserves and retained earnings		244,305,412		253,845,224	
Profit/(loss) for the year		(57,042,700)		102,689,657	
TOTAL EQUITY	(13)	**1,463,488,389**		**1,632,760,558**	
LIABILITIES					
Non-current financial liabilities	(14)	1,855,587,104	186,974,492	1,771,437,651	
Employee benefits	(15)	9,456,446		9,806,349	
Provisions for risks and charges	(16)	19,891,350		19,192,611	
Deferred tax liabilities	(17)	1,913,212		2,421,988	
Total non-current liabilities		**1,886,848,112**		**1,802,858,599**	
Current financial liabilities	(18)	1,051,732,797	284,942,644	907,336,479	116,011,137
Trade payables	(19)	15,787,521	3,518,771	32,412,727	9,697,467
Other payables and other current liabilities	(20)	26,786,580	19,165,061	47,384,121	39,428,914
Current tax liabilities	(21)	14,523,835		3,421,173	
Total current liabilities		**1,108,830,733**		**990,554,500**	
Liabilities related to assets held for sale		-		-	
TOTAL LIABILITIES		**2,995,678,845**		**2,793,413,099**	
TOTAL EQUITY AND LIABILITIES		**4,459,167,234**		**4,426,173,657**	

INCOME STATEMENT

Figures in euro

	Note	2011	of which related parties	2010	of which related parties
Revenue					
Revenue from goods and services	(22)	13,250,142	13,250,142	10,359,243	10,359,243
Other revenue and income	(23)	2,402,829	544,698	4,509,812	668,663
Total revenue		**15,652,971**		**14,869,055**	
Operating expense					
Raw materials, consumables, supplies and goods	(24)	(16,646)		(9,085)	(348)
Services and use of third-party assets	(25)	(15,602,210)	(3,610,947)	(15,684,843)	(3,216,496)
Other operating expense	(26)	(2,930,701)	(52,223)	(2,249,477)	(316,381)
Personnel expense	(27)	(19,727,984)		(13,880,941)	
Total operating expense		**(38,277,541)**		**(31,824,346)**	
Gross Operating Loss		**(22,624,570)**		**(16,955,291)**	
Amortisation, depreciation, provisions and impairment losses					
Amortisation/depreciation	(28)	(545,333)		(531,463)	
Provisions and impairment losses	(29)	(342,310)		(243,604)	
Total amortisation, depreciation, provisions and impairment losses		**(887,643)**		**(775,067)**	
Operating loss		**(23,512,213)**		**(17,730,358)**	
Financial expense	(30)				
Financial income		184,474,771	182,447,732	177,650,961	176,112,210
Financial expense		(96,805,062)	(836,642)	(67,247,122)	(101,053)
Net financial income		**87,669,709**		**110,403,839**	
Impairment losses on investments	(31)	(136,125,958)		-	
- of which non-recurring		*(136,125,958)*		-	
Profit/(loss) before tax		**(71,968,462)**		**92,673,481**	
Income tax expense	(32)	14,925,762		10,016,176	
Profit/(loss) for the year from continuing operations		**(57,042,700)**		**102,689,657**	
Profit from discontinued operations		-		-	
Profit/(loss) for the year		**(57,042,700)**		**102,689,657**	

STATEMENT OF COMPREHENSIVE INCOME

Figures in euro

	Note	2011	2010
Profit/(loss) for the year (A)		**(57,042,700)**	**102,689,657**
Other comprehensive income	(32)		
- effective portion of changes in fair value of cash flow hedges		(18,330,597)	(829,868)
- change in fair value of available-for-sale financial assets		8,564,424	(13,750,735)
Tax effect of other comprehensive income		6,015,886	457,285
Total other comprehensive expense for the year, net of tax effect (B)		**(3,750,287)**	**(14,123,318)**
Total comprehensive income/(expense) for the year (A)+(B)		**(60,792,987)**	**88,566,339**

CASH FLOWS STATEMENT

	thousands of euro 2011	2010
A. Opening cash and cash equivalents including cash pooling balance	**405,178**	**624,616**
Cash flow from operating activities		
Profit/(loss) for the year	(57,043)	102,689
Adjustments:		
Amortisation of intangible assets and depreciation of property, plant and equipment and investment property	545	531
Net change in post-employment benefits and other employee benefits	(350)	2,130
Net change in provision for risks and other charges	698	1,662
Change in deferred taxes	(1,404)	(283)
Variation in non-current assets	46	(89)
Dividends received	(157,003)	(113,650)
Net impairment losses (reversals of impairment losses) on non-current assets	136,126	-
B. Cash flows from operations before variations in NWC	**(78,385)**	**(7,010)**
Variation in trade receivables	(6,723)	(9,171)
Variation in tax assets and other current assets	8,558	(8,351)
Variation in trade payables	(16,625)	21,103
Variation in tax liabilities and other current liabilities	(9,495)	4,209
C. Cash flow from/(used in) variations in NWC	**(24,285)**	**7,790**
D. Operating cash flows (B+C)	**(102,670)**	**780**
Cash flows from/(used in) investing activities		
Investments in intangible assets and in property, plant and equipment and investment property	(155)	(22)
Investments in financial assets	(67,137)	-
Dividends received	157,003	113,650
E. Total cash flows from investing activities	**89,711**	**113,628**
F. Free cash flows (D+E)	**(12,959)**	**114,408**
Cash flows from/(used in) financing activities		
Dividends paid	(108,479)	(70,724)
Other changes in equity	-	(509)
New non-current loans	525,000	200,000
Repayment of non-current loans	(97,651)	(279,523)
Variation in financial assets	(71,808)	(362,233)
Variation in financial liabilities	(181,539)	146,178
Cash and cash equivalents acquired through the Iride-Enia merger	-	32,965
G. Total cash flows from/(used in) financing activities	**65,523**	**(333,846)**
H. Cash flows for the year (F+G)	**52,564**	**(219,438)**
I. Closing cash and cash equivalents including cash pooling balance (A+H)	**457,742**	**405,178**
L. Cash-pooling balance with subsidiaries	**(440,336)**	**(361,607)**
I. Closing cash and cash equivalents (A+H)	**17,406**	**43,571**

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserve	Legal reserve	Hedging reserve	Fair value reserve for available-for-sale assets
At 31/12/2009	**832.042**	**105.102**	**20.258**	**(10.296)**	**-**
Allocation of profit for 2009					
- Legal reserve			3,604		
- Distribution of dividends					
- Extraordinary reserve					
Distribution of extraordinary dividend					
Merger of Enìa into IRIDE on 1 July 2010 and subsequent non-recurring contribution transactions					
Increase in share capital as part of the share exchange relative to the merger with Enìa	444,184				
Negative goodwill					
Reinstatement of the hedging reserve				(2,856)	
Reinstatement of the fair value reserve for available-for-sale financial assets					5,115
Reinstatement of other reserves taxable on distribution					
Changes in equity for contributions					
Other comprehensive income the year				(562)	(13,562)
of which:					
- Profit for the year					
- Other comprehensive expense				(562)	(13,562)
At 31/12/2010	**1,276,226**	**105,102**	**23,862**	**(13,714)**	**(8,447)**
Allocation of profit for 2010					
- Legal reserve			5,134		
- Distribution of dividends					
- Extraordinary reserve					
Distribution of extraordinary dividend					
Other comprehensive expense loss for the year				(12,197)	8,447
of which:					
- Loss for the year					
- Other comprehensive expense				*(12,197)*	*8,447*
At 31/12/2011	**1,276,226**	**105,102**	**28,996**	**(25,911)**	**-**

thousands of euro

	Extraordinary reserve	Contribution reserve	Goodwill arising on share exchange	Other reserves	Reserve from transition to IFRS	Total reserves and retained earnings (losses carried forward)	Profit (loss) for the year	Total
	26,454	**7,555**	**94,319**	**-**	**(36,507)**	**206,885**	**72,070**	**1.110.997**
						3,604	(3,604)	-
						-	(68,227)	(68.227)
	239					239	(239)	-
	(2,496)					(2,496)		(2.496)
						-		444.184
			57,426			57,426		57.426
						(2,856)		(2.856)
						5,115		5.115
			(94,952)	94,952		-		-
	52					52		52
						(14,124)	102,690	88.566
						-	102,690	102.690
						(14,124)		(14.124)
	24,249	**7,555**	**56,793**	**94,952**	**(36,507)**	**253,845**	**102,690**	**1.632.761**
						5,134	(5,134)	-
						-	(97,505)	(97.505)
	51					51	(51)	-
	(10,975)					(10,975)		(10.975)
						(3,750)	(57,043)	(60.793)
						-	*(57,043)*	*(57.043)*
						(3,750)		*(3.750)*
	13,325	**7,555**	**56,793**	**94,952**	**(36,507)**	**244,305**	**(57,043)**	**1.463.488**

NOTES TO THE SEPARATE FINANCIAL STATEMENTS

INTRODUCTION

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

Through the Company's subsidiaries, Iren S.p.A. operates in the following business sectors:

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

Iren was structured after the model of an industrial holding, with headquarters in Reggio Emilia, Via Nubi di Magellano 30, and operating offices in Genoa, Parma, Piacenza and Turin, as well as companies heading the single business lines.

In comparing the amounts included in the Financial Statements at 31 December 2010 and 31 December 2011, it should be noted that the first amounts do not include Enia S.p.A.'s contribution for the first six-month period of 2010.

In order to comply with classification adopted for corresponding items at 31 December 2011, the tables at 31 December 2010 have been restated. The main reclassifications are described in these notes.

I. CONTENT AND STRUCTURE OF THE SEPARATE FINANCIAL STATEMENTS

The separate financial statements of the Parent Iren S.p.A. have been prepared in accordance with the International Financial Reporting Standards (IFRS), issued by the International Accounting Standards Board (IASB) and endorsed by the european Union, as well as with the provisions set forth in implementation of art. 9 of Legislative Decree no. 38/2005. The IFRS include all the revised International Accounting Standards (IAS) and all the interpretations of the International Financial Reporting Interpretations Committee (IFRIC), formerly known as the Standing Interpretations Committee (SIC).

In compliance with european Regulation no. 1606 of 19 July 2002, the Iride Group, starting from 2005, has adopted the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") in the preparation of its consolidated financial statements. Based on the national implementation legislation for the aforementioned Regulation, the separate financial statements of the Parent Iride S.p.A. have been prepared in accordance with the IFRS starting from 2006.
In drawing up these financial statements, the same accounting policies were used as those adopted for the Financial Statements at 31.12.2010, with the exceptions highlighted in section "Accounting policies and interpretations effective in 2011".
The separate financial statements at 31 December 2011 consist of a statement of financial position, an income statement, a statement of comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

In the statement of financial position, assets and liabilities are classified as 'current/non-current'. Assets and liabilities classified as discontinued or held for sale are shown separately. Current assets, which include cash and cash equivalents, are those that shall be realised, transferred or consumed during the ordinary operating cycle of the company or during the twelve months following year end. Current liabilities are those that shall be settled during the ordinary operating cycle of the company or during the twelve months following year end.

The income statement is classified on the basis of the nature of costs. In addition to the operating profit/(loss), the income statement also shows the gross operating profit/(loss) obtained by deducting total operating expense from total revenue.

The indirect method is used in the cash flows statement. The cash configuration analysed in the cash flows statement includes cash availability and cash in bank current accounts and the balance of the subsidiaries' cash pooling management.

The separate financial statements have been drawn up based on the historical cost principle, except for certain financial instruments measured at fair value. The financial statements have also been drawn up on the assumption of the company's ability to continue as a going concern. The company in fact considered that, even though there is a difficult economic and financial context, there are no significant uncertainties (as defined in IAS 1.25) regarding the going concern assumption.

These separate financial statements are stated in euro, the company's functional currency. Data included in the notes, unless otherwise specified, are expressed in thousands of euro.

Finally, in accordance with CONSOB Resolution no. 15519 of 27 July 2006 regarding the format of financial statements, specific additional columns have been added to the Income Statement and the Statement of Financial Position to highlight significant transactions with related parties.

II. ACCOUNTING POLICIES

The policies applied in the preparation of the separate financial statements of Iren S.p.A. at 31 December 2011 are set out below. These accounting policies are unchanged with respect to those adopted at 31 December 2010.

Property, plant and equipment

- Property, plant and equipment

Property, plant and equipment are recognised at contribution, purchase or internal construction cost. This cost includes all costs directly attributable to bringing the asset to the location and condition necessary for it to be available for use (including, when relevant and the company has the related present obligation, the present value of the estimated costs of dismantling and removing the asset and restoring the site on which it is located), net of trade discounts and rebates.
Financial expense related to the purchase of items of property, plant and equipment is capitalised for the part of the cost of the asset until it becomes operative.
When significant components of property, plant and equipment have different useful lives, they are accounted for separately.
In particular, under this policy, land and buildings located on the land are to be recognised separately; therefore, only the buildings are depreciated, while the carrying amount of land is impaired, as described in the following section "Impairment losses".
Ordinary maintenance expenditure is expensed in full. Maintenance expenditure that increases the carrying amount of the asset is charged to the asset to which it relates and depreciated over its estimated useful life. Such expenditure includes expenditure that reasonably leads to an increase in future economic benefits, such as the lengthening of useful life, increase in production capacity, improvement in product quality and adoption of production processes that entail a significant reduction in production costs.
Assets under construction include expenditure related to the construction of plants incurred until the reporting date. These investments are depreciated once the asset becomes operative.
Property, plant and equipment are depreciated systematically on a straight-line basis annually using economic-technical rates determined in line with their residual useful lives.
The rates applied are set out in the following table:

Item	Min. rate	Max. rate
Buildings	3.0%	3.0%
Auxiliary systems of buildings	5.0%	10.0%

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

- Assets under finance lease

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

Investment property

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

Intangible assets

Intangible assets are recognised in the Statement of financial position when it is probable that the expected future economic benefits that are attributable to the asset will flow to the company and the cost of the asset can be measured reliably. They are recognised at contribution, acquisition or production cost, including any directly attributable costs.
Intangible assets with finite useful lives are amortised on a systematic basis over their useful lives so that the carrying amount at year end matches their residual life or recoverable amount based on the company's plans to develop production. Amortisation begins when the asset is available for use.
Development costs are capitalised if all of the following features can be demonstrated:

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

If even one of these requirements is not met, the cost is fully recognised in the period in which it is incurred.
Industrial patents and similar rights are amortised on a straight-line over five years.

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

held for sale), pursuant to IFRS 5, or the date in which the asset is derecognised.
Assets under development and payments on account relate to internal and external costs referring to intangible assets for which the company has not yet acquired the right to and has not started to use in production. These investments are amortised from the date when they begin to be used in production.
Under IAS 36, assets under development and payments on account are tested for impairment annually, or whenever there is any indication of impairment, so as to check that the carrying amount matches the recoverable amount.

Goodwill

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

Non-current assets held for sale

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

Impairment losses

IAS/IFRS require a company to assess whether there are any specific indications of impairment. The company performs an impairment test, which consists of estimating the recoverable amount of the asset and comparing it to its net carrying amount.
The recoverable amount is the higher of fair value less costs to sell (if an active market exists) and the value in use of an asset. Value in use is the present value of the future cash flows expected to be derived from an asset or cash-generating units, inclusive of taxes, by applying a discount rate, before taxes, which reflects the current market assessments of the time value of money and risks specific to the asset. If the recoverable amount of an asset is less than its carrying amount, an impairment loss is recognised. If the impairment loss recognised in prior periods no longer exists or has decreased, the carrying amount of the asset or cash-generating unit is increased to the estimated new recoverable amount. The latter amount shall not exceed the carrying amount that would have been determined if no impairment loss had been recognised. The reversal of an impairment loss is recognised immediately to the income statement.
Assets that are not subject to amortisation (goodwill and other intangible assets with an indefinite useful life) and intangible assets that are not yet available for use are tested for impairment annually, even though no indication of impairment exists.

Financial instruments

- Investments in subsidiaries and associates

Investments in subsidiaries and associates are measured at cost. In the event of impairment, an impairment loss is recognised in the income statement.

- Other investments

Investments in other companies, classified as available for sale (AFS), are measured at fair value. Profits and losses from changes in fair value are taken directly to equity (Fair value reserve) until they are sold or impaired. In this case, the total loss is reversed from equity and taken to the income statement for an amount equal to the difference between the acquisition cost and the current fair value. If the fair value cannot be reliably determined, investments are measured at cost adjusted for impairment losses, the effect of which is recognised in the income statement. The risk deriving from losses which exceed the carrying amount of the investment is provided for in a provision for risks to the extent that the company has a legal or constructive obligation with the investee or is committed to covering its losses.

- Financial assets held for trading

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

- Available-for-sale financial assets

Upon initial recognition, available-for-sale financial assets are measured at the fair value of the consideration paid (acquisition cost, including the related costs).
Subsequent to initial recognition, they are measured at fair value, without deducting any transaction costs that may be incurred upon sale or disposal. Changes in fair value are recognised in equity and transferred to the income statement only when the available-for-sale assets are derecognised or have undergone an impairment loss.
If fair value of investments in capital instruments cannot be determined reliably, such assets are measured at cost.

- Hedging

The Company uses derivative financial instruments solely to hedge its exposure to currency, interest rate and commodities risks.
A hedging relationship qualifies for hedge accounting, under IAS 39, if all of the following conditions are met:

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

Hedging instruments are measured at fair value. The fair value is determined by using adequate measurement models for each type of financial instrument by using, where available, the market forward curve, both regulated and not regulated (intrinsic value). Fair value is supplemented with the time value for option contracts, which is based on their residual life and volatility of the underlying.
Taking account of provisions specified by IFRS 7.27A, as for the fair value hierarchy, each single

category of financial instruments measured at fair value is shown as follows:
- Level 1: prices quoted (not adjusted) on active markets for similar assets or liabilities;
- Level 2: input data different from prices quoted, as per Level 1, which are observable for assets or liabilities, both directly (as per prices), and indirectly (or derived from prices);
- Level 3: input data related to assets or liabilities, which are not based on observable market data (non observable data).

Hedging instruments are tested for effectiveness at each reporting date to check whether the hedge still meets the requirements for designation as effective and can be recognised using hedge accounting.
If the requirements for the application of hedge accounting are met:
- for a cash flow hedge, fair value gains or losses on the hedging instrument are included in the other components of the statement of comprehensive income for the effective portion of the hedge (intrinsic value), and for the time value portion and any ineffective portion (overhedging) they are recognised in income statement;
- for fair value hedges, fair value gains or losses on both the hedging instrument and hedged item are recognised in the income statement.

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

- Other financial assets and liabilities

Loans and receivables are initially recognised at fair value, adjusted by any directly attributable transaction costs. They are subsequently measured at amortised cost.
Securities held until maturity are initially recognised at cost, increased by transaction costs borne for the acquisition of the financial asset. Subsequent to initial recognition, they are measured at amortised cost using the effective interest method, net of impairment losses.
At each reporting date, or whenever impairment indicators arise, all financial assets, except for FVTPL assets, are tested for impairment in order to determine whether there is objective evidence (such as breaches of agreements, possible bankruptcy or financial difficulties of the debtor, ...) that the value of the asset might not be entirely recoverable.

- Trade receivables and payables

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

- Cash and cash equivalents

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

Equity

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

Employee benefits

Post-employment benefits are defined according to plans which, based on their characteristics, are separated into “defined contribution” and “defined benefit” plans.
In defined contribution plans, the company obligation, limited to the payment of State contributions or to a separate fund, is calculated on the basis of contributions due. For Iren this category

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

Provisions for risks and charges

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

Risks for which the related liability is only potential are disclosed in the notes to the financial statements, and no provision is made.
No additional information is provided for events that are remote, i.e. where it is very unlikely they will arise, and no provision is made.
The provisions are recognised at the amount representing the best estimate of the total that the company would pay to settle the obligation, or transfer it to third parties at year end. If the discounting effect on the value of money is significant, the provisions are calculated by discounting future cash flows expected at a pre-tax discount rate that reflects the current market assessment of the time value of money.
On discounting, the time-related increase in the provision is recognised as financial expense.

Revenue

Revenue is measured at fair value with respect to the amount received or due, taking account of any commercial discounts and reductions connected with quantity.
Revenue from the sale of goods is recognised when:
- the company has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the company retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When an uncertainty arises about the collectability of an amount already recognised, the uncollectible amount must be recognised as an expense, rather than as an adjustment of the income originally recognised.
Revenue from services is recognised when:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the

company;
- the stage of completion of the transaction at the reporting date can be measured reliably;
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

Grants related to assets and grants related to income

Grants related to assets are recognised, when they become payable, as deferred revenue and systematically taken as income to income statement over the useful life of the asset to which they refer. The deferred revenue related to the grants is recognised in the statement of financial position, under Other liabilities, with suitably separated current and non-current amounts.
Grants related to income are recognised in the income statement when the recognition criteria are met, i.e. when their recognition as balancing-entry of supply costs related to grant is certain.

Other revenue

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

Costs for the purchase of goods and services

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

Financial income and expense

Income arising from the use by others of company assets yielding interest and dividends is recognised when:
- it is probable that the economic benefits associated with the transaction will flow to the company;
- the amount of revenue can be measured reliably.

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

When an uncertainty arises about the collectability of an amount already recognised, the uncollectible amount is recognised as an expense, rather than as an adjustment of the amount of income originally recognised.
Financial expense is recognised in the year in which it is incurred. Financial expense that is directly attributable to the acquisition, construction or production of a plant is capitalised as part of the cost of that asset when:
- it is likely that it will result in future economic benefits to the company;
- it can be reliably measured.

Income tax expense

Income taxes comprise all the taxes calculated on the company's taxable income.
Current and deferred taxes are recognised as income or expense and included in the profit or loss for the year, except to the extent that the tax arises from a transaction or event that is recognised, in the same or a different year, directly in equity.
Current tax is the expected tax payable on the taxable income for the year, applying the tax legislation enacted or substantially enacted at the reporting date. Deferred tax liabilities are calculated based on the temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the amounts used for taxation purposes. Deferred tax assets are recognised only when their recovery is probable.
Deferred tax liabilities are calculated at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled.
The option for the Group tax consolidation scheme was exercised pursuant to art. 118 of the new

Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A.. The latter then calculates IRES on the sum of taxable profits/losses of each company taking part in the tax consolidation scheme.
In return for the taxable income earned and transferred to the parent, the consolidated company commits to pay "tax settlements" to the parent equal to the amount of taxes owed on the income transferred, net of the IRES tax credits transferred.

Discontinued operations

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

Translation criteria

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

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS EFFECTIVE AS FROM 1 JANUARY 2011

As from 1 January 2011, some amendments were applied to the international accounting standards and interpretations. These amendments have had no significant impact on the financial position or results of Group operations. The main changes are described hereunder:

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

- IAS 24 - *Related party disclosures*: this standard refers to the simplification of the type of disclosure required in transactions with related parties controlled by the Government and clarifies the definition of related parties.

- IFRIC 14 - *Prepayments of Minimum Funding Requirements*: it allows the companies which pay advance payments as part of minimum funding requirements, to recognise these amounts as assets.

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

The adoption of the above-mentioned accounting policies has had no impact on the financial position or results of operations of the Group.

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

On 7 October 2010, the IASB issued some amendments to *IFRS 7 – Financial Instruments: Disclosures*, applicable for accounting periods starting on or after 1 July 2011. These amendments, endorsed by competent bodies of the european Union with Regulations published on 23 November 2011, aim at making the users of the financial statements to better understand risk exposures connected with the transfer of financial assets, as well as the effects of such risks on the entity's financial position. Moreover, amendments require greater disclosure in the event a disproportionate amount of these transactions be carried out near the end of the accounting period. The adoption of this amendment will not have any effect on the measurement of captions disclosed in the financial statements.

Moreover, the following accounting standards, as well as amendments and interpretations which are not yet applicable and have not been adopted in advance by Iren Group are to be noted:

- On 12 November 2008, the IASB issued *IFRS 9 - Financial instruments*. This standard was then amended. The standard, applicable retrospectively as from 1 January 2015, is the first step of a process aiming at fully replacing IAS 39 and introduces new criteria for the classification and measurement of financial assets and liabilities.
- On 20 December 2010, the IASB issued a minor amendment to *IAS 12 – Income taxes*, which clarifies how to calculate deferred taxes on investment property measured at fair value. The amendment introduces the assumption that deferred taxes related to investment property measured at fair value in accordance with IAS 40 shall be recognised taking account the fact that the carrying amount of these assets will be recovered through sale. Following this amendment, SIC-12 – Income taxes – Recovery of revalued non-depreciable assets, will no longer be applicable. The interpretation is applicable retrospectively starting on 1 January 2012.

- On 12 May 2011, the IASB issued *IFRS 10 – Consolidated Financial Statements*, which will replace the SIC-12 Consolidation – Special purpose entities and some parts of IAS 27 – Consolidated and Separate Financial Statements, which will be called Separate Financial Statements and will regulate accounting methods for equity investments in the separate financial statements. The new standard is based on the existing standard and aims at defining the concept of control as the key factor for the purposes of consolidating a company in the subsidiary's consolidated financial statements. This standard also supplies a guide to determine the existence of control where it is difficult to assess it. The interpretation is applicable prospectively starting on 1 January 2013.
- On 12 May 2011, the IASB issued IFRS 11 – Joint Arrangement, which will replace *IAS 31 – Interests in Joint Ventures and SIC- 13 – Jointly Controlled Entities – Non monetary Contributions by Venturers*. The new standard supplies criteria to identify joint venture agreements based on rights and obligations deriving from agreements, rather than based on the legal form of the same agreements, and it rules that the only accounting method of equity investments in joint ventures in the consolidated financial statements is the equity method. This standard is applicable retrospectively as from 1 January 2013. After the issue of IAS 28 – Investments in Associates, this standard was amended to include equity investments in companies under joint-control in its scope of application, as from the effective date of the standard itself.
- On 12 May 2011, the IASB issued *IFRS 12 – Disclosure of Interests in Other Entities*, which is a new and complete standard on additional information that shall be supplied on any type of equity interest, including disclosures on subsidiaries, joint-venture agreements, associates, special purpose entities and other entities of this type that are not consolidated. This standard is applicable retrospectively starting on 1 January 2013.
- On 12 May 2011, the IASB issued *IFRS 13 – Fair Value Measurement*, which clarifies how the fair value should be measured for accounting purposes. This standard is applied to all IFRS which require or allow for the fair value measurement, or the disclosure of information based on fair value. The standard is applicable prospectively starting on 1 January 2013.
- On 16 June 2011, the IASB issued an amendment to IAS 1 - Presentation of Financial Statements in which companies are requested to change the grouping of items presented in other comprehensive income/(expense), according to their possible reclassification or non reclassification in future time to income statement. The amendment is applicable to years beginning after or on 1 July 2012.
- On 16 June 2011, the IASB issued an amendment to *IAS 19 – Employee benefits*, which eliminates the option to defer the recognition of actuarial gains and losses using the corridor approach. The amendment requires that the financial statements disclose the deficit or surplus of defined benefit plans in their entirety. It also required the separate recognition in income statement of the cost components related to the working activity and net financial charges, as well the recognition of actuarial gains and losses resulting from the new measurement, each year, of assets and liabilities under other comprehensive income/(expense). The interpretation is applicable retrospectively starting on 1 January 2013.
- On 19 October 2011, the IASB issued IFRIC 20 - *Stripping Costs in the Production Phase of a Surface Mine*; this interpretation focuses on accounting for costs associated with waste removal in surface mining. The amendment is applicable to years beginning after or on 1 January 2013.
- On 16 December 2011, the IASB issued another amendment to IAS 32 – *Financial Instruments: presentation*, to clarify the application of some criteria for the offsetting of financial assets and liabilities included in IAS 32. Amendments are applicable retrospectively for financial years starting on or after 1 January 2014.
- On 16 December 2011, the IASB issued another amendment to IAS 7 – *Financial Instruments: disclosures*. The amendment requires information on the effects or potential effects of offsetting agreements of financial assets and liabilities in the statement of financial position. The amendments are applicable for the financial years starting on or after 1 January 2013 and interim periods following this date. Information must be supplied retrospectively.

Use of estimates

In order to prepare the financial statements in compliance with IFRS, estimates and related assumptions are based on previous experience and other case factors, which are deemed reasonable and were adopted to define the carrying amount of assets and liabilities to which they refer. Estimates have been used to measure property, plant and equipment, investment property and intangible assets subject to impairment, as well as to recognise provisions, amortisation and depreciation and impairment losses on assets, employee benefits and to determine the fair value of derivatives and available-for-sale financial assets, taxes and other provisions for risks. These estimates and assumptions are regularly 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.

III. RISK MANAGEMENT

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

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

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

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

A summary of the risk management models is shown hereunder.

Liquidity Risk

Liquidity risk is the risk that financial resources available to the company are insufficient to cover financial and trade commitments in accordance with the agreed terms and deadlines.
The table below illustrates the expected outflows (within 12 months, in 1-5 years and over 5 years). The flows indicated are undiscounted future nominal cash flows, with the most updated market scenario, measured according to residual contractual expiry dates, on both principal and interest. Undiscounted nominal cash flows relating to interest rate hedges are also shown.

thousands of euro

Data at 31/12/2011	Carrying amount	Contractual cash flows	within 12 months	1-5 years	over 5 years
Mortgage and bond payables (*)	2,273,883	(2,644,589)	(526,064)	(1,376,031)	(742.494)
Hedging of interest rate risk (**)	39,310	(39,548)	(13,232)	(26,455)	139

(*)The carrying amount of the "Mortgage and bond payables" includes the nominal amount of the mortgages and bonds (both current and non-current shares). Exchange rate differences on mortgages totalled under "Other bank loans" are excluded.
(**)The carrying amount of "Hedging of interest rate risk" includes the fair value of hedges (both positive and negative).

Cash flows required to settle other financial liabilities, different from those to banks, do not differ significantly from the recognised carrying amount.
For details of the liquidity risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

Interest Rate Risk

For a more complete understanding of the interest rate risks, a sensitivity analysis was performed on net financial charges and on the assessment components of derivative contracts upon changes in interest rates.

As regards financial charges, this analysis was performed on the basis of reasonable assumptions as follows:

- an increase and a reduction of 100 basis points in the Euribor interest rates over the year was applied to the net financial indebtedness;
- in any existing hedge, interest rate shock was applied to both the debt position and related hedge with an extremely limited net effect on the income statement;

With regard to existing hedges at year end, a 100 basis points translation increase and decrease were applied to the forward curve of interest rates used to measure the fair value of the hedges.

The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2011.

thousands of euro

	aumento di 100 bps	diminuzione di 100 bps
Increase (decrease) in net financial charges	784	(771)
Increase (decrease) in fair value charges for derivatives	(271)	(38)
Increase (decrease) in hedging reserve	30,353	(32,240)

Fair value

Fair value is determined as the sum of estimated future cash flows expected in relation to assets or liabilities, including the related financial income or expense discounted at year end. The present value of future flows is determined by applying the forward curve of interest rates at year end. In order to provide as complete disclosure as possible, the corresponding figure from the previous year is also indicated.

For each recognised asset and liability class, the following table provides both the carrying amount and related fair value.

thousands of euro

Descrizione attività / passività	31-dec-11		31-dec-10	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Non-current loans to related parties	983,648	1,056,438	883,174	932,914
Hedges – long-term assets	473	473	1,989	1,989
Non-current bank loans and borrowings	(1,815,804)	(1,895,116)	(1,748,435)	(1,778,340)
Hedges – long-term liabilities	(39,783)	(39,783)	(23,003)	(23,003)
Loans - current portion	(458,085)	(519,114)	(97,820)	(148,974)
Total	**(1,329,551)**	**(1,397,102)**	**(984,095)**	**(1,015,414)**
Unrecognised loss		**(67,551)**		**(31,319)**

Fair value hierarchy

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

- Level 1: prices quoted (not adjusted) on active markets for similar assets or liabilities;
- Level 2: input data different from prices quoted, as per Level 1, which are observable for assets or liabilities, both directly (as per prices), and indirectly (or derived from prices);
- Level 3: input data related to assets or liabilities, which are not based on observable market data (non observable data).

thousands of euro

31 Dec. 2011	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	-	140,273	140,273
Financial assets designated at fair value through profit or loss	-	-	-	-
Financial assets held for trading	-	-	-	-
Derivative financial assets	-	473	-	473
Total assets	**-**	**473**	**140,273**	**140,746**
Derivative financial liabilities	-	(39,783)	-	(39,783)
Gross total	**-**	**(39,310)**	**140,273**	**100,963**

thousands of euro

31 Dec. 2010	Level 1	Level 2	Level 3	Total
Available-for-sale financial assets	-	-	267,834	267,834
Financial assets designated at fair value through profit or loss	-	-	-	-
Financial assets held for trading	-	-	-	-
Derivative financial assets	-	1,989	-	1,989
Total assets	**-**	**1,989**	**267,834**	**269,823**
Derivative financial liabilities	-	(23,003)	-	(23,003)
Gross total	**-**	**(21,014)**	**267,834**	**246,820**

All Group hedging financial instruments feature a fair value which can be classified at level 2. This level is measured based on the valuation techniques, which take as a reference parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different from quotations of the financial instruments, or however that do not require a significant adjustment based on data which cannot be observed on the market.
Moreover, no transfers occurred amongst the various Levels of the fair value hierarchy.
The investment in Delmi, amounting to euro 140,273 thousand, is included in level 3. Although essentially based on the company's Equity (see Note 4 and related comments), its value also reflects the Edison Group's complex process to exit the Italian shareholding structure. As regards the above, no sensitivity analysis is applicable and therefore is not submitted.

Credit Risk

Iren S.p.A. is not particularly exposed to credit risk as it mainly provides professional services to the First-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.

For details of the credit risk management policies, reference should be made to the Notes to the Consolidated Financial Statements included in this report.

Capital management

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

IV. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

On 30 November 2010, Iren's Board of Directors adopted the "Internal regulation for transactions with related parties" which was issued in implementation of:

a) of the provisions relating to transactions with related parties pursuant to article 2391-bis of the civil code;
b) the provisions set forth under article 114 of Legislative Decree 58 of 24 February 1998 (the "Consolidated Law on Finance");
c) the regulation containing provisions on transactions with related parties, adopted by Consob with its resolution 17221 of 12 March 2010 and subsequently amended with resolution 17389 of 23 June 2010 (the "Consob Regulation").

The "Internal regulation on transactions with related parties", which was applied from 1 January 2011, is published on Iren's website (www.gruppoiren.it) and, in summary, provides for:

a) identification of related parties;
b) the meaning of transaction with related parties;
c) transactions of a significant amount;
d) transactions of a lesser significance and the relative procedure;
e) transactions of a higher significance and the relative procedure;
f) exclusions;
g) establishment of the committee for transactions with related parties;
h) transactions for which the shareholders' meeting is competent;
i) amendments to the articles of association to be submitted to the extraordinary shareholders' meeting of Iren;
j) forms of advertising.

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

Transactions with related parties

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

Transactions with shareholders -related parties

During December 2011, according to the "Internal regulation on transactions with related parties", in December 2011, Iren's Directors defined Intesa San Paolo Group as related party. By reason of the fact that it has been defined as related party at year end only, these financial statements will disclose as amounts from related parties only the balances connected with companies in the Intesa San Paolo Group existing at 31 December 2011.
The Company has financial relations with the Intesa San Paolo Group and mainly relate to various loan types such as mortgage loans, credit lines and current accounts.

Transactions with subsidiaries

Intercompany Services - In order to make best use of the organisational synergies arising from the merger of IRIDE and Enìa, the Iren structure was designed in accordance with a holding model, with sufficient staff structures to support the coordination activity of the Group and to deal with the most challenging matters of general interest. Therefore, Iren can provide professional services to the first-level companies and subsidiaries, according to their needs, based on service agreements signed by the parties.

These activities are governed by special supply contracts at arms' length terms.

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

Tax consolidation scheme - Starting from 2010, Iren S.p.A. adopted the tax consolidation scheme pursuant to art. 117 et seq. of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.
In 2011, all financial and legal transactions between the parties are governed by the specific infragroup agreement between the companies involved and the parent, Iren S.p.A..
Moreover, the new tax consolidation scope, in addition to the parent Iren S.p.A., includes the following companies, without interruption: AEM Torino Distribuzione, CELPI, Iride Servizi, AEMNET, Iren Acqua Gas, Iren Mercato, Iren Energia, CAE AMGA Energia, AGA, AES Torino, Mediterranea delle Acque, Zeus, Immobiliare delle Fabbriche, Nichelino Energia, Enia Parma, ENIA Piacenza, ENIA Reggio Emilia, Eniatel, Tecnoborgo, Iren Ambiente, Iren Emilia, Genova Reti Gas and Eniatel.
In particular, this contract covers the way in which the IRES taxable amounts are transferred and the related remuneration charge, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.
Italian Law 244 of 24 December 2007 (2008 Finance Law), with effect starting from the 2008 tax period, radically changed the group taxation rules. It abolished all consolidation adjustments provided for by art. 122 of the Consolidated Income Tax Act, abrogated the rules regarding infragroup transfers pursuant to art. 123 of the Consolidated Income Tax Act and introduced the possibility, under certain conditions, to deduct from the consolidated income surplus interest expense of the participating companies that may have accrued due to the new interest expense deductibility provisions set forth in art. 96 of the Consolidated Income Tax Act.
As a result of the regulatory modifications mentioned above, the parties agreed on the need to update the previous Regulation in effect, in conformity with the provisions of art. 22 of the Regulation. The update protects the principles stated above.
After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay to the parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the IRES receivables transferred.
The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the parent is able to determine the total group Income for IRES purposes.
The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to art. 127 paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.
With reference to Group companies that operate in the production, trading, transportation or distribution sectors of natural gas or electric energy, also generated by renewable sources, they are subjected to 6.5% IRES additional tax (increased to 10.5% for 2011, 2012 and 2013). This additional tax must be paid autonomously by the above-mentioned companies, even they are part in the tax consolidation.

Group VAT option - In terms of procedures, for 2011, the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding settlements and VAT periodic payments.
The companies that took part in the settlement procedure are the parent Iren S.p.A. and the following companies: Iren Energia S.p.A., Iride Servizi S.p.A., Iren Acqua Gas S.p.A., Iren Mercato S.p.A., AEM Torino Distribuzione S.p.A., AEM NET S.p.A., CAE AMGA Energia S.p.A., AES Torino S.p.A., CELPI, Genova RETI GAS, ENIA Reggio Emilia S.p.A., Enia Parma S.p.A., Enia Piacenza S.p.A., Iren Ambiente S.p.A., Iren Emilia S.p.A., and ENIA SOLARIS S.p.A., Idrotigullio and Nichelino Energia.

Transactions with Directors

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

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

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

A breakdown of the amounts involved in transactions with related parties is provided among the annexes to the separate financial statements.

V. NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

ASSETS

Non-Current Assets

Note 1_property, plant and equipment

The breakdown and change of property, plant and equipment may be analysed as follows:

thousands of euro

	31/12/2010	Increases	Depreciation	Disposals and other changes	31/12/2011
Land	559	-	-	-	559
Buildings	6,969	-	(532)	-	6,437
Total	**7,528**	**-**	**(532)**	**-**	**6,996**

Furthermore, there are no guarantees for significant amounts on the assets.

Note 2_Intangible Assets

thousands of euro

	31/12/2010	Increases	Amortisation	Disposals and other changes	31/12/2011
Industrial patents and similar rights	-	69	(14)	-	55
Assets under development	-	87	-	-	87
Total	**-**	**156**	**(14)**	**-**	**142**

Industrial patents and similar rights

This item primarily relates to costs incurred in the year for the purchase of management software. This asset is amortised over a five-year period.

Assets under development

These are costs incurred over the year to implement new software.

Note 3 _ Investments in Subsidiaries, Joint Ventures and Associates

Investments in subsidiaries and joint ventures

The list of investments in subsidiaries at 31 December 2011 is annexed. The total equity investments amounted to euro 2,236,057 thousand (31 December 2010: euro 2,169,920 thousand).

Changes in investments in subsidiaries during the period 31 December 2010 – 31 December 2011 are as follows:

thousands of euro

Company	31/12/2010	Increases (decreases) for the year	Impairment losses	31/12/2011
AEM Torino Distribuzione S.p.A.	62,368	(62,368)	-	-
Iren Acqua Gas S.p.A.	529,516	-	-	529,516
Iren Ambiente S.p.A.	97,189	-	-	97,189
Iren Emilia S.p.A.	283,027	58,485	-	341,512
Iren Energia S.p.A.	1,109,299	62,368	-	1,171,667
Iren Mercato S.p.A.	87,335	8,652	-	95,987
Tecnoborgo S.p.A.	186	-	-	186
TOTAL	**2,168,920**	**67,137**	**-**	**2,236,057**

On 16 September 2011, Iren S.p.A. purchased from Iren Acqua Gas S.p.A. its equity investments in Iren Mercato S.p.A. (5,541,200 shares, equal to 9.03% of its share capital) at a price of euro 8,651,797 and in Iren EMILIA S.p.A. (34,431,000 shares, equal to 17.49% of its share capital) at a price of euro 58,485,277.00. Following this transaction, Iren S.p.A. is the sole Shareholder of Iren Mercato S.p.A. and Iren Emilia S.p.A.. Moreover, with effective date on 1 December 2011, the parent Iren S.p.A. conferred Iren Energia with the AEM Torino Distribuzione minority investment, equal to 30.15%, and amounting to euro 62,368,118.49, at carrying amount. Following the contribution, Iren Energia now holds the entire share capital of the subsidiary. This transaction was carried out in view of optimising and streamlining equity investments within the Iren Group.

The Tecnoborgo investment is controlled directly by effect of shares held by Iren Ambiente.

In December, the first-level companies, Iren Acqua Gas, Iren Energia, Iren Mercato, Iren Ambiente and Iren Emilia made an extraordinary distribution, drawing on the available reserves, amounting to euro 119,972 thousand. However, given the results obtained in the 2011 financial statements, which take account of the negative events that took place at a second time, namely the loss recorded by the associate Sinergie Italiane for Iren Mercato and the impairment loss on the Edipower investment for Iren Energia, with subsequent resolutions of the shareholders' meetings,

- Iren Mercato has revoked, with ex tunc effect, the resolution made in December 2011 on the distribution, within end 2011, of an extraordinary dividend of euro 11,242 thousand to be withdrawn from available reserves and in favour of the Sole Shareholder;
- Iren Energia has adjusted the amount set out in the resolution of the shareholders' meeting held in December 2011 (euro 56,837 thousand), fixing the final dividend to the amount of euro 10,481 thousand as extraordinary dividend resolved in December 2011.

Therefore, the total amount for the extraordinary distribution is euro 62,375 thousand (euro 99,377 thousand in 2010).
As regards this distribution, the Directors underline that they checked that there are no impairment indicators so as to require the recognition of an impairment loss pursuant to provisions set out by IAS 36.

Investments in associates
The list of investments in associates at 31 December 2011 is provided in an annex.

During the period from 31 December 2010 to 31 December 2011, no changes occurred in investments in associates.

thousands of euro

Company	31/12/2010	Increases (decreases) for the year	Impairment losses	31/12/2011
Plurigas S.p.A.	240	-	-	240
TOTAL	**240**	**-**	**-**	**240**

Note 4_Other Investments

This item relates to investments in companies over which Iren S.p.A. has neither control nor significant influence.

The list of other investments at 31 December 2011 is provided in an annex.

The changes occurred in other investments during the year are as follows

thousands of euro

Company	31/12/2010	Increases (decreases) for the year	Impairment losses	31/12/2011
Delmi S.p.A.	267,834	-	127,561	140,273
TOTAL	**267,834**	**-**	**127,561**	**140,273**

With reference to the calculation of fair value in the investment in Delmi S.p.A., the Directors of Iren show the following.

As shown in the Financial Statements at 31 December 2010, Delmi, classified as available for sale, is not quoted on an active market. During 2011, negotiations were carried on with the aim of confirming the willingness of Iren's directors to confer an industrial value to the transaction in question. In particular:

- On 27 December 2011, A2A S.p.A., EDF S.A., Delmi S.p.A., Edison S.p.A. and Iren S.p.A. announced their agreement on the corporate reorganisation of Edison S.p.A. and Edipower S.p.A.. EDF S.A. will purchase 50% of the share capital of Transalpina di Energia S.r.l. (TdE) from Delmi S.p.A.. By effect of the acquisition, EDF S.A. will hold 80.7% of Edison S.p.A.'s share capital. The amount related to the purchase of 50% of TdE S.r.l. is fixed based on the price of 0.84 euro per Edison S.p.A. share, less the portion pertaining to the company's indebtedness. Simultaneously, Delmi S.p.A. will purchase 70% of Edipower S.p.A.'s share capital, currently held by Edison S.p.A. (50%) and by Alpig S.A. (20%) at a price equal to euro 600 million and euro 200 million, respectively. This transaction represents the turning point of a proceeding started in 2005 with the joint acquisition of the Edison Group by A2A (and other Delmi's shareholders) and EDF. Two important energy hubs will be created following these agreements, which, thanks to the stable organisation and the launching of activities, will contribute to the recovery of the economic development of the Country, while generating value all over the territory and giving new impulse to the Italian industry.
- On 30 January 2012, the Shareholders' Committee, the Shareholders' Meeting and the Board of Directors of Delmi unanimously approved the disposal of the company's equity investment in TdE S.r.l. to EDF S.A. (TdE is a holding company that owns 61% of Edison S.p.A.) and the purchase of 70% of Edipower S.p.A. from Edison S.p.A. and Alpiq S.A., pursuant to agreements dated 26 December 2011.
- On 15 February 2012, A2A S.p.A., Delmi S.p.A., EDF S.A., Edison S.p.A. and Alpig signed the final agreements provided for in the preliminary agreement of 26 December 2011 related to the reorganisation of investments in Editon S.p.A. and Edipower S.p.A..
- Namely, Delmi S.p.A. acquires 70% of Edipower S.p.A. from Edison S.p.A. (50%) and Alpig (20%) at a total price of euro 804 million. EDF S.A. acquires 50% of TdE S.r.l. from Delmi S.p.A.. EDF already owns the remaining 50% of TdE S.r.l., which, in its turn, holds 61.3% of the voting rights of Edison S.p.A. at a price of euro 704 million. The main elements of a gas supply contract from Edison S.p.A. to Edipower S.p.A. have been agreed upon. This supply will cover 50% of Edipower S.p.A. needs over a 6-year period at arms' length.

Based on the above descriptions, Delmi's Financial Statements at 31 December 2011, approved by the Board of Directors on 16 March 2012, measured Tde as follows:

- Energia S.r.l. investment in Transalpina di Energia S.r.l. was measured by taking account of the aggregate agreements entered into by Delmi S.p.A., A2A S.p.A. and EDF S.A., as described above.
- The Directors deemed that, albeit prices were fixed independently through separate negotiations, the two transactions under evaluation could be included in one master agreement, within one single strategic plan, and therefore would not exist independently one from another.
- Taking account of the above and of the fact that at end 2011 the governance bodies of the companies involved had already substantially defined the reorganisation in question, on a general line it is right to provide for a joint accounting of the two transactions in the financial statements at 31 December 2011 already, by reason of the fact that this solution reflects the substance of the agreement.
- Therefore, the accounting treatment, as it is set forth in the IFRS, led to consider 70% of Edipower S.p.A. fair value in the financial statements at 31 December 2011, net of the future financial disburse-

ment that will occur at closing, as carrying amount for the 50% Transalpina equity investment of Energia S.r.l..

- The approval of the reorganisation of Edison S.p.A. is a potential impairment indicator of the 50% investment held by TdE. Therefore, this investment should be tested for impairment pursuant to IAS 36. In order to define the recoverable amount, the cash flows deriving from reorganisation agreements, considered jointly, have been taken into account as specified hereunder:
  1. Sale of TdE investments (euro 704 million cash-in);
  2. Purchase of 70% in Edipower S.p.A. (euro 804 million cash-out);
  3. Cash inflows deriving from the acquisition of the Edipower S.p.A. investment, equal to 70% of the fair value of the same, as determined by an expert (70% of euro 1,450 million, equal to euro 1,015 million).
- As regards the gas procurement contracts, Delmi deems that the same do not affect the recoverable amount as they will be entered into at arms' length.
- In particular, Edipower S.p.A.'s fair value was calculated based on estimates of cash flows of the sever-year forecasts (2012-2019) provided for by the Edipower's management.
  The expert has established that the main measurement method should be the Financial one, in particular the Unlever Discount Cash Flow. Therefore explicit flows have been discounted and added with a terminal value determined through the estimate of an operating cash flow deriving from the average flows of working capital resulting from the 2012-2019 plan, adjusted by the value of non discretionary investments necessary to maintain the normal conditions of corporate operations.
  In defining the terminal value, a variable growth rate (from 0% to 1%) was taken into account and the discounting rate (WACC) used to discount the cash flows was equal to 7%.
- According to the results obtained, the carrying amount of Edipower S.p.A. was estimated in an interval ranging from euro 1,455.6 and 1,639.1 million. The expert has also performed an additional control evaluation by using implied multiples. From this measurement, the resulting carrying amount of Edipower S.p.A. ranged from euro 1,115.4 and 1,469.8 million.
- Finally, the expert estimated that the carrying amount of Edipower S.p.A. ranged between average carrying amounts of euro 1,300 and 1,550 million.
- While choosing the measurement criterion to be adopted, Delmi deemed that the criterion funded on estimated cash flows, which might be generated by Edipower S.p.A., would allow to clarify the amount that the provisional plan may disclose assuming that the company is a going concern. The application of market criteria, and especially of stock exchange multiples, is instead affected, in this particular historical moment, by market elements and the duration of the crisis has involved an increasing price volatility of comparable companies.
- With respect to the above, Delmi's Directors elected to adopt the minimum amount of the range highlighted by the measurement with the financial method, i.e. euro 1,450 million. This amount also reflects the average value of measurements carried out with the two methods and it is therefore comparable with the method of Multiples.
- In light of the above, the recoverable amount was determined in euro 915 million. The overall impact to income statement is equal to euro 851 million and Delmi's Equity is therefore equal to euro 935 million at 31 December 2011.

In light of the above, Iren's Directors deem it suited to use such information to define a fair value calculation model that better reflects the allocation of the investment in Delmi and medium-term strategic objectives. In particular, to determine the fair value of equity investment held in Delmi at 31 December 2011 based on Iren's investment in the Company's Equity is deemed correct. Delmi's equity, in fact, reflects the consequent measurement at fair value of the only asset owned, i.e. TdE, by effect of the above-mentioned reasons.
By applying the above-mentioned method, a reduction of euro 136,126 thousand is recorded with respect to the initial carrying amount, equal to euro 276,399 thousand. Directors deem that this amount is significant based on the provisions of IAS 39.61. The entire amount, which includes the negative "Fair value reserve", amounting to euro 8.5 million and recognised in the financial statements at 31 December 2010, is charged to income statement and no amount under deferred taxes is recognised pursuant to the provisions of par. 1 of Art. 101 of TUIR.
The entire transaction is in fact conditioned by Consob's confirmation that the price of the take-over bid, following Edison's acquisition of control by EDF, is not higher than 0.84 per share. This transaction is also conditioned to the approval by the competent Antitrust authorities. Closing shall occur not after 30 June 2012.

Note 5_Non-Current Financial Assets

Non-current financial receivables

These total euro 984,121 thousand (euro 885,163 thousand at 31 December 2010). These are detailed in the following table:

thousands of euro

	31/12/2011	31/12/2010
Receivables from subsidiaries and joint ventures	982,678	882,204
Due from associates and other Group companies	970	970
Total	**983,648**	**883,174**

Financial receivables from subsidiaries and joint ventures relate to amounts due from:

- Iren Energia, as for euro 430,000 thousand (unchanged with respect to 31 December 2010),
- AEM Distribuzione, as for euro 110,000 thousand (unchanged with respect to 31 December 2010),
- Iren Acqua Gas, as for euro 171,795 thousand (euro 145,000 thousand at 31 December 2010),
- Iern Mercato, as for euro 80,000 thousand (unchanged with respect to 31 December 2010),
- Iren Emilia, as for euro 83,205 thousand (euro 110,000 thousand at 31 December 2010),
- Idrotigullio, as for euro 6,821 thousand (euro 7,204 thousand at 31 December 2010),
- Iren Ambiente, as for euro 100,857 thousand (not reported in 2010).

Financial receivables from other Group companies refer to a non-interest bearing capital injection into Nord Ovest Servizi.

Other non-current financial assets

These amount to euro 473 thousand (euro 1,989 thousand at 31 December 2010) and relate to the fair value of derivatives. Reference should be made to the section on "Risk management" in chapter III for comments.

Note 6_Other non-current assets

These amount to euro 368 thousand (31 December 2010: euro 414 thousand) and are made up of receivables due from personnel for the non-current share of loans granted to employees and guarantee deposits paid.

Note 7_Deferred tax Assets

This item amounts to euro 24,855 thousand (31 December 2010: euro 17,943 thousand) and refers to deferred tax assets arising from costs deductible in future years.
Reference should be made to the income statement, Note 32 "Income tax expense", for further details.

Current assets

Note 8_Trade receivables

These are detailed in the following table:

thousands of euro

	31/12/2011	31/12/2010
Receivables from customers	33	23
Receivables from subsidiaries and joint ventures	20,401	13,766
Receivables from associates	337	259
Receivables from related parties	28	28
Receivables from other Group companies	21	22
Total	**20,820**	**14,098**

Receivables from customers

They primarily relate to receivables for expense reimbursements. These amount to euro 33 thousand (31 December 2010: euro 23 thousand).

Receivables from subsidiaries and joint ventures

Receivables from subsidiaries amount to euro 20,401 thousand (euro 13,766 thousand at 31 December 2010) and refer to normal sales transactions carried out at market conditions.
Details of receivables from subsidiaries are provided in the following table:

	31/12/2011	31/12/2010
		thousands of euro
Acquedotto Monferrato	10	5
Acquedotto Savona	10	5
AEM Torino Distribuzione	290	508
AEMNET	17	19
AES Torino	314	186
AGA	11	3
Bonifica Autocisterne	4	-
CAE AMGA Energia	27	25
CELPI	5	4
Genova Reti Gas	144	137
ENIA Parma	225	48
ENIA Piacenza	160	38
ENIA Reggio Emilia	222	49
ENIAtel	6	11
Idrotigullio	68	59
Immobiliare delle Fabbriche	-	1
Iren Acqua Gas	2,900	2,021
Iren Ambiente	583	756
Iren Emilia	5,940	2,500
Iren Energia	5,599	3,823
Iren Mercato	2,125	2,539
Iren Rinnovabili	55	36
Iren Servizi	932	687
LIAG	4	4
Mediterranea delle Acque	593	199
Nichelino Energia	22	15
OLT Offshore LNG	-	2
Sasternet	17	18
Società Acque Potabili	102	59
Tema	14	9
Undis Servizi	2	-
Total	**20,401**	**13,766**

Receivables from associates

Details of receivables from associates are provided in the following table:

	31/12/2011	31/12/2010
		thousands of euro
ACOS	16	9
ACIAM	29	12
AGUAS DE SAN PEDRO	1	-
AMTER	18	19
ASA	194	166
ASTEA	7	6
Domus Acqua	3	12
Edipower	7	-
Fata Morgana	2	1
In.Te.Gra. Clienti	3	14
Mondo Acque	3	2
Piana Ambiente	41	16
Valle Dora Energia	5	1
Sinergie Italiane	2	-
Sosel	4	-
Tempio	1	-
Iniziative Ambientali	1	1
Total	**337**	**259**

This item primarily refers to fees that may be charged back for offices performed by Iren's employees in the above companies, as well as to the repaid amount of insurance costs borne by the Parent.

Receivables from shareholders – related parties
Receivables from shareholders - related parties recorded a balance of euro 28 thousand (unchanged with respect to 31 December 2010) and refer to receivables for work performed for FSU.

Receivables from other Group companies
They amount to euro 21 thousand (euro 22 thousand at 31 December 2010) and relate to receivables from Atena Patrimonio as for euro 15 thousand (euro 22 thousand at 31 December 2010) and euro 6 thousand from Tirreno Power, in addition to less significant captions. They refer to fees that may be charged back for offices performed by Iren's employees in this company.

Note 9 _ Current Tax Assets
They amount to euro 159 thousand (euro 663 thousand at 31 December 2010) and they relate to receivables for IRAP tax advances.

Note 10_Other Receivables and other Current Assets
The breakdown of this item is provided in the following table:

thousands of euro

	31/12/2011	31/12/2010
Receivables from personnel	55	56
Receivables from subsidiaries for Group VAT	9,169	33,554
Receivables due from subsidiaries for tax consolidation scheme	27,636	19,650
VAT credit	8,313	1,410
Other receivables	800	1,122
Tax assets	2,505	847
Prepayments	624	516
Total	**49,102**	**57,155**

The option for the Group tax consolidation scheme was exercised pursuant to art. 118 of the new Consolidated Income Tax Act. It requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A..

Receivables from personnel include receivables for loans granted to employees, advances on pensions, wages and salaries and travel expenses.

Note 11_Current Financial Assets
All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.
The total amount of current financial assets at 31 December 2011 is euro 978,627 thousand (31 December 2010: euro 962,642 thousand).
Current financial receivables relate to:

Loans to subsidiaries and joint ventures
This item consists of the following items:

thousands of euro

	31/12/2011	31/12/2010
For invoices issued	584	2,335
For invoices to be issued	28,354	21,811
For loans granted	370,231	365,000
For centralised treasury management and cash pooling	517,042	473,908
For dividends to be received	62,375	99,384
Total	**978,586**	**962,438**

Loans granted include a loan disbursed to Edipower in December, amounting to euro 110,000 thousand, a loan granted to Idrotigullio, amounting to euro 231 thousand and a loan to Iren Mercato, which, in its turn, financed OLT Offshore within the agreements with the other shareholder Eon, totalling euro 260,000 thousand (31 December 2010: euro 235,000 thousand). At 31 December 2010, a loan granted to AES Torino, equal to euro 130,000 thousand, was also reported.

Dividends to be received refer to an extraordinary distribution decided by the Shareholders of the four First-level companies in December 2011. At 31 December 2011, these dividends were still unpaid. For further information, reference is made to Note 3_ Investments in subsidiaries, joint venture and associates.

Other financial receivables

Details are provided in the following table:

thousands of euro

	31/12/2011	31/12/2010
Other financial receivables	-	26
Accrued financial income	-	23
Financial prepayments	41	155
Total	**41**	**204**

Note 12_Cash and Cash Equivalents

They are broken down as follows:

thousands of euro

	31/12/2011	31/12/2010
Bank and postal accounts	17,035	43,252
Cash-in-hand and cash equivalents	371	319
Total	**17,406**	**43,571**

Cash equivalents represent short-term and highly liquid investments that are readily convertible into known amounts of cash and subject to an insignificant risk of changes in value, whose original maturity, i.e. upon purchase, is max. 90 days.

LIABILITIES

Note 13_Equity

Equity is detailed in the following table:

thousands of euro

	31/12/2011	31/12/2010
Share capital	1,276,226	1,276,226
Reserves:		
- Share premium reserve	*105,102*	*105,102*
- Legal reserve	*28,996*	*23,862*
- Hedging reserve	*(25,911)*	*(13,714)*
- Negative goodwill	*56,793*	*56,793*
- Other reserves	*115,832*	*118,309*
Total reserves	280,812	290,352
Losses carried forward	(36,507)	(36,507)
Profit/(loss) for the year	(57,043)	102,690
Total equity	**1,463,488**	**1,632,761**

Share capital

The share capital amounts to euro 1,276,225,677 (unchanged compared to 31 December 2010), fully paid up and consisting of 1,181,725,677 ordinary shares with a nominal amount of euro 1 each and 94,500,000 savings shares without voting rights with a nominal amount of euro 1 each.

Savings shares:

The 94,500,000 savings shares of Iren, held by Finanziaria Città di Torino, are not listed, have no voting rights and, except for a different order of priority in the allocation of net residual assets in case of company dissolution, they are subject to the same regulation as ordinary shares.
Lastly, in the case of sale, the savings shares will be converted automatically, at par, into ordinary shares.

Share premium reserve

The share premium reserve amounts to euro 105,102 thousand (unchanged compared to 31 December 2010).

Legal reserve

As provided for by article 2430 of the Italian Civil Code, following the allocation of 5% of the 2010 profit, the legal reserve increased by euro 5,134 thousand and amounted to euro 28,996 thousand at 31 December 2011 (euro 23,862 thousand at 31 December 2010).

Hedging reserve

With the adoption of IAS 39, changes in the fair value of effective hedging derivatives are recognised with a balancing entry directly in equity under the hedging reserve. These contracts were signed to hedge the interest rate risk of variable rate loans.
The amount of this reserve at 31 December 2011, net of the tax effect, is negative by euro 25,911 thousand (31 December 2010: negative by euro 13,714 thousand).

Negative goodwill

It amounts to euro 56,793 thousand (unchanged compared to 31 December 2010).
The balance at 31 December 2009 derives from the merger of AMGA into AEM Torino, as the difference between equity of AMGA (merged company) and the amount of the increase in share capital of AEM Torino (merging company). Consequently, the merger was accounted for with effect from 1 January 2006, the date that represented the reporting date closest to that in which the joint venture agreements between the Municipalities were signed, namely 30 January 2006.
During 2010, goodwill of euro 57,426 thousand resulted from the merger of Enìa into Iride, after the reinstatement of former Enìa fair value reserves of financial instruments (euro 5,115 thousand) and the hedging reserve (negative by euro 2,856 thousand). This amount, supplemented by that related to the previous merger, was used to comply with law obligations as for the reinstatement of reserves taxable on distribution, of the merged company and amounting to euro 94,952 thousand.

Other reserves

These include:

Extraordinary reserve

This item is made up of the difference, generated by 1996 operations, between the closing equity of Azienda Energetica Municipale at 31 December 1996 and that indicated by the independent expert at 31 December 1995 for an amount of euro 23,001 thousand, comprising the portions of 2002 profit (euro 7,487 thousand), 2003 profit (euro 3,518 thousand), 2004 profit (euro 23,247 thousand), 2005 profit (euro 33,572 thousand), 2006 profit (euro 12,877 thousand) and 2008 profit (euro 26 thousand), and reclassification of the reserve for accelerated depreciation for euro 10,075 thousand in 2004. This reserve was utilised in 2008 by the sum of euro 60,723 thousand, by euro 26,626 thousand in 2009 for the distribution of extraordinary dividends and in 2010 increased following the allocation of the 2009 profit, amounting to euro 239 thousand and following the disposal of the business units for the amount of euro 51 thousand; meanwhile, it decreased by effect of the distribution of an extraordinary dividend in the month of April, for an amount of euro 2,496 thousand. During 2011, following the allocation of the 2010 profit, this item increased by euro 52 thousand and was used by euro 10,976 thousand. Therefore, at 31 December 2011, it amounted to euro 13,324 thousand (31 December 2010: euro 24,248 thousand).

Contribution reserve
This item amounts to euro 7,555 thousand (unvaried with respect to 31 December 2010) and refers to gains from the contribution in 1999 of the electrical energy transmission business unit to AEM Trasporto Energia, based on the values of the expert appraisal.

Fair value reserve - financial instruments
This reserve includes the effects of the fair value measurement of the equity investment in Delmi S.p.A., which was reinstated following the merger with Enìa and the subsequent impairment loss recognised last year. At 31 December 2010 it amounted to euro 8,447 thousand. Following the impairment loss on the Delmi investment, occurred during 2011, this reserve was zeroed.

Losses carried forward
This item, of euro 36,507 thousand (unchanged since 31 December 2010), derives from the differences arising from the transition from application of Italian GAAP to IFRS.

In addition, pursuant to art. 109, subsection 4, paragraph b) of the Consolidated Income Tax Act (TUIR), the distribution of equity reserves and profit for the year, increased by deferred taxes corresponding to the amount distributed, form the income, if and to the extent that the total of remaining equity reserves and remaining profits carried forward proves lower than the excess amortisation/depreciation, impairment losses and provisions deducted against those recognised in the income statement.
The amount of this excess is euro 434 thousand.

Dividends
On 06 May 2011, in their Ordinary Meeting, the Shareholders of Iren S.p.A. resolved the distribution of an ordinary dividend, equal to euro 0.0764 per share and the distribution of an extraordinary dividend equal to euro 0.0086 per share. The dividend amounting to euro 108,479 thousand was paid from 26 May 2011.

Non-Current Liabilities

Note 14_Non-Current Financial Liabilities
These total euro 1,855,587 thousand (31 December 2010: euro 1,771,438 thousand), and consist of:

Bonds
They amount to euro 158,305 thousand (euro 155,798 thousand at 31 December 2010) and relate to two 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 to a pre-set fixed rate. The proceeding for the first auction has already been completed in 2011, with the definition of the credit spreads for the next 2 years.
The amount refers to the amortised cost, pursuant to IFRS.

Non-current bank loans and borrowings
They relate exclusively to the non-current portion of loans granted by banks and amount to euro 1,657,499 thousand (euro 1,592,637 thousand at 31 December 2010).
They can be analysed by interest rate type (with respective indications of minimum and maximum rates applied) and expiry date, as shown in the following table:

thousands of euro

	Min/max rate	Term	2013	2014	2015	2016	following	31/12/2011 Total payables	31/12/2010 Total payables
- fixed rate	*3.945% - 5.57%*	*2013-2026*	*52,059*	*52,496*	*66,110*	*71,466*	*296,851*	***538,982***	***484,069***
- floating rate	*1.64% - 3.035%*	*2013-2023*	*145,644*	*652,835*	*107,735*	*56,871*	*155,432*	***1,118,517***	***1,108,568***
TOTAL			**197,703**	**705,331**	**173,845**	**128,337**	**452,283**	**1,657,499**	**1,592,637**

Loans are all in euro.

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

thousands of euro

	31/12/2010 Total payables	Increases	Repayments	Exchange rate differences and amortised cost adjustments	31/12/2011 Total payables
- fixed rate	*484,069*	*100,000*	*(44,073)*	***(1,014)***	***538,982***
- floating rate	*1,108,568*	*425,000*	*(413,843)*	***(1,208)***	***1,118,517***
TOTAL	**1,592,637**	**525,000**	**(457,916)**	**(2,222)**	**1,657,499**

Total non-current loans at 31 December 2011 increased compared to 31 December 2010 due to the following variations:

- euro 525 thousand increase due to the disbursement of new non-current loans, as for euro 100 million with Cassa Depositi e Prestiti, euro 100 million with Mediobanca, euro 150 million with Unicredit, euro 75 million with BRE-Gruppo UBI, euro 100 million with BEI;
- reduction, totalling euro 457,916 thousand, related to the reclassification as current liabilities of loans with maturity in the next 12 months;
- secondary variations in amortised cost and exchange rate differences.

Other non-current financial liabilities

These amount to euro 39,783 thousand (euro 23,003 thousand at 31 December 2010) and refer to the fair value of derivative contracts entered into by Iren as hedges against the interest rate risk on floating rate mortgages (reference should be made to paragraph "Risk management" for comments).

Note 15_Employee Benefits

Changes in this item in 2011 were as follows:

	thousands of euro
At 31 December 2010	**9,806**
Current service costs	20
Financial expense	432
Releases and withdrawals	(553)
Actuarial gains	(243)
Contract assignments	(6)
At 31 December 2011	**9,456**

Liabilities for employee benefits consist of:

Post-employment benefits

Post-employment benefits underwent the following movements during 2010:

	thousands of euro
At 31 December 2010	**4,120**
Financial expense	185
Releases and withdrawals	(159)
Actuarial gains	(456)
Contract assignments	(6)
At 31 December 2011	**3,684**

Other benefits

Other defined benefit plans may be analysed as follows:

Additional months' salaries (long-service bonus)

The long-service bonus has been provided for to cover the additional amount due to employees in force at the end of the year in respect of the amount accrued at that date for those reaching the minimum pensionable service.

Movements of the year are shown in the following table:

	thousands of euro
At 31 December 2010	**285**
Current service costs	9
Financial expense	13
Actuarial gains	(80)
At 31 December 2011	**227**

Loyalty bonus

Employees reaching 25, 30 or 35 years of service are entitled to a loyalty bonus equal to one monthly salary amount as established by the national sector labour contract in force on reaching the required years of services.

Movements of the year are shown in the following table:

	thousands of euro
At 31 December 2010	**179**
Current service costs	4
Financial expense	8
Disbursements/releases	(11)
Actuarial losses	102
At 31 December 2011	**282**

Provision for tariff discounts

The Company gives its employees hired before and on 31 July 1979 an electrical energy discount of 80% on the first 7,500 kW consumed per annum. For employees hired between 1 August 1979 and 8 July 1996, the Company gives an 80% discount on a maximum of 2,500 kW consumed per annum. This benefit is not recognised to employees hired since 9 July 1996.

In addition to employees currently in service, the electrical energy discount is recognised to all those eligible, including retired employees, and this right is transferable to surviving spouses.

Movements of the year are shown in the following table:

	thousands of euro
At 31 December 2010	**4,099**
Current service costs	7
Financial expense	181
Disbursements/releases	(280)
Actuarial losses	88
At 31 December 2011	**4,095**

Premungas fund

The Premumgas fund is a supplementary pension plan which allows the employee to obtain the same amount of remuneration received upon retirement. The benefit is paid to employees hired with a Federgasacqua contract up to 28 February 1978.

Movements of the year are shown in the following table:

	thousands of euro
At 31 December 2010	**1,123**
Current service costs	-
Financial expense	45
Disbursements/releases	(103)
Actuarial losses	103
Contract assignments	-
At 31 December 2011	**1,168**

Actuarial valuations

The liability related to defined benefit plans is measured on the basis of actuarial assumptions and is recognised on an accruals basis in line with the service necessary to obtain the benefits. The liability is measured by independent actuaries.

Future service is estimated in order to define the present value of the obligations on the basis of the assumptions related to changes in both the total number of employees and employee remuneration. These will be paid to each employee in the event of continuing working activity with another company, retirement, death, resignation or a request for an advance.

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

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

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

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

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

- the nominal discount rate adopted in the current macroeconomic situation is 4.8%.
- annual inflation rate: equal to 2% for the entire measurement period;
- annual revaluation rate for the amount of the electricity discount: equal to the annual inflation rate for the entire measurement period;
- annual rate of increase for remuneration due to career development and contract renewals: equal to 3.5% for the entire period of valuation (a point and a half higher than the forecast annual rate of inflation); this assumption takes into account the likely trend of employee remuneration depending on the length of service and takes into account seniority increases, role changes within a category, promotions and future contractual increases until leaving the group of workers in service.

The main demographic assumptions adopted in the calculations are the following:

a) mortality of employees, both during and after employment, and family members, broken down by age and gender: ISTAT 2008 (source: ISTAT, 2011 Italian Statistics Yearbook);
b) rates of employee disability, broken down by age and gender, based on an actuarial study covering the period 1998-2010;
c) reduction of employees for sundry reasons (dismissal, resignation), broken down by age and gender, based on the company's history for the 1998-2010 period;
d) rate of leaving a surviving spouse as calculated by ISTAT;
e) average age of the surviving spouse taken from the INPS projection model.

Assumptions on advances are the following:

- likelihood of request of a first advance, for a length of service of between 8 and 40 years, equal to 20% for each year of service;
- maximum number of advances that can be requested equal to one;
- amount of the advance of post-employment benefits: 50% the first time.

Note 16_Provisions for Risks and Charges

Provisions for risks and charges amount to euro 19,891 thousand (31 December 2010: euro 19,193 thousand) for the non-current portion.

thousands of euro

Provisions for risks and charges	31/12/2010	Increases	Decreases	31/12/2011
Non-current portion of provisions for risks	19,193	1,268	(570)	19,891
Current portion of provision for risks	-			-
Total provisions	**19,193**	**1,268**	**(570)**	**19,891**

Increases, amounting to euro 1,268 thousand, are mainly due to discounting interest, while decreases, amounting to euro 570 thousand, relate to tax bills, for C.I.G.-C.I.G.S. (ordinary and extraordinary redundancy and mobility) contributions, received during 2011 and restated under sundry payables.

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

Note 17_Deferred Tax Liabilities

Deferred tax liabilities of euro 1,913 thousand (31 December 2010: euro 2,422 thousand) arise from the temporary differences between the carrying amount and the amount recognised for taxation purposes of recognised assets and liabilities.
Deferred taxation is calculated with reference to the expected tax rates applicable in the year in which the differences will reverse.
Reference should be made to the income statement, note 32 "Income tax expense", for further details.

Current Liabilities

Note 18_Current Financial Liabilities

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

thousands of euro

	31/12/2011	31/12/2010
Bank loans	969,669	791,314
Payables to subsidiaries	78,302	112,383
Payables to shareholders – related parties	3,752	3,628
Other financial liabilities	10	12
Total	**1,051,733**	**907,337**

Bank loans

thousands of euro

	31/12/2011	31/12/2010
Loans - current portion	458,085	97,820
Other current payables to banks	508,614	692,025
	2,970	1,469
Total	**969,669**	**791,314**

Payables to subsidiaries

thousands of euro

	31/12/2011	31/12/2010
For invoices to be received	1,596	83
For cash-pooling	76,706	112,300
Total	**78,302**	**112,383**

Payables to shareholders – related parties

These amount to euro 3,752 thousand (3,628 at 31 December 2010) and refer to payables to FSU for the agreement regarding the handover from FSU s.r.l. to Iren S.p.A. of management of the temporary cash surplus and interest expense on financial movements.

Other financial liabilities

These amount to euro 10 thousand (31 December 2010: euro 12 thousand) and refer to payables due to Monte Titoli.

Note 19_Trade Payables

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

thousands of euro

	31/12/2011	31/12/2010
Accounts payable to creditors	11,689	22,715
Payables to subsidiaries	3,514	6,302
Payables to associates	4	979
Payables torelated parties	-	2,417
Payables to other Group companies	580	-
Total	**15,787**	**32,413**

Note 20_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

	31/12/2011	31/12/2010
Social security charges payable	1,218	1,455
Amounts payable to subsidiaries for tax consolidation scheme	3,458	4,945
Payables to subsidiaries for group VAT	15,694	34,485
IRPEF payable	952	994
Sums payable to personnel	2,923	3,279
Other payables	2,541	2,227
Total	**26,786**	**47,385**

The option for the Group tax consolidation scheme was exercised pursuant to art. 118 of the new Consolidated Income Tax Act (TUIR). It requires that the consolidated companies transfer their IRES receivables/payables to the parent Iren S.p.A..

Note 21 _ Current Tax Liabilities

They refer to IRES and IRAP tax payables and amount to euro 14,524 thousand (31 December 2010: euro 3,421 thousand).

Net Financial Indebtedness

Net financial indebtedness, calculated as the difference between current and non-current financial assets and liabilities, amounts to euro 927,166 thousand (31 December 2010: euro 787,397 thousand), and may be analysed as follows:

thousands of euro

	31/12/2011	31/12/2010
Non-current financial assets	(984,121)	(885,165)
Non-current financial liabilities	1,855,587	1,771,438
Net non-current financial liabilities	**871,466**	**886,273**
Current financial assets	(996,033)	(1,006,213)
Current financial liabilities	1,051,733	907,337
Net current financial liabilities	**55,700**	**(98,876)**
Net financial indebtedness	**927,166**	**787,397**

Net Financial Position regarding related parties

Non-current financial assets were euro 982.678 thousand (euro 882.204 thousand at 31 December 2010) and concern loans granted to subsidiaries.

Non-current financial liabilities refer, as for euro 186,974 thousand, to relations with the Intesa Sanpaolo Group regarding loans granted, as well as to fair value of hedging derivatives.

Current financial assets relate, as for euro 978,586 thousand (31 December 2010: euro 962,438 thousand) to financial receivables from subsidiaries due to the centralised treasury management, loans granted and receivables for dividends to be received, as well as receivables from joint ventures due to the relation of centralised treasury management and receivables from associates due to the centralised treasury management and loans granted.

Current financial liabilities amounted to euro 284,942 thousand (euro 116,011 thousand at 31 December 2010) and relate to financial payables to subsidiaries for the centralised treasury management, financial payables to FSU for the agreement regarding the handover from FSU s.r.l. to Iride S.p.A. of management of the temporary cash surplus and interest expense on financial movements and payables to the Intesa Sanpaolo Group related to loans granted.

For additional information, see the annexed tables on transactions with related parties.

Below is the net financial position as per the structure proposed by the CESR recommendation of 10 July 2005, which does not include non-current financial assets.

thousands of euro

Net financial indebtedness	31/12/2011	31/12/2010
A. Cash	(17,406)	(43,571)
B. Other cash equivalents (details)	-	-
C. Securities held for trading	-	-
D. Cash (A) + (B) + (C)	**(17,406)**	**(43,571)**
E. Current financial assets	**(978,627)**	**(962,642)**
F. Current bank payables	511,584	693,494
G. Current portion of non-current liabilities	458,085	97,820
H. Other current financial liabilities	82,064	116,023
I. Current financial indebtedness (F)+(G)+(H)	**1,051,733**	**907,337**
J. Current net financial indebtedness (I) - (E) - (D)	**55,700**	**(98,876)**
K. Non-current bank payables	1,657,499	1,592,637
L. Bonds issued	158,305	155,798
M. Other non-current liabilities	39,783	23,003
N. Non-current financial liabilities (K) + (L) + (M)	**1,855,587**	**1,771,438**
O. Net financial indebtedness (J) + (N)	**1,911,287**	**1,672,562**

VI. NOTES TO THE INCOME STATEMENT

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

REVENUE

Note 22_Revenue from Goods and Services

Revenue from services may be analysed as follows:

thousands of euro

	2011	2010
Services provided to related parties	28	28
Services provided to subsidiaries and associates	13,222	10,151
Services provided to other investees	-	180
Total	**13,250**	**10,359**

Revenue for services rendered to related parties, amounting to euro 28 thousand (unchanged with respect to 2010) refer to services rendered in favour of FSU.

Revenue from services rendered to subsidiaries and investees of euro 13,222 thousand (euro 10,151 thousand in 2010) relates to the administrative and technical services provided in accordance with a specific contract and may be analysed as follows:

thousands of euro

	2011	2010
ACIAM	1	-
AEM Torino Distribuzione	102	353
AEMNET	8	11
AES Torino	71	61
AMTER	1	-
CAE	2	-
Celpi	5	4
Enia Piacenza	7	-
Enia Parma	18	-
Enia Reggio	10	-
Genova Reti Gas	5	-
Iren Acqua Gas	2,346	1,855
Iren Ambiente	41	381
Iren Emilia	4,825	2,018
Iren Energia	3,376	2,586
Iren Mercato	1,798	2,310
Iren Rinnovabili	41	35
Idrotigullio	2	-
Iride Servizi	528	525
Mediterranea delle Acque	18	-
Nichelino Energia	12	11
Valle Dora Energia	5	1
Total	**13,222**	**10,151**

In the previous year there was also revenue for services to other companies, totalling euro 180 thousand, related to administration and technical services supplied in accordance with a specific agreement.

Note 23_Other Revenue and Income

This item was composed as follows:

thousands of euro

	2011	2010
Prior year revenue	1,829	3,108
Sundry repayments	574	1,402
Total	**2,403**	**4,510**

Prior year revenue mainly derives from the settlement of prior items with reference to estimates made in previous years and adjustments to prior years' invoices.
Sundry repayments include fees which were paid to Iren Directors and employees and may be recharged to Group companies.

EXPENSE

Note 24_Raw Materials, Consumables, Supplies and Goods

This amounts to euro 17 thousand (euro 9 thousand in 2010) and mainly refers to purchases of printed material and stationery.

Note 25_Services and use of Third-Party Assets

Costs for services and use of third-party assets amounted to euro 15,602 thousand (euro 15,685 in 2010) and they are broken down as follows:

thousands of euro

	2011	2010
Professional services	4,622	5,010
Personnel travel expenses for business, courses or conferences	458	224
Statutory auditors' fees and reimbursements	185	181
Insurance	290	285
Advertising and entertainment expenses	4,568	4,038
Telephone and postal communications	38	43
Canteen and meal vouchers	55	41
Banking and postal costs	1,216	1,733
Supply of electrical energy from Iren Mercato	348	249
Supply of water	22	17
Services from subsidiaries and Group companies	2,462	2,343
Other costs for services	950	1,391
Total	**15,214**	**15,555**

Costs for the use of third-party assets amount to euro 388 thousand (euro 130 thousand in 2010) and include vehicle hire and sundry rents.

Nota 26_Oneri Diversi di Gestione

Other operating expense is detailed in the following table:

thousands of euro

	2011	2010
Membership fees	1,006	850
Taxes and duties	739	614
Donations	-	63
Prior year expense	970	562
Prior year taxes	-	21
Other sundry operating expense	216	140
Total	**2,931**	**2,250**

Taxes and duties mainly refer to other taxes paid such as ICI (local property tax), the substitute tax on mortgages and stamp duty.
Prior year expense mainly refers to difference on estimates.
In 2010, staff leaving incentives were included in sundry operating expense for the amount of euro 357 thousand, now restated under personnel expense.

Note 27_Personnel Expense

Personnel expense is made up as follows:

thousands of euro

	2011	2010
Wages and salaries	13,480	9,321
Social security charges payable	3,994	2,689
Defined benefit plans - other	21	116
Other expense	1,416	1,118
Directors' fees	817	637
Total	**19,728**	**13,881**

In 2011, staff leaving incentives have been included in this item, while, in 2010, they were included in sundry operating expense. To this regard, the corresponding figures have been reclassified for euro 357 thousand.

"Other expense" includes the social security and recreational contribution, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds.

The following table shows the average number of employees and their number at the beginning and end of the year:

Società	At 31 December 2011	At 31 December 2010	Average number in 2011
Managers	20	21	21
Junior managers	47	47	47
White collars	201	202	201
Total	**268**	**270**	**269**

Note 28_Amortisation/Depreciation

Depreciation of property, plant and equipment and investment property amounted to euro 531 thousand (unchanged with respect to 2010) and refer to the depreciation of properties owned by the company.
Amortisation of intangible assets amounted to euro 13 thousand (not present in 2010).

Note 29_Provisions and Impairment Losses

thousands of euro

	2011	2010
Provisions for risks	342	212
Allowance for impairment	-	32
Releases	-	-
Total	**342**	**244**

Provisions are reported net of any releases.
The analysis of the provisions and variations therein are given in the comment to the Statement of financial position item "Provisions for risks and charges".

Note 30_Financial Income and Expense

Financial income

The breakdown of financial income is provided in the following table:

thousands of euro

	2011	2010
Income from investments	119,994	142,690
Bank interest income	140	59
Interest income from group companies	62,454	33,422
Interest income on interest rate hedges	1,245	1,119
Actuarial gains on employee benefits measurement	536	231
Fair value gains on derivatives	74	65
Other financial income	32	64
Total	**184,475**	**177,650**

Income from investments include the extraordinary distribution made by companies leading the business segments Iren Acqua Gas, Iren Energia, Iren Mercato, Iren Emilia and Iren Ambiente by using available reserves for a total amount of euro 62,374 thousand (euro 99,384 thousand in 2010).
For further information, reference is made to Note 3 – Investments in subsidiaries, joint ventures and associates.

Financial expense

The breakdown of financial expense is provided in the following table:

thousands of euro

	2011	2010
Bank interest expense on loans	56,295	35,350
Bank interest expense on credit facilities	20,118	6,582
Interest expense on interest rate hedging derivatives	15,094	21,660
Interest expense to subsidiaries	770	90
Financial expense to related party shareholders	67	-
Employee benefits	432	212
Financial expense related to the discounting of the provision for risks	927	1,464
Financial expense on derivatives	2,668	1,564
Actuarial loss in measuring benefits to employees	293	113
Other financial expense	141	212
Total	**96,805**	**67,247**

For further details on Delmi impairment loss, reference is made to Note 4 "Other investments".

Note 31_Impairment Losses on Investments

Following the impairment loss on the Delmi investment, this item amounted to euro 136,126 thousand (not reported in 2010).
The table hereunder shows a summary of the impact of this non-recurring transaction on the total of the financial statements item.

	Non-recurring	Total	% Impact
Impairment losses on investments	136,126	136,126	100%

For further details on Delmi impairment loss, reference is made to Note 4 "Other investments".

Note 32_Income Tax Expense

Income taxes amount to euro 14,926 thousand (euro 10,016 thousand in 2010) and may be analysed as follows:

- current tax of euro 11,991 thousand (2010: euro 9,957 thousand);
- net deferred tax assets of euro 1,172 thousand (euro 59 thousand in 2010);
- prior year tax assets, amounting to euro 1,763 thousand (not reported in 2010), of which euro 1,530 thousand related to current taxes and euro 233 thousand related to deferred tax assets.

The 2008 Finance Act modified the interest expense regulations under art. 96 of the Consolidated Income Tax Act, providing for their deductibility up to a maximum of 30% of the Gross Operating Profit (GOP) with the possibility of carrying forward any surpluses of non-deductible interest expense to the following years and, if group taxation is adopted, with the right to offset said surpluses with any GOP surpluses accrued from other group companies.

With reference to Iren SpA, the new regulations set forth under Art. 96 of the Consolidated Income Tax Act involved forming surpluses of non-deductible interest expense totalling euro 32,324 thousand that, however, the company was able to fully offset with the GOP surpluses accrued within the Group thanks to Iren's decision to use group taxation and pursuant to existing consolidated taxation agreements. The ensuing benefit in terms of lower IRES tax was euro 8,889 thousand.

Pursuant to the consolidated taxation agreements, in consideration of the fact that, to date, the existing GOP surpluses cannot be used individually, no remuneration is owed by the companies with surpluses of non-deductible interest expense surpluses to the group companies that transferred their GOP surpluses.

Recovery of State Aid

With its Decision C 27/99 of 5 June 2002, the european Commission concluded the procedure related to the tax treatment provided for by subsections 69 and 70 of article 3 of Law no. 549 of 28 December 1995 (the so-called "tax exemption"). Such treatment granted a three-year tax exemption to joint-stock companies in which the government has a majority interest set up in accordance with Law no. 142 of 8 June 1990.

The Italian Government, the leading counsels of the former AEM Torino and the former AMGA and the companies affected by the judgement that have appealed against it before the Court of First Instance of the european Communities appealed against this judgement to the Court of Justice of the european Communities.

During these years, the legislator has issued various measures in order to define the recovery modalities of aids deemed as illegal.

Following these measures, the Tax Authorities proceeded to the recovery of aids with "order-communications".

For the position of the former AEM Torino, IRIDE S.p.A. (now Iren) proposed recourse to the competent Provincial Tax Commission, and paid the amount requested as there were no conditions for obtaining its suspension, with the right of repetition in the case of a positive outcome of the disputes in progress. The Provincial Tax Commission rejected the appeals filed.

The order regarding the former AMGA S.p.A. has instead been annulled in self-defence with the documents produced to the competent office by the company.

Pursuant to Art. 24 of Italian Decree Law no. 185 of 29 November 2008, on 30 April 2009 the Tax Authorities sent IRIDE S.p.A. (now Iren) six tax assessments (for a total of around euro 60 million) related to the recovery of state aid declared inconsistent with the Community regulations, regarding the position of the former AEM Torino and former AMGA of Genoa, during the so-called "tax moratorium" period (1996 through 1999).

On that occasion, the Tax Authorities proceeded to assessments in accordance with instructions supplied by the Central Assessment Authority.

Iride (now Iren) also provided for the payment of the claimed amounts and filed appeals against the above assessments at the competent Province Tax Commissions.

On 11 June 2009, the First Instance Court of the european Community issued an order regarding the proceedings started, amongst other, by the former AEM Torino and former AMGA of Genoa, while rejecting the appeals.

Iride S.p.A. (now Iren) appealed against the above order at the Court of Justice of the european Community, with reference to the positions of both AEM Torino and AMGA.

Based on Art. 19 of Decree Law no. 135 of 25 September 2009, the Government intervened on the alleged State aid defining that only gains realised by the former municipal companies are not subject to tax recovery.

Following the new proceeding, on 2 October 2009 the Tax Authorities sent further notices of assessment, totalling around euro 75 million, which Iride (now Iren) promptly paid to avoid further charges and interest.

On 11 January 2010, the appeal regarding the former AEM Torino for 1997 was discussed at the Province

Tax Commission of Turin. On that date the Commission issued its judgement which partly accepted the appeal. In particular, the Commission deemed that the energy market, in those years, was not a free market regime. Therefore, the State aid granted, for that portion of activity, were deemed as legal.

On 14 March 2011, the Regional Tax Commission of Turin rejected the appeal filed in on tax assessments for the years 1998 and 1999 for former AEM. In particular, they were assessment notices with which the Tax Authorities recovered the unpaid taxes during the years of "tax exemption", except for one-off taxes (electrical margin, dividends to Municipalities, capital gains).

On 8 June 2011, following the opinion expressed by the technical expert appointed by the court on the correct calculation of interest on the recovery of State aids, the Regional Tax Commission of Genoa accepted the appeal lodged by the former AMGA as the requests of the Tax Authorities were deemed as illegal.

With ruling no. 1/14/2012 of 11 July 2011 on the recovery of the former AEM Torino for 2007, the Regional Tax Commission of Turin accepted the appeal lodged by the Tax Authorities.

The following table shows the reconciliation between the theoretical and effective IRES tax rates. The reconciliation between ordinary and effective IRAP rate was not significant.
The table shows current tax only, thus excluding deferred taxes. Therefore, variations to the theoretical tax refer to both temporary and final variations.

IRES

thousands of euro

	2011	2010
A) Profit/(loss) before tax	-71,968,462	92,673,481
B) Theoretical tax charge (27.5% rate)	-19,791,327	25,485,207
C) Temporary differences taxable in future years	-	-
All. to allowance for impairment - tax assets		
D) Temporary differences deductible in future years	4,249,262	3,803,889
Fees to independent auditors and directors	*622,056*	*210,285*
Amortisation of gains/losses	*283,646*	*338,470*
All. to provisions and interest expense	*2,061,060*	*1,958,840*
Other	*1,282,500*	*1,296,294*
E) Transfer of prior year temporary differences	-59,156,043	-91,920,769
Dividends not received over the year	*-57,405,800*	*-90,890,549*
Use of provisions	*-418,179*	*-394,915*
Fees to independent auditors and directors	*-194,952*	*-128,885*
Other	*-1,137,112*	*-506,420*
F) Differences not recoverable in future years	83,270,962	-40,764,172
Non-taxable share of dividends (95%) received at 31/12	*-54,738,133*	*-41,148,013*
Prior year items	*961,458*	*78,245*
Impairment loss - Delmi	*136,125,958*	
Other	*921,680*	*305,596*
G) Taxable income (A)+C)+D)+E)+F))	-43,604,281	-36,207,570
H) Current taxes for the year	-11,991,177	-9,957,082
Income from consolidation	*-11,991,177*	*-9,957,082*
M) Rate	17%	-11%

Note 33_Other Comprehensive Income

The effective portion of changes in the fair value of cash flow hedges was negative by euro 18,331 thousand (31 December 2010: euro 830 thousand) refers to interest rate hedges. The change in the fair value of available-for-sale financial assets, positive by euro 8,564 thousand (euro 13,751 at 31 December 2010), relates to the release to income statement of the reserve for equity investments in Delmi due to impairment.
The related tax effect is positive by euro 6,016 thousand (31 December 2010: euro 457 thousand).

VII. GUARANTEES, COMMITMENTS AND CONTINGENT LIABILITIES

Personal guarantees given amount to euro 404,322 thousand (31 December 2010: euro 774,682 thousand) to be divided as follows:

- euro 64,301 thousand of bank and insurance guarantees given to various Banks, primarily regarding works. Amongst which, guarantees given to Tax Authorities for annual VAT reimbursements, amounting to euro 56,469 thousand, are included.
- euro 67,854 thousand of guarantees given on behalf of subsidiaries, primarily to guarantee credit facilities.
- euro 272,167 thousand of guarantees granted on behalf of associates, primarily related to the associate Sinergie Italiane (namely guarantees for credit facilities and letters of patronage totalling euro 225,510 thousand). To this purpose, the shareholders' meeting held on 28 March 2012, after acknowledging the loss for the year, resolved to entirely cover the loss through new injections by the shareholders, amongst which Iren Mercato, and to restore share capital, envisaging a capital increase, to the face value of euro 1 million. The intervention by shareholders is in view of the company's liquidation, according to intentions already expressed by the above-mentioned shareholders, aimed at ensuring the recovery of guarantees given.

The euro 7,669 thousand given to guarantee the Mestni loan are to be noted.
Moreover, on 16 February 2010, the company resolved to fully support the OLT project according to budget financial plans defined and approved to make the required resources available upon the subsidiary's request and until implementation of the project financing. The commitment to Saipem, which originally amounted to euro 387,603 thousand, showed a residual amount of euro 31,008 thousand at 31 December 2011.

VIII. OTHER INFORMATION

Consob Communication no. Dem/6064293 of 28 July 2006

Significant non-recurring events and transactions

On 27 December 2011, A2A S.p.A., EDF S.A., Delmi S.p.A., Edison S.p.A. and Iren S.p.A. announced their agreement on the corporate reorganisation of Edison S.p.A. and Edipower S.p.A.. EDF S.A. will purchase 50% of the share capital of Transalpina di Energia S.r.l. (TdE) from Delmi S.p.A.. By effect of this acquisition, EDF S.A. will hold 80.7% of Edison S.p.A.'s share capital. Simultaneously, Delmi S.p.A. will purchase 70% of Edipower S.p.A.'s share capital, currently held by Edison S.p.A. (50%) and by Alpig S.A. (20%). In particular, EDF S.A. acquires 50% of TdE S.r.l., a company in which it already holds the remaining 50%, from Delmi S.p.A.. In its turn, TdE owns 61.3% of the share capital with voting right in Edison S.p.A., at a price of euro 704 million, while Delmi S.p.A. acquires 70% of Edipower S.p.A. from Edison S.p.A. (50%) and Alpig (20%), for a total price of euro 804 million. Within this context, albeit not final, this transaction was deemed as "highly probable" and therefore Delmi shares (euro 136,126 thousand) were impaired to adjust the carrying amounts to the amounts expressed by the reorganisation of Edison S.p.A. and Edipower S.p.A. For further details, reference is made to note 4 "Other investments" and note 31 "Impairment losses on investments".

Positions or transactions deriving from atypical and/or unusual transactions

In 2011, the company was not involved in atypical and/or unusual transactions, as defined in the Communication, i.e. transactions that may, due to their significance/relevance, nature of the counterparties, subject of the transaction, methods for determining the transfer price and timing of the event (near year end), give rise to concerns about: the correctness/completeness of the financial statements disclosures, conflict of interest, safeguard of the company's assets, protection of minority shareholders.

Treasury shares

At 31 December 2011, the company did not hold treasury shares.

Publication of the financial statements

The Financial Statements were authorised for publication by Iren S.p.A.'s Board of Directors during the meeting held on 3 April 2012. The Board of Directors authorised the Chairman, the CEO and the Managing Director to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders.
The Shareholders' Meeting to be called to approve the separate financial statements of the Parent has the right to request amendments to the aforementioned separate financial statements.

Fees received by Directors, Statutory Auditors and Managers with strategic positions

As regards information on the remuneration of Directors, Statutory Auditors and key management personnel, reference is made to the schedule attached to these financial statements as well as to the specific Report on remuneration issued pursuant to Art. 123 – ter of the Consolidated Finance Act.

IX. EVENTS AFTER THE REPORTING PERIOD

Edison Group reorganisation

On 28 January 2012, the Board of Directors of Iren S.p.A. approved unanimously the terms of the agreement for the reorganisation of Edison and Edipower after further and successful negotiations with A2A following the meeting of the Board of Directors held on last 25 January and in compliance with communications released to the markets on 27 December 2011 and 29 Decembers 2011.

On 15 February 2012 the final agreements were subscribed by the Parties, as provided for in the preliminary agreement of 26 December 2011.

The closing will have to occur within 20 working days from the occurrence of the condition precedent and in any case not after 30 June 2012. The entire transaction is in fact conditioned by Consob's confirmation that the price of the take-over bid, following Edison's acquisition of control by EDF, is not higher than 0.84 per share. This transaction is also conditioned to the approval by the competent Antitrust authorities.

X. ANNEXES TO THE SEPARATE FINANCIAL STATEMENTS

LIST OF INVESTMENTS

STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

DEFERRED TAX ASSETS AND LIABILITIES

TRANSACTIONS WITH RELATED PARTIES FOR 2011

RECONCILIATION OF IFRS FINANCIAL STATEMENTS
WITH RECLASSIFIED FINANCIAL STATEMENTS

FEES OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS

INDEPENDENT AUDITORS' FEES

LIST OF INVESTMENTS

Company	Registered office	Currency	Share capital	% of investment
SUBSIDIARIES				
Iren Acqua Gas S.p.A.	Genoa - Via SS. Giacomo e Filippo 7	euro	386,963,511	92.94
Iren Ambiente S.p.A.	Piacenza - Strada Borgoforte 22	euro	72,622,002	100.00
Iren Emilia S.p.A.	Reggio Emilia - Via Nubi di Magellano 30	euro	196,832,103	100.00
Iren Energia S.p.A.	Turin - C.so Svizzera 95	euro	818,855,779	100.00
Iren Mercato S.p.A.	Genoa - Via SS. Giacomo e Filippo 7	euro	61,356,220	100.00
Tecnoborgo	Piacenza - Strada Borgoforte 22/34	euro	10,379,640	0.50
ASSOCIATES				
Plurigas S.p.A.	Milan - Corso Porta Vittoria, 4	euro	800,000	30.00
OTHER COMPANIES				
Delmi S.p.A.	Milan - Corso Porta Vittoria, 4	euro	1,466,868,500	15.00

STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

Natura/descrizione	31/12/2011	31/12/2010	31/12/2009
SHARE CAPITAL	1,276,225,677	1,276,225,677	832,041,783
EQUITY-RELATED RESERVE			
Share premium reserve (1)	105,102,206	105,102,206	105,102,206
Negative goodwill	56,792,947	56,792,947	94,319,015
INCOME-RELATED RESERVE			
Legal reserve	28,996,367	23,861,884	20,258,391
Other reserves:			
Extraordinary reserve	13,324,099	24,248,108	26,453,544
Contribution reserve	7,555,032	7,555,032	7,555,032
Fair value reserve	-	(8,446,663)	-
Other reserves taxable on distribution	94,952,422	94,952,422	-
Hedging reserve	(25,910,916)	(13,713,966)	(10,295,716)
Losses carried forward	(36,506,746)	(36,506,746)	(36,506,746)
TOTAL	**1,520,531,088**	**1,530,070,901**	**1,038,927,509**
Unavailable portion	1,410,324,250	1,405,189,767	998,450,140
Remaining available portion	110,206,838	124,881,134	40,477,369

(1) Distributable to shareholders when the legal reserve has reached one fifth of the share capital.

KEY:
A: share capital increase
B: coverage of losses
C: dividend distribution

Possible use	Available portion	Summary of amounts used In three previous years	
		Coverage of losses	Other reasons
B	1,276,225,677		
A, B	105,102,206		
A, B, C	56,792,947		
B	28,996,367		
A, B, C	13,324,099		40,097,003
A, B, C	7,555,032		
A, B	-		
A, B, C	94,952,422		
	(25,910,916)		
A, B, C	(36,506,746)		
	1,410,324,250		
	110,206,838		

DEFERRED TAX ASSETS AND LIABILITIES

	2011								
	differences						taxes		
	opening	accrual	revers.	residual	taxes to IS	taxes to E	IRES	IRAP	total
Deferred tax assets									
Directors' fees	450,697	180,260	67,378	563,579	31,042	-	154,984	-	154,984
Independent auditors' fees	299,644	546,396	360,876	485,165	46,728	-	133,420	-	133,420
Entertainment expenses 01/05	6,956	-	6,956	-	(2,248)	-	-	-	-
Provision for IRES IRAP risks	1,431,729	-	-	1,431,729	-	-	393,726	69,009	462,735
Provision for IRES risks	16,686,422	1,465,246	196,365	17,955,303	348,942	-	4,937,708	-	4,937,708
Provisions for personnel	4,735,128	751,562	438,919	5,047,770	381,417	-	1,388,137	-	1,388,137
Provision for reversals	6	-	-	-	-	-	-	-	-
Taxable grants	3	-	-	-	(1)	-	-	-	-
Greater depreciation	0	198,764	-	198,764	54,660	-	54,660	-	54,660
Other	24,092,873	1,728,396	2,006,249	23,815,020	33,484	(117,761)	6,087,419	73,290	6,160,709
Derivatives	16,792,027	18,977,869	-	35,769,896	-	6,133,647	9,836,721	1,724,109	11,560,830
Post-employment benefits	-	7,928	-	7,928	2,180	-	2,180	-	2,180
total taxable base/deferred tax assets	64,495,485	23,856,420	3,076,743	85,275,153	896,205	6,015,886	22,988,954	1,866,408	24,855,362
Deferred tax liabilities									
Amortisation/depreciation exceeding IRES tax	637,229	-	-	637,229	-	-	175,238	-	175,238
Amortisation/depreciation exceeding IRAP tax	598,373	-	-	598,373	-	-	-	27,905	27,905
Allowance for impairment	44,158	-	-	44,158	-	-	12,143	-	12,143
Dividends not received	4,968,827	3,118,731	4,968,827	3,118,731	(508,776)	-	857,651	-	857,651
Other	-	-	-	-	-	-	-	-	-
Gains from sale of assets - IRES	613,375	-	-	613,375	-	-	168,678	-	168,678
Gains from sale of assets - IRAP	-	-	-	-	-	-	-	-	-
Adjustment to post-employment benefits	463,541	-	-	463,541	-	-	127,474	-	127,474
Depreciation of land/buildings	760,127	-	-	760,127	-	-	209,035	36,638	245,673
Provision for long-service bonus	88	-	-	88	-	-	24	-	24
Derivatives	886,740	-	-	886,740	-	-	276,290	10,304	286,594
Provision for risks	36,592	-	-	36,592	-	-	10,063	1,764	11,827
Total taxable base/deferred tax liabilities	9,009,048	3,118,731	4,968,827	7,158,952	(508,776)	-	1,836,596	76,612	1,913,207
TAX LOSSES	-	-	-	-	-	-	-	-	-
Net deferred tax assets (liabilities)	55,486,437	20,737,689	(1,892,084)	78,116,201	1,404,981	6,015,886	21,152,359	1,789,796	22,942,155

Figures in euro

2010								
differences				taxes				
opening	accrual	revers.	residual	taxes to IS	taxes to E	IRES	IRAP	total
380,210	82,712	12,225	450,697	8,466	-	123,942	-	123,942
160,029	256,276	116,660	299,644	13,919	-	82,402	4,290	86,692
2,135	4,821	-	6,956	-	-	1,913	335	2,248
1,431,729	-	-	1,431,729	-	-	393,726	69,009	462,735
9,370,091	7,316,331	-	16,686,422	456,728	-	4,588,766	-	4,588,766
292,102	5,026,614	583,589	4,735,128	(360,264)	-	1,006,720	-	1,006,720
6	-	-	6	-	-	-	-	-
3	-	-	3	-	-	1	-	1
-	-	-	-	-	-	-	-	-
16,751,968	7,847,325	506,420	24,092,873	217,216	117,761	6,163,828	81,157	6,244,986
15,962,159	829,868	-	16,792,027		268,213	4,617,808	809,376	5,427,184
-	-	-	-	-	-	-	-	-
44,350,432	21,363,947	1,218,894	64,495,485	336,065	385,974	16,979,106	964,167	17,943,273
637,229	-	-	637,229	-	-	175,238	-	175,238
617,801	-	19,428	598,373	(936)	-	-	27,905	27,905
44,158	-	-	44,158	-	-	12,143	-	12,143
3,517,169	4,968,827	3,517,169	4,968,827	399,206	-	1,366,427	-	1,366,427
-	259,316	259,316	-	-	(71,312)	-	-	-
-	908,299	294,924	613,375	(81,024)	-	168,678	-	168,678
-	43,546	43,546	-	(2,099)	-	-	-	-
315,276	172,116	23,851	463,541	4,339	-	127,474	-	127,474
760,127	-	-	760,127	-	-	209,035	36,638	245,673
88	-	-	88	-	-	24	-	24
886,740	-	-	886,740	-	-	276,290	10,304	286,594
36,592	-	-	36,592	-	-	10,063	1,764	11,827
6,815,178	6,352,104	4,158,234	9,009,048	319,486	(71,312)	2,345,372	76,612	2,421,983
-	-	-	-	-	-	-	-	-
37,535,254	15,011,843	(2,939,340)	55,486,437	16,579	457,286	14,633,735	887,555	15,521,290

TRANSACTIONS WITH RELATED PARTIES FOR 2011

Amounts shown in the following tables are in thousands of euro.

A) Transactions with Related Party Shareholders

Commercial transactions

thousands of euro

Company	Receivables	Payables	Revenue from services	Costs for services
Finanziaria Sviluppo Utilities S.r.l.	28	-	28	-

Financial transaction

migliaia di euro

Company	Receivables	Payables	Income	Charges
Finanziaria Sviluppo Utilities S.r.l.	-	3,752	-	67
Banca Intesa S. Paolo Group	-	389,863	-	-

B) Relations with Subsidiaries and Joint Ventures

Commercial transactions

thousands of euro

Company	Receivables	Payables	Revenue from services	Other revenue and income	Costs for services and use of third-party assets	Other expense
Acquedotto Monferrato S.p.A.	10	-	-	5	-	-
Acquedotto Savona S.p.A.	10	-	-	5	-	-
AEM Torino Distribuzione S.p.A.	290	-	102	15	-	-
AEMNET S.p.A.	17	-	8	7	-	-
AES Torino S.p.A.	314	-	71	103	-	-
AGA S.p.A.	11	-	-	8	-	-
Bonifica Autocisterne S.r.l.	4	-	-	-	-	-
CAE AMGA Energia S.p.A.	27	-	2	-	-	-
CELPI S.c.r.l.	5	-	4	-	-	-
ENIA Parma S.r.l	225	570	17	-	-	-
ENIA Piacenza S.r.l	160	-	7	-	-	-
ENIA Reggio Emilia S.r.l.	222	-	10	-	-	-
ENIA Tel S.p.A.	6	-	-	3	-	-
Genova Reti Gas S.r.l.	144	-	5	4	-	-
Idrotigullio S.p.A.	67	-	2	-	-	-
Iren Acqua Gas S.p.A.	2,900	161	2,346	15	-	-
Iren Ambiente S.p.A.	583	-	41	30	-	-
Iren Emilia S.p.A.	5,940	792	4,825	132	431	16
Iren Energia S.p.A.	5,599	419	3,376	20	670	-
Iren Mercato S.p.A.	2,125	458	1,797	25	606	36
Iren Rinnovabili S.p.A.	55	-	41	-	-	-
Iride Servizi S.p.A.	932	1,114	528	64	1,899	-
Laboratori Iride Acqua Gas S.r.l.	4	-	-	-	-	-
Mediterranea delle Acque S.p.A.	593	-	18	4	-	-
Nichelino Energia S.r.l.	22	-	11	8	-	-
SasterNet S.p.A.	17	-	1	2	-	-
Società Acque Potabili S.p.A.	102	-	-	43	-	-
Tema S.c.a.r.l.	14	-	-	-	-	-
Undis Servizi	2	-	-	-	-	-

Financial transactions

thousands of euro

Company	Receivables	Payables	Income	Charges	Dividends
AEM Torino Distribuzione S.p.A.	134,063	-	5,102	-	6,419
AEMNET S.p.A.	-	5,385	-	48	-
AES Torino S.p.A.	3,686	-	4,361	-	-
CELPI S.c.r.l.	-	87	-	1	-
Idrotigullio S.p.A.	7,087	-	71	-	-
Iren Acqua Gas S.p.A.	205,687	40,287	6,243	105	42,218
Iren Ambiente S.p.A.	112,552	-	2,955	-	9,117
Iren Emilia S.p.A.	97,644	32,213	3,910	244	14,090
Iren Energia S.p.A.	767,727	-	23,747	-	32,879
Iren Mercato S.p.A.	401,009	330	12,728	372	9,691
Iride Servizi S.p.A.	109,462	-	3,099	-	-
Nichelino Energia S.r.l.	12,342	-	234	-	-

Other transactions

thousands of euro

Company	Group VAT receivables	Group VAT payables	Receivables - TAX CONS	Payables - TAX CONS	Other payables
AEM Torino Distribuzione S.p.A.	1,431	-	5,144	-	-
AEMNET S.p.A.	45	-	-	-	-
AES Torino S.p.A.	1,271	-	4,859	-	-
AGA S.p.A.	-	-	-	90	-
CAE AMGA Energia S.p.A.	47	-	491	-	-
CELPI S.c.r.l.	-	1	-	3	-
ENIA Parma S.r.l	-	1,225	-	311	-
ENIA Piacenza S.r.l	-	233	-	64	-
ENIA Reggio Emilia S.r.l.	-	879	-	42	-
ENIA Solaris S.r.l.	-	50	-	-	-
ENIA Tel S.p.A.	-	-	58	-	-
Genova Reti Gas S.r.l.	12	-	692	-	-
Idrotigullio S.p.A.	-	425	-	-	-
Immobiliare delle Fabbriche S.p.A.	-	-	87	-	-
Iren Acqua Gas S.p.A.	-	3,289	1,958	-	11
Iren Ambiente S.p.A.	-	1,362	2,532	-	-
Iren Emilia S.p.A.	723	-	3,474	-	2
Iren Energia S.p.A.	-	8,230	178	-	-
Iren Mercato S.p.A.	4,097	-	5,728	-	-
Iride Servizi S.p.A.	1,458	-	487	-	-
Mediterranea delle Acque S.p.A.	-	-	2,092	-	-
Nichelino Energia S.r.l.	85	-	160	-	-
Tecnoborgo S.p.A.	-	-	-	1,659	-
Zeus S.p.A.	-	-	-	3	-

C) Transactions with Associates

Commercial transactions

thousands of euro

Company	Receivables	Payables	Revenue from services	Other revenue and income	Costs for services and use of third-party assets
Aciam S.p.A.	29	-	1	-	-
Acos S.p.A.	17	-	-	9	-
Aguas de San Pedro S.A.	1	-	-	-	-
AMAT S.p.A.	-	-	-	5	-
Amter S.p.A.	18	-	1	2	-
ASA S.p.A.	171	-	-	5	-
ASMT Servizi Industriali S.p.A.	-	-	-	3	-
Astea	7	-	-	13	-
Domus Acqua S.r.l.	14	-	-	-	-
Edipower S.p.A.	7	-	-	7	-
Fata Morgana	2	-	-	-	-
Iniziative Ambientali S.r.l.	1	-	-	-	-
Mondo Acqua	3	-	-	-	-
Piana Ambiente	41	-	1	-	-
Sinergie Italiane S.r.l.	2	-	-	5	-
S.M.A.G S.r.l. (In.Te.Gra Clienti)	14	-	-	-	-
So. Sel. S.p.A.	4	4	-	4	4
Valle Dora Energia S.r.l.	5	-	5	-	-
Il Tempio S.r.l.	1	-	-	-	-

Financial transactions

thousands of euro

Company	Receivables	Payables	Income	Charges	Dividends
Edipower S.p.A.	110,004	-	4	-	-
Plurigas S.p.A.	-	-	-	-	5,580
Valle Dora Energia S.r.l.	1	-	-	-	-

RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB COMMUNICATION NO. 6064293 DATED 26 JULY 2006)

thousands of euro

	IFRS STATEMENT OF FINANCIAL POSITION		RECLASSIFIED STATEMENT OF FINANCIAL POSITION
Property, plant and equipment	6,996		
Intangible assets and investment property	142		
Investments in subsidiaries and associates	2,236,298		
Other investments	140,273		
Total (A)	**2,383,709**	**Non-Current Assets (A)**	**2,383,709**
Other non-current assets	368		
Total (B)	**368**	**Other non-current assets (B)**	**368**
Trade receivables	20,820		
Current tax assets	159		
Other receivables and other current assets	49,102		
Trade payables	(15,788)		
Other payables and other current liabilities	(26,787)		
Current tax liabilities	(14,524)		
Total (C)	**12,982**	**Net working capital (C)**	**12,982**
Deferred tax assets	24,856		
Deferred tax liabilities	(1,913)		
Total (D)	**22,943**	**Deferred tax assets (D)**	**22,943**
Employee benefits	(9,456)		
Provisions for risks and charges	(19,892)		
Total (E)	**(29,348)**	**Provisions and employee benefits (E)**	**(29,348)**
		Net invested capital (F=A+B+C+D+E)	**2,390,654**
Equity (G)	**1,463,488**	**Equity (G)**	**1,463,488**
Non-current financial assets	(984,121)		
Non-current financial liabilities	1,855,587		
Total (H)	**871,466**	**Non-current financial indebtedness (H)**	**871,466**
Current financial assets	(978,627)		
Cash and cash equivalents	(17,406)		
Current financial liabilities	1,051,733		
Total (I)	**55,700**	**Current financial indebtedness (i)**	**55,700**
		Net financial indebtedness (L=H+I)	**927,166**
		Own funds and net financial indebtedness (M=G+L)	**2,390,654**

FEES OF DIRECTORS, STATUTORY AUDITORS AND KEY MANAGERS

The following table shows the remuneration paid to the members of Boards of Directors and Statutory Auditors supervisory boards by the company and its subsidiaries.
Iren S.p.A. does not employ any key managers.
The members of the Board of Directors and the fees paid to them, including expense reimbursements, are shown below:

	OFFICE AND OFFICE TERM				
Name and Surname	Office held	Term of office	Expiration of term (*)	Fixed fees	Fees for taking pat in Committees/Sup. bodies
Directors in office at 31 December 2011 (A)					
Roberto Bazzano	Chairman	01.01.11-31.12.11	31.12.2012	115(°)	
Roberto Garbati	CEO	01.01.11-31.12.11	31.12.2012	93(°°)	
Luigi Giuseppe Villani	Vice Chairman	01.01.11-31.12.11	31.12.2012	123(°°°°)	
Andrea Viero	Managing Director	01.01.11-31.12.11	31.12.2012	55(°°°)	
Paolo Cantarella	Director	01.01.11-31.12.11	31.12.2012	23	36
Gianfranco Carbonato	Director	01.01.11-31.12.11	31.12.2012	23	24
Alcide Rosina	Director	01.01.11-31.12.11	31.12.2012	23	24
Ernesto Lavatelli	Director	01.01.11-31.12.11	31.12.2012	23	48
Alberto Clò	Director	01.01.11-31.12.11	31.12.2012	23	24
Ettore Rocchi	Director	01.01.11-31.12.11	31.12.2012	23	
Marco Elefanti	Director	01.01.11-31.12.11	31.12.2012	23	36
Franco Amato	Director	01.01.11-31.12.11	31.12.2012	23	24
Enrico Salza	Director	01.01.11-31.12.11	31.12.2012	23	36
Total directors' fees				**593**	**252**
Statutory Auditors in office at 31 December 2011 (B)					
Aldo Milanese	Chairman	01.01.11-31.12.11	31.12.2011	71	
Lorenzo Ginisio	Standing Auditor	01.01.11-31.12.11	31.12.2011	48	
Giuseppe Lalla	Standing Auditor	01.01.11-31.12.11	31.12.2011	48	
Total Statutory Auditors' fees				**167**	
Total fees				**760**	**252**

(*) The term of office will expire on the Shareholders' Meeting held to approve the financial statements at the year end on the specified date.
(**) Non-monetary benefits refer to insurance coverage entered by the Company in favour of the relevant person, at the conventional value of the car used by the person, energy discount as employee.
(***) The other remuneration includes annual fees for offices in subsidiaries and associates at 31 December 2011.
(A) Appointed by the Shareholders' Meeting of 30/8/2010 (B) Appointed by the Shareholders' Meeting of 28/4/2009
(1) Aggregate fee to the Managing Director of Iren Acqua Gas S.p.A. = € 380,000, of which € 38,000 max of variable fee linked to MBO, and € 342,000 as fixed fee.
(°) Fee as Director and Chairman of Iren and CEO of First-level companies. This fee features a 10% reduction (asked for by the Shareholders' Meeting when the new Board of Directors was appointed) on the total amount paid during the previous term of office.
(2) Fee to the office of General Manager of Iren Energia S.p.A., € 380,000 (including € 38,000 max of variable fee linked to MBO).
(°°) Fee as Director and CEO of Iren and CEO of First-level companies. This fee features a 10% reduction (asked for by the Shareholders' Meeting when the new Board of Directors was appointed) on the total amount paid during the previous term of office.

thousands of euro

Bonuses and other incentives	Non-monetary benefits (**)	Other fees (***)	Total
38 (1)	2	342 (1)	497
38 (2)	4	342 (2)	477
		22 (4)	145
38 (3)	7	342 (3)	442
			59
			47
			47
		15 (5)	86
			47
			23
		19 (6)	78
			47
			59
114	**13**	**1082**	**2,054**
		31 (7)	102
		15 (8)	63
		68 (9)	116
		114	**281**
114	**13**	**1196**	**2,335**

(3) Fee to the office of General Manager of Iren S.p.A., € 380,000 (including € 38,000 max of variable fee linked to MBO).
(°°°) Fee as Director and General Manager of Iren and CEO of First-level companies. The amount of € 43,500, on a yearly basis, should be deducted to this amount as for explicit waive to meet the invitation of Shareholders to apply 10% reduction to fee compared to the previous term of office.
(°°°°) Fee as Director of Iren and commitment required as member of the Executive Committee.

(4) Fee as Director of Delmi S.p.A. (€ 7,500) (from 26/4/2011) and ACOS S.p.A. (€8,676.48); CEO of AGA S.p.A. (€5,000).
(5) Fee as Director of Iren Ambiente S.p.A. (€15,000).
(6) Fee as Director of Iren Acqua Gas (€ 15,000) and Iren Ambiente (in office until 18.04.11) (€ 4,438.36)
(7) Fee as Chairman of the Board of Statutory Auditors of AEM Torino Distribuzione S.p.A. € 31,000
(8) Fee as Standing Auditor of AES S.p.A. € 15,000
(9) Fee as Chairman of the Board of Statutory Auditors of Iren Mercato S.p.A. € 26,000 and of Aquamet S.p.A. € 11,749.97, Standing Auditor of Mediterranea delle Acque S.p.A. € 30,000

INDEPENDENT AUDITORS' FEES

Pursuant to art. 149-duodecies of the enactment regulation of Italian Legislative Decree 58/1998, fees for the year due to KPMG S.p.A. can be summarised as follows:

thousands of euro

Service	Service provider	To	Fees
Audit	Parent auditor	Parent	134
Attestation services (1)	Parent auditor	Parent	198
Tax consulting services	Parent auditor	Parent	-
Other services (2)	i) Parent auditor	Parent	15
	ii) Parent auditor network	Parent	-
		Total	**347**

(1) Attestation services refer to the review of the interim financial statements, the check and the attestation of the unbundling report and the performance of agreed-upon procedures to check compliance with procedures of the Sustainability Report.
(2) Other services refer to translation of financial statements and methodology support for the application of the accounting policies.

STATEMENT REGARDING THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND INTEGRATED

1. The undersigned, Andrea Viero, Managing Director, and Massimo Levrino, Administration and Finance Director and Manager in charge of financial reporting of Iren S.p.A. hereby confirm, also in consideration of the provisions of art. 154-bis, subsections 3 and 4, Italian Legislative Decree no. 58 of 24 February 1998:

   - the adequacy in respect of the company's characteristics and
   - the actual application during 2011 of administrative and accounting procedures in preparing the separate financial statements.

2. Furthermore, it is hereby declared that:

   2.1 the separate financial statements:

   a) are prepared in compliance with applicable IFRS endorsed by the european Community pursuant to EC Regulation 1606/2002 of the european Parliament and Council dated 19 July 2002;

   b) correspond with books and accounting records;

   c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

   2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the issuer's situation and of the entirety of the companies included in the consolidation, together with the description of the major risks and uncertainties to which they are exposed.

3 April 2012

The Managing Director
Mr. Andrea Viero

The Administration and Finance Director
and Manager in Charge appointed under Law 262/05
Dr. Massimo Levrino

KPMG S.p.A.
Revisione e organizzazione contabile
Corso Vittorio Emanuele II, 48
10123 TORINO TO

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e-mail it-fmauditaly@kpmg.it

(Translation from the Italian original which remains the definitive version)

Report of the auditors in accordance with articles 14 and 16 of Legislative decree no. 39 of 27 January 2010

To the shareholders of
Iren S.p.A.

1 We have audited the separate financial statements of Iren S.p.A. as at and for the year ended 31 December 2011, comprising the statement of financial position, income statement, statement of comprehensive income, statement of changes in equity, statement of cash flows and notes thereto. The company's directors are responsible for the preparation of these financial statements in accordance with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Our responsibility is to express an opinion on these financial statements based on our audit.

2 We conducted our audit in accordance with the auditing standards recommended by Consob, the Italian Commission for Listed Companies and the Stock Exchange. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the separate financial statements are free of material misstatement and are, as a whole, reliable. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by directors. We believe that our audit provides a reasonable basis for our opinion.

Reference should be made to the report dated 9 April 2011 for our opinion on the prior year separate financial statements, which included the corresponding figures presented for comparative purposes.

3 In our opinion, the separate financial statements of Iren S.p.A. as at and for the year ended 31 December 2011 comply with the International Financial Reporting Standards endorsed by the European Union and the Italian regulations implementing article 9 of Legislative decree no. 38/05. Therefore, they are clearly stated and give a true and fair view of the financial position of Iren S.p.A. as at 31 December 2011, the results of its operations and its cash flows for the year then ended.

4 The directors of Iren S.p.A. are responsible for the preparation of a directors' report on the financial statements and the report on the corporate governance and ownership structure, published in the Investor Relations section of Iren S.p.A.'s website, in accordance with the applicable laws and regulations. Our responsibility is to express an opinion on the consistency of the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the above reports on the corporate governance and ownership structure with the financial statements to which they refer, as required by the law. For this purpose, we have performed the procedures required by the Italian Standard on Auditing 001 issued by the Italian Accounting Profession and recommended by Consob. In our opinion, the directors' report and the information required by article 123-bis.1.c/d/f/l/m and article 123-bis.2.b of Legislative decree no. 58/98 disclosed in the above reports on the corporate governance and ownership structure are consistent with the separate financial statements of Iren S.p.A. as at and for the year ended 31 December 2011.

Turin, 23 April 2012

KPMG S.p.A.

(signed on the original)

Roberto Bianchi
Director of Audit

REPORT OF THE BOARD OF STATUTORY AUDITORS TO THE SHAREHOLDERS' MEETING

Dear Shareholders,
In 2011 the Board of Statutory Auditors performed its supervisory activities in accordance with regulations in force, in compliance with the duties pursuant to Art. 149, Italian Legislative Decree 58/1998 (the Consolidated Law on Finance) and with the regulatory content of Legislative Decree no. 39 of 27 January 2010, and in accordance with the principles of conduct recommended by the Italian Accounting Profession.
This report refers to the activities carried out in fulfilment of our duties, as required by Art. 2429 of the Italian Civil Code and in compliance with Art. 153 of the Consolidated Law on Finance, taking into account Consob Communications relating to corporate controls.
Amongst others, the activities were performed through:

- attendance of the Shareholders' Meeting of 6 May 2011, fifteen meetings of the Board of Directors, twenty-eight meetings of the Executive Committee and six meetings of the Internal Control Committee, the latter also in relation to the work of the Committee for Transactions with Related Parties;
- fifteen meetings of the Board of Statutory Auditors which, in cases deemed necessary, involved the attendance of the CEO, members of the Independent Auditors, the Manager in charge of financial reporting and the Internal Audit Manager;
- information gathering and exchange of opinions with KPMG (the Independent Auditors responsible for the audit of thefinancial statements and for expressing an opinion thereon), the Manager in charge of financial reporting, the Internal Audit Committee, the Supervisory Body pursuant to Legislative Decree 231/2001 and with the Managers of various company departments, in particular Internal Audit;
- information gathering on the administration and control systems and the general business performance of the subsidiaries, pursuant to Art. 151 of the Consolidated Law on Finance, either directly or through Iren S.p.A. statutory auditors' attendance at the Board of Statutory Auditors' meetings of the Group's major companies.

The Group's structure and governance are those adopted after the merger in 2010, based on the provisions of the Merger Plan and subsequent disclosures to the public. In the opinion of the Board, these should be revised to ensure their alignment to the Group's current needs, in the light of experience since then.
Iren S.p.A. operates in various sectors as Parent, through the five first-level companies over which it exercises a management and coordination role in accordance with the provisions of Art. 2497 et seq. of the Italian Civil Code. The Articles of Association grant powers of approval to the Iren S.p.A. Board of Directors regarding the more significant transactions of the aforementioned companies in terms of multi-year plans, annual Group budgets, equity transactions, joint ventures, investments, the issue of guarantees, etc..
The information provided by the Board of Statutory Auditors in the following remarks is therefore for the most part confirmed in the Notes to the Consolidated Financial Statements in reference to the business activities of the individual consolidated companies.

As part of the supervisory activities carried out in the manner described above, the Board would like to report the following, in accordance with the sequence of topics indicated in Consob Communication DEM/1025564 of 6 April 2001, as amended.

1. *Remarks on the main economic, financial and equity transactions*

In relation to activities performed directly by the Parent or first level companies, in the Directors' Report for the Iren Group .has illustrated the more significant financial statements transactions completed during the year and after year end. Particularly important among these were the inauguration of the Torino Nord cogeneration plant, the return to construction of the Parma Integrated Environmental Hub and - also in relation to the effects on the financial statements - the reorganisation of the Edison Group and Edipower involving the investee Delmi and the intervention of Iren Mercato on the Sin.It. investment, resolved after the end of the year.

2. *Atypical or unusual transactions*

   No atypical or unusual transactions were carried out either with third parties, related parties or infragroup.

3. *Ordinary infragroup transactions and transactions with related parties*

   The Notes and related tables attached to the separate Financial Statements provide an adequate description of this type of transaction, showing the extent of the trade, financial or other relations between Iren S.p.A. and the various entities indicated. These refer to services provided to Iren S.p.A. or its management of certain services to overcome the more significant problems of general interest to the main investees, finalised through special service agreements.

   Additional information regarding the aforementioned transactions is provided in the comments to the various financial statement items, the financial position and transactions between the consolidated companies.

   In accordance with tIFRS, all related party transactions have also been described in the Notes to the consolidated financial statements. The Board deems these to be in the Company's interest and, as things stand, considers that the related decision-making and operating processes, adopted by the Company and its Subsidiaries in accordance with the criteria set out in the Directors' Report, in any event ensure proper conduct of activities complementary to mutual relations. However, the Board considers that maximum care should continue to be taken in managing guarantees given in favour of third parties by the Parent on behalf of the main investees.

   The Board acknowledges the attention paid by the Board of Directors, the Executive Committee and the Internal Control Committee - the latter also in relation to the work of the Committee for Transactions with Related Parties - to the amount receivable by Iride Servizi and other Group companies mainly from the Municipality of Turin and other local entities with an investment in the Company's share capital. In this respect, particularly worrying is that despite the extent of the receivable from the Municipality of Turin having decreased compared to the previous year, in the months after year end the position has again deteriorated. This calls for an assessment of further initiatives for adoption to protect the Company's interests.

   In compliance with Consob Resolution no. 17221 of 12 March 2010 on the adoption of rules envisaged in Art. 2391-bis of the Italian Civil Code, with effect from 1 January 2011 the Company adopted the "Internal regulation on transactions with related parties".

4. *Remarks on compliance with the principles of correct management*

   The Board, independently or through specific meetings with Senior Management, obtained information on changes in company processes and received information on general business performance and the most significant transactions performed by the Company and its subsidiaries.

   Based on information received and the analyses performed, the Board can reasonably state that the action decided was implemented in compliance with law, the Articles of Association and the principles of correct management, and were not manifestly imprudent, risky or potentially in conflict of interest or likely to compromise the integrity of corporate assets.

   As already mentioned, in certain cases needs emerged for updating of the agreements undertaken on governance at the time of the merger in 2010.

   The Board has also noted that, subject to Board of Statutory Auditors' intervention as part of its internal control duties assigned by Italian Legislative Decree 39/2010 (Art. 19) and in compliance with recommendations in the joint Consob-Isvap-Bank of Italy Document no. 4 of 3 March 2010, the Board of Directors approved the impairment test procedure applied by the Company to goodwill, equity investments and available-for-sale securities recognised in the financial statements, taking into consideration the results in the fair expression of such assets.

5. *Remarks on the adequacy of the organisational structure*

   To the extent of its responsibilities, the Board has examined and monitored the adequacy of the Company's organisational structure by receiving information from the heads of the company departments or the competent Bodies and by consulting the internal documentation, where necessary. Iren S.p.A. guidelines have been updated in relation to the new Group organisation. The main subsidiaries have applied Parent guidelines to guarantee the adequacy of their organisational and internal control structures. With regard to application of the aforementioned guidelines by the companies concerned, the Board has also noted the results of Internal Audit activities conducted during the year, and confirms that no malfunction or shortcomings emerged that could compromise the Company's regular business activities.

6. *Remarks on the adequacy of the internal control system*

The Board of Statutory Auditors monitored the internal control system by attending meetings of the related Committee and obtaining information from internal control managers.

Iren S.p.A., the first level companies and their subsidiaries have adopted the organisational, management and control model pursuant to Legislative Decree 231/2001. With cooperation from the Internal Audit Department, the Supervisory Body performed regular controls, reporting on a half-yearly basis to the Internal Control Committee and the Board of Directors on the content and results of its action.

As far as the Board is aware, the overall internal control system has given no sign of shortcomings, defect or malfunction which might jeopardise the positive performance of company processes. This opinion is confirmed in the compliant resolutions carried on this matter by the Board of Directors and in indications provided by the Internal Control Committee.

7. *Remarks on the administration/accounting system*

The Board supervised the adequacy of the administration/accounting system for the correct representation of operational events by obtaining information from the heads of administration departments and by analysing the results of work carried out by the Independent Auditors. During the meetings held pursuant to Art. 150, paragraph 3 of the Consolidated Law on Finance, in relation to the Company and its Subsidiaries the Board of Statutory Auditors was not made aware of any censurable events and situations or inefficiencies worthy of note.

It is to be hoped that the standardisation and integration procedure will be accelerated for the IT processes of individual first-level companies, in order that data integration by the Parent will be more prompt and less time-consuming and to guarantee rapid-response action in critical situations.

8. *Remarks on the adequacy of the instructions issued by the Company to its Subsidiaries, pursuant to Art. 114, paragraph 2, Italian Legislative Decree 58/1998*

The Parent has issued all necessary information to the Subsidiaries to allow their compliance with disclosure obligations in accordance with law and is essentially guaranteed by transmission of the respective Board of Directors' resolutions.

9. *Claims or reports pursuant to Art. 2408 of the Italian Civil Code.*

On 10 June 2011 the Board received a report through the Company pursuant to Art. 2408 of the Italian Civil Code in which a shareholder expressed concern as to whether a Company director had been found guilty of corporate offences prior to appointment to office in Iren Spa. The Board asked all directors to reconfirm that their specific declarations, expressed on taking up office with regard to the requirements of integrity as required by law, were still valid. This was completed by updating such declarations issued by all directors.

No claims or complaints have been made by third parties.

10. *Opinions issued during the year.*

During the year the Board did not issue any opinions in relation to resolutions regarding directors' fees with key duties.

11. *Information on the assignment of any additional tasks to the Independent Auditors or parties related thereto and related costs*

The information obtained and the statements made by KPMG S.p.A. to the Board of Statutory Auditors reveal that in addition to audit of the separate and consolidated financial statements and the review of the interim report, the Independent Auditors were assigned the following additional tasks:

- signing of the Unico and 770 tax returns and audit of the unbundling report;
- performance of agreed-upon procedures to check the procedural compliance of the Sustainability Report;
- financial statements translation and procedural support in the application of accounting policies.

The total fees for these services, in addition to audit and other services as per the proposal examined by the Shareholders' Meeting, was around euro 213 thousand.

Based on information obtained, no other tasks were assigned to the directors, members of the control bodies and employees of the Independent Auditors or their network partners.

12. *The Company's adoption of the Corporate Governance Code issued by Borsa Italiana S.p.A.*
    Following its adoption of the Corporate Governance Code issued by Borsa Italiana (2006 version), the Board of Directors has prepared the Report on Corporate Governance and Ownership Structure pursuant to Art. 123-bis of the Consolidated Law on Finance, in compliance with disclosure obligations to Shareholders and the market and in the format disseminated in February 2012.
    Based on information available to the Board of Statutory Auditors, the Report provides a detailed description of the provisions of the Code implemented by the Company during the year, and therefore has no additional remarks.

13. *Remarks and proposals regarding the separate and consolidated financial statements*
    The separate and consolidated financial statements at 31 December 2011 were prepared in application of IFRS, as duly described by the Directors in the Notes to the financial statements.
    The audit and control of the technical fairness of the separate and consolidated financial statements is the duty and responsibility of the Independent Auditors KPMG S.p.A., which were assigned the task in accordance with Articles 155 and 156 of the Consolidated Law on Finance.
    KPMG S.p.A. expressed an unqualified opinion in its report issued today, in which it states that the separate financial statements were clearly stated and give a true and fair view of the financial position of the Company, the results of its operations and its cash flows.
    Having verified the preparation process for the separate and consolidated financial statements and the related opinions issued by KPMG S.p.A., the Board has no remarks to make concerning the technical fairness of the financial statements.
    Where deemed useful, the Board expressed indications and recommendations with a view to enhancing the methods and tools used in running the company, and on the correct application of regulations in force.
    The activities carried out as part of its duties did not reveal any censurable events, omissions or irregularities that require comment, nor is it necessary to submit any remarks or proposals to the Shareholders' Meeting.
    In view of the above, the Board acknowledges that the information provided by the Board of Directors was complete and adequate, and was consistent with the figures shown in the financial statements. It makes no remarks and proposals as regards approval of the financial statements. With regard to the distribution of dividends, the Board wishes to state that this was restricted as appropriate given the current financial position of the Company.

Turin, 23 April 2012

The Board of Statutory Auditors

Aldo Milanese, chairman

Lorenzo Ginisio, standing auditor

Giuseppe Lalla, standing auditor

The list of offices held in the companies, as per Art. 144-quinquiesdecies of the Consob Issuer Regulation, is attached herewith.

LIST OF OFFICES HELD IN THE COMPANIES AS PER ART. 144-QUINQUIESDECIES OF THE CONSOB ISSUER REGULATION

Aldo Milanese – Chairman of the Board of Statutory Auditors

Company name	Office	Office term
FinecoBank S.p.A.	Standing auditor	31/12/2013
Infratrasporti.To S.r.l.	Chairman of the Board of Statutory Auditors	31/12/2012
Fare Sviluppo Immobiliare S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2013
ISI IPI Sviluppi Immobiliari S.r.l.	Chairman of the Board of Statutory Auditors	31/12/2013
IPI S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2014
Milano Assicurazioni S.p.A.	Director	31/12/2013
SPEA Ingegneria europea SpA a socio unico	Standing auditor	31/12/2013
Teksid S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2012
Pegaso Investimenti Campioni di Impresa S.p.A.	Standing auditor	31/12/2012
Iren S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2011
Magneti Marelli S.p.A.	Standing auditor	31/12/2012
UniManagement S.r.l.	Chairman of the Board of Statutory Auditors	31/12/2012
AEM Torino Distribuzione S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2013
Centro Estero per l'Internazionalizzazione S.c.p.A.	Chairman of the Board of Statutory Auditors	31/12/2012
Azimut Holding S.p.A.	Director	31/12/2012

Giuseppe Lalla – Standing auditor

Company name	Office	Office term
Grosseto Energia Ambiente S.p.a.	Chairman of the Board of Statutory Auditors	31/12/2011
Utilitatis Pro Acqua Energia Ambiente	Standing auditor	30/11/2012
SARAT S.r.l.	Director	Until cancelled
Attilio Carmagnani AC S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2013
Iride Mercato S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2012
Metachem S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2013
API S.p.A.	Standing auditor	31/12/2013
Iren S.p.A.	Standing auditor	31/12/2011
Aquamet S.p.A.	Standing auditor	31/12/2013
Plurigas S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2012
R.STAHL S.r.l.	Standing auditor	31/12/2011
K-MATT S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2011
Analisi & Controlli S.p.A.	Chairman of the Board of Statutory Auditors	31/12/2013

Lorenzo Ginisio – Standing auditor

Company name	Office	Office term
Aeroporti Holding S.p.A	Chairman of the Board of Statutory Auditors	31/12/2014
Azienda Energia E Servizi Torino Siglabile Aes Torino S.p.A	Standing auditor	31/12/2012
Centro Leasing S.p.A	Standing auditor	31/12/2014
Eutekne S.p.A	Chairman of the Board of Statutory Auditors	31/12/2014
Fideuram Vita S.p.A	Standing auditor	31/12/2012
I.C. Service S.r.L.	Chairman of the Board of Statutory Auditors	31/12/2014
Iren S.p.A	Standing auditor	31/12/2011
Italconsult S.r.L.	Standing auditor	31/12/2011
Lextel S.p.A	Standing auditor	31/12/2011
Motul Italia S.r.L.	Chairman of the Board of Statutory Auditors	31/12/2012
Musso Paolo S.p.A	Standing auditor	31/12/2012
S.A.G.A.T. S.p.A	Chairman of the Board of Statutory Auditors	31/12/2012
Sagat Engineering S.p.A	Chairman of the Board of Statutory Auditors	31/12/2012
Sagat Handling S.p.A	Chairman of the Board of Statutory Auditors	31/12/2012
Tensiter S.p.A	Standing auditor	31/12/2013
Tensister Centro S.r.L.	Chairman of the Board of Statutory Auditors	31/12/2013
T.R.M. S.p.A	Chairman of the Board of Statutory Auditors	31/12/2011
Unaservizi S.r.L.	Chairman of the Board of Statutory Auditors	31/12/2013

SUMMARY OF RESOLUTIONS PASSED BY THE SHAREHOLDERS' MEETING

In their ordinary Meeting, held on first call on 14 May 2012, the shareholders passed the following resolutions on item 1 of the agenda:

1) Financial statements at 31 December 2011 and Directors' Report: related and consequent resolutions.

The Shareholders,

- having acknowledged the financial statements at 31 December 2011 and the Directors' Report;
- having acknowledged the statutory auditors' report;
- having acknowledged the report of the independent auditors, KPMG S.p.A.;
- having acknowledged the proposal to cover the loss for the year amounting to euro 57,042,700.32 and the losses carried forward concerning the IFRS First-Time Adoption equal to euro 36,506,746.19 using the reserves taxable on distribution for a total of euro 93,549,446.51;

resolved

1) to approve the financial statements at 31 December 2011 of Iren S.p.A. and the Directors' Report;
2) to cover the loss for the year amounting to euro 57,042,700.32 and the losses carried forward concerning the IFRS First-Time Adoption equal to euro 36,506,746.19 using the reserves taxable on distribution for a total of euro 93,549,446.51.

Furthermore:

In their ordinary Meeting, the shareholders

- having acknowledged the proposal of the Board of Directors to approve the distribution of an extraordinary dividend of euro 0.013 for each of the 1,181,725,677 ordinary shares and 94,500,000 savings shares with a nominal amount of euro 1, to be paid starting from 21 June 2012, with detachment date on 18 June 2012, for a total of euro 16,590,933.80, drawing euro 7,555,031.91 from the contribution reserve and euro 9,035,901.89 from the extraordinary reserve;

resolved

to approve the distribution of an extraordinary dividend of euro 0.013 for each of the 1,181,725,677 ordinary shares and 94,500,000 savings shares, with a nominal amount of euro 1, to be paid starting from 21 June 2012, with detachment date on 18 June 2012, for a total of euro 16,590,933.80, drawing euro 7,555,031.91 from the contribution reserve and euro 9,035,901.89 from the extraordinary reserve.

Coordinamento grafico
Vito Rotunno

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