

Annual Report
at 31 December **2019**



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COMPANY OFFICERS

Board of Directors ⁽¹⁾

Chairperson

Renato Boero⁽²⁾

Deputy Chairperson

Moris Ferretti ⁽³⁾

Chief Executive Officer and General Manager

Massimiliano Bianco ⁽⁴⁾

Directors

Sonia Maria Margherita Cantoni ⁽⁵⁾

Enrica Maria Ghia ⁽⁶⁾

Pietro Paolo Giampellegrini ⁽⁷⁾

Alessandro Giglio ⁽⁸⁾

Francesca Grasselli ⁽⁹⁾

Maurizio Irrera ⁽¹⁰⁾

Cristiano Lavaggi ⁽¹¹⁾

Ginevra Virginia Lombardi ⁽¹²⁾

Giacomo Malmesi ⁽¹³⁾

Gianluca Micconi

Tiziana Merlinò

Licia Soncini ⁽¹⁴⁾

Board of Statutory Auditors ⁽¹⁵⁾

Chairperson

Michele Rutigliano

Standing Auditors

Cristina Chiantia

Simone Caprari

Supplementary Auditors

Donatella Busso

Marco Rossi

Financial Reporting Manager

Massimo Levrino

Independent Auditors

PricewaterhouseCoopers S.p.A. ⁽¹⁶⁾

⁽¹⁾ Appointed by the Shareholders' Meeting of 22 May 2019 for the three years 2019-2020-2021.

⁽²⁾ Appointed Chairperson by the Shareholders' Meeting of 22 May 2019.

⁽³⁾ Appointed Deputy Chairperson at the meeting of the Board of Directors of 22 May 2019.

⁽⁴⁾ Appointed Chief Executive Officer at the meeting of the Board of Directors of 22 May 2019. At the Board of Directors meeting of 2 July 2019, Mr Bianco was also appointed General Manager of the Company.

⁽⁵⁾ Member of the Control, Risk and Sustainability Committee appointed on 22 May 2019.

⁽⁶⁾ Member of the Control, Risk and Sustainability Committee appointed on 22 May 2019.

⁽⁷⁾ Member of the Remuneration and Appointments Committee, appointed on 22 May 2019. Mr Giampellegrini was also appointed Chairperson of the Remuneration and Appointments Committee during the Board of Directors meeting held on 30 May 2019.

⁽⁸⁾ Member of the Transactions with Related Parties Committee, appointed on 22 May 2019.

⁽⁹⁾ Member of the Transactions with Related Parties Committee from 22 May to 30 May 2019 and member of the Remuneration and Appointments Committee from 30 May 2019.

⁽¹⁰⁾ Member of the Remuneration and Appointments Committee, appointed on 22 May 2019.

⁽¹¹⁾ Member of the Remuneration and Appointments Committee from 22 May to 30 May 2019 and member of the Control, Risk and Sustainability Committee from 30 May 2019.

⁽¹²⁾ Member of the Transactions with Related Parties Committee, appointed on 30 May 2019.

⁽¹³⁾ Member of the Control, Risk and Sustainability Committee appointed on 22 May 2019 and member of the Transactions with Related Parties Committee, appointed on 30 May 2019. Mr Malmesi was also appointed Chairperson of the Control, Risk and Sustainability Committee during the Board of Directors meeting held on 30 May 2019.

⁽¹⁴⁾ Member of the Transactions with Related Parties Committee, appointed on 22 May 2019. Ms Soncini was also appointed Chairperson of the Transactions with Related Parties Committee during the full Committee meeting held on 29 May 2019.

⁽¹⁵⁾ Appointed by the Shareholders' Meeting of 19 April 2018 for the three years 2018-2019-2020.

⁽¹⁶⁾ Appointed by the Shareholders' Meeting of 14 May 2012 for the nine years 2012-2020.

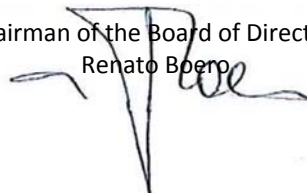
NOTICE CONCERNING THE SHAREHOLDERS' MEETING

The shareholders are called to the ordinary shareholders' meeting in first call in Parma at Strada S. Margherita 6/A at the Multipurpose Room ("Sala Polivalente") of the Iren headquarters on 29 April 2020 at 11.30 and, if the first call should be unattended, in second call in the same place on 29 May 2020 at 11.30 to discuss and resolve on the following

Agenda:

- 1) Separate financial statements at 31 December 2019; Directors' Report, Report of the Board of Statutory Auditors and of the Independent Auditors;
- 2) Proposed allocation of the profit for the year: related and consequent resolutions;
- 3) Report on the remuneration policy prepared under the terms of art. 123-ter of the Consolidated Finance Act (as amended by Italian Legislative Decree 49/2019), first section: related and consequent resolutions;
- 4) Report on fees paid under the terms of art. 123-ter of the Consolidated Finance Act (as amended by Italian Legislative Decree 49/2019), second section: related and consequent resolutions – consultative resolution;
- 5) Proposed renewal of the authorisation for the purchase and disposal of treasury shares of Iren S.p.A. under the terms of articles 2357 and following of the Italian Civil Code, of article 132 of Italian Legislative Decree no. 58 of 24 February 1998 and of the CONSOB Regulation adopted with resolution no. 11971 of 14 May 1999, after revocation of the previous authorisation for the purchase and disposal of treasury shares pursuant to the resolution of the Iren S.p.A. Shareholders' Meeting of 5 April 2019: related and consequent resolutions.

Chairman of the Board of Directors
Renato Boero



LETTER TO SHAREHOLDERS

Dear Shareholders,

In such a complex current environment, the results that we present to you in the 2019 Financial Statements are very positive and testify to both the economic/financial stability and the managerial and industrial excellence achieved in the last few years by our Group. A stability which enables us to also tackle emergency situations, like the one we are experiencing in this historical moment and which imposes on each of us the search for new horizons and new strategies.

Despite the difficulties, our Group continues to guarantee to the territories in which it operates services, which are even more indispensable for millions of people, changing the way of tackling working and family daily life. The sense of responsibility demonstrated by all employees is the best proof of what it means to be a great Group like us.

In 2019, Iren was confirmed as one of the top 25 Italian industrial groups, a significant player in the sector, an economic and social actor with a significant effect in the Italian economy and which, in the future, may also look further.

As of December 2019, the Group has more than 8,100 employees, of which approximately 500 permanent new recruits and more than 840 coming from the expansion of the consolidation scope owing to M&A transactions.

Sustainability is a strategic pillar for us, and it is for this reason that we focus on certain key elements, such as using resources efficiently, reducing emissions, adopting and raising awareness on economic models of more sustainable consumption.

We believe strongly in the concept of the circular economy, with investments that go from the extension of highly-evolved systems for the collection and processing of municipal waste, which have contributed to the achievement of a percentage of separate waste collection of 67.3% (compared to a national average of 58.1%), to the increase in the waste processing capacity in the Group's plants, that enables us to recover secondary raw materials and put them on the market.

We have finalised, including during 2019, several M&A transactions which have contributed to the development of the Group, in particular in the waste management sector, through the acquisition of the companies San Germano, CMT, FG Ferrania Ecologia, Territorio e Risorse and of the Sanremoluce business unit. This process will also continue in 2020.

With our investments growing constantly (3.3 billion euro provided for in the Business Plan to 2024, of which 60% in sustainability projects), we contribute to competitiveness. With excellence in separate waste collection, we reduce the consumption of resources. With the increase in the recovery of material—through plants that transform waste into new finished products—we accentuate the focus on the circular economy. With the work on the water network and the electricity grid, we make a contribution to reducing the infrastructural inefficiency of the country and, above all, in the territories in which we operate.

Every year, we generate a large amount of investments which, in 2019, equalled 524 million euro, up by 17% compared to the previous year, when national investments are declining in both the public and private sectors.

The energy transition underway is changing our business significantly, but now we are ready, not only for electricity generation, which is increasingly distributed and based on renewable sources, but also for the development of interconnected and intelligent networks. Renewable or assimilated sources, such as hydroelectric, cogeneration and photovoltaic systems, accounts for 76% of our electricity production, compared to a national average of 39.8%.

The development of multiple innovation projects connected with the storage of electricity and heat, the reduction of consumption and emissions, together with a production mix based on highly-efficient plants, has enabled us to reduce the environmental impacts of our activities, showing an increase in energy saved of 8% in 2019.

We contribute to the improvement of air quality in the cities in which we operate through an complex system of initiatives, from the extension of district heating—a sector in which we are the leader at the national level—to energy savings through the re-qualification of buildings and relamping, to investments for electric mobility, the electrification of the corporate fleet (more than 480 vehicles) and the development of the infrastructure which enables recharging.

Iren is increasingly dedicated to innovation and technology, but above all to sustainable development. In fact, sustainability cannot gain hold without continual innovation and innovation must be oriented to sustainability.

We implement this prospect through digitalisation and the internet of things, with great attention to the increasingly restrictive environmental challenges, ready to seize the opportunities of a market in evolution, confirming the centrality of our customer base, the growth of which, year after year, is the best confirmation of the validity of our model of distributing services to citizens.

The results achieved in 2019 confirm the pathway of growth of the last five years. The Group ended 2019 with revenue of 4,275 million euro, up by 5.8% compared to the previous year, thanks above all to the operations to widen the consolidation scope. Gross Operating Profit (EBITDA) was 917 million euro, and the Group's Net Profit was 237 million euro. At the end of 2019, Net Financial Debt amounted to 2,706 million euro.

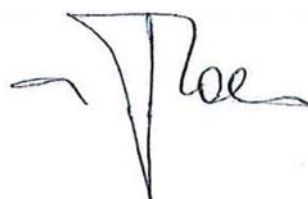
This year, Iren celebrates its first 10 years of life, but, as you know, it has more than a century of history at its back, that of the companies that established it and which, starting from the beginning of the twentieth century, accompanied the development of public services in Italy step by step, guided first of all by the objective of improving people's quality of life, making the companies more competitive, promoting the progress of the territories, merging development and sustainability into a single value.

The efficient management of the company in terms of dimensions and economic and financial indicators, the development of skills and of quality in the services provided, the maximum attention to environmental sustainability and to care for the internal resources and customers, are the key factors that have made it possible to achieve the results that we submit for your approval. Therefore, the proposal to the Shareholders' Meeting is for a dividend of 9.25 euro cents per share, up by 10.1% compared to 2018, a figure which makes Iren one of the stocks of the sector with the best remuneration policies.

On behalf of the Board of Directors, I thank all our employees for their expertise and commitment shown every day in their work, which have led to our achieving these results. Thank you, today more than ever, for the dedication and responsibility with which you are continuing to guarantee the supply of essential services, especially in this difficult scenario, with efficiency as always and with innovative methods compared to the past. Lastly, I also want to thank all members of the Board of Directors and of the Board of Statutory Auditors for their crucial contribution to the growth of the Company.

Chairman of the Board of Directors

Renato Boero

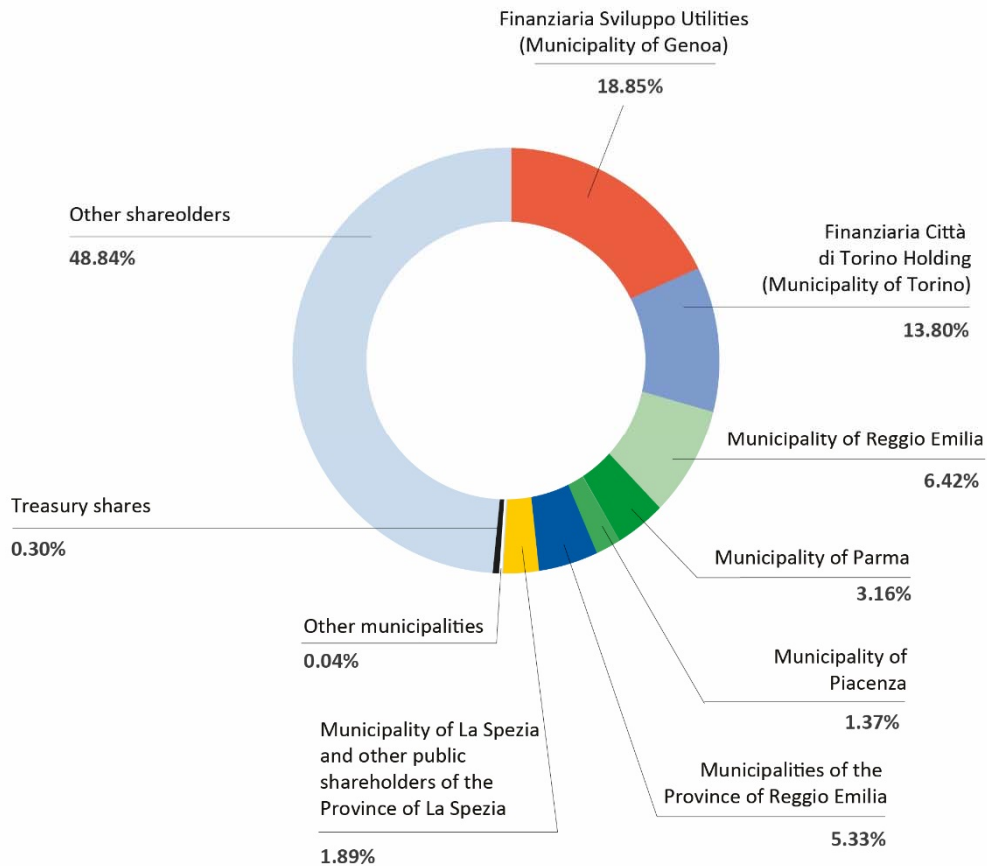
A handwritten signature in blue ink, appearing to read 'Boero', with a stylized vertical line extending downwards from the letter 'o'.

SHAREHOLDING STRUCTURE

The Company's Share Capital amounts to 1,300,931,377 euro, fully paid up, and is made up of ordinary shares with a par value of 1 euro each.

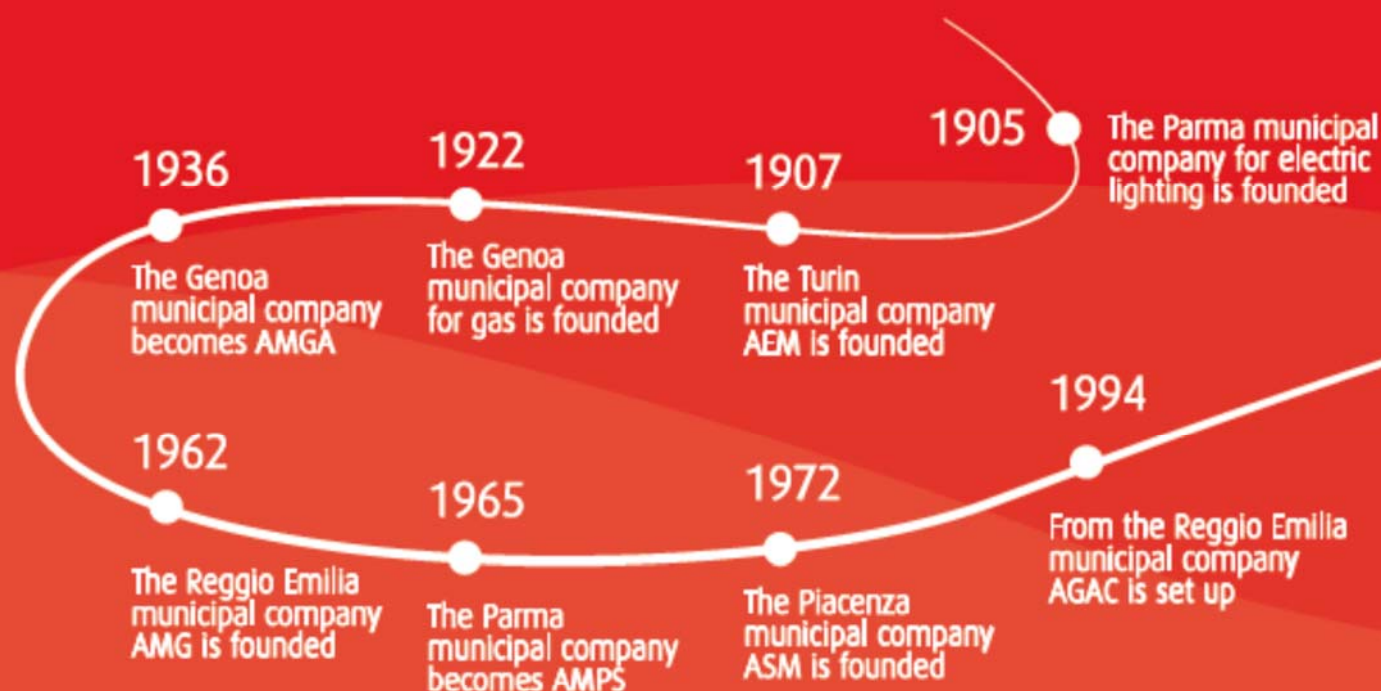
We can note that, in accordance with the purchase programme resolved by the Shareholders' Meeting of 5 April 2019, starting from 14 May Iren S.p.A. purchased 3,950,587 treasury shares, equal to 0.30% of the Share Capital. For more information on the subject please see what is presented in the chapter "Significant events of the period".

At 31 December 2019, based on available information, the Iren shareholding structure was as follows:



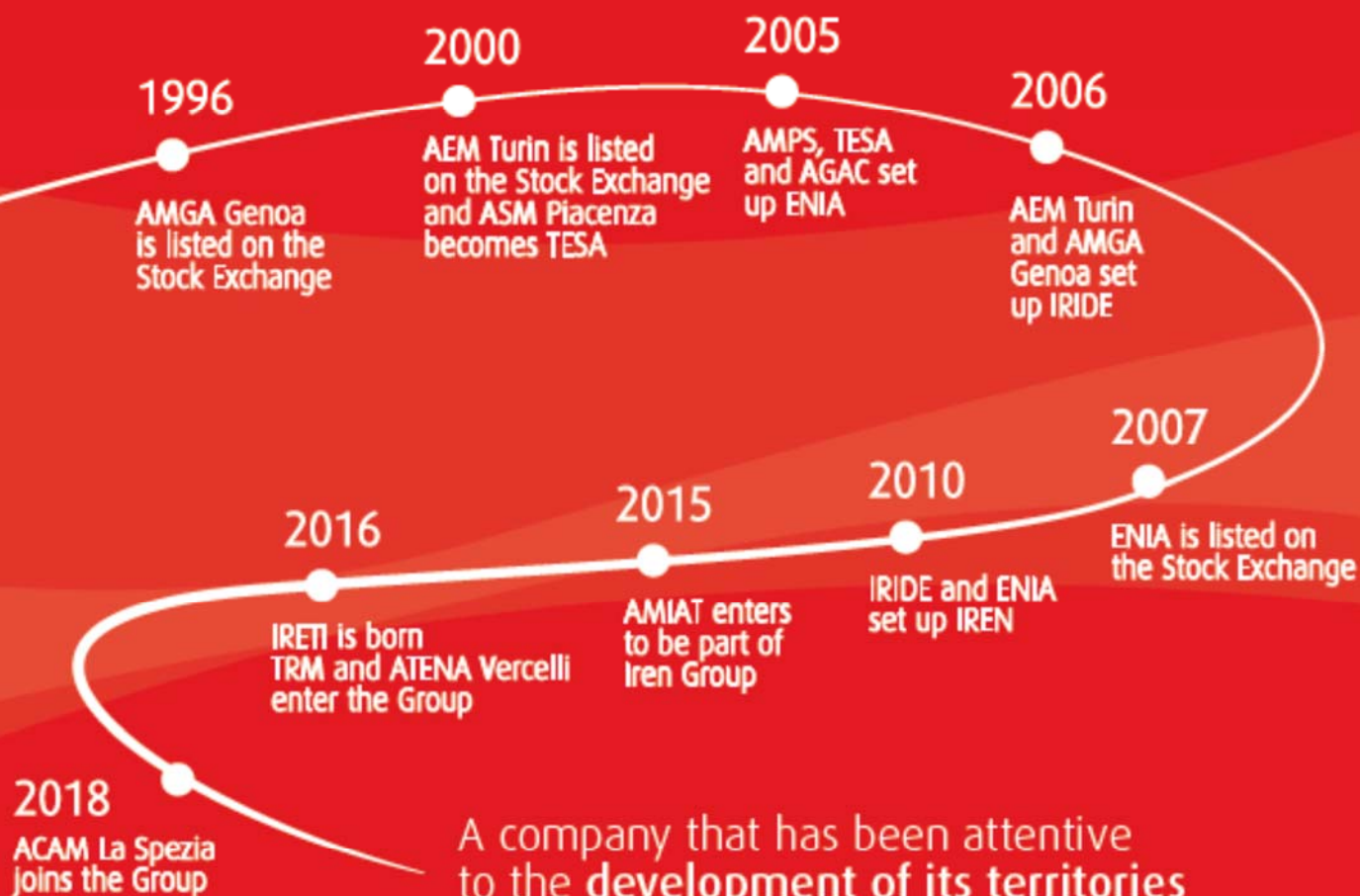
At the same date there were no private shareholders that held a stake of more than 3% of the share capital.

A century of history



Mission

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



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

Vision

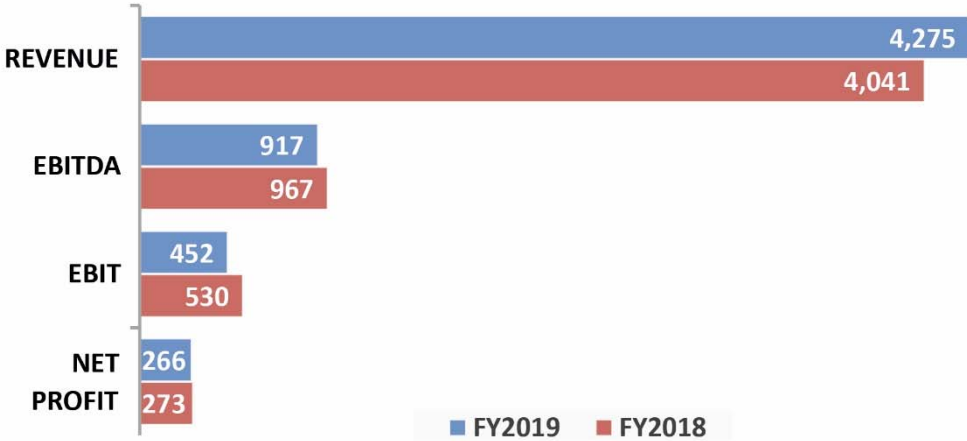
Improving people's quality of life. Making companies more competitive. Looking at territorial growth with a focus on change. Merging development and sustainability into one unique value. We are the multi-utility company that wants to realise this future through innovative choices.

For everyone, every day.

KEY FIGURES OF THE IREN GROUP: HIGHLIGHTS OF FINANCIAL YEAR 2019

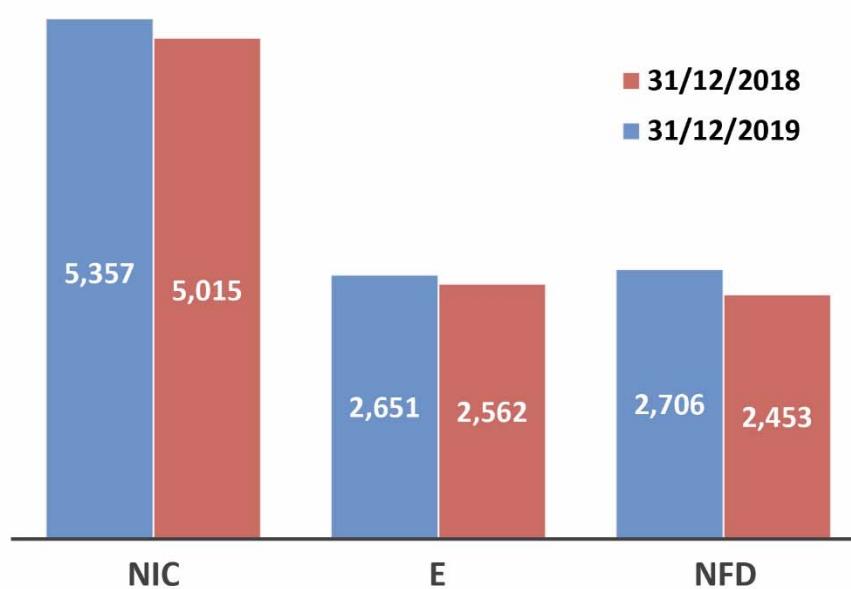
Economic data

	millions of euro		
	Financial year 2019	Financial year 2018	Changes %
Revenue	4,275	4,041	5.8
EBITDA	917	967	(5.2)
EBIT	452	530	(14.7)
Net profit	266	273	(2.6)
<hr/>			
EBITDA Margin (EBITDA/Revenue)	21.5%	23.9%	



Financial position data

	millions of euro		
	31.12.2019	31.12.2018	Changes %
Net Invested Capital (NIC)	5,357	5,015	6.8
Equity (E)	2,651	2,562	3.5
Net Financial Debt (NFD)	2,706	2,453	10.3
Debt/Equity (Net Financial Debt/Equity)	1.02	0.96	

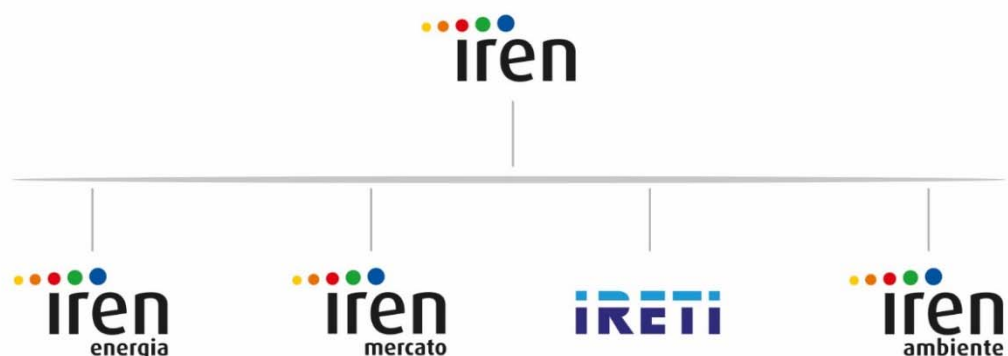


Technical and commercial figures

	Financial year 2019	Financial year 2018	Changes %
Electricity produced (GWh)	10,381	9,002	15.3
Thermal energy produced (GWht)	2,994	2,932	2.1
Electricity distributed (GWh)	3,819	3,836	(0.4)
Gas introduced into the network (mln m ³)	1,289	1,303	(1.1)
Water distributed (mln m ³)	181	187	(3.2)
Electricity sold (GWh)	18,382	15,717	17.0
Gas sold (mln m ³)*	2,825	2,636	7.2
District heating volume (mln m ³)	95.0	94.0	1.1
Waste handled (tonnes)	2,835,309	2,268,791	25.0

* of which, 1,764 mln m³ for internal use in financial year 2019 (1,477 mln m³ in financial year 2018, +19.5%)

THE CORPORATE STRUCTURE OF THE IREN GROUP



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

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

NETWORKS BU

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

Integrated Water Services

IRETI, directly and through the operating subsidiaries Iren Acqua, Iren Acqua Tigullio, ASM Vercelli and ACAM Acque, as mentioned above, operates in the field of water supply, sewerage and waste water treatment in the provinces of Genoa, Savona, Piacenza, Parma, Reggio Emilia, Vercelli, La Spezia, and several municipalities in Piedmont and Lombardy.

Overall, in the Ambiti Territoriali Ottimali (ATOs) [Optimal Territorial Areas] managed, the service is provided in 242 municipalities through a distribution network of 19,870 kilometres, serving almost 2.8 million residents. As regards waste water, the Networks BU manages a sewerage network spanning a total of 11,107 kilometres.

Gas distribution

IRETI distributes natural gas in 69 municipalities of the Provinces of Reggio Emilia, Parma and Piacenza, in the Municipality of Genoa and in 20 other municipalities nearby. Through ASM Vercelli it distributes gas in the city of Vercelli, in 8 municipalities of the same province and in 3 other municipalities located in Piedmont and Lombardy. The distribution network, made up of 8,099 kilometres of high, medium and low-pressure pipes, serves a catchment area of approximately 743 thousand redelivery points.

In January 2019 IRETI and the Municipality of Busseto (province of Parma) signed a contract for the transfer of all the shares of Busseto Servizi S.r.l., a company that manages the natural gas distribution service in the said Municipality, with more than 3 thousand redelivery points present on a total of 89 kilometres of network.

Electricity distribution

IRETI provides the electricity distribution service in the cities of Turin, Parma and, through ASM Vercelli, in the city of Vercelli with 7,742 kilometres of network in medium and low voltage, and a total of more than 721 thousand connected users.

WASTE MANAGEMENT BU

The Waste Management Business Unit carries out waste collection, processing and disposal activities mainly through geographically-distributed companies: Iren Ambiente, operating in the Emilia area, AMIAT, TRM, ASM Vercelli, San Germano, CMT and Territorio e Risorse, operating in the Piedmont area, ACAM Ambiente, ReCos and Ferrania Ecologia operating in the Liguria area.

The Waste Management BU carries out all the activities of the urban waste management chain (collection, selection, recovery and disposal), with particular attention to sustainable development and to environmental protection confirmed by growing levels of separated waste collection; it also manages an important customer portfolio to which it provides all the services for special waste disposal.

Through these activities, the Waste Management BU served in 2019 a total of 297 municipalities for a total of more than 3.0 million residents present in its operating areas; the plant assets of the integrated waste cycle consist mainly of 3 waste-to-energy plants (TRM, owned by the company of the same name, in Turin, the Integrated Environmental Hub ("Polo Ambientale Integrato" -PAI), in Parma, and Tecnoborgo, in Piacenza, these latter owned by the lead company Iren Ambiente), 2 active landfill sites, 197 equipped ecological stations and 36 treatment, selection, storage and recovery plants.

These figures take into account the plant assets contributed by the changes in the perimeter that occurred during 2019 with entry of new companies into the group.

Starting from January 2019 the companies San Germano and its subsidiary CMT in fact became part of the Waste Management BU. San Germano is based in Pianezza (Turin) and operates in waste collection and transport in 145 municipalities for approximately one million inhabitants served in the regions Piedmont, Sardinia, Lombardy and Emilia Romagna, through 20 operating sites. CMT operates instead in the treatment of separately-collected waste and paper, cardboard and plastic recycling, and has 6 sites in Piedmont and Sardinia, among which Pianezza and La Loggia, for an authorised capacity of 100 Ktonnes/year.

On 2 July 2019 the operation was completed for the acquisition by Iren Ambiente of the company Ferrania Ecologia and of the business unit related to the waste sector of FG Riciclaggi, contributed within the same. This operation enabled the further extension of the plant assets of the business unit: Ferrania Ecologia in fact manages the bio-digester of Cairo Montenotte with a capacity of 45 Ktonnes/year (30 Ktonnes of organic fraction of municipal solid waste and 15 of "green" fraction) destined to increase in virtue of authorisations already obtained. The business unit contributed by FG Riciclaggi comprises instead 3 plants located in Cairo Montenotte, Savona and Albenga and destined for the activity of processing waste from separated collection related, in particular, to plastic and bulky waste, as well as the organic fraction of municipal solid waste.

Finally on 9 October the Group, through the subsidiary IREN Ambiente, completed the purchase of 100% of the share capital of Territorio e Risorse S.r.l., a company that built and manages a composting plant in the Municipality of Santhià, in the province of Vercelli.

The existing plant is currently authorised to process up to 36 Ktonnes/year of waste, of which 26 Ktonnes of organic fraction of municipal solid waste and 10 Ktonnes/year of vegetable waste.

ENERGY BU

Production of electricity and heat

The Energy BU's installed capacity totals 2,852 MW of electricity and approximately 2,300 MW of heat. Specifically, it has 28 electricity production plants directly available to it: 20 hydroelectric plants (of which

3 mini-hydro plants), 6 thermoelectric cogeneration plants and 1 conventional thermoelectric plant, to which must be added 1 cogeneration plant managed on the basis of a business unit rental contract. The business unit also has 194 photovoltaic production plants with installed capacity of 20 MW. All primary energy sources used are eco-friendly because they are mainly hydroelectric and co-generative. In particular, the hydroelectric production system plays an important role in environmental protection, as it uses a renewable and clean resource, without the emission of pollutants, and reduces the need to make use of other forms of production that have a greater environmental impact. On the thermoelectric side, more than 34% of the total heat production capacity serving district heating comes from company-owned cogeneration plants and produces 80% of the heat destined for district heating while the remainder is related to conventional heat generators for dedicated heat production capacity of 58% and heat production for district heating of 16%. The remainder is produced by plants of the group that do not belong to the energy BU. Iren Energia also oversees the Group's electricity and thermal energy planning and dispatching activities, as well as operations on the power exchange.

District heating

Iren Energia has the largest district heating network in the country with more than 1,041 kilometres of dual pipes. The extension of the dual-pipe network amounts to 679 kilometres in the territory of Turin of which 76 kilometres of network situated in the area managed thanks to the annual rental of the business unit of SEI Energia, operating in the municipalities of Grugliasco, Rivoli and Collegno (Metropolitan City of Turin), 10 in the Municipality of Genoa, 220 in the Municipality of Reggio Emilia, 103 in the Municipality of Parma and 29 in the Municipality of Piacenza. The total volume heated amounts, in the catchment area historically served by the company, to 89.8 million m³. To this volume must be added the 5.2 million m³ of volumes heated in the area of the business unit, making the total 95.0 million m³.

Energy efficiency services

Iren Energia, through its subsidiary Iren Smart Solutions (formerly Iren Rinnovabili), operates in the energy efficiency sector, carrying out activities of planning, creation and management of projects for the reduction of energy consumption, saving and efficiency; it handles the supply of energy services and global services destined for residential buildings, private and public structures and industrial and commercial complexes guaranteeing maintenance and conduction of heating, conditioning, plumbing, sanitary, refrigeration and electrical systems, and of solar panels, as well as their design and installation. Smart Solutions also handles the development and management of public lighting and traffic lights and similar services.

MARKET BU

Through Iren Mercato, Atena Trading, Salerno Energia Vendite, and since October 2018 Spezia Energy Trading, the Group sells electricity, gas and heat, through district heating networks, supplies fuel for the Group, and provides customer management services to the Group's investee companies.

Iren Mercato operates, in the context of the free market, all over the country, with a higher concentration of customers served in Central and Northern Italy, and handles the sale of the energy provided by the Group's various sources on the market, represented by final customers and wholesalers. The main Group energy sources available for its activities are the thermoelectric and hydroelectric plants of Iren Energia. Iren Mercato also acts as "higher protection" service operator for retail customers in the electricity market in the Province of Turin and the Parma area; historically it operated in the direct sale of natural gas in the territories of Genoa and Turin, and in the Emilia Romagna area. Lastly, it handles heat sales to district heating customers in the Municipality of Turin and the provincial capitals of Reggio Emilia, Parma, Piacenza and Genoa and sales development in new district heating areas.

Among the commercial proposals in being, we can note the "New downstream" business line, destined for the sale to retail customer of innovative products in the area of domotics, energy saving and maintenance of domestic systems, and "IrenGO at zero emissions", the innovative offer for electric mobility aimed at private customers, businesses and public bodies with the objective of reducing the environmental impact of movements. On this subject, the Group has already tested the potentials and benefits of e-mobility through the internal launch of a series of initiatives, such as the installation of recharging infrastructures and the gradual introduction of electric vehicles. All the IrenGO internal and external electric mobility initiatives benefit from 100% green energy supply coming from the Group's hydroelectric plants.

Sale of Natural Gas

Retail gas customers managed by the Market Business Unit amounted to more than 900 thousand, mainly spread throughout the traditional Genoa, Turin and Emilia Romagna catchment area and surrounding development areas, and customers of the catchment areas of Vercelli and the area in Campania (respectively through ATENA Trading and Salerno Energia Vendite). In particular, Salerno Energia Vendite is present in almost all the provinces in Campania as well as in a number of municipalities of the Basilicata, Calabria, Tuscany and Lazio regions. The catchment area expanded further with Spezia Energy Trading which operates mainly in the La Spezia area.

Sale of electricity

Retail electricity customers managed are more than 900 thousand, distributed mainly in the areas traditionally served, corresponding to Turin and Parma, and in the other areas covered commercially by Iren Mercato and by ATENA Trading and, from the fourth quarter of 2018, also by Spezia Energy Trading.

Sale of heat through the district heating network

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

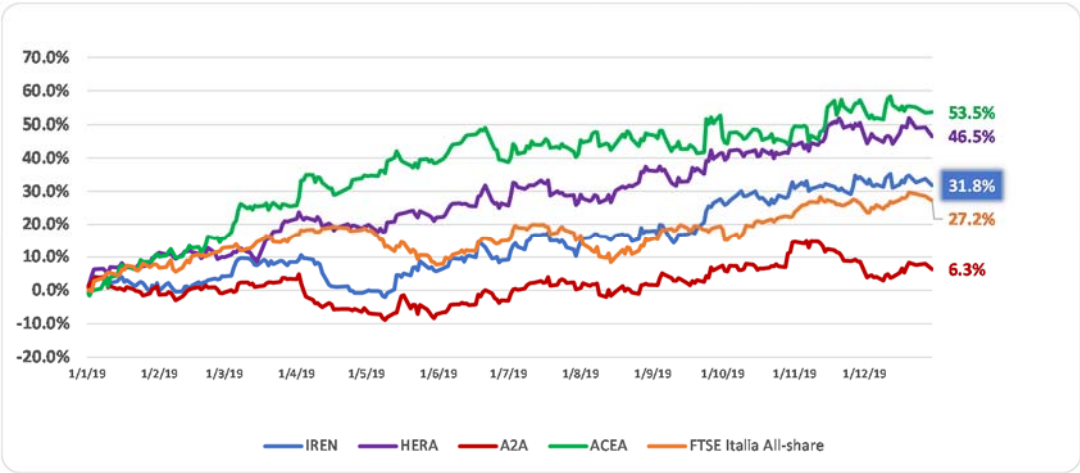
INFORMATION ON THE IREN STOCK IN 2019

Iren stock performance on the Stock Exchange

During the 2019, the FTSE Italia All-Share (the main Borsa Italiana index) recorded an increase of 27.2%, boosted mainly by the easing of commercial tensions between China and the USA and by the expansive monetary policies. The BTP – Bund spread recorded a reduction during 2019, a sign that Italy is less risky. In this context, and in a scenario in which bonds offer yields close to zero, the stocks of multiutilities that present a greater proportion of regulated activities were particularly appreciated by the market thanks to the stability of their cash flows, which makes them more attractive to investors oriented to a constant yield.

Despite exposure to energy markets, the Iren stock recorded a better performance than the FTSE Italia All-Share index, recording on 12 December its historical maximum price since the merger between the companies IRIDE and Enià.

Performance of Iren stock compared to competitors



At 30 December 2019, the last trading day of the year, the price of IREN stock stood at 2.762 euro per share, up by 31.8% compared to the price at the beginning of the year, with average trading volumes during the period of approximately 2.124 million units per day.

The average price in during 2019 was 2.396 euro per share. The maximum of the period was recorded on 12 December 2019, at 2.834 euro per share; the minimum of the period, 2.054 euro per share, was instead recorded on 9 May.

The two charts below show the price performance and volumes traded in Iren stock in 2019.



Share coverage

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



Directors' Report

at 31 December **2019**

MARKET CONTEXT

THE MACROECONOMIC SCENARIO

The contraction of international trade and the general climate of uncertainty linked to commercial relationships between the USA and China affected the growth of the largest global economies, with negative reflections also on Italy. The International Monetary Fund (IMF) estimates that global growth in 2019 was 2.9%, sharply down compared to 2018 (3.6%). On this point, the slowdown in trade, in 2019 up by 1%, at a significantly lower rate than that recorded in 2018 (+3.7%), had a significant negative effect. The Euro area was also affected by the uncertainty associated with the methods and rules of Brexit, which began to be clarified only a few weeks from the official exit of the United Kingdom from the European Union, on 31 January 2020. The estimate for growth of the economy in the Euro area for 2019 is down to +1.2% from +1.9% in 2018.

Italy, which is very dependent on export performance, was affected significantly by the slowdown in global growth and, specifically, by that of Germany, its main commercial partner.

In 2019 the growth rate of the Italian economy (already slowing down in 2018) declined further, coming out, according to the IMF estimates, at 0.2%. The modest growth of GDP was supported in particular in the summer months by domestic consumption, thanks to the good performance of the employment market, the purchasing power of households and, in part, the introduction of the basic income mechanism, despite the contraction in this period of investments (in particular in instrumental goods) and exports (in particular of services).

Household spending

The rise in disposable income led to a 0.4% quarterly increase in household spending in the third quarter of 2019, confirming the recovery of growth of consumption recorded in the previous quarter. Household spending was also boosted by the increase in purchasing power and the performance of the employment market. In the summer months of 2019, the employment rate increased (to 59.2%), while the unemployment rate came out at 9.8%. According to the ISTAT surveys, in the fourth quarter there were no significant changes.

Investments

Over the first nine months, the uncertainties of a geopolitical nature and the commercial tensions between the USA and China impacted on orders from Italy and abroad (down in July and recovering slightly in subsequent months) and on investments of companies, despite the growth in the first half of the year. In particular, investments in machinery and instrumental goods declined by 0.5% compared to the previous quarter. Investments in the construction sector instead increased slightly in the third quarter (+0.2%) after a reduction in the second quarter, without however managing to take the total result of investments in the summer months into growth. Total gross fixed investments declined in fact by 0.2% in the third quarter on a quarterly basis.

Exports

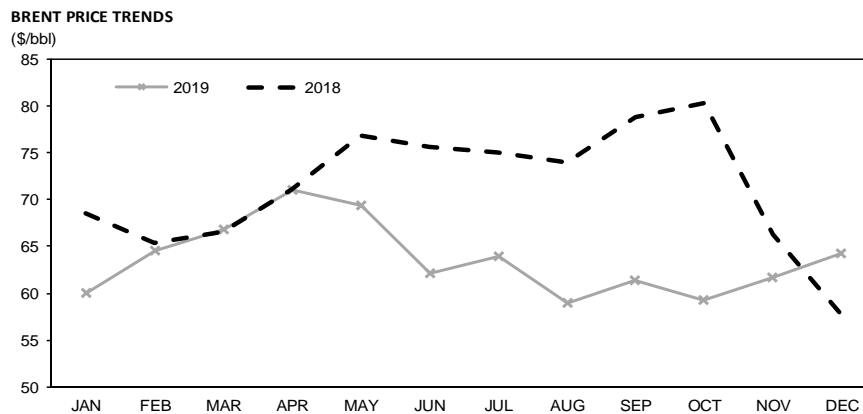
As mentioned, the downward trend of international trade during 2019 penalised also Italian exports. Despite this, the trade surplus for the period January-November was positive and higher than that of the same period in 2018. In particular, for exports of goods, a slight increase in sales to non-EU countries was recorded, owing to a slight improvement of competitiveness due to the reduction in the value of the single European currency.

THE OIL MARKET

The early months of 2019 saw a continuation of the recovery of prices that began at the end of 2018, supported by forecasts of growth in demand, the solidity of the OPEC Plus agreement on the limits to production and expectations of a reduction in the supply from Iran, Venezuela and Libya. In the first quarter of 2019, OPEC reduced extraction by approximately 1.6 million barrels a day on a quarterly basis and in April the prices reached an average level of \$71.6/bbl.

The aforementioned commercial uncertainty came into this context and started a downward movement which led to the formation of a minimum at \$59.5/bbl in August.

However, global demand and supply remained in balance (both global demand and supply in 2019 came out at 100.8 mb/day on average). Overall, 2019 ended with an average spot price of Brent oil of \$64.2/bbl, down by 10.3% compared to 2018, which had ended with an annual average of \$71.5/bbl. The price of Brent in Euro in 2019 came out at 57.3 euro/bbl measured at an average Euro/Dollar exchange rate in 2019 of 1.12, up by 5.3% compared to 2018.



THE ELECTRICITY MARKET

Supply and demand

In 2019 the production of electricity in Italy was 283.8 TWh, up by 1.4% compared to 2018. Demand for electricity, of 317.5 TWh, was met by domestic production for 88.7%, while for the remaining 11.3% by that imported from abroad.

Domestic thermoelectric production, coming out at a volume of 186.8 TWh, represented 65.8% of the net domestic figure, showing an increase of 1.3% compared to the figure for 2018; production from hydroelectric sources was 46.9 TWh (-5.9% compared to 2018) accounting for 16.5% of domestic supply, while from geothermal, wind and photovoltaic sources production was 50.1 TWh (+9.8% compared to 2018), 17.6% of domestic supply.

In 2019 consumption decreased compared to that of the previous year (-1.2%) in all zones. In particular, the Centre reported the largest drop in demand of 2.3%, followed by the South (-1.5%) and the North and the Islands both down by 0,6%.

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

	up to 31/12/2019	up to 31/12/2018	Change %
Demand	317,456	321,459	-1.2%
Northern Italy	151,443	152,419	-0.6%
Central Italy	92,726	94,882	-2.3%
Southern Italy	45,010	45,716	-1.5%
Islands	28,277	28,442	-0.6%
Net production	283,846	279,845	1.4%
Hydroelectric	46,959	49,928	-5.9%
Thermoelectric	186,811	184,338	1.3%
Geothermoelectric	5,687	5,756	-1.2%
Wind and photovoltaic	44,389	39,823	11.5%
Pumping consumption	-2,362	-2,313	2.1%
Foreign balance	35,972	43,927	-18.1%

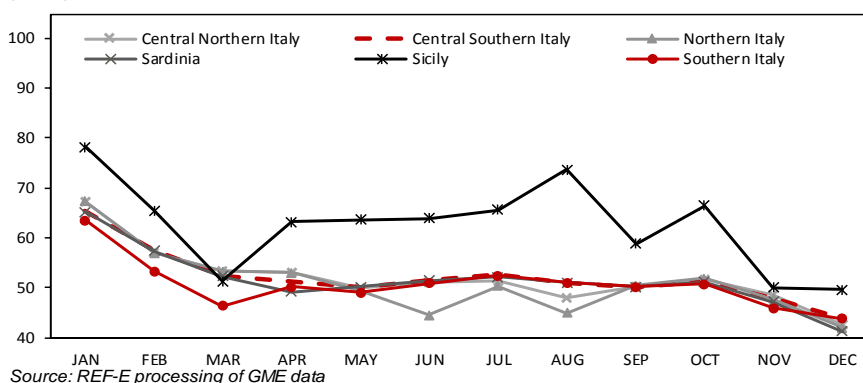
Source: Terna

Day-Ahead Market (DAM) prices

In 2019 the price of electricity came out at 52.3 euro/MWh, down compared to 2018 (-15%), showing a similar trend for all zones, although in Sicily the price was decidedly higher than in the others. The greatest percentage decrease (-16%) occurred in the North zone while the Centre North, the Centre South and the South recorded a decrease of 14%, Sardinia 15% and Sicily 10%. This decrease in the SNP characterised the months from May to December, the month in which the largest reduction was recorded, with a change of approximately -33% compared to the 2018 prices.

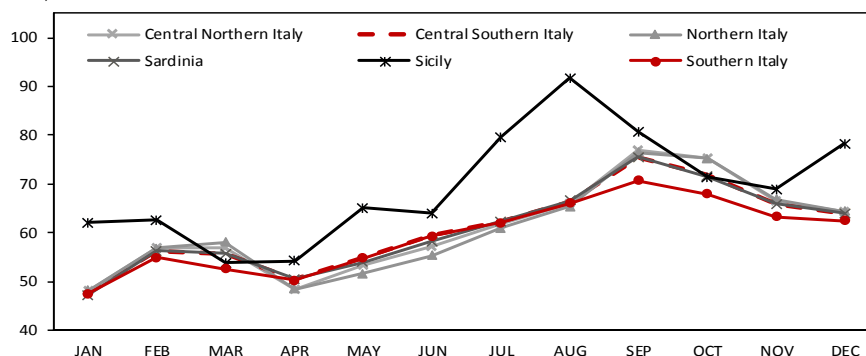
In line with 2018, at the level of the trend, the zonal prices are aligned, among them and with respect to the overall trend, with the exception of Sicily which recorded for almost the whole year a much higher price than the other market zones, showing a greater distance from the SNP compared to the previous year (8.17 euro/MWh).

ITALIAN ZONAL PRICE TRENDS 2019
(€/MWh)



ITALIAN ZONAL PRICE TRENDS 2018

(€/MWh)



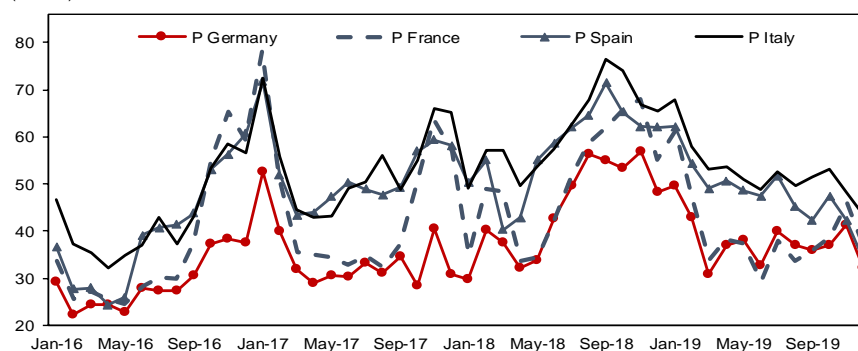
Source: REF-E processing of GME data

Trends in the main European power exchanges

The average price of the European power exchanges, calculated taking into consideration the arithmetic mean of the market results in Germany, France and Spain, was 41.63 euro/MWh in 2019, down by 17.8% compared to 2018. The spread from the SNP remained stable at 10.7 euro/MWh, the figure recorded also in the previous year.

EUROPEAN ELECTRICITY PRICE TRENDS

(€/MWh)



Source: REF-E processing of European Exchange data

Futures of Baseload SNP on the EEX

The table below compares the average prices of futures of the available products referred to the Single National Price for the last quarter of 2019. The quotations of products with delivery December and January fell uniformly during the last quarter. Q1 20, Q2 20 and Q3 20 recorded falls compared to the previous quarter, respectively, -7.70, -6 and -4.2 euro/MWh. The Cal 20 followed the same trend, from 59.2 euro/MWh in October to 54.3 euro/MWh in December.

Oct-19 Futures		Nov-19 Futures		Dec-19 Futures	
Monthly	€/MWh	Monthly	€/MWh	Monthly	€/MWh
Nov-19	54.4	Dec-19	47.7	Jan-20	46.7
Dec-19	57.2	Jan-20	52.6	Feb-20	54.1
Jan-20	59.8	Feb-20	58.4	Mar-20	55.9
Quarterly		Quarterly		Quarterly	
Q1 20	61.5	Q1 20	57.8	Q1 20	53.8
Q2 20	54.8	Q2 20	52.0	Q2 20	48.8
Q3 20	58.9	Q3 20	57.3	Q3 20	54.7
Yearly		Yearly		Yearly	
Y1 20	59.2	Y1 20	57.0	Y1 20	54.3

Source: Reuters on EEX data

THE NATURAL GAS MARKET

Supply and demand

Uses and sources of natural gas in the period January-December 2019 and comparison with previous years

GAS WITHDRAWN (bln m³)*	2019	2018	2017	% change 2019 vs. 2018	% change 2018 vs. 2017
Industrial use	14.0	14.3	14.4	-2.1%	-0.6%
Thermoelectric use	25.8	23.3	25.4	10.3%	-8.2%
Distribution plants	31.6	32.3	32.6	-2.1%	-0.9%
Third party network and system consumption / line pack	2.4	2.3	2.3	2.6%	3.9%
Total withdrawn	73.8	72.3	74.7	2.0%	-3.2%

*Cumulative amounts at 31 December 2019

Source: REF-E processing of SRG data

GAS INPUT (bln m³)*	2019	2018	2017	% change 2019 vs. 2018	% change 2018 vs. 2017
Imports	70.6	67.4	69.2	4.8%	-2.6%
Domestic production	4.5	5.1	5.2	-11.9%	-2.2%
Storage	-1.4	-0.3	0.2	(**)	(**)
Total input (incl. storage)	73.8	72.3	74.7	2.0%	-3.2%
Maximum capacity	141.3	135.9	133.6		
Load Factor	50.0%	49.6%	51.8%		

*Cumulative amounts at 31 December 2019

**Change of more than 100%

The figure for storage indicates the net change

Source: REF-E processing of SRG data

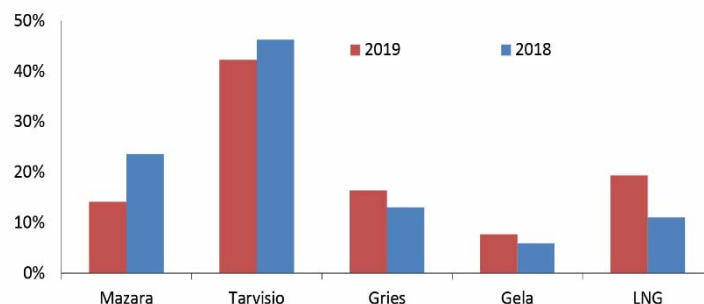
After the slowdown recorded during 2018, in 2019 natural gas consumption increased slightly (2.0%, for a total of 73.8 billion cubic metres). The higher consumption was the result of an overall increase in demand in the thermoelectric sector (+10.3%), while at the industrial and residential level reductions were recorded (-2.1% for both sectors).

Residential demand (31.6 billion/m³ in 2019), was 0.7 billion cubic metres less than in 2018, owing mainly to the mild temperatures of the last few months of the year, which contributed to balancing the large consumption recorded during the first half of the year, influenced by the meteorological contingencies that affected the entire European continent at the beginning of the year.

The reduction in industrial consumption, which amounted to 14.0 billion m³ in 2019, is attributable to the general slowdown of the Italian economy, which produced its effects in the last quarter.

The greater demand for gas coming from the thermoelectric segment (25.8 billion m³ in 2019), the main driver of the overall growth in gas consumption, is instead related to the lower contribution to electricity generation of the segment associated with renewable sources, the fall in the price of natural gas and the simultaneous increase in CO₂ prices, which made gas generation more competitive than that with coal.

Imports by port of entry over the total* (Values%)



*Cumulative amounts at 31 December 2019
Source: REF-E processing of SRG data

As regards supply, imports from abroad increased by approximately 4.8 per cent compared to the levels of 2018, coming out at around 70.6 billion m³. As regards Italian entry points connected with other countries:

- The incoming flows at the Tarvisio entry point (29.7 billion m³) confirm once again the centrality of Russian gas in the overall Italian balance sheet (42.1% of the Italian market), with a slight increase in terms of total volumes imported (+1.0%);
- the amount of gas coming from North Africa decreased, with imports of Algerian gas (with a market share of more than 14.4% in 2019) at the entry point of Mazara del Vallo, down by approximately 40%, not fully offset by the increase in those of Libyan gas entering at Gela (up by approximately 28%);
- imports through Passo Gries (for gas coming from the Netherlands and Northern Europe) increased by 44%, coming out at 11.1 billion cubic metres;
- finally, a sharp increase in LNG was recorded (+61%), with a total of almost 14.0 billion m³ and a market share which almost reached 20%.

Domestic production decreased further (-11.9%), with a new record low of just 4.5 billion m³ of gas produced. The contribution to supply of storage systems (outputs +/- inputs -) went instead from -0.3 billion m³ in 2018 to -1.4 billion m³, owing to the higher injections (12.9 billion m³) recorded during the year recovering the significant outputs to the network made necessary owing to the particularly rigid temperatures that occurred between February and March.

Wholesale gas prices

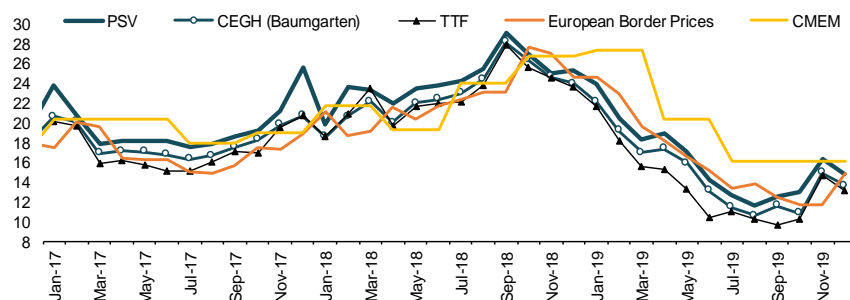
In 2019, the European and global wholesale prices of natural gas followed a downward trend, which was interrupted only in the fourth quarter. The downward trend of prices is attributable to:

- the overall increase in the supply of gas on a global scale (LNG in particular), which had significant effects on prices, especially during the first half of the year;
- the downward trend of the price of Brent;
- the high stocks of natural gas in storage systems.

The average spot price at the Dutch TTF for 2019 came out at 13.60 euro/MWh, down by 40.0% compared to the 22.80 euro/MWh of 2018. The average CEGH price came out with a reduction of 35.7%, on an average figure of 14.78 euro/MWh. The average spot price at the PSV, despite the average price recording -33.6% compared to the 2018 figures, coming out at 16.14 euro/MWh, shows once again that the Italian hub continues to be a premium market compared to the northern-European ones, with an average PSV-TTF spread of 2.56 euro/MWh (up by more than 69% compared to the previous year).

In 2019 the prices at the border, still in part oil-linked, followed the general downward trend and came out at an average level of 16.26 euro/MWh, down by almost 28% compared to 2018. The average of Italian prices at the border was lower than the European average, coming out at around 15.8 euro/MWh.

Wholesale prices in Europe
(€/MWh)



Latest data 31 dicembre 2019

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

In the Italian market, the balancing price for 2019 was on average 16 euro/MWh, approximately 20% lower compared to the figures for 2018. On the markets of the MGAS platform functional for the definition of the balancing price (MGP-GAS and MI-GAS), during the year just ended a total volume of approximately 6.2 billion m³ was traded. The MI-GAS intraday market continues to be the main segment of the platform managed by GME, with a total amount of volumes traded of approximately 3.9 billion m³. The “CMEM component”, meant to reflect the cost of procuring gas in the protected market price and defined by the ARERA on the basis of the TTF forward prices, increased with an average of 19.98 euro/MWh.

SIGNIFICANT EVENTS OF THE PERIOD

Acquisition of Busseto Servizi

In January IRETI purchased from the Municipality of Busseto (province of Parma) 100% of Busseto Servizi S.r.l., the company that distributes natural gas in the said Municipality, situated in one of the Group's main ATeMs (minimum territorial areas) of reference, with more than 3,000 redelivery points present on a total of 90 km of network. The operation follows the public tender procedure called by the Municipality and awarded to IRETI for approximately 4.1 million euro.

Acquisition of the San Germano Group

On 30 January 2019 Iren Ambiente completed the acquisition of the entire equity interest in the company San Germano and in its subsidiary CMT, held by the Derichebourg Group. San Germano operates in waste collection and transport for approximately one million inhabitants served in the regions Piedmont, Sardinia, Lombardy and Emilia Romagna, with an annual turnover of approximately 65 million euro, making use of 20 operating sites.

CMT operates instead in the treatment of separately-collected waste and paper, cardboard and plastic recycling, at 6 sites in Piedmont and Sardinia.

Treasury share purchase programme

On 5 April 2019, the Board of Directors, acknowledging a shareholders' meeting resolution passed on the same date, gave a mandate to the Chief Executive Officer to launch a treasury share purchase programme for a maximum of 26,000,000 shares, so as, however, not to exceed 2% of the share capital. The Board authorised the CEO to determine the criteria and conditions related to the deeds of sale, disposal and/or use of the treasury shares, having regard to the methods of implementation actually used, the trend in the prices of the shares in the period prior to the transaction and the best interests of the Company.

The first tranche of the purchase programme began, concretely, on 14 May, for a maximum amount of Euro 20,000,000 to be completed within 6 months running from that date. At 31 December 2019 the treasury shares in the portfolio were 3,950,587, corresponding to 0.304% of the share capital.

Shareholders' Meeting of 22 May 2019

On 22 May 2019, the Ordinary Shareholders' Meeting approved the Company's Financial Statements in relation to financial year 2018 and the Directors' Report and resolved to distribute a dividend of 0.084 euro per share, confirming what had been proposed by the Board of Directors. The dividend of 0.084 euro for each ordinary share (with the exclusion of treasury shares) was paid starting from 26 June 2019 (ex-dividend date 24 June 2019 and record date 25 June 2019).

With approval of the financial statements at 31 December 2018 the term of office of the Board of Directors expired. The Shareholders' Meeting therefore proceeded to appoint the new B.o.D., in office for financial years 2019/2020/2021 (expiry: date of approval of the financial statements of financial year 2021), appointing Mr Renato Boero to the position of Chairperson for the same time period.

The Shareholders' Meeting also:

- conferred an appointment on the auditing firm KPMG for the nine years 2021-2029 as provided for in the current legislation;
- approved the first section of the remuneration report;
- determined the annual fee to be paid to the single members of the Board of Directors and the total maximum amount, including the remuneration of those vested with particular duties;
- approved the proposal for a supplement to the fees for the independent auditing appointment for financial years 2018 - 2020.

The new Board of Directors, meeting after this Shareholders' Meeting, proceeded with the appointment of the Deputy Chairperson, in the person of Moris Ferretti, and of the Chief Executive Officer, in the person of Massimiliano Bianco, as well as the attribution of the responsibilities and powers, as provided for in the Articles of Association.

Revolving Credit Facilities (RCFs) linked to sustainability indices

At the end of June 2019 Iren S.p.A. signed with two leading banks the same number of credit lines of the Sustainability-linked revolving credit facility (RCF) type, in the committed form, for a total amount of 150 million euro and with a duration of 3 years. The operation has the aim of consolidating the liquidity profile in support of the current level of rating, and is in addition to Green Bond issues as a sustainable finance instrument adopted by the Group.

The kind of credit facility entered into involves a bonus/penalty mechanism linked to achieving specific environmental sustainability objectives, in relation in particular to separate collection and to the production of electricity from renewable and assimilated sources.

Acquisition of the waste management unit of FG Riciclaggi and of 100% of Ferrania Ecologia (province of Savona)

At the beginning of July 2019, after the preliminary contract signed on 22 May by Iren Ambiente and the companies FG Riciclaggi S.r.l. and Liguria Ecologia S.r.l. (controlled by the Duferco group), the acquisition was completed of 100% the share capital of Ferrania Ecologia S.r.l. (an investee of the said FG Riciclaggi and Liguria Ecologia at 50% each), after equal capital increases in the same through contribution of the business unit of FG related to the waste sector and through a cash payment by Iren Ambiente.

The unit contributed by FG Riciclaggi regards processing activities involving waste from separate collection (in particular plastic and bulky waste, as well as the organic fraction of municipal solid waste) and includes three plants at Cairo Montenotte, Savona and Albenga, while Ferrania Ecologia manages the Cairo Montenotte bio-digester with a capacity of 45,000 tonnes/year, already authorised to double this capacity. The total price for execution of the operation was approximately 6 million euro. The agreement also provides for the signing of a contract with Duferco Engineering for doubling the capacity of the Cairo Montenotte bio-digester.

Entry into a “Climate Action & Circular Economy” loan

On 29 July 2019, Iren S.p.A. signed with the European Investment Bank (EIB) a loan contract for 120 million euro, of the “Climate Action & Circular Economy” type, which is added to the lines already available in being at this bank, and is aimed at supporting the Group’s development programme for the period 2018-2023 as regards investments that come within the scope of the circular economy, decarbonisation and with the objective of “adaptation to climate change”.

The new loan facility, the first in Italy with the specific features described, represents an important contribution to strengthening Iren’s financial structure and consolidates the multi-annual collaboration with the EIB.

Agreement between Iren and SNAM on the sale of the stake held in OLT Offshore LNG Toscana

Following the actions taken to dispose of its equity investment in OLT Offshore LNG Toscana, considered no longer strategic in the context of the Group’s asset portfolio, on 20 September 2019 Iren signed with SNAM an agreement on the transfer to the latter of 49.07% (including the interest held by the associate ASA) of the said OLT.

The agreement provides for a valuation of approximately 400 million euro of the Group’s total investment in the company at 31 December 2017, which includes a shareholders’ loan disbursed by Iren to OLT. This valuation is subject to adjustments upwards and downwards, agreed by the parties, also in relation to repayments of the aforementioned loan already made by OLT after 31 December 2017.

The effectiveness of the transaction is subject to the prior approval of the Antitrust authority and the Government (so-called “Golden Power”) on the subject of assets of strategic significance in the energy sector.

For further developments regarding the transaction, please see the section “Significant events after the reporting period”.

Business plan to 2024

On 25 September 2019, the Board of Directors approved the 2019-2024 Business Plan which, on the one hand, confirms with respect to the previous one the approach and the strategic choices drawn from an analysis of the main trends to 2030, and on the other presents a further increase in investments, with margins which continue the growth recorded over the last few years.

On this subject, the Group is aiming for:

- EBITDA of 1,070 million euro at 2024, thanks to organic growth along internal lines and to the synergies achievable;
- total investments over the period of the plan of 3.3 billion euro, 300 million euro more than the previous business plan. Approximately two thirds of the investments planned (2 billion), are oriented to the regulated sectors in order to expand, modernise and digitalise network services. The remaining third, 1.3 billion, is destined for the development and dimensional growth of the Group in the waste management and district heating segments, gas tender procedures to complete the ATeMs in which Iren is the incumbent and smart solution and digitalisation projects;
- cash generation that makes it possible to achieve a Net Financial Position/EBITDA ratio in 2024 of 2.4x;
- Group net profit of 300 million euro in 2024;
- a planned dividend of 0.092 euro/share for the 2019 result, up 10% compared to the last one distributed. In addition, constant subsequent increases in the order of 10% per year are envisaged, with a dividend of 0.149 euro/share in 2024, confirming the dividend policy announced last year.

Confirming growth as a priority, the Group also identified certain additional strategic options not included in the data of the Plan, but which can be considered on the basis of future developments:

- options for growth along internal lines of around 1 billion euro of investments in new territories related to participation in gas tenders and developing district heating, repowering the Turbigio thermoelectric power station and a number of hydroelectric plants, plans to increase the flexibility of electricity production plants, the development of additional waste treatment plants and a further expansion of the customer base;
- options for growth along external lines (M&A), both of small and medium dimensions, for an additional EBITDA of 100 million euro, and through operations of significant dimensions.

Issue of a third Green Bond of 500 million euro

As part of the existing Euro Medium Term Notes (EMTN) Programme (increased to 2.5 billion euro in September), on 7 October 2019 Iren S.p.A. completed, with full success and for the third consecutive year, the issue and listing of a Green Bond reserved for institutional investors, for an amount of 500 million euro and a duration of 10 years, destined mainly to refinance projects in the areas of energy efficiency, cogeneration combined with district heating and waste water treatment.

The securities, which have a minimum unit price of 100,000 euro and mature on 14 October 2029, pay a gross annual coupon of 0.875%. They were placed at an issue price of 99.345. The effective gross rate of return on maturity is 0.944%, corresponding to a yield of 110 basis points above the 10-year mid-swap rate.

Acquisition of Territorio e Risorse

In October 2019 Iren Ambiente acquired 100% of Territorio e Risorse S.r.l., a company that built and manages a composting plant in the Municipality of Santhià, in the province of Vercelli, which has a processing capacity of 36,000 tonnes a year for a turnover of approximately 2 million euro. The price of the acquisition was 5 million euro. The operation followed on from the preliminary contract signed on 23 July 2019 with EntsorgaFin S.p.A.

The company also holds an authorisation for expansion of the plant, which provides for an increase in the processing potential to a total of 50,000 tonnes. As a consequence of the expansion and of the parallel conversion to anaerobic operation, entailing an additional investment of approximately 10 million euro, the plant will also be able to produce approximately 2.6 million cubic metres per year of biogas.

Acquisition of 23 thousand customers of the electrical market in western Liguria

In November 2019, Iren Mercato, following a public procedure, signed the contract for acquisition of a business unit organised for the performance of the greater protection service of the electrical segment, called “Sanremo Luce”, put up for sale by AMAIE S.p.A., a company of the municipality of Sanremo (province of Imperia). The transfer will come into effect on 1 January 2020. The business unit includes a portfolio of 23,000 customers, for expected consumption of 50 GWh per year.

Increase of the ceiling of the EMTN (Euro Medium Term Notes) Programme

On 28 November 2019, the Board of Directors of Iren S.p.A. resolved a further increase of the ceiling of the EMTN Programme, for the purposes of any future bond issues, up to a total maximum amount of 4 billion euro, thus going above the ceiling of 2.5 billion set in September.

Concession for the construction and management of the Mechanical-Biological Processing plant of Scarpino

On 19 December 2019, Iren Ambiente was awarded the contract in the open procedure organised by AMIU Genoa for attribution of the concession, in a project financing regimen, related to the design, construction, management and operation of a plant for the Mechanical-Biological Processing of residual municipal waste, to be built in the plant Hub in Scarpino (Genoa). The plant, provided for in the Waste Management Plan of the Liguria Region, will have a processing capacity of 100 Ktonnes/year and will have the function of separating the wet fraction from the dry fraction of municipal solid waste, sending them to disposal or recovery, obtaining from the latter secondary solid fuel.

The investment planned is 42 million euro and, at the end of the construction stage, Iren Ambiente will manage the plant for a period of 25 years. On this point, on 21 January 2020 the special purpose entity Rigenera Materiali S.r.l. was set up, with headquarters in Genoa and fully controlled by Iren Ambiente.

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

Income statement

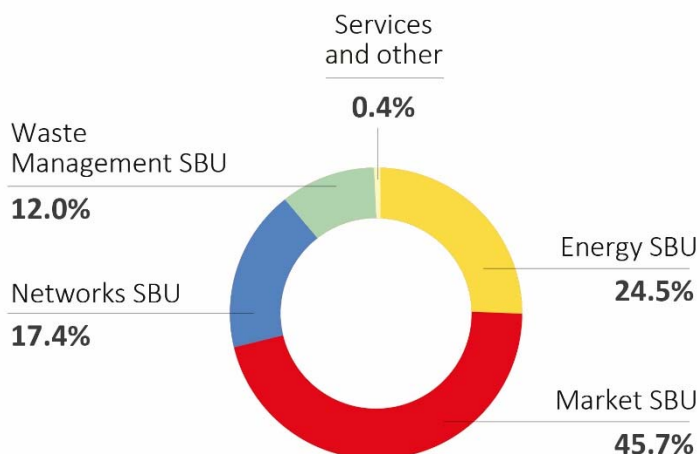
IREN GROUP INCOME STATEMENT

	thousands of euro		
	Financial year 2019	Financial year 2018	Change %
Revenue			
Revenue from goods and services	4,081,333	3,764,302	8.4
Other income	193,373	276,387	(30.0)
Total revenue	4,274,706	4,040,689	5.8
Operating expenses			
Raw materials, consumables, supplies and goods	(1,410,798)	(1,377,066)	2.4
Services and use of third-party assets	(1,458,394)	(1,271,959)	14.7
Other operating expenses	(78,976)	(64,653)	22.2
Capitalised expenses for internal work	33,444	33,198	0.7
Personnel expense	(442,721)	(393,618)	12.5
Total operating expenses	(3,357,445)	(3,074,098)	9.2
GROSS OPERATING PROFIT (EBITDA)	917,261	966,591	(5.1)
Depreciation, amortisation, provisions and impairment losses			
Depreciation and amortisation	(403,262)	(354,947)	13.6
Provisions for impairment of receivables	(37,203)	(52,217)	(28.8)
Other provisions and impairment losses	(24,647)	(28,933)	(14.8)
Total depreciation, amortisation, provisions and impairment losses	(465,112)	(436,097)	6.7
OPERATING PROFIT (EBIT)	452,149	530,494	(14.8)
Financial income and expenses			
Financial income	34,614	42,844	(19.2)
Financial expense	(114,482)	(148,976)	(23.2)
Total financial income and expense	(79,868)	(106,132)	(24.7)
Share of profit (loss) of associates accounted for using the equity method	4,477	776	(*)
Value adjustments on equity investments	558	(35,614)	(*)
Profit (loss) before tax	377,316	389,524	(3.1)
Income tax expense	(111,635)	(116,287)	(4.0)
Net profit (loss) from continuing operations	265,681	273,237	(2.8)
Net profit (loss) from discontinued operations	-	-	-
Net profit (loss) for the period	265,681	273,237	(2.8)
attributable to:			
- Profit (loss) for the period attributable to shareholders	236,578	242,116	(2.3)
- Profit (loss) for the period attributable to minorities	29,103	31,121	(6.5)

(*) Change of more than 100%

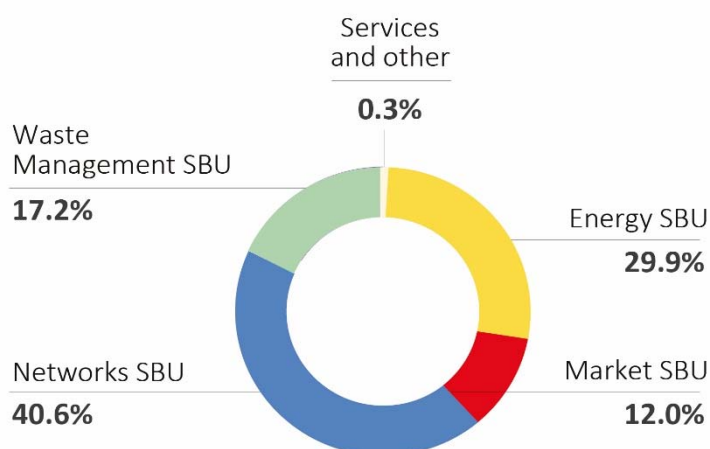
Revenue

At 31 December 2019, the Group achieved revenue of 4,275 million euro, up by 5.8% compared to the 4,041 million euro of financial year 2018. The expansion of the consolidation scope contributed to most to the increase in revenue. In particular, controlling equity interests were acquired in the following entities: the ACAM La Spezia Group and ReCos, consolidated starting from April 2018; Spezia Energy Trading from October 2018; San Germano and CMT from January 2019; as well as other minor equity investments. The increase in turnover was achieved despite financial year 2018 being characterised by significant extraordinary income related to energy efficiency certificates (approximately 60 million euro) and to the revision of the estimate of receivables for invoices to be issued of the Market business unit (approximately 41 million euro). We can note also the expiry, on 1 March 2019, of the incentives (former green certificates), related to the hydroelectric plants of Pont Ventoux and Bussento, which were recognised again in FY 2018 for approximately 32 million euro.



Gross Operating Profit (EBITDA)

Gross operating profit amounted to 917 million euro, down 5.1% compared to the 967 million euro recorded in 2018. The drop in the margin is attributable firstly to the absence of the aforementioned extraordinary income of FY 2018, no longer replicable. Net of these discontinuity effects the gross operating profit would have shown an improvement of 5.9% compared to the comparative period. This improvement regarded all the business lines, with the sole exception of gas sales for which lower margins were recorded as a result of an unfavourable winter thermal season which entailed a reduction in gas volumes sold.



Operating profit (EBIT)

Operating profit totalled 452 million euro, down 14.8% from the figure of 530 million euro in the corresponding period of 2018. Higher depreciation and amortisation of approximately 48 million euro was recorded, mainly in relation to the entry into operation of new investments, expansion of the consolidation scope and the recognition of rights of use following the application of IFRS 16. Lower amounts were set aside as provisions for impairment of receivables for 15 million euro and lower provisions for risks and impairment, net of releases, for 4 million euro.

Financial income and expenses

The economic components of a financial nature showed a balance of net financial expenses of 79.9 million euro, down significantly (-24.7%) compared to the previous financial year.

Analysing the single items, in particular financial expenses amounted to 114.5 million euro (-34.5 million euro compared to 2018, when they came out at 149 million euro). The decrease is attributable to the lower expenses for liability management operations and reinforced by the reduction in the average cost of financial debt, partially offset by the recognition of interest expense, of an accounting nature, related to leases recognised following the adoption of IFRS 16 and by the trend in expenses for the discounting of provisions.

Financial income came out at 34.6 million euro, down from the 42.8 million euro of 2018.

Share of profit (loss) of associates accounted for using the equity method

In the period, the profit of equity-accounted investees was +4.5 million euro (+0.7 million euro in 2018). This result was mainly due to the investees Aguas de San Pedro, ASTEA, ACOS and Acquaenna.

The comparative figure included the portion of the result, which was then negative, of OLT Offshore LNG Toscana, the stake in which, as it is currently recognised under "Assets held for sale", is no longer measured with the equity method.

Value adjustments on equity investments

This item came out in the period at +0.6 million euro. The figure for financial year 2018 (-35.6 million euro) was mostly related to the reduction to zero of the value of the equity investment in OLT Offshore LNG Toscana (-27.7 million), and to the impairment referred to the investees Acque Potabili (-5 million) and AMAT (-2.1 million).

Profit (loss) before tax

As a result of the above trends the consolidated profit before tax came out at 377.3 million euro (389.5 in financial year 2018).

Income tax expense

Income taxes for the period were 111.6 million euro (-4% compared to the previous year) also in relation to the lower profit before tax, with an effective tax rate of 29.6% (29.9% in financial year 2018).

Net profit (loss) for the period

As a consequence of what is presented above, a net profit for the period of 265.7 million euro was recognised; this was slightly down 2.8% compared to the 2018 result influenced by the aforementioned elements of discontinuity, without considering which the net profit would have increased.

The figure is due to the profit pertaining to shareholders of 236.6 million euro, while profit attributable to minorities interests was 29.1 million euro.

Statement of Financial Position

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

	thousands of euro		
	31.12.2019	31.12.2018	Change %
Non-current assets	6,095,998	5,786,294	5.4
Other non-current assets (liabilities)	(444,550)	(431,648)	3.0
Net Working Capital	165,707	132,325	25.2
Deferred tax assets (liabilities)	163,898	148,745	10.2
Provisions for risks and employee benefits	(625,240)	(621,063)	0.7
Assets (Liabilities) held for sale	1,293	524	(*)
Net invested capital	5,357,106	5,015,177	6.8
Equity	2,651,529	2,562,371	3.5
<i>Non-current financial assets</i>	(148,051)	(147,867)	0.1
<i>Non-current financial debt</i>	3,167,048	3,013,303	5.1
Non-current net financial debt	3,018,997	2,865,436	5.4
<i>Current financial assets</i>	(774,583)	(849,993)	(8.9)
<i>Current financial debt</i>	461,163	437,363	5.4
Current net financial debt	(313,420)	(412,630)	(24.0)
Net financial debt	2,705,577	2,452,806	10.3
Own funds and net financial debt	5,357,106	5,015,177	6.8

(*) Change of more than 100%

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

The main changes in the statement of financial position for the period are commented on below.

Non-current assets at 31 December 2019 amounted to 6,096 million euro, up compared to 31 December 2018, when they were 5,786 million euro. The increase of +310 million euro was mainly due to the effect of the following determinants:

- technical investments in property, plant and equipment and intangible assets (+524 million euro), disposals (-6 million euro) and depreciation and amortisation (-403 million euro) in the period;
- The assets at the acquisition date, including goodwill, following the consolidation of:
 - San Germano and CMT with the related vehicles and plants related to the waste management sector (19 million euro);
 - Busseto Servizi, the fixed assets of which consist of the gas network located in the related municipality (4 million euro);
 - Ferrania Ecologia, with the related bio-digester and the waste selection plants contributed by FG Riciclaggi (34 million euro);
 - Territorio e Risorse, which includes a composting plant (6 million euro);
- the application of IFRS 16 – Leases, which entailed the recognition at 1 January 2019 in non-current assets of rented, hired and leased assets for a total of 105 million euro, mostly related to buildings and vehicles functional to the Group's areas of business. The changes in the period related to leases amounted instead to 21 million euro.

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

Other net non-current liabilities increased owing mainly to the long-term portion of deferrals related to connection contributions of the period.

The Net Working Capital increased by 34 million euro (+25.2%), coming out at 166 million euro compared to 132 million euro at 31 December 2018. The increase is essentially attributable to tax components, partially offset by the trend in trade receivables.

“Provisions for Risks and Employee Benefits” amounted to 625 million euro, and were in practice in line compared to the figure of 31 December 2018, in virtue of the changes in the scope and provisions in the period substantially offset by estimate revisions and by the uses made.

Equity amounted to 2,651 million euro, compared to the 2,562 million euro of 31 December 2018 (+89 million euro). The change in the period is mainly related to the effect of the net profit (+266 million euro), the dividends distributed (-150 million euro), the change in the cash flow hedging reserve linked to derivative instruments hedging interest rates and commodities in the portfolio (-15 million euro) and the purchases of treasury shares (-9 million euro).

Net financial debt at the end of the period was 2,706 million euro, an increase of 253 million euro compared to 31 December 2018 (+10.3%). In particular, the increase reflects among other things the effects of the business combinations that occurred in the period and, following the adoption of IFRS 16, of the recognition of the liabilities expressing the discounted future cash flows related to leases held by the Group.

For more details please see the analysis of the statement of cash flows presented below.

STATEMENT OF CASH FLOWS OF THE IREN GROUP

Change in net financial debt

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

	thousands of euro		
	Financial year 2019	Financial year 2018	Change %
A. Opening Net financial (debt)	(2,452,806)	(2,371,785)	3.4
Cash flows from operating activities			
Profit (loss) for the period	265,681	273,237	(2.8)
Adjustments for non-financial movements	718,775	738,824	(2.7)
Utilisations of employee benefits	(10,950)	(16,764)	(34.7)
Utilisations of provisions for risks and other charges	(42,306)	(40,272)	5.1
Change in other non-current assets and liabilities	10,827	13,450	(19.5)
Other changes in capital	(37,635)	(58,329)	(35.5)
Taxes paid	(157,924)	(128,947)	22.5
B. Cash flows from operating activities before changes in NWC	746,468	781,199	(4.4)
C. Cash flows from changes in NWC	(21,817)	(3,302)	(*)
D. Cash flows from/(used in) operating activities (B+C)	724,651	777,897	(6.8)
Cash flows from/(used in) investing activities			
Investments in property, plant and equipment and intangible assets	(523,985)	(446,984)	17.2
Investments in financial assets	(277)	(800)	(65.4)
Proceeds from the sale of investments and changes in assets held for sale	5,955	22,780	(73.9)
Changes in consolidation scope	(64,245)	(231,324)	(72.2)
Dividends received	1,784	3,339	(46.6)
E. Total cash flows from/(used in) investing activities	(580,768)	(652,989)	(11.1)
F. Free cash flow (D+E)	143,883	124,908	15.2
Cash flows from/(used in) financing activities			
Capital increase	-	52,622	(100.0)
Purchases of treasury shares	(9,054)	-	-
Dividends paid	(150,122)	(113,080)	32.8
Interest paid	(109,122)	(113,539)	(3.9)
Interest received	14,398	14,595	(1.3)
Change in fair value of hedging derivatives	(26,006)	(15,945)	63.1
Change in financial payables for leasing	(126,276)	-	-
Other changes	9,528	(30,582)	(*)
G. Total cash flows from/(used in) financing activities	(396,654)	(205,929)	92.6
H. Change in net financial (debt) (F+G)	(252,771)	(81,021)	(*)
I. Closing Net financial (debt) (A+H)	(2,705,577)	(2,452,806)	10.3

(*) Change of more than 100%

The increase in financial debt derives from the following determinants:

- an operating cash flow of +725 million euro, down compared to the comparative period (-6.8%);
- a cash flow from investing activities (-581 million euro) which reflects the technical investments in the period (524 million euro, up significantly compared to the 447 million euro of 2018) and the effect of the consolidation of the companies San Germano, CMT, Busseto Servizi, Ferrania Ecologia and Territorio e Risorse (a total of 64 million euro at the respective acquisition dates, 89 million euro at 31 December 2019). In financial year 2018 this item, of 232 million euro, included mainly the effect of acquisition of the ACAM group;
- the components of the cash flow from financing activities (a total of -397 million euro) refer mostly to the application of IFRS 16 (126 million euro between initial recognition and changes in the period), to the negative change in the fair value of derivative cash flow hedging instruments (-26 million euro), associated with the decrease in interest rates and the trend in commodity purchase prices, and to the dividends paid (150 million euro, an amount higher than the 113 million euro distributed in the previous year).

We can note finally that the statement of cash flows prepared according to the format of a change in cash and cash equivalents is presented in the “Notes to the Consolidated Financial Statements at 31 December 2019”.

SEGMENT REPORTING

The Iren Group identifies the following business segments:

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

For a more uniform presentation of the activities included in Group's operating segments, we can note that, starting from 1 January 2019, the energy efficiency, heat management and public lighting activities were reallocated from the "Services and other" segment to the "Energy" segment.

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

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

Net invested capital compared to the figures at 31 December 2018 and the income statements for financial year 2019 (up to the operating performance) are presented below by business segment, compared with the figures for financial year 2018.

The economic amounts presented below were reallocated, for the comparative periods of 2018, in keeping with the segment structure explained above.

In 2019, non-regulated activities contributed to the formation of gross operating profit for 30% (27% in 2018), regulated activities accounted for 46% substantially in line with 2018, while semi-regulated activities accounted for 24% (28% in 2018).

Statement of financial position by business segment at 31 December 2019

	millions of euro						
	Networks	Waste Management	Energy	Market	Other services	Non-allocable	Total
Non-current assets	2,823	1,031	1,884	175	38	145	6,096
Net Working Capital	(69)	64	87	71	13	-	166
Other non-current assets and liabilities	(603)	(165)	(140)	0	3	-	(905)
Net invested capital (NIC)	2,151	930	1,831	246	54	145	5,357
Equity							2,651
Net financial debt							2,706
Own funds and net financial debt							5,357

Statement of financial position by business segment at 31 December 2018

millions of euro

	Networks	Waste Management	Energy	Market	Other services	Non-allocable	Total
Non-current assets	2,609	946	1,884	146	59	142	5,786
Net Working Capital	(21)	70	66	41	(24)		132
Other non-current assets and liabilities	(610)	(156)	(124)	(7)	(6)		(903)
Net invested capital (NIC)	1,978	860	1,826	180	29	142	5,015
Equity							2,562
Net financial debt							2,453
Own funds and net financial debt							5,015

Income Statement by business segment financial year 2019

millions of euro

	Networks	Waste Management	Energy	Market	Other services	Non-allocable	Total
Total revenue and income	1,046	715	1,473	2,746	22	(1,727)	4,275
Total operating expenses	(673)	(557)	(1,199)	(2,636)	(20)	1,727	(3,358)
Gross Operating Profit (EBITDA)	373	158	274	110	2	-	917
Net am./depr., provisions and impairment losses	(175)	(102)	(134)	(53)	(1)		(465)
Operating profit (EBIT)	198	56	140	57	1	-	452

Income Statement by business segment financial year 2018

millions of euro

	Networks	Waste Management	Energy	Market	Other services	Non-allocable	Total
Total revenue and income	947	610	1,412	2,602	17	(1,547)	4,041
Total operating expenses	(606)	(454)	(1,082)	(2,463)	(16)	1,547	(3,074)
Gross Operating Profit (EBITDA)	342	155	330	139	1	-	967
Net am./depr., provisions and impairment losses	(166)	(80)	(136)	(53)	(1)		(436)
Operating profit (EBIT)	176	75	194	86	0	-	530

Networks SBU

At 31 December 2019 the Networks business segment, which comprises the businesses of Gas distribution, Electricity and the Integrated Water Service, recorded revenue of 1,046 million euro, up by +10.5%, compared to the 947 million euro in financial year 2018. Contributing to the increase in revenue were the consolidation of ACAM Acque, operating in La Spezia and its province, starting from April 2018, and of Busseto Servizi (Parma) starting from January 2019.

The gross operating profit (EBITDA) amounted to 373 million euro, up +9.0% on the 342 million euro for financial year 2018, while net operating profit (EBIT) was 198 million euro, an increase of +12.5% compared to 176 million euro in financial year 2018.

The positive trend in gross operating profit (EBITDA) was partially absorbed by higher amortisation and depreciation for around 9 million euro, related to the increase in technical investments and the widening of the consolidation scope, and higher net provisions for risks of around 2 million euro.

		Financial Year 2019	Financial Year 2018	Δ %	
Revenue	€/mln	1,046	947	10.5%	
Gross Operating Profit (EBITDA)	€/mln	373	342	9.0%	
<i>EBITDA Margin</i>		<i>35.6%</i>	<i>36.1%</i>		
	<i>from Electricity Networks</i>	€/ <i>mln</i>	75	74	1.9%
	<i>from Gas Networks</i>	€/ <i>mln</i>	89	80	10.4%
	<i>from Integrated Water Service</i>	€/ <i>mln</i>	209	188	11.2%
Operating Profit (EBIT)	€/mln	198	176	12.5%	
Investments	€/mln	289	268	8.0%	
	<i>in Electricity Networks</i>	€/ <i>mln</i>	49	44	11.8%
	<i>in Gas Networks</i>	€/ <i>mln</i>	54	59	-9.6%
	<i>in Integrated Water Service</i>	€/ <i>mln</i>	186	165	13.3%
Electricity distributed	GWh	3,819	3,836	-0.4%	
Gas introduced into the network	Million m ³	1,289	1,303	-1.1%	
Water sold	Million m ³	181	187	-3.0%	

The changes in gross operating profit for the segments concerned are illustrated below.

Networks SBU - Electricity

Gross operating profit (EBITDA) amounted to 75 million euro, up +1.9% from the 74 million euro of financial year 2018.

The increase in the profit was mainly due to an improvement in the tariff revenue constraint (VRT).

During the period investments for 49 million euro were made, up by +11.8% compared to the 44 million euro of 2018. They were mainly related to new connections, to the construction of new LV/MV substations and lines, as well as to the completion of a number of primary substations.

Networks SBU - Gas Distribution

The gross operating profit of gas distribution amounted to 89 million euro, up +10.4% compared to the 80 million euro of financial year 2018. The increase in the profit was mainly due to an improvement in the tariff revenue constraint (VRT) and to an increase in revenue for work and to synergies.

Investments made in the period amounted to 54 million euro, down by 9.6% compared to the 59 million euro of financial year 2018, and regarded the provisions of ARERA resolutions, in particular making the network compliant with cathodic protection, and the installation of electronic meters.

Networks SBU - Water Cycle

The gross operating profit of the period amounted to 209 million euro, up by +11.2% compared to 188 million euro in financial year 2018. The increase in the profit is mainly attributable to the consolidation of ACAM Acque starting from 1 April 2018, to the increase in the tariff revenue constraint (VRG) and to greater synergies on operating costs. In addition in the year significant contingent assets emerged; these were associated with a release of provisions for risks related to tariff adjustments of the period 2007 – 2011 and with an insurance indemnity following extraordinary events.

Investments in the period totalled 187 million euro, up by +13.3% compared to the 165 million euro of financial year 2018 and concerned the construction, development and maintenance of distribution networks and plants, the sewerage network and, in particular, the construction of new water treatment plants and to the replacement and installation of mainly remote-reading metering units.

Waste Management SBU

At 31 December 2019 the revenue of the segment amounted to 715 million euro, up +17.2% from the 610 million euro of financial year 2018. The increase in revenue is attributable for around 87 million euro to expansion of the consolidation scope related to ACAM Ambiente and ReCos (13 million euro), starting from April 2018; San Germano and CMT from January 2019 (69 million euro); and Ferrania Ecologia from July 2019 (5 million euro), as well as to higher revenue from special waste intermediation (15 million euro) and to an increase in disposal revenue (5 million euro). Lower energy revenue of approximately 4 million euro was also recognised.

		Financial Year 2019	Financial Year 2018	Δ %
Revenue	€/mln	715	610	17.2%
Gross Operating Profit (EBITDA)	€/mln	158	155	1.8%
<i>EBITDA Margin</i>		22.1%	25.5%	
Operating Profit (EBIT)	€/mln	56	75	-25.9%
Investments	€/mln	72	31	(*)
Electricity sold	GWh	507	486	4.5%
Thermal energy produced	GWh _t	173	177	-2.1%
Waste managed	tonnes	2,835,309	2,268,791	25.0%
Emilia area separate waste collection	%	77.0%	74.2%	3.7%
Piedmont area separate waste collection	%	54.8%	47.3%	15.9%
Liguria area separate waste collection	%	74.1%	68.2%	8.6%

(*) Change of more than 100%

Gross operating profit of the segment amounted to 158 million euro, an improvement of +1.8% compared to the 155 million euro recorded in 2018. The improvement in the profit is attributable mainly to the positive contribution of waste collection activities, owing also to the expansions of the Group's perimeter deriving from the consolidation of ACAM Ambiente and San Germano. As regards disposal activities the margin decreased owing mainly to the drop in the price (of approximately 15%) of the electricity produced by waste-to-energy plants, only partially offset by the increase in volumes disposed of in the Group's plants and by the increase in market prices related to the disposal of special waste.

The operating profit amounted to 56 million euro down -25.9% compared to the 75 million euro recorded in financial year 2018. The positive trend in gross operating profit was absorbed by higher depreciation and amortisation for approximately 9 million euro, in part correlated to the expansions of the perimeter, as well

as 9 million euro for the impairment of portions of goodwill related to plants and to higher provisions of 3.5 million euro (1.5 million of additional provisions for dismantling of the former incinerator plant of Reggio Emilia and 2 million for others).

The investments made in the period amounted to 72 million euro, up compared to the 31 million euro of financial year 2018 and refer to investments for the maintenance of various plants and investments in equipment and vehicles supporting waste collection based on the door-to-door and separation method.

Energy SBU

Starting from 1 January 2019 the energy segment includes the heat management, public lighting and energy efficiency activities which in the previous year were included in other services. For comparative purposes the pro-forma figures for 2018 were also calculated for the new composition of activities of the energy segment.

At 31 December 2019 the revenue of the Energy SBU amounted to 1,473 million euro, an increase of +4.3% compared to the 1,412 million euro of financial year 2018 owing mainly to the effect of the greater electricity production.

		Financial Year 2019	Financial Year 2018	Δ %
Revenue	€/mln	1,473	1,412	4.3%
Gross Operating Profit (EBITDA)	€/mln	274	330	-17.0%
<i>EBITDA Margin</i>		18.6%	23.4%	
Operating Profit (EBIT)	€/mln	140	194	-27.9%
Investments	€/mln	66	80	-16.6%
Electricity produced	GWh	9,712	8,371	16.0%
<i>from hydroelectric and other renewable sources</i>	GWh	1,321	1,496	-11.7%
<i>from cogeneration sources</i>	GWh	5,920	5,692	4.0%
<i>from thermoelectric sources</i>	GWh	2,471	1,183	(*)
Heat produced	GWh _t	2,821	2,755	2.4%
<i>from cogeneration sources</i>	GWh _t	2,381	2,255	5.6%
<i>from non-cogeneration sources</i>	GWh _t	440	500	-12.0%
District heating volumes	Million m ³	95.0	93.8	1.3%

(*) Change of more than 100%

At the same date, the electricity produced was 9,712 GWh, up by 16% compared to 8,371 GWh in financial year 2018. The increase in production regarded thermoelectric generation and cogeneration while hydroelectric production fell by 11.7%.

Total thermoelectric production was 8,391 GWh, of which 5,920 GWh from cogeneration sources, up 4% compared to the 5,692 GWh of financial year 2018 and 2,471 GWh from conventional thermoelectric sources, sharply up compared to the 1,183 GWh of financial year 2018.

Production from renewable sources was 1,321 GWh, of which 1,300 GWh deriving from hydroelectric sources and, marginally for approximately 21 GWh, from other renewables (photovoltaic); overall production was down by 11.7% compared to the 1496 GWh of financial year 2018 as a result of the extraordinary rainfall that had characterised May and June 2018.

Heat production in the period was 2,821 GWh_t, up 2.4% compared to the 2,755 GWh_t of the previous year. Overall district heating volumes amounted to approximately 95 million m³ up by 1.3% compared to the 94 million m³ of 2018. The figures include the volumes managed thanks to rental of the business unit of SEI Energia.

Gross operating profit (EBITDA) amounted to 274 million euro, down 17% compared to the 330 million euro recorded in financial year 2018. The significant drop in profit is attributable mainly to the absence of the

extraordinary recognition in 2018 of approximately 60 million euro of previous energy efficiency certificates and, in addition, to the expiry on 1 March 2019 of the incentives (former green certificates), related to the hydroelectric plants of Pont Ventoux and Bussento, recognised for FY 2018, of approximately 32 million euro.

Excluding from the comparative figure the effect of these factors of operating discontinuity the gross operating profit would show an improvement of 15.1% compared to the 238 million euro of 2018 restated. Financial year 2019 was characterised by a trend in the average electricity price of the period (SNP) of 52.3 euro/MWh lower on average compared to the 61.3 euro/MWh of FY 2018 and by a sharp increase in the prices of ETS certificates, which went up from a figure of 14.49 (euro/t) to 20.43 (euro/t)(+40%). Despite this energy scenario, the drop in gas prices, thanks also to a particularly mild winter thermal season, entailed an increase in the margins of thermoelectric generation. This made it possible to absorb the lower margins of dispatching services (DSM) and the negative balance of energy certificates (ETCs and EECs). Contributing to the improvement in the profit were the recognition of a number of items related to energy certificates of previous years and to recognition of “capacity payment” prices, besides the activities of the district heating sector linked to rental of the SEI Energia business unit and to development of energy efficiency activities.

The operating profit (EBIT) of the energy segment totalled 140 million euro, down by 27.9% compared to the 194 million euro of the corresponding period of 2018. Excluding the factors of discontinuity highlighted, the operating profit (EBIT) would show an improvement of 37.2% compared to the 102 million euro of 2018 restated for this purpose. The depreciation and amortisation of the period showed an increase of approximately 12 million euro compared to financial year 2018 and there were also lower provisions of approximately 11 million euro.

Investments in the period amounted to 66 million euro, down 16.6% from the 80 million euro of financial year 2018.

Market SBU

At 31 December 2019, the revenue of the segment amounted to 2,746 million euro, up 5.5% from the 2,602 million euro of financial year 2018. We can note that, in October 2018, the company Spezia Energy Trading came into the consolidation scope of the Market SBU.

Gross operating profit (EBITDA) amounted to 110 million euro, down 20.6% compared to the 139 million euro recorded in financial year 2018. The drop in gross operating profit is attributable to the fact that FY 2018 benefited from contingent assets of approximately 41 million euro attributable to the revision of the estimate of receivables for invoices to be issued of which most related to gas sales. Excluding this extraordinary item, the gross operating profit would show an improvement of 12.9% compared to the 98 million euro of 2018 (pro-forma figure net of this extraordinary income). This improvement is attributable to the sale of electricity that shows higher quantities sold and a sharp improvement in the unit margins of sale. The gross operating profit of gas sales fell owing to an unfavourable winter thermal season and a worsening of margins as a consequence of a particularly volatile energy scenario.

The operating profit (EBIT) was 57 million euro, down 33.1% compared to the 86 million euro recorded in financial year 2018. Excluding the discontinuity factor noted, the profit would have improved by 28.4% compared to 45 million euro of 2018 recalculated. Higher depreciation and amortisation of approximately 6 million euro and lower provisions for the impairment of receivables of approximately 5 million euro were recorded.

		Financial Year 2019	Financial Year 2018	Δ %	Financial year 2018 adjusted	Δ adj %
Revenue	€/mln	2,746	2,602	5.5%	2,561	7.2%
Gross Operating Profit (EBITDA)	€/mln	110	139	-20.6%	98	12.9%
<i>EBITDA Margin</i>		4.0%	5.3%		3.8%	
<i>from Electricity</i>	€/mln	35	21	65.8%	19	85.8%
<i>from Gas</i>	€/mln	71	126	-43.2%	77	-7.2%
<i>from Other sales services</i>	€/mln	4	-8	(*)	2	94.9%
Operating Profit (EBIT)	€/mln	57	86	-33.1%	45	28.4%
Investments		40	31	28.5%		
Electricity Sold	GWh	9,452	8,936	5.8%		
Gas Purchased	Million m ³	3,014	2,845	6.0%		
<i>Gas sold by the Group</i>	Million m ³	1,061	1,160	-8.5%		
<i>Gas for internal use</i>	Million m ³	1,764	1,477	19.5%		
<i>Gas in storage</i>	Million m ³	189	209	-9.5%		

(*) Change of more than 100%

Sale of electricity

The volumes of electricity sold amounted to 9,452 GWh (net of pumping, network leaks, dedicated withdrawals and including balancing) up by 5.8% compared to the 8,936 GWh of financial year 2018.

Volumes sold on the free market, including the segments of business, small business, retail and wholesale customers, amounted to a total of 9,033 GWh, up 6.9% compared to 8,448 GWh in 2018. The increase in free-market sales is attributable mainly to the wholesale segment, for which sales came to 2,775 GWh, up by 83% compared to 1,516 GWh in financial year 2018. As regards final customers, the small business segment increased, amounting to 1,201 GWh compared to the 264 GWh of 2018 as did the retail segment at 1,554 GWh compared to the 1,482 GWh of 2018 (+4.8%), while the business segment decreased to 3,503 GWh compared to the 5,185 GWh of 2018 (-33.4%).

Sales in the protected market amounted to 414 GWh, down 15.2% compared to 483 GWh in the corresponding period of 2018.

The gross operating profit (EBITDA) of electricity sales amounted to 35 million euro, an improvement of 65.8% compared to the 21 million euro of financial year 2018. Net of the extraordinary component the 2018 profit recalculated amounted to 19 million euro. The improvement in the result can be attributed to the improvement of the margins, an increase in the quantities sold and an increase in the portion of recognised free customer (PCV) sales. This made it possible to absorb the contingent liabilities of certain adjustments and tariff recognitions on 2018 of the component related to arrears. The acquisition of Spezia Energy Trading contributed to the improvement of the profit starting from October 2018.

Sale of Natural Gas

The volumes purchased amounted to 3,014 million m³, up by 6% compared to the 2,845 million m³ of financial year 2018.

The gas sold by the group amounted to 1,061 million m³, down by 8.5% compared to the 1,160 million m³ of 2018, while gas used for internal consumption was 1,764 million m³, up 19.5% compared to 1,477 million m³ of financial year 2018.

Gross operating profit (EBITDA) of gas sales amounted to 71 million euro, down 43.2% compared to the 126 million euro of financial year 2018. Net of the extraordinary component related to the revision of the estimate of receivables for invoices to be issued and from which the previous year had benefited, the drop in profit amounted to -7.2% compared to the 77 million of 2018 recalculated. This drop is attributable mainly to a less favourable winter thermal season compared to 2018, which entailed a significant reduction

in volumes sold. There was also a negative change connected with non-replicable positive tariff adjustments accounted for by Salerno Energia Vendite in financial year 2018.

Sales of heat and other services

The sale of heat and other services resulted in a gross operating profit (EBITDA) of 4 million euro, compared to the -8 million euro of financial year 2018. Financial year 2018 was characterised by a contingent liability of approximately 10 million euro for a revision of the estimate of receivables for invoices to be issued. Net of this contingency the increase of 2019 would have amounted to approximately 2 million euro, owing mainly to the development of the new “New Downstream” business line.

Investments in the period amounted to 40 million euro, up compared to the 31 million euro of financial year 2018 and related to the costs of acquiring new customers.

Services and other

At 31 December 2019 revenue of the segment, which includes the activities of the analysis laboratories, telecommunications and other minor activities, was 22 million euro, up by 35.5% compared to the 17 million euro recorded of financial year 2018.

		Financial Year 2019	Financial Year 2018	Δ %
Revenue	€/mln	22	17	35.5%
Gross Operating Profit (EBITDA)	€/mln	2	1	(*)
<i>EBITDA Margin</i>		9.1%	4.9%	
Operating Profit (EBIT)	€/mln	1	0	(*)
Investments	€/mln	56	37	50.6%

(*) Change of more than 100%

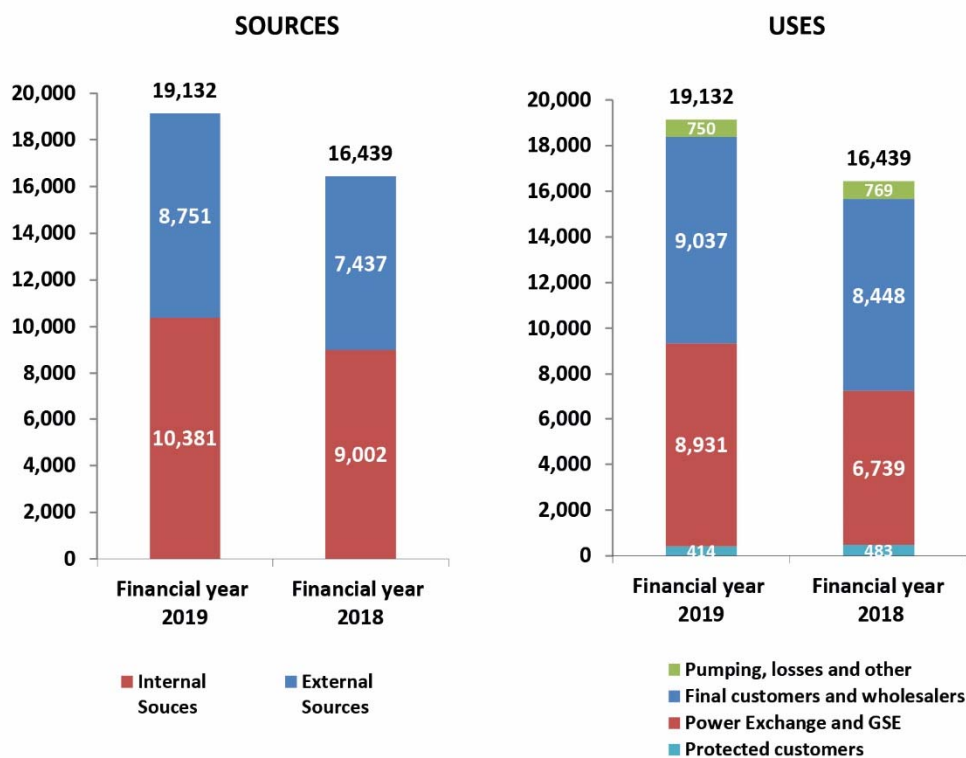
Gross operating profit amounted to 2 million euro, an improvement on the 1 million euro of 2018. Investments in the period amounted to 56 million euro, up compared to the 37 million euro of 2018, and related largely to corporate activities: information systems, vehicles and property services.

ENERGY BALANCES

Electricity balance sheet

GWh	Financial Year 2019	Financial Year 2018	Δ %
SOURCES			
The Group's gross production	10,381	9,002	15.3%
<i>a) Hydroelectric and other renewables</i>	1,352	1,528	-11.5%
<i>b) Cogeneration</i>	5,920	5,692	4.0%
<i>c) Thermoelectric</i>	2,471	1,183	(*)
<i>d) Production from WTE plants and landfills</i>	638	599	6.5%
Purchases from Acquirente Unico [Single Buyer]	458	533	-14.2%
Energy purchased on the Power exchange	7,706	5,189	48.5%
Energy purchased from wholesalers and imports	588	1,715	-65.7%
Total Sources	19,132	16,439	16.4%
USES			
Sales to protected customers	414	483	-14.2%
Sales on the Power exchange	8,931	6,739	32.5%
Sales to final customers and wholesalers	9,037	8,448	7.0%
Pumping, distribution losses and other	750	769	-2.6%
Total Uses	19,132	16,439	16.4%

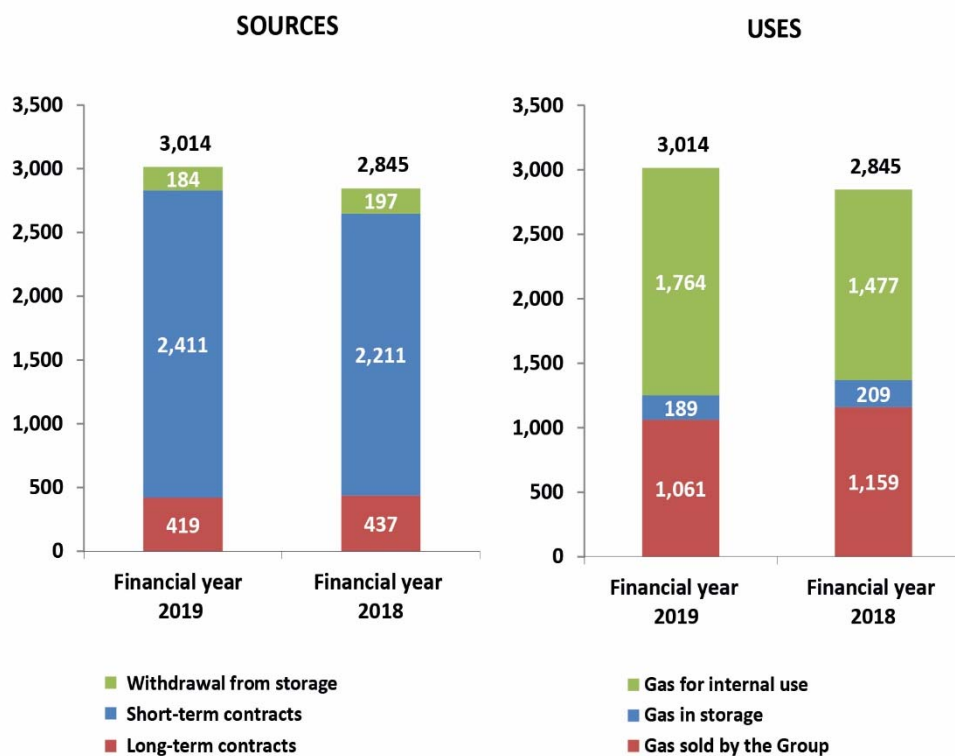
(*) Change of more than 100%



Gas balance sheet

Millions of m ³	Financial Year 2019	Financial Year 2018	Δ %
SOURCES			
Long-term contracts	419	437	-4.1%
Short- and medium-term contracts	2,411	2,211	9.1%
Withdrawals from storage	184	197	-6.5%
Total Sources	3,014	2,845	6.0%
USES			
Gas sold by the Group	1,061	1,160	-8.5%
Gas for internal use ⁽¹⁾	1,764	1,477	19.5%
Gas in storage	189	209	-9.5%
Total Uses	3,014	2,845	6.0%

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



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

Income statement

INCOME STATEMENT OF IREN S.p.A.

	thousands of euro		
	Financial year 2019	Financial year 2018	Change %
Revenue			
Revenue from goods and services	198,929	179,288	11.0
Other income	14,712	11,850	24.2
Total revenue	213,641	191,138	11.8
Operating expenses			
Raw materials, consumables, supplies and goods	(34,947)	(17,790)	96.4
Services and use of third-party assets	(112,745)	(106,372)	6.0
Other operating expenses	(7,870)	(7,203)	9.3
Capitalised expenses for internal work	24,438	10,369	(*)
Personnel expense	(70,046)	(78,239)	(10.5)
Total operating expense	(201,170)	(199,235)	1.0
Gross Operating Profit (EBITDA)	12,471	(8,097)	(*)
Depreciation, amortisation, provisions and impairment losses			
Depreciation and amortisation	(26,602)	(14,945)	78.0
Provisions for impairment of receivables	(350)	(9,600)	(96.4)
Other provisions and impairment losses	8,127	(55)	(*)
Total depreciation, amortisation, provisions and impairment losses	(18,825)	(24,600)	(23.5)
Operating profit (EBIT)	(6,354)	(32,697)	(80.6)
Financial income and expenses			
Financial income	331,644	265,480	24.9
Financial expense	(87,110)	(126,831)	(31.3)
Total financial income and expense	244,534	138,649	76.4
Value adjustments on equity investments	-	-	-
Profit (loss) before tax	238,180	105,952	(*)
Income tax expense	3,234	19,976	(83.8)
Net profit (loss) from continuing operations	241,414	125,928	91.7
Net profit (loss) from discontinued operations	-	-	-
Net profit (loss) for the period	241,414	125,928	91.7

(*) Change of more than 100%

Revenue

Total revenue for Iren S.p.A. was 213.6 million euro (up compared to the 191.1 million of 2018), primarily relating to activities for technical/administrative and IT services provided to Group companies. The composition of the item includes throughout the year the corporate services deriving from the operation for the merger by incorporation of the companies ACAM and InTeGra effective from April 2018, provided to the operating companies in La Spezia, as well as those provided to the new companies acquired by the Group.

Operating expense

Operating expenses were 201.1 million euro, substantially in line with the figure for financial year 2018 (199.2 million euro). The increase compared to the previous year of the costs for raw materials, services and use of third-party assets, net of capitalisations of internal costs, is mainly attributable to management of staff activities in favour of Group companies, and is also affected by the change in the perimeter due to the merger of ACAM and InTeGra and by the costs for IT services and equipment.

We can note also that in 2018 the item "Services and use of third-party assets" included costs for property leases (in particular rental of the executive buildings of the Core Multiutilities Fund) and for vehicle hire, for approximately 10 million euro. These expenses, starting from 1 January 2019, and not restated for the comparative period, are no longer recognised in the income statement and, in application of IFRS 16, the liabilities and rights of use inherent in the assets to which they refer are recognised in the balance sheet.

The decrease in personnel expenses (-10.5%) is related to the lower expenses set aside for employee retirement incentive schemes compared to the previous year.

Depreciation, amortisation, provisions and impairment losses

Depreciation, amortisation, provisions and impairment losses amounted to 18.8 million euro.

Depreciation and amortisation, which came out at 26.6 million compared to the 14.9 million of the previous year, include the portions accruing of expenses related to assets in right of use recognised starting from 1 January 2019 in accordance with IFRS 16, which mostly account for the increase in the item.

Net releases of provisions, of 8.1 million, were mainly associated with the cessation of risks for expenses related to the executive properties rented by the property fund, owing to the high probability of exercise of the related redemption option.

Financial income and expenses

The balance between financial income and expense was positive at 244.5 million euro.

Analysing the breakdown of the items, financial income, of 331.6 million euro, includes mainly the dividends of subsidiaries (266.5 million, +66 million compared to 2018), and interest income on loans to subsidiaries, associates and joint ventures (62.9 million).

Financial expenses were 87.1 million euro, and refer essentially to interest expense on loans and bonds. The significant decrease compared to the figure for 2018, when they were 126.8 million, is attributable to the lower expenses for liability management operations, reinforced by the reduction in the average cost of financial debt and partially offset by the recognition of interest expense, of an accounting nature, related to leases recognised following the adoption of IFRS 16.

Profit (loss) before tax

As a consequence of the trends illustrated above, the profit before tax was 238.1 million euro, significantly higher compared to the 105.9 million of financial year 2018.

Income tax expense

Income taxes were positive (3 million euro), owing to a negative taxable income deriving from the non-taxability of 95% of the dividends received.

The Company opted for participation in the national consolidation tax scheme pursuant to Art. 118 of the Consolidated Income Tax Act (TUIR) and calculates Group IRES on a taxable base corresponding to the algebraic sum of taxable profits/losses of each company included in the consolidation scope. In addition, as provided for in the Intragroup Regulation, the receivables and interest expense transferred and covered by fiscal Rol are remunerated.

Net profit

Including taxes for the year, there was a profit of 241.4 million euro.

Statement of Financial Position

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

	thousands of euro		
	31.12.2019	31.12.2018	Change %
Non-current assets	2,770,445	2,637,590	5.0
Other non-current assets (liabilities)	(8,902)	65	(*)
Net Working Capital	61,576	63,250	(2.6)
Deferred tax assets (liabilities)	12,760	12,756	0.0
Provisions for risks and employee benefits	(37,411)	(57,046)	(34.4)
Assets (liabilities) held for sale	240	240	-
Net invested capital	2,798,708	2,656,855	5.3
Equity	1,908,159	1,789,787	6.6
<i>Non-current financial assets</i>	<i>(1,810,266)</i>	<i>(1,620,371)</i>	<i>11.7</i>
<i>Non-current financial debt</i>	<i>2,835,231</i>	<i>2,676,602</i>	<i>5.9</i>
Non-current net financial debt	1,024,965	1,056,231	(3.0)
<i>Current financial assets</i>	<i>(621,458)</i>	<i>(675,421)</i>	<i>(8.0)</i>
<i>Current financial debt</i>	<i>487,042</i>	<i>486,258</i>	<i>0.2</i>
Current net financial debt	(134,416)	(189,163)	(28.9)
Net financial debt	890,549	867,068	2.7
Own funds and net financial debt	2,798,708	2,656,855	5.3

(*) Change of more than 100%

(1) For a reconciliation of the reclassified statement of financial position with that of the financial statements, please refer to the specific annex to the Separate Financial Statements

The main items of the statement of financial position subject to significant changes in the period are commented on below.

Non-current assets at 31 December 2019 amounted to 2,770 million euro, up compared to 31 December 2018, when they were 2,638 million euro. The increase of 133 million euro was mainly due to the effect of the following determinants:

- Technical investments in property, plant and equipment and intangible assets (+47 million), mostly related to IT equipment, as well as executive properties purchased by Group companies, disposals (-3 million) and depreciation and amortisation (-27 million) in the period;
- the application of IFRS 16 – Leases, which entailed the recognition at 1 January 2019 in non-current assets of rented, hired and leased assets for a total of 94 million euro, mostly related to buildings and vehicles functional to the company's service activities. The changes related to leases in the period amounted instead to 21 million euro.

The change in Net other non-current liabilities compared to 31 December 2018 was essentially due to the factoring operation with derecognition of the tax credits accrued following the application for deduction of IRAP from the IRES taxable base.

“Provisions for Risks and Employee Benefits” amounted to 37 million euro (-20 million compared to 31 December 2018). The decrease in the item was a result essentially of releases made following the cessation of risks for expenses related to the executive properties rented and to payments to the retirement incentive plan for personnel set aside in previous years.

Equity amounted to 1,908 million euro, compared to the 1,790 million euro of 31 December 2018 (+118 million euro). The change in the period is mainly related to the effect of the net profit (+241 million euro), dividends distributed (-109 million euro), the change in the cash flow hedging reserve linked to derivative instruments hedging interest rates (-4 million euro) and purchases of treasury shares (-9 million euro).

Net financial debt at the end of the period was 891 million euro, an increase of 24 million euro compared to 31 December 2018 (+2.7%). The increase reflects, among other things, the adoption of IFRS 16 as regards the recognition of the liabilities expressing the discounted future cash flows related to leases held by the Group, in part offset by the operating cash flow and by higher dividends received. For more details please see the analysis of the statement of cash flows presented below.

STATEMENT OF CASH FLOWS OF IREN S.P.A.

Change in net financial debt

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

	thousands of euro		
	Financial year 2019	Financial year 2018	Change %
A. Opening Net financial (debt)	(867,068)	(872,736)	(0.6)
Cash flows from operating activities			
Profit (loss) for the period	241,413	125,928	91.7
Adjustments for non-financial movements	(229,907)	(126,252)	82.1
Utilisations of employee benefits	(1,494)	(2,653)	(43.7)
Utilisations of provisions for risks and other charges	(8,557)	(2,968)	(*)
Change in other non-current assets and liabilities	8,967	(699)	(*)
Other changes in capital	-	-	-
Taxes paid	15,552	8,862	75.5
B. Cash flows from operating activities before changes in NWC	25,974	2,218	(*)
C. Cash flows from changes in NWC	(9,421)	(6,249)	50.8
D. Cash flows from/(used in) operating activities (B+C)	16,553	(4,031)	(*)
Cash flows from/(used in) investing activities			
Investments in property, plant and equipment and intangible assets	(46,681)	(27,156)	71.9
Investments in financial assets	(50)	-	-
Proceeds from the sale of investments and changes in assets held for sale	756	-	-
Change in company perimeter	-	(53,794)	(100.0)
Dividends received	266,515	200,560	32.9
E. Total cash flows from/(used in) investing activities	220,540	119,610	84.4
F. Free cash flow (D+E)	237,093	115,579	(*)
Cash flows from/(used in) financing activities			
Capital increase	-	52,623	(100.0)
Purchases of treasury shares	(9,054)	-	-
Dividends paid	(108,994)	(91,065)	19.7
Interest paid	(90,710)	(94,220)	(3.7)
Interest received	50,320	64,514	(22.0)
Change in fair value of hedging derivatives	(5,392)	(853)	(*)
Change in financial liabilities for leasing	(115,297)	-	-
Other changes	18,553	(40,910)	(*)
G. Total cash flows from/(used in) financing activities	(260,574)	(109,911)	(*)
H. Change in net financial (debt) (F+G)	(23,481)	5,668	(*)
I. Closing Net financial (debt) (A+H)	(890,549)	(867,068)	2.7

(*) Change of more than 100%

The change in financial debt derives from the following determinants:

- operating cash flow of +17 million euro;
- a cash flow from investing activities (+221 million euro) which includes dividends received from subsidiaries (267 million, up compared to the previous year) and technical investments in the period (-47 million, more than the 27 million of 2018);

- the components of the cash flow from financing activities (a total of -261 million euro) refer mostly to the application of IFRS 16 in financial year 2019 (-115 million between initial recognition and changes in the period) and to dividends paid (109 million, an amount higher than the 91 million distributed in the previous year).

We can note finally that the statement of cash flows prepared according to the format of a change in cash and cash equivalents is presented in the Separate Financial Statements at 31 December 2019.

The following table reconciles equity and the result of the Parent Company Iren S.p.A. at 31 December 2019 and 31 December 2018 with those of the consolidated financial statements.

	thousands of euro	
31/12/2019	Shareholders' Equity	Profit (loss) for the period
Shareholders' equity and profit for the year of the Parent Company	1,908,159	241,413
Difference between the carrying amount and value of equity-accounted associates	36,695	4,121
Higher value from consolidation compared to the carrying amount of consolidated equity investments	361,667	244,449
Elimination of dividends from subsidiaries/associates	0	(266,513)
Elimination of intra-group margins	(50,908)	2,647
Others	32,160	10,461
Equity attributable to shareholders and profit for the year	2,287,773	236,578

“Elimination of intra-group margins” refers to the elimination of capital gains from the sale of business units or companies within the Group. In particular, it is worth noting the transaction related to the Genoa integrated water cycle carried out by the former AMGA (positive effect of 2.6 million euro on the income statement and negative by 33.8 million euro on Equity).

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

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD AND BUSINESS OUTLOOK

Manifestation of interest for the acquisition of the gas sales business unit of Sidigas.com

In January 2020 SI.DI.GAS – Società Iripina Distribuzione GAS S.p.A. accepted the binding manifestation of interest presented by Iren regarding the acquisition of a business unit of its subsidiary Sidigas.com S.r.l. related to natural gas sales, with a portfolio of approximately 55 thousand customers (95% of which in the retail segment), distributed over 78 Municipalities mainly in the Province of Avellino.

The operation is subordinated to fulfilment of a number of conditions precedent, on fulfilment of which – in the meantime contributed to a newly-incorporated vehicle company (NewCO) – it will be acquired by an Iren S.p.A. subsidiary. In this regard, SIDIGAS S.p.A. and Iren agreed a period of exclusive rights for finalising the operation.

Binding agreement with Idealservice for acquisition of 80% of I.Blu and for a partnership in environmental services

On 29 January 2020 Iren S.p.A. signed a Preliminary Agreement with Idealservice in order to acquire (through Iren Ambiente) 80% of the share capital of I.Blu, which operates:

- in the selection of plastic waste to be sent for recovery and recycling, mostly of the Corepla Consortium circuit, in two plants with a total capacity of 200 Ktonnes/year and
- In the processing of plastic waste for the production of Blupolymer (a polymer for civil uses) and Bluair (“reducing agent” for steel-making plants).

Besides this, the Preliminary Agreement provides, among other things, for the definition of a partnership with Idealservice for the management of municipal solid waste collection services in certain areas of Northern Italy.

The price of the transaction is 16 million euro. The 2019 pro-forma economic results of the business being acquired present turnover of 46 million and an EBITDA of 7.5 million.

The signing of the Definitive Agreement is conditional on the fulfilment of the conditions precedent and on reaching full agreement on all the detailed terms and conditions of the operation.

The operation will enable Iren to become the national leader in the selection of Corepla plastics and, prospectively, in the treatment of so-called plasmix, heterogeneous plastics that currently do not have an outlet in the recycling market downstream of separate collection.

Completion of the disposal of the stake in OLT Offshore LNG Toscana

To complete the operation highlighted in the “Significant events of the period” and following receipt of the authorisations from the competent authorities, on 26 February 2020 the Group transferred to SNAM 49.07% of OLT Offshore LNG Toscana. The selling price of the equity investment, and the remaining portion of the shareholders’ loan, amounted to a total of 332 million euro, excluding any future upward adjustments on fulfilment of certain conditions.

The sale of the equity investment in OLT will enable the Group to improve its financial structure, having the resources necessary to accelerate the investments provided for in the business plan and to seize opportunities for growth along external lines.

Contract for expansion of Turbigio power station

On 3 March 2020 Iren signed with Ansaldo Energia a contract worth 180 million euro for the final design, supply and construction of a new, gas-powered combined-cycle electricity generation plant, and of the related auxiliary works, which will make it possible to increase the total installed capacity of the Turbigio site from the current 850 MW to approximately 1,280 MW.

In the Capacity Market auction, the expansion of the power station enabled recognition of the contribution for fifteen years starting from 2022, the year in which the start of the production stage is planned, for a total of 117 million euro.

The expansion of Turbigio will make the plant one of those which, operating at high flexibility and in a way complementary to renewable sources, are essential for sustaining the adequacy of the Italian electricity production system.

BUSINESS OUTLOOK

The recent global pandemic, linked to the spread of the coronavirus, caused an unexpected shock to the financial markets and will have a decisive impact on the real economy, although, as of today, the impact on Italy of closing non-essential activities is difficult to estimate. The expansive monetary policies implemented by the major central banks may facilitate the recovery of the global economy, above all, if accompanied by public finance interventions. In addition to the above, it is also important to note the fall in oil prices in March 2020, when the WTI recorded the lowest price since 2003.

In the current year, the coronavirus emergency in Italy could have, for the time being, what is considered a limited impact on the Group's activities, mainly due to the nature of its business (over 70% in regulated and semi-regulated sectors). The lack of both final and forecast objective data, the latter linked to scenarios that are difficult to make assumptions about today, prevents at the moment an assessment of the possible impact during the year on electricity demand from companies and therefore on sales revenue. We can however foresee, also on the basis of the recent ARERA provisions and the corporate measures adopted to mitigate the economic and social impacts consequent to the crisis, an effect on working capital following the interruption of new actions to suspend/reduce supplies (gas, electricity, water and district heating) due to arrears from 9 March and the possibility, in the case of an objective situation of economic difficulty, to request postponement of the payment deadline by 30 days or payment in three instalments in the three following months. This effect is considered limited. However, the persistence of the negative situation could lead to a deterioration in credit conditions and the solvency of counterparties and, therefore, the need to adjust the provisions for impairment of receivables to the value of the expected losses, according to international accounting principles. Furthermore, the incurring of extra operating and management costs resulting from the emergency is being closely monitored and the delaying of some efficiency projects is conceivable. Additionally, in general, given the interconnections between market segments and economies on a global scale, it cannot be ruled out that the persistence of the restrictions and the difficulties related to the spread of the virus could have further future, even significant, impacts for the Group, at the moment unidentifiable or deemed not relevant, for example a notable decrease in prices or in the demand for goods and services within the Groups operating sectors, other than the regulated ones.

Given the recent collapse of the oil price and the probable lower demand for electricity, we expect a reduction in volumes of electricity produced and a lower SNP. Despite this, the constant expansion of the district heating network, which is a semi-regulated activity, will enable us to saturate the production of our cogeneration plants to limit the volatility of the energy scenario. In 2020, the Group expects to be able to take advantage of the potential of its customer portfolio through a partial recovery of unit margins, but also through an increase in the number of customers, thanks also to the expansion of the line of New Downstream products. Given the current situation, the acquisition of new customers could slow down and sales volumes could be reduced. However, this would be limited, given the percentage of business customers in the portfolio. In prospect, it is expected that the tariff changes, connected to the regulatory framework approved by ARERA in the water sector and in gas distribution and to the new rules introduced in the waste collection sector, will not have significant impacts on expected margins thanks to actions to further increase the efficiency of the processes and the increase of revenue associated with the investments made and planned.

The Group will also continue in its growth process set forth in the latest business plan, which provides for significant investments above all in the Networks and Waste Management divisions as well as investments destined to increase the electricity generation capacity in the light of the positive price indications for the first two Capacity Market auctions held for 2022 and 2023. Iren also confirms sustainability as one of the main strategic pillars, continuing to invest in projects linked to the Circular Economy, the efficient use of resources and the reduction of emissions, for an amount of approximately 60% of the investments provided for in the business plan.

FINANCIAL MANAGEMENT

General framework

During 2019 the short-term part of the interest rate curve remained substantially stable until June, with a subsequent downward movement; the medium/long-term part, in the meantime, continued the decline that had begun at the end of 2018, although with a brief pause in the fourth quarter of the year.

The last intervention by the European Central Bank was the cut in interest rates in March 2016. The current rate is 0%. Examining the trend in the six-month Euribor rate we can note that the parameter, in stably negative territory, since the summer months has fallen further and is currently at -0.40%.

The quotations of fixed rates, reflected in the values of IRSs at 5 and 10 years, in particular in the first half of 2019, also continued the downward movement that began in September 2018, reaching new record lows, which are being seen again in the current market moment after an upward phase which ended already in the final part of the year.

Activities performed

During 2019, activities aimed at consolidating the financial structure of the Iren Group continued. The development of funding needs is monitored through careful financial planning, which enables requirements for new financial resources to be anticipated, taking into account the repayments of outstanding loans, the development of debt, the investments, the trend in working capital and the balance of short-term and long-term sources.

The organisational model adopted by the Iren Group, with the goal of financial optimisation of the companies, provides for centralisation in Iren of treasury management, medium/long-term loan operations and financial risk monitoring and management. Iren has relations with the leading Italian and international banks, for the purpose of finding the types of loans best suited to its needs, and the best market conditions.

Moving on to examine in more detail the operations performed in 2019 we can note that, as described in "Significant events of the period", in July a new EIB loan contract was signed in the form of a Climate Action & Circular Economy Loan, of 120 million euro in support of initiatives in the hydroelectric production segment and in the waste management segment for the improvement of sustainable management of solid waste. In December a further 30 million euro of the EIB District Heating and Waste Management loan was used; this loan, for a total of 130 million euro, was entered into in December 2015 with postponement of the drawdown of the remaining 50 million to 2020. Following the above, direct loans with the European Investment Bank, with a duration of up to 16 years, remaining unused and available total 195 million euro. In October the placing of a third bond issue of the Green Bond type was completed very successfully, for a benchmark amount of 500 million euro as part of the Euro Medium Term Notes Programme (EMTN, increased to 2.5 billion euro in September). The bonds, Fitch rating BBB, have a coupon of 0.875% and maturity 14 October 2029 (duration 10 years) and are listed on the regulated market of the Irish stock exchange, where the prospectus was filed, and on the ExtraMOT market of Borsa Italiana.

In order to optimise the Group's financial structure and in connection with the aforementioned bond issue, the Liability Management activity continued and voluntary advance repayment of loans in the parent company's portfolio began for a total of 370 million euro, of which 172 million already defined in the context of the aforesaid activities in 2018.

At the level of subsidiaries, in the period we can note the opening of a new position of 750,000 euro for Studio Alfa and the early repayment of debt positions of Ferrania Ecologia and Territorio e Risorse for a total of 6 million euro.

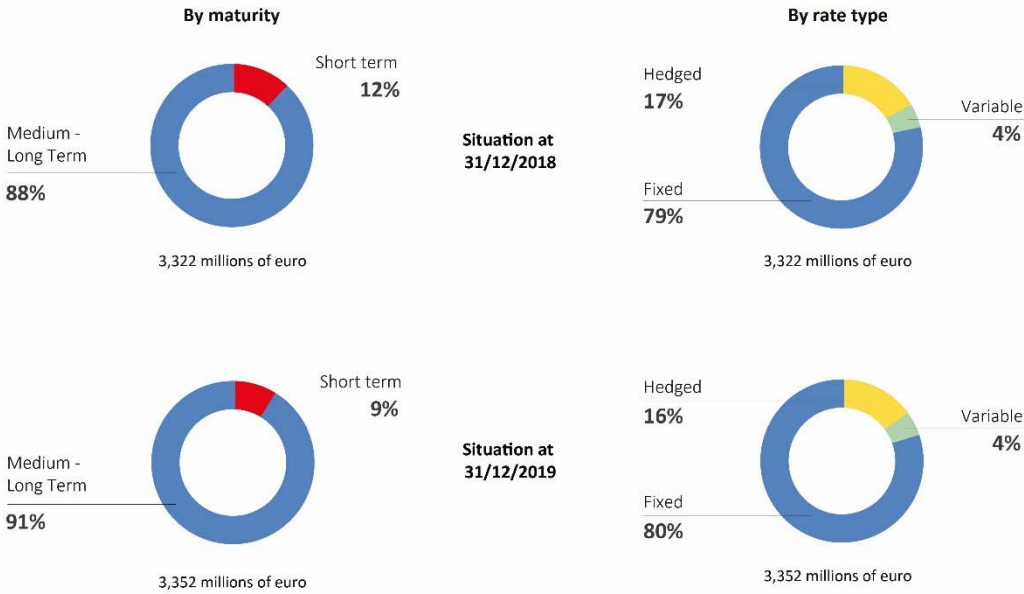
The financial debt from loans (excluding the financial liabilities recognised in application of IFRS 16) at the end of the period was made up of 20% loans and 80% bonds.

As regards financial risks, the Iren Group is exposed to various types of risk, including liquidity risk, interest rate risk, and exchange rate risk. As part of its Risk Management activities, the Group uses non-speculative hedging contracts to limit risks of fluctuations in the interest rate. In the period new Interest Rate Swap contracts were signed hedging a total of 150 million euro of debt, with maturity between 2025 and 2027 and deferred effects starting from December 2020/June 2022.

At 31 December 2019, the portion of floating rate debt not hedged by exchange rate derivatives was 4% of financial debt from loans, in line with the Iren Group’s objective of maintaining adequate protection against significant increases in interest rates.

Overall, the activity carried out is aimed at refinancing debt with a view to improving the financial structure, structurally reducing the cost of capital and extending the average duration of financial debt.

The composition of financial debt from loans by maturity and rate type, compared with the situation at 31 December 2018, is shown in the chart below.



Rating

In October 2019 and most recently in February 2020 the agency Fitch confirmed for Iren and its senior unsecured issues the rating BBB, with outlook stable. The judgement is based mainly on the update of the business plan to 2024 which, in continuity compared to previous years, confirms the prevalence of regulated and semi-regulated activities (approximately 70% of Gross Operating Profit (EBITDA) at the end of the Plan). Fitch assesses Iren as well-positioned in the indices of reference, with a strengthening of the liquidity profile. Supporting the Group’s liquidity profile and the rating level, Iren has the aforesaid medium/long-term loan facilities agreed and available but not used for 195 million euro; in addition as noted in “Significant events of the year”, new committed credit lines of the Sustainability-linked Revolving Credit Facility (RCF) type were also contractualised. At 31 December 2019 these amounted to 150 million euro and are in addition to current cash and cash equivalents.

RISKS AND UNCERTAINTIES

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

For each of the following risk types:

- Financial Risks (liquidity, interest rate, exchange rate);
- Credit Risk;
- Energy Risks, attributable to the procurement of gas for thermoelectric generation and to the sale of electricity, heat and gas, and to the hedging derivative markets;
- Cyber Risks, linked to potential events related to the loss of confidentiality, integrity or availability of data or information after which negative impacts on the organisation, people, operations or other organisations could derive;
- Operational risks, associated with asset ownership, involvement in business activities, processes, procedures and information flows

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

As the Iren Group pays particular attention also to maintaining trust and a positive image of the Group, the Enterprise Risk Management model manages also “reputational risks”, which relate to the impacts on stakeholders of any malpractices.

The Risk Management department, reporting to the Deputy Chairperson, is present within the Group. This department is entrusted, among other things, with the following activities:

- verification of the integrated management of the Group’s Enterprise Risk Management (ERM) System: methodological approach, definition of the policies and monitoring of the System;
- in collaboration with the Chief Executive Officer, signing and management of insurance policies with the support of the “Procurement, Logistics and Services” and “Legal Affairs” units.

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

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

1. FINANCIAL RISKS

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

a) Liquidity risk

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

The procurement of financial resources has been centralised in order to optimise their use. In particular, centralised management of cash flows in Iren makes it possible to allocate the funds available at the Group level according to the needs that from time to time arise among the individual Companies. Cash movements are recognised in intra-group accounts along with intra-group interest income and expense.

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

b) Exchange rate risk

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

c) Interest rate risk

The Iren Group is exposed to interest rate fluctuations especially with regard to the measurement of financial expenses related to indebtedness. The Iren Group's strategy is to limit exposure to the risk of interest rate volatility, maintaining at the same time a low cost of funding.

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

2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables deriving from the sale of electricity, district heating, gas and the provision of energy, water and environmental services. The receivables are spread across a large number of counterparties, belonging to non-uniform customer categories (retail and business customers and public bodies); some exposures are of a high amount and are constantly monitored and, if necessary, covered by repayment plans. The Iren Group's Credit Management units devoted to credit recovery are responsible for this activity.

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

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

The receivable management policy and creditworthiness assessment tools, as well as monitoring and recovery activities differ in relation to the various categories of customers and types of service provided. Credit risk is hedged, for some types of business customers, with opportune forms of first-demand bank or insurance guarantees issued by subjects of leading credit standing and with credit insurance for the reseller customer segment.

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

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

Provisions set aside for impairment of receivables reflect, carefully and in accordance with the current legislation (applying the IFRS 9 method), the effective credit risks, and are determined on the basis of the extraction from databases of the amounts making up the receivable and, in general, assessing any changes in the said risk compared to the initial measurement and, in particular for trade receivables, estimating the related expected losses determined on a prospective basis, taking into due consideration the historical series.

The control of credit risks is also strengthened by the monitoring and reporting procedures, in order to identify promptly possible countermeasures.

In addition, on a quarterly basis, the Risk Management Department collects and integrates the main data regarding the evolution of the Group companies' trade receivables, in terms of type of customers, status of the contract, business chain and ageing band. Credit risk is assessed both at the consolidated and at the Business Unit and company levels.

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

For further considerations regarding the Coronavirus outbreak, please also see the "Business Outlook".

3. ENERGY RISK

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

For this purpose, the Group carries out planning of the production of its plants and purchases and energy and natural gas sales, in relation to both volumes and price formulae. The objective is to obtain sufficient stability in the margins through:

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

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

4. OPERATIONAL RISKS

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

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

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

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

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

Each process stage is performed in accordance with standards and references defined at Group level. The Group's risk position is updated at least quarterly, indicating the extent and level of control of all risks monitored, including financial, IT, credit and energy risks. The risk reporting is sent to the top management and to the risk owners, who are involved in the management activity. The risk analysis also supports the preparation of planning tools.

Of particular note are:

a. Legal and regulatory risks

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

b. Plant-related risks

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

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

c. IT Risks

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

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

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

On this subject, of significance was the Cyber attack that occurred on 4 December 2019, ascribable to a virus of the Cryptolocker/Ransomware type. The malware affected some of the Microsoft Windows servers, making them unavailable, while it did not have an impact on Linux/Unix and ICS/Scada systems. The users' workstations were protected successfully by the Antivirus system through its behavioural module.

From the evidence found in the post-incident analysis stage it emerged that the diffusion of the ransomware was the result of an attack carried out through manual compromising activities, using instruments in a targeted and direct manner.

The reactivation process was gradual in order to verify precisely, for each service reinstated, the absence of compromise.

Thanks to the existing backup systems no data was lost; in addition the forensic analysis excluded losses of data confidentiality and integrity, also as regards administrative/accounting data necessary for the process of preparing the financial statements and the financial disclosures.

On 23 January 2020, the Board of Directors of Iren S.p.A. approved the Cyber Risk Policy, which – like the other main risk policies – provides for the convocation of specific Risk Commissions, the monitoring of performance indicators and dedicated reporting.

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

5. STRATEGIC RISKS

The Iren Group has adopted a Business Plan with a time horizon at 2024 which defines its strategic orientations and the related industrial objectives from which the economic and financial figures of reference derive. The said objectives refer to:

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

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

TRANSACTIONS WITH RELATED PARTIES

After the favourable opinion of the Committee for Transactions with Related Parties (hereinafter also “CTRP”, wholly made up of Independent Directors), on 30 May 2019 the Board of Directors of IREN approved an update of the Procedure for Transactions with Related Parties (“TRP Procedure”), after amending the related art. 7.1, on the quantitative composition of the CTRP.

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

The above document was prepared implementing:

- the provisions relating to transactions with related parties pursuant to Article 2391-*bis* of the Italian Civil Code, as most recently amended with Italian Legislative Decree no. 49 of 10 May 2019, concerning “Implementation of Directive 2017/828 of the European Parliament and of the Council, of 17 May 2017, amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement”;
- the Regulation containing provisions on transactions with related parties, adopted by CONSOB with its Resolution no. 17221 of 12 March 2010 as subsequently amended (“CONSOB Regulation”), taking into account the indications of CONSOB Communication no. DEM/10078683 of 24 September 2010 (the “CONSOB Communication”);
- of the provisions pursuant to Art. 114 of Italian Legislative Decree no. 58 of 24 February 1998 (the Consolidated Finance Act or CFA) and the provisions of Regulation (EU) no. 596/2014 on market abuse.

The corporate documents adopted in accordance with the legislation on transactions with related parties, defined in coordination with the provisions of the administrative and accounting procedures pursuant to Art. 154-*bis* CFA, have as their purpose, in particular:

- (i) to regulate the performance of transactions with related parties by Iren, directly or through subsidiaries, identifying internal procedures and rules capable of ensuring the substantial and procedural transparency and correctness of such transactions, and
- (ii) to establish the methods of fulfilling the related disclosure obligations, including those provided for in the legal and regulatory measures in force and applicable.

These, very briefly, provide for:

- a) identification of the perimeter of related parties;
- b) the definition of transaction with related party;
- c) identification of cases of exclusion and of transactions “for small amounts”;
- d) the procedures applicable to transactions of minor and major significance, as the case may be;
- e) the persons responsible for enquiries on transactions with related parties;
- f) the transactions for which the Shareholders' Meeting is responsible;
- g) the forms of disclosure.

Iren and its subsidiaries carry out transactions with related parties in accordance with the principles of transparency and fairness. These transactions mainly concern services provided to customers in general (gas, water, electricity, heat, etc.) or following concessions and awards of services, in particular for the waste management segment, and are governed by the contracts applied in such situations.

Where the services provided are not the above, the transactions are governed by specific agreements whose terms are established, where possible in accordance with normal market conditions. If these references are not available or significant, the contractual conditions are defined also in consultation with independent experts and/or professionals.

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

The proposed changes deriving from transposition, into Italian law, of Directive 2017/828 of the European Parliament and of the Council, of 17 May 2017, amending Directive 2007/36/EC as regards the encouragement of long-term shareholder engagement” (the so-called Shareholder Rights Directive 2) are being monitored and studied.

LEGISLATIVE FRAMEWORK

The main legislative references of FY 2019 related to the Iren Group's sectors of competence are presented below.

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

Regulations relating to local public services of economic importance

The rules on local public services resulting from the regulatory framework are contained in Italian Law no. 221 of 17/12/2012 as amended converting Italian Law Decree no. 179 of 18/10/2012 containing further urgent measures for growth of the country, Art. 34, para. 20 and following, as amended by Italian Law Decree no. 150 of 30/12/2013 - Extension of terms provided for by legislative measures, Art. 13 *Terms on the subject of local public services*, in force since 1 March 2014.

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

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

With Decision no. 1134 of 8 November 2017, the National Anti-Corruption Authority issued the "New guidelines for implementation of the legislation on preventing corruption and transparency by companies and private-law entities controlled and invested in by public administrations and economic public bodies", which confirm the exclusion of listed companies from the legislation, except that it applies only to activities of public interest carried out by companies belonging to a listed group but invested in directly by a Public Administration.

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

Code on Public Contracts

The Code on Public Contracts currently in force was approved with Italian Legislative Decree no. 50 of 18 April 2016, and was adjusted with subsequent measures:

- Italian Law Decree no. 135 of 14 December 2018, ("Simplifications –'Semplificazioni'- Law Decree"), converted into Italian Law 12/2019 "Conversion into law, with amendments, of Italian Legislative Decree no. 135 of 14 December 2018, containing urgent provisions on support and simplification for businesses and the public administration";
- Italian Law no. 145 of 30 December 2018 (2019 Budget Law);
- Italian Law Decree no. 32 of 18 April 2019, (the so-called Relaunch of Construction Sites Decree), containing "Urgent provisions for the relaunch of the public contracts sector, for accelerating infrastructural projects and projects for urban regeneration and reconstruction following seismic events", approved definitively and converted into Italian Law no. 55 of 14 June 2019, which was to come into force from 18 June 2019.

In particular:

- the Italian Law Decree known as "Simplifications" (entitled "Rules on the subject of simplification and acceleration of procedures in public contracts below the community threshold"), made an amendment to art. 80, paragraph 5 of Italian Legislative Decree 50/2016, introducing a series of reasons for

exclusion from the contract or concession procedures referable to the conduct of economic operators in the stage of participation in the tender procedure or in executing a previous contract. These new provisions apply to procedures whose announcements or notices, with which the tenders are called for, are published after the date of entry into force of the decree in question, and, in the case of contracts without publication of announcements or notices, to the procedures in which, at the same date, invitations to present offers have not yet been sent;

- the so-called “Relaunch of Construction Sites” decree, instead, introduced the following main changes:
 - a number of rules of the Code on Public Contracts are suspended experimentally until 31 December 2020: the obligation to make use of central purchasing bodies for Municipalities that are not Provincial Capitals, the prohibition of supplemented contracts and the obligation to choose the tender commissioners from the ANAC Register;
 - a new single regulation will replace the ANAC guidelines;
 - new rules for awarding work, services and supplies below certain thresholds;
 - fixing of a maximum portion sub-contractable (40%), suspension of the obligation to indicate the list of subcontractors and the checks on the subcontractors during the tender procedure;
 - services and supplies with standardised characteristics or the conditions of which are defined by the market can be awarded at the lowest price, with the exception of services with highly intensive labour;
 - below the threshold, criteria of the lowest price or of the most economically advantageous offer can be applied;
 - in order to prevent disputes in the execution stage of the contract, the parties can appoint a technical consultation board before execution starts and in any case not more than 90 days from the date of this start; this body performs functions of assistance for the rapid resolution of disputes of all kinds that arise during execution of the contract;
 - the “super-accelerated” procedure on the subject of exclusions from tendering is abrogated;
 - the extension to 31 December 2020 is confirmed for the deadline within which the already existing licensees must ensure compliance with the measures provided for in paragraph 1 of art. 177 (portion of award of work, services and supplies assigned through public tender procedure).

Implementing the Code, ANAC’s activity of revising and publishing Guidelines is continuing. During 2019 the following main measures were published:

- following Resolution no. 614 of 4 July 2018 Guidelines no. 11 were issued; these contain “Indications for checking observance of the limit pursuant to article 177, paragraph 1, of the code by public or private bodies that hold concessions for works, public services or supplies already in being at the date of entry into force of the code not awarded with the formula of project finance or with public tender procedures according to European Union law”;
- Communication of the ANAC Chairperson of 8 May 2019 containing “Indications for checking observance of the limit pursuant to article 177, paragraph 1, of the Code on Public Contracts, by public or private bodies that hold concessions for works, public services or supplies already in being at the date of entry into force of the code not awarded with the formula of project finance or with public tender procedures according to European Union law”, in which it is specified that in Guidelines no. 11, in paragraph 5 a number of publication obligations are indicated for licensors and licensees to verify observance of the outsourcing obligations provided for in article 177 of Italian Legislative Decree no. 56 of 18 April 2016. At point 5.6, owing to an error, the first deadline for publication of the data, related to the period 19 April 2018 – 31 December 2019, is set at 31 March 2019 instead of 31 March 2020. Therefore, the deadline for publication must be understood as 31 March 2020. The Authority reserved the right to issue further measures after conversion of the law decree;
- given that Italian Law 55/2019 converting the Italian Law Decree known as the “Relaunch of Construction Sites” decree confirmed the deadline of 31 December 2020 for compliance with the prescriptions of art.177 (see above) the first deadline for compliance with the prescriptions pursuant to art.177 for publication of the data related to 2021 will fall due on 31 March 2022.

The Iren Group companies, together with other listed companies that are concessionaires of local public services, appealed the measures to the Regional Appeals Court (RAC) of Lazio with an intervention *ad adiuvandum* of Utilitalia. On 20 June 2019 the first judgements were published.

The RAC found that the measures appealed were not harmful because they were not capable of affecting the legal sphere of the licensees and, therefore, declared the appeals inadmissible. Analogous judgements were issued in relation to the appeals presented by the other licensees.

On 30 October 2019 the appeal claims were filed before the Council of State regarding the request, principally, for cancellation of the measures appealed against in the first instance, after, where necessary, appeal to the Constitutional Court on the question of constitutional legitimacy of art. 177 of Italian Legislative Decree 50/16, of art. 1, lett. iii) of Italian Law 11/16 and consequently of the Guidelines no. 11, and subordinately, the request to the Council of State to ascertain and declare the non-applicability to the plaintiff of art. 177 of Italian Legislative Decree 50/16 and of the said Guidelines no. 11.

The Council of State, Sect. V, set for 11 June 2020 the hearing for discussion of the appeals lodged against the judgements declaring the inadmissibility of the appeals against the Guidelines no. 11.

On 11 November 2019 Iren and the group companies lodged an appeal before the Lazio RAC - Rome, on the existing concessions, for cancellation of the new ANAC Resolution no. 570 of 26 June 2019, Guidelines no. 11 containing "*Indications for checking observance of the limit pursuant to article 177, paragraph 1, of the code by public or private bodies that hold concessions for works, public services or supplies already in being at the date of entry into force of the code not awarded with the formula of project finance or with public tender procedures according to European Union law*", published in O.J. no. 182 of 5 August 2019 ("Res. no. 570/2019") and of all deeds prior and consequent with the request, principally, to cancel the measure appealed against, after, where necessary, appeal to the Constitutional Court on the question of constitutional legitimacy of art. 177 of Italian Legislative Decree 50/16, of art. 1, lett. iii) of Italian Law 11/16 and consequently of the Guidelines no. 11, with reference to arts 3, 11, 41, 42, 76, 97 and 117 of the Constitution and, subordinately, to ascertain and declare the non-applicability to the Company of art. 177 of Italian Legislative Decree 50/16 and of the Guidelines no. 11. With reference to 31 December 2019 a date has not been set for discussion of the said appeals.

In addition, a Communication was issued by the ANAC Chairperson on 29 May 2019 with which the National Anti-Corruption Authority provided opportune clarifications on a number of critical application issues reported by aggregators in relation to the Guidelines no. 13 "Rules on social clauses". The clarifications regard data that the contracting authority—in observance of the social clause—must indicate in the tender documentation for formulation of the offer and presentation of the compatibility plan by the bidder.

Additionally, the ANAC Chairperson issued two further communications, on 16 October and 18 December 2019 respectively, concerning "indications on the obligation to acquire the CIG and to pay the contribution to the Authority (i) for cases excluded from the scope of application of the code on public contracts and (ii) for particular contract regimens pursuant to part II, Title VI, of the code on public contracts".

These two communications, which introduce a series of new formalities for particular contract categories, were appealed by Iren and IRETI before the Lazio RAC.

AWARD AND PERFORMANCE OF GAS DISTRIBUTION SERVICES

The rules on the gas distribution service were profoundly changed by the provisions of the so-called Letta Decree, approved with Italian Legislative Decree no. 164 of 2000, which introduced competition into the Italian natural gas market by deregulating gas imports, exports, transport, dispatch and sales.

In a Decree of 19 January 2011, the Italian Ministry of Economic Development determined the geographical areas for the natural gas distribution sector and with Italian Ministerial Decree no. 226 of 12/11/2011, the so-called Criteria Decree (updated most recently with Italian Ministerial Decree no. 106 of 20/05/2015), the Regulation on public tender criteria and the assessment of bids for the assignment of gas distribution services was adopted.

The terms for calling tenders, initially set at six months from when the regulation came into force, were extended several times and the concessions are currently operating under the extended regime pending the calling and award of public tenders.

Functional unbundling

Functional Unbundling, in groups integrated vertically translates into an obligation to manage the essential infrastructures in a neutral manner, without favouring in any way any business that performs commercial activities in the energy sector. According to the rules on Functional Unbundling, natural gas distribution is managed in a neutral manner if it is entrusted to an Independent Operator, that is to say an administrator which, although it operates within the integrated group, has ample decision-making and organisational

autonomy, or if the Independent Operator adopts a series of measures capable of preventing discriminatory conduct in the field of governance, organisation, procedures, information technology, personnel, procurement and many other important aspects of business management. Resolution 296/2015/R/com issued by ARERA (Autorità di Regolazione per Energia, Reti e Ambiente - Regulatory Authority for Energy, Networks and the Environment) approved the rules on functional unbundling obligations for companies operating in the electricity and gas sectors (TIUF, *Testo Integrato Unbundling Funzionale - Consolidated Rules on Functional Unbundling*)” which establish, among other things, an obligation to unbundle the communication policy and the brand between sale and distribution companies.

IRETI, as part of the Iren Group, which is a Vertically Integrated Company (VIC) in the sectors of both electricity and natural gas under the terms of Art. 1.1 of the TIUF, because the group performs both activities included in the list pursuant to Art. 4.1 of the TIUF, and deregulated activities in the energy sector. Therefore, in order to implement functional unbundling, it entrusted the administration of the natural gas and electricity distribution business to an Independent Operator, in possession of all the powers and characteristics provided for in the regulations.

We can note also that, a Decision of the Manager of the Energy Infrastructures and Unbundling Department no. 1/2019 – EIUD introduced the new online system for collecting information and communications related to the functional unbundling obligations envisaged for companies selling electricity to final customers under greater protection, available starting from 21 February 2019.

Default service

The default service temporarily complements and replaces the last-instance supply service destined to operate when in the management of supply contracts with final customers situations in which customers remain without their vendor occur, including for transitional periods. The service in question was introduced by the Regulatory Authority implementing Art. 7, paragraph 4 of Italian Legislative Decree no. 93 of 2011 with Resolution ARG/gas 99/11. This Resolution was initially considered unconstitutional and suspended by the Lombardy RAC with judgement no. 3296 of 29/12/2012, a judgement then overturned by the Council of State. Very briefly the Council of State, following the AEEGSI’s pleadings, decided that the default service is associated with the balancing service and that the same cannot be considered sales activity but, rather, as ex-post settlement activity of the objective debt relationships created following withdrawals made by customers that have remained connected to the distribution network. This was also considering the fact that the typical risk of sales activity does not exist, since the default of the final customer served is almost fully socialised and made chargeable to the community.

AWARD AND PERFORMANCE OF ELECTRICITY DISTRIBUTION SERVICES

Italian Legislative Decree no. 79 of 16 March 1999 (the Bersani Decree) established a general regulatory framework for the Italian electricity market which gradually introduced competition in the production of electricity and sale to eligible customers, although it maintained a regulated monopoly arrangement for transmission and distribution. The distribution activity is entrusted to IRETI (formerly AEM Torino Distribuzione S.p.A. and before that AMPS S.p.A.) by the Ministry of Productive Activities in a concession up to 2030 in the respective territories of the Municipalities of Turin and Parma and, through ASM Vercelli, in the Municipality of Vercelli. Measures were adopted in 2007 to guarantee functional unbundling. In analogy with what was specified in the Gas distribution section, with Resolution 296/2015/R/COM functional unbundling obligations were introduced also for electricity distribution operators.

As already indicated in the Functional Unbundling section, a Decision of the Manager of the Energy Infrastructures and Unbundling Department no. 1/2019 – EIUD introduced the new online system for collecting information and communications related to the functional unbundling obligations envisaged for companies selling electricity to final customers under greater protection, -including companies that operate at the same time in the electricity distribution business and those that operate in electricity distribution with less than 25,000 withdrawal points, after accreditation with the Operators Database set up under the terms of the Authority’s resolution of 23 June 2008 - GOP 35/08.

The online collection system is now the only channel for communicating Status Information and was made available, as anticipated, starting from 21 February 2019. On that date, in addition, the term ran for first compilation of the Information set at 30 days, under the terms of point 2 of the aforesaid decision.

Network Code (CADE) and general system expenses

ARERA Resolution 481/17/R/eel defined the new structure of general system expenses.

The rules on general system expenses (ESOs) are laid down primarily in Art. 3, paragraph 11, of Italian Legislative Decree no. 79/99, in Art. 39, paragraph 3, of Italian Law Decree no. 83 of 22 June 2012, and for the methods of exacting them Arts 40 and following of the Consolidated Rules on providing electricity transmission and distribution services.

The Lombardy RAC, accepting appeals presented by a number of vendors, declared illegitimate Resolution 268/2015/R/eel (CADE - Standard Network Code for transport of electricity) in the part in which it states that the guarantees that vendors are obliged to provide to the distributor must cover the GSEs as well as the fees for the transport. This ruling clarified that final customers are the subjects of the electricity supply chain obliged, from the legal and economic points of view, to pay the GSEs, highlighting the absence of laws that provide for translation to vendors of the obligation on final customers and not recognising in this context that the Authority has a power to supplement itself contracts between distributors and vendors.

AWARD AND PERFORMANCE OF INTEGRATED WATER SERVICES

The Integrated Water Service (IWS) reform process, which began with Italian Law no. 36/94 (the Galli Law), was revised with the approval of Italian Legislative Decree no. 152 of 3 April 2006, (Consolidated Law on the Environment), this too the subject of periodic important amendments) and with the issue of Art. 23-bis of Italian Law Decree no. 112 of 25 June 2008, converted with amendments into Italian Law no. 133 of 6 August 2008, related to “public services of economic significance”.

Following the Referendum held on 12 and 13 June 2011 with the abrogation of Art. 23 bis, the community legislation on the minimum competition rules on the subject of public tenders for the award of management of public services of economic significance came into immediate force.

As regards existing operations, as laid down in Art. 34 of Italian Law Decree no. 179/12 converted into Italian Law no. 221/12 and supplemented by Italian Law no. 115 of 29 July 2015, Art. 8, paragraph 1, the awards of services carried out by listed companies and companies controlled by the former will remain active until the natural expiry envisaged for each of them on the basis of the measures governing the relationship with the individual Municipalities.

The integrated water service is also governed, for the Emilia Romagna Region, by Regional Laws 25/1999 and 10/2008. As regards rules on the subject of optimal territorial areas (Ambiti Territoriali Ottimali - ATOs), the Emilia Romagna Region with Regional Law no. 23 of 23 December 2011 set forth the “Rules for the territorial organisation of the functions related to local public environmental services”, which lays down the rules relating to regulation of public environmental services and in particular to the territorial organisation of the integrated water service and the integrated urban waste management service in Emilia Romagna, and states that on the basis of the principles of subsidiarity, differentiation and adequacy, the entire regional territory constitutes the optimal territorial area in accordance with Articles 147 and 200 of Italian Legislative Decree no. 152 of 2006. ATERSIR is the Regulatory Agency for environmental local public services of the Emilia-Romagna Region.

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

As regards the IWS, the Law identified 5 ATOs:

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

It should be noted that article 10 paragraph 1 of the aforementioned law was declared unconstitutional by the Constitutional Court with judgement no. 31 of 10 February 2015.

On 30 September 2015 the Province of Savona approved Resolution no. 70/2015, with which it approved the Plans of the areas and defined the subjects to which they were to be assigned through an in-house procedure (and therefore excluding Acquedotto di Savona, the Savona water company, merged into IRETI with effect from 1 January 2016). The resolution was appealed by the Group and as of today the proceeding is still pending.

As of today the Province is engaged, as the Governing Body of the Centre-West 1 Area, in preparing and approving a new single area plan, and a new award of the integrated water service.

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

AWARD AND PERFORMANCE OF INTEGRATED DISTRICT HEATING SERVICES

Under the current legislation, and according to the most recent jurisprudential guidance (Lombardy RAC sect. I judgement no. 1217 of 9 May 2014), the district heating service does not constitute a local public service, but represents in any case a natural monopoly.

The classification of district heating is, therefore, not unequivocal and depends on a discretionary and grounded assessment by the single entities, on the basis of the specific conditions of the relevant market and the existence or otherwise of limitations on competition that can represent a barrier to universal and non-discriminatory offers.

Besides, some time ago ARERA began regulatory activity in the sector.

AWARD AND PERFORMANCE OF WASTE MANAGEMENT SERVICES

“Integrated waste management” is understood as all the activities of transportation, treatment and disposal of waste, including street sweeping, aimed at optimising the management of the said waste.

The activities attributable to the scope of integrated waste management are regulated at the level of community, national and regional legislation.

On this point, the main legislative changes recently introduced on the subject are presented below.

1) COMMUNITY LEGISLATION

Directive 2008/98/EC is the main measure as regards the general community legislation dedicated to waste. There are also very many further documents that combine to provide the community regulations in relation to the different sectors of reference for the subject. In this paragraph some of the most significant documents issued by the European institutions are mentioned.

Circular Economy

From 4 July 2018 the four Directives (all dated 30 May 2018) related to the so-called “Circular Economy”, published in EUOJ L. 150 of 14 June 2018, have been in force in the European Union. Directive 2018/849/EC amends the previous ones in relation to end-of life vehicles, batteries, accumulators and WEEE, Directive 2018/850/EC amends Directive 1999/31/EC on landfills, Directive 2018/852/EC contains the rules on packaging and, finally, Directive 2018/851/EC amends amply and substantially the Waste Framework Directive, that is the aforesaid Directive 2008/98/EC. The Directives described above must be transposed by the Member States by 5 July 2020: the stakeholder consultation work is currently being carried out by the Ministry of the Environment with the aim of implementing the community provisions at the national level; these will entail among other things various amendments to Italian Legislative Decree no. 152 of 3 April 2006 (see point 2 below).

Landfills

New rules have been provided for, in Implementing Decision (EU) no. 1885 of 6 November 2019, for the calculation, verification and reporting of data on landfill of municipal waste, which specifies among other things that the amount of municipal waste reported as landfilled must not be corrected for its moisture content.

Waste processing plants

Implementing Decision (EU) no. 2019/2020 of 12/11/2019 was adopted; with this the European Commission approved the Best Available Techniques (BAT) conclusions for waste incineration, which will constitute the reference for establishing the conditions of the Integrated Environmental Authorisations (IEAs).

Reduction of the use of plastic and plastic waste

For the purposes of reducing the impact of certain plastic products on the environment Directive (EU) 2019/904 of 5 June 2019 was issued; this laid down new rules for the reduction of disposable plastic.

Of note in particular is the prohibition, starting from 2021, of a series of disposable plastic articles such as straws, cutlery, cotton swabs, and the setting of an objective of 90% collection for plastic bottles by 2029, with a forecast at the same time on the percentage of recycled materials in these bottles to be achieved within certain deadlines.

Packaging waste

The new rules (and new tables) were defined with Implementing Decision (EU) 2019/665 of 17 April 2019, which changed the rules that Member States must observe in calculating, checking and communicating data on achievement of the packaging waste recovery and recycling targets (by 2025, at least 65% in weight for all packaging waste, plus minimum targets for single specific materials; by 2030, at least 70% in weight). Reusable packaging for sale put on the market and wooden packaging repaired for reuse (pallets) are included in the calculation.

Municipal waste

With Implementing Decision (EU) 2019/1004 of 7 June 2019 the rules were laid down for calculating and communicating data on waste in accordance with Directive 2008/98/EC, in order to verify achievement of the targets for preparation for reuse and recycling of municipal waste set for 2025, 2030 and 2035.

2) NATIONAL LEGISLATION

It must first be said that the rules of reference on the subject of waste, as regards Italian law, are contained in Italian Legislative Decree no. 152 of 3 April 2006, which over the years has undergone numerous amendments.

During 2019 further significant rules were issued. These, listed below, govern various aspects of integrated waste management and specific waste categories. The main changes are illustrated below.

Waste classification

With Resolution no. 61 of 27 November 2019 the National System for Protection of the Environment (Sistema Nazionale per la Protezione dell'Ambiente - SNPA) issued "Guidelines on waste classification", which provided a methodological approach for waste classification in relation to the attribution of the EWC (European Waste Catalogue) code and the assessment of hazardousness.

Regulation 2019/1390/EU instead updated, starting from 16 November, the testing methods for determining ecotoxicity.

Circular economy

Italian Law Decree no. 34 of 30 April 2019 (the so-called Growth Law Decree, in force from 1 May 2019 and converted into Italian Law no. 58/2019), introduced specific tax concessions for the recycling and reuse of finished and semi-finished products (for example art. 26-*bis*).

Italian Law no. 117 of 4 October 2019 (2018 European Delegation Law), in order to implement the 4 EU Directives making up the so-called “Circular Economy Package” (see point 1 above) instead delegated the Government to adopt specific Decrees. With these measures, in particular, the following will be identified:

- as regards the general rules on the subject of waste (Directive 2018/851/EU): the new regimen of liability extended to the manufacturer of the products, the extension of the waste traceability system, new definitions, a more efficient tariff system, etc.;
- with reference to packaging (Directive 2018/852/EU): specific parameter that will allow collection together with organic waste of waste with similar properties of biodegradability and compostability, and which comply with the EU standards for packaging recoverable by composting and biodegradation;
- in relation to landfills (Directive 2018/850/EU): updated criteria for admissibility of waste, new criteria for opening and closing such plants with a view to keeping up with technological progress, and specific maximum percentages of municipal waste conferable;
- in relation to WEEE, end-of life vehicles and batteries (Directive 2018/849/EU): rules that reform the current management systems, for example by fixing specific targets, adjustment to the scheme of extended liability, etc.

End Of Waste

Italian Law no. 128/2019 (known as the “unlock authorisations” law, converting Italian Law Decree no. 101/2019) – also through amendment of art. 184-ter, Italian Legislative Decree no. 152/2006 – most recently established that the Regions, in the absence of detailed criteria and in compliance with Directive 2008/98/EC, will be able to release/renew authorisations for waste recovery activities, thus overcoming the stalled situation created following Council of State ruling no. 1229 of 28 February 2018.

Purification sludge in agriculture

The rules on purification sludge are about to be considerably revised by the second draft of the Decree which, once it is approved, will replace Italian Legislative Decree 99/92 and art. 41 of Italian Law Decree 109/18 (converted into Italian Law 130/18 – the so-called “Morandi Bridge” Decree).

Italian Law no. 117 of 4 October 2019 (2018 European Delegation Law) in fact delegated the Government to “*adopt new coherent rules on the use of sludge, also amending the rules established by Italian Legislative Decree no. 99 of 27 January 1992, in order to guarantee pursuance of the objectives of conferment to landfill...*”.

Waste processing plants

With Italian Ministerial Circular no. 1121 of 21 January 2019, specific “Guidelines for operational management of storages in waste management plants and for the prevention of risks” were provided for, in order to avoid the occurrence of fires. The document contains operating indications regarding, among other things, plants authorised for the storage and preliminary deposit of waste.

The Italian Ministry of the Environment note no. 2730 of 13 February 2019 regards instead internal emergency plans in waste storage and processing plants, in accordance with the obligation provided for in art. 26-*bis*, Italian Law Decree no. 113/2018 (converted into Italian Law no. 132/2018).

Municipal waste

Italian Law no. 108 of 21 September 2018, converted the Italian Law Decree known as “Milleproroghe” (A Thousand Extensions), extending to 30 June 2019 the term for the start of the obligation to manage in an associated form the fundamental functions of small municipalities (up to 5,000 residents, 3,000 if in Mountain Communities): these include, in particular, associated management of collection, sending for recovery and disposal of municipal waste and collection of the related taxes. This term was further extended to 31 December 2019 in converted into Italian Law Decree no. 135 of 14 December 2018, converted with amendments by Italian Law no. 12 of 11 February 2019.

Clippings and prunings

The “2018 European Law” (Italian Law no. 37 of 3 May 2019) was published and has been in force since 26 May 2019. This law amends the text of art. 185, paragraph 1, letter f) of the TUA, providing for exclusion from the scope of application of the rules on waste for “clippings and prunings carried out as part of good agricultural practices, and clippings and prunings deriving from maintenance of the public green spaces of municipalities”.

Tariff system for waste management services - TARI

On 23 December 2019 the Ministry of the Economy and Finance provided the Guidelines for determining the costs of the waste service for TARI purposes for 2020, with reference to the standard needs of Municipalities, taking into account also the important changes associated with the start of the new regulation system of the service determined by ARERA Resolution no. 443/2019, on the basis of which the standard needs assume an obligatory value of reference for the tariff method.

Italian Law Decree no. 124/2019 (known as the Simplifications Law Decree, converted into Italian Law no. 157/2019), in Art. 57-*bis*, para. 1 amended Art. 1, paragraph 652, Italian Law no. 147/2013 establishing the TARI, extending the possibility for Municipalities to proceed with the measurement on the basis of a average-ordinary criterion (that is on the basis of ordinary average quantities and qualities of waste produced for unit of area in relation to the uses and type of activities carried out), and not on the actual quantity of waste produced. This extension is operational until different regulation by ARERA, and while awaiting an overall revision of Italian Presidential Decree no. 158/1999 containing the calculation rules for the normalised method of defining the tariff.

In addition the Fiscal Law Decree set at 30 April the term for the year 2020 within which TARI tariffs and regulations must be adopted. The extension is linked to the aforementioned ARERA Resolution no. 443/2019/R/rif on the basis of which the Financial Plans related to 2020 must be formulated or reformulated and also applies in the case of the need to amend measures already resolved.

Paragraph 2 of the aforesaid art. 57-*bis* instead provided for tariff discounts for domestic users in disadvantaged economic and social conditions.

Art. 58-*quinquies* of the Fiscal Law Decree instead made professional studios and banks and credit institutions equivalent, as regards the coefficients to be used for calculating the tax, by amending annex 1 to Italian Presidential Decree no. 158/1999.

Excavated earth and rocks

During the meeting on 9 May 2019 the Council of the SNPA adopted, with Resolution 54/2019, the "Guideline on application of the rules for the use of excavated earth and rocks".

Traceability of waste

Italian Law Decree no. 135/2018 (known as the Simplifications Law Decree, converted into Italian Law no. 12 of 11 February 2019) abrogated definitively the electronic system for the control of waste traceability (SISTRI) starting from 1 January 2019 and at the same time provided for the future establishment of the National Electronic Register, to be kept by the Ministry of the Environment.

Besides the SISTRI other provisions were also abolished, including art. 16 of Italian Legislative Decree no. 205/2010 which had introduced the "new versions" of arts 188 (expenses of producers and holders), 189 (MUD), 190 (CS register) and 193 (FIR), Italian Legislative Decree 152/2006. Art. 6, paragraph 3 of the aforementioned Simplifications Law Decree establishes in fact that until the announced new IT system has been defined waste traceability will be guaranteed by means of the traditional formalities provided for in the aforementioned articles "*in the text in force before the amendments made by Italian Legislative Decree no. 205 of 3 December 2010*". The same thing applies to art. 258 of Italian Legislative Decree no. 152/2006 (Breach of the obligations of communication, of keeping the obligatory registers and forms).

3) REGIONAL LEGISLATION

The Regions, in the context of the integrated waste management system, have a role involving planning, authorisation and legislation. The Regions are responsible, among other things, for preparing and updating the regional Plans, regulating separate collection activity and municipal waste management in general, defining the territorial extension of the ATOs, promoting integrated waste management, approving projects for the construction of new plants, authorising the performance of landfill disposal and waste recovery operations, including hazardous waste, etc. The main measures adopted during 2019 by the Emilia Romagna, Liguria and Piedmont Regions in relation to integrated waste management are presented below.

a) Emilia Romagna

We can remind you that, given that Territorial Area Authorities ceased to exist on 31 December 2012, the Emilia Romagna Region set up the Territorial Agency of Emilia Romagna (ATERSIR) for water and waste services in which all the municipalities and provinces take part and which is responsible for the regulatory functions for the entire regional territory, and determination of the urban waste disposal tariffs on the basis of the regional criteria, of the private and public plants. This agency became operational in 2012.

The Emilia Romagna Region recently issued the following measures:

- Regional Executive Resolution (RER) no. 326 of 4 March 2019 - Urgent provisions on agronomic use of purification sludge;
- Executive Decision no. 8476 of 15 May 2019 – RER 2218/16: calculation in separate collection of waste deriving from composting of the Municipalities of Emilia Romagna – year 2018;
- R.E.R. no. 1071 of 1 July 2019 – Approval of the Guidelines for the micro-collection of asbestos "Action 6.2.1.3 of the Emilia Romagna Region Asbestos Plan (Promoting simplified procedures for the removal and disposal of small quantities of Material Containing Asbestos in a compact form)";
- R.L. no. 13 of 30 July 2019 – Provisions related to the Law of stabilisation and first general change to the Draft Budget of the Emilia Romagna Region 2019-2021 (see art. 9 containing "Provisions for development of recovery plants");
- R.E.R. no. 1830 of 28 October 2019 – Approval of the Agreement on the programme for better management of agricultural waste under the terms of article 206 of Italian Legislative Decree no. 152/2006;
- R.E.R. no. 2341 of 22 November 2019 - Memorandum of Understanding to encourage selective collection of PET bottles after consumption in order to intercept them and recycle them with a view to the circular economy to be implemented through an experimental project;
- R.E.R. no. 2347 of 22 November 2019 - First application of the technical criteria pursuant to article 9 of regional law no. 13 of 2019 for the mitigation of the environmental and territorial impacts of plants for the recovery of the organic fraction of municipal solid waste for the production of biogas and biomethane;
- Decision of the Manager of the Legal Service for the environment, waste, reclamation of contaminated sites and environmental public services no. 22112 of 29 November 2019 - Methodological update on the need for disposal of special waste in landfills;

b) Liguria

The Liguria Region, in virtue of the provisions of Regional Law no. 1 of 24 February 2014 (subsequently amended with Law no. 12/15 and with subsequent measures), has the task of laying down rules for identifying optimal territorial areas (ATOs) for exercising the functions concerning integrated waste management.

A single regional area was established and divided into four zones coinciding with the territories of the Metropolitan City of Genoa and the Provinces of Imperia, Savona and La Spezia.

The Liguria Region is responsible for governing the waste cycle in the regional ATO, and exercises these functions through an Area Committee made up of: President of the Regional Council or his/her delegate, the competent regional executive members, the mayor of the Metropolitan City of Genoa or his/her delegate, the presidents of the Provinces or their delegates.

The functions connected with the organisation and award of the services, to be performed with reference to the respective territorial zone, are the responsibility of the Metropolitan City of Genoa and the Provinces of Imperia, La Spezia and Savona.

These entities can delimit in their respective territories uniform zones under the terms of Italian Law no. 56/14 (Delrio Law) which represent management areas, designating a leading Municipality and delegating the functions related to awarding the services to the Municipalities located in each area.

The aforementioned Law no. 1/14 also states that the Provinces and the Metropolitan City must approve the Area Plan and the Metropolitan Plan, containing the structuring and organisation of the services related to waste collection and transport, separate collection and use of the infrastructures serving the separate collection, the definition of the award areas and the management of residual non-separate waste and its disposal, within a year from approval of the Regional Plan, with RCR no. 14 of 25 March 2015.

The Liguria Region recently issued the following measures:

- R.E.R. no. 412 of 21 May 2019 – Supplements and specifications on the methods for calculating the percentage of separate collection and the rate of recycling and recovery of municipal waste. Replacement of Annex 1 to RER 151/2017 and annex A to RER 176/2017;
- R.E.R. no. 683 of 2 August 2019 – Definition of methods, contents and timing for compilation of the O.R.So. (Osservatorio Rifiuti Sovraregionale - Supra-regional Waste Observatory) application for the collection of data related to waste managed by plants in the Liguria Region. Regional Law no. 23/2007 art. 17 bis;

- R.E.R. no. 889 of 29 October 2019 - Regional Law 23/2007. Special tax for depositing solid waste in landfills. Determination of division criteria and related coefficients of the portion of revenue pursuant to para. 3ter of article 26 of Regional Law 23/2007 among the Municipalities involved;
- E.D. no. 520 of 31 October 2019 - Regional Law 7/2012 and Regional Law 1/2018 - Approval of the municipal waste and separate collection production data for 2018;
- Decree of the President of the Regional Executive no. 7465 29 November 2019 - Extraordinary and urgent ordinance of the President of the Regional Executive for temporary recourse to particular forms of management of waste produced following the flood events of October and November 2019 in the Liguria Region under the terms of article 191 of Italian Legislative Decree no. 152 of 3 April 2006.

c) Piedmont

The Piedmont Region adopted the Regional Waste Management Plan on 30 September 2009, completing a process launched in 2007. The Plan originally had a time horizon between 2009 and 2015, and was subsequently updated for the period 2015-2020 with R.E.R. no. 22-1544 of 8 June 2015, and subsequent Regional Council Resolution no. 140 of 19 April 2016 – 14161.

At the same time as adopting the Plan, the establishment of 3 optimal territorial areas, combining the 8 previous areas divided by Province, was provided for.

Regional Law (R.L.) Piedmont 7/2012 further modified the structure of the Areas by making four of them.

The four current Areas are divided as follows:

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

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

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

The Piedmont Region recently issued the following measures:

- Decree of the President of the Regional Executive no. 3/R of 18 March 2019 - Regional regulation containing: "Rules on formalities regarding the special tax for depositing waste at landfill sites (articles 15, paragraphs 3 and 16 of Regional Law no. 1 of 10 January 2018)", published in the O.B. of Piedmont no. 12 of 21 March 2019, O.S. no. 3;
- Decree of the President of the Regional Executive no. 17 of 26 March 2019 – Reiteration Extraordinary and urgent ordinance of the President of the Regional Executive approved with D.P.R.E. no. 77 of 21 September 2018 and published in the Official Bulletin of the Piedmont Region no. 39 of 27 September 2018, Supplement 2, on temporary recourse to particular forms of management of sludge produced by the processing of municipal waste water (EER 190805) in order to avoid the interruption of the public service;
- R.L. no. 12 of 5 April 2019 – Amendments to Regional Law no. 30 of 14 October 2008 (rules for the protection of health, restoration of the environment, reclamation and disposal of asbestos);
- E.D. no. 237 of 9 April 2019 – Approval of the form for the application for admission to payment of a reduced amount of the special tax for depositing waste in landfills;
- R.E.R. no. 6-67 of 12 July 2019 – Waste emergency in the Liguria Region. Italian Legislative Decree 152/2006 art. 182 para. 3. Prior approval for the second half of the year 2019 in relation to the transfer of municipal waste coming from the Liguria Region and destined for processing in Piedmont;
- E.D. n. 317 of 28 May 2019 – Art. 5 of R.L. 30/2008 - Attribution of contributions to the Municipalities, single or associated, for the service of collection, transport and disposal of small quantities of waste containing asbestos;
- R.E.R. no. 12-372 of 11 October 2019 – Directive (EU) 2019/904 on the reduction of the impact of certain plastic products on the environment. R.L. no. 93/95 "Rules for the development of sport and of physical-motor activities". Approval of the First Guidelines related to the organisation of sporting events free from plastic - Piedmont Plastic-Free Sport Decalogue;
- Decree of the President of the Regional Executive no. 59 of 26 October 2019 – Italian Legislative Decree 152/2006, article 191. Extraordinary and urgent ordinance of the president of the regional executive for temporary recourse to particular forms of management of waste and flood detritus produced following the flood events of October 2019 in the Piedmont region;

- E.D. no. 520 of 31 October 2019 - R.L. 7/2012 and R.L. 1/2018 Approval of the municipal waste and separate collection production data for 2018;
- R.E.R. no. 14-639 of 6 December 2019 - R.L. 1/2018 art. 9 – R.L. 7/2012 art. 8 - Verification of consistency of the Area Plan of the Biella Area Waste Disposal Consortium (COSRAB) with the Regional Plan for the management of municipal waste and purification sludge pursuant to R.C.R. 140-14161 of 19 April 2016;
- R.E.R. no. 15-640 of 6 December 2019 – Criteria for the division of the portion of the special tax for depositing waste in landfills to be destined to Municipalities under the terms of article 38, paragraph 2-bis of R.L. 1/2018;
- R.E.R. no. 40-797 of 20 December 2019 - Italian Legislative Decree no. 152 of 3 April 2006, article 205, criteria for the identification of the municipalities subject to the surcharges and the reductions of the special tax for depositing waste in landfills.

MAJOR HYDROELECTRIC SHUNT CONCESSIONS

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

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

CONCESSIONS AND ASSIGNMENTS OF THE IREN GROUP

HYDROELECTRIC PRODUCTION

The major hydroelectric shunt concessions and the related expiries for the Iren Energia plants are summarised below.

Region	Plant	Nominal power (MW)	Expiry
Piedmont	Po Stura - San Mauro	5.58	31 December 2010
Piedmont	Pont Ventoux - Susa	47.42	13 December 2034
Piedmont	Agnel - Serrù - Villa	12.53	31 December 2010
Piedmont	Bardonetto - Pont	8.92	31 December 2010
Piedmont	Ceresole - Rosone	32.92	31 December 2010
Piedmont	Telessio - Eugio - Rosone	26.10	31 December 2010
Piedmont	Rosone - Bardonetto	9.71	31 December 2010
Piedmont	Valsoera - Telessio	1.76	31 December 2010
Campania	Tusciano	8.49	31 March 2029
Campania	Tanagro	12.84	31 March 2029
Campania	Bussento	17.06	31 March 2029
Campania	Calore	3.27	31 March 2029

NATURAL GAS DISTRIBUTION

Genoa area

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

Emilia Romagna area

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

Other geographical areas

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

The main assignments and concessions are:

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

- Province of Parma, Municipality of Busseto - Busseto Servizi S.r.l, a company 100% owned by IRETI, following the award of the tender procedure called by the municipality for the sale of the entire share capital: an assignment which expired on 31 December 2010 and is in *prorogatio*.

ELECTRICITY

IRETI manages the public service of electricity distribution in the City of Turin on the basis of a ministerial concession. This concession expires on 31 December 2030. IRETI also distributes electricity in the Municipality of Parma, with the same expiry date.

Through local mixed companies, the Iren Group also distributes Electricity in the following main areas:

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

DISTRICT HEATING

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

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

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

INTEGRATED WATER SERVICE

Liguria area

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

The integrated water service in the territory of the Municipalities of the Province of Genoa is managed by IRETI through the safeguarded operators. The authorised and/or safeguarded companies of the Iren Group that perform the function of operator are Iren Acqua S.p.A. (60% controlled by IRETI), Iren Acqua Tigullio S.p.A. (66.55% controlled by Iren Acqua) and AMTER S.p.A. (in which Iren Acqua, again, has a 49% stake). IRETI also provides the drinking water distribution service in the Municipalities of Camogli, Rapallo, Coreglia and Zoagli in the Genoese ATO.

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

- Savona area, in the municipalities of Albissola Marina, Albissola Superiore, Quiliano, Vado Ligure, Celle Ligure, Noli, Spotorno, Bergoggi, Savona, Stella, Varazze;
- Centre West 2 - comprises all the municipalities located on the Po valley side, managing the service, through the C.I.R.A. Consortium in the municipalities of Altare, Cairo Montenotte, Carcare, Cengio;

- as regards the Province of Imperia: Bordighera, Camporosso, Isolabona, Dolceacqua, Perinaldo, Vallecrosia, San Biagio della Cima, Vallebona, Seborga, Soldano. For AIGA, IRETI manages *in prorogatio* a part of the territory of the Municipality of Ventimiglia.

Finally, in La Spezia and its Province, the Iren Group manages (through ACAM Acque) the water service with a concession valid until 31 December 2033.

On the basis of the Resolution of the Governing Body of the La Spezia Area no. 3 of 29 January 2019, and of the Resolution of the Council of the Municipality of Carro no. 51 of 28 December 2018, ACAM Acque took on the operational and administrative management of the integrated water service in the territory of the aforesaid Municipality, starting from 1 April, which is therefore added to the 26 in which, for years, the service has already been provided.

Emilia Romagna area

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

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

The Integrated Water Service in the Parma, Piacenza and Reggio Emilia ATOs is managed by the companies of the IRETI Group. Ownership of the assets and networks of the water segment was transferred to companies wholly owned by public entities. These companies made their networks and assets available to the Iren Group on the basis of a rental contract and against the payment of a fee.

On 3 December 2019 the Call for Tenders for the restricted procedure was published by ATERSIR in the EU Official Journal. The criterion is the economically most advantageous offer, regarding *“the attribution of the quality of operating private partner and the assignment of specific operating tasks in the context of the assignment in concession to a mixed company of the Integrated Water Service in the territorial area of the Province of Reggio Emilia with the exception of the Municipality of Toano.”*

In this regard ATERSIR made available, for the purpose of the manifestation of interest in participation (regarding in the current stage still pre-qualification), a series of preliminary tender procedure documents, and precisely:

- the management model;
- the specifications of expenses;
- the report pursuant to art. 34 paragraph 20 of Italian Law Decree 179/2012 (envisaged for tender procedures for local public services) which gives an account of the reasons and existence of the requisites for the form of assignment chosen
- the update of the Area Plan and the Economic and Financial Plan.

Main elements:

Value of the Concession: 1,550,000,000.00 euro

Duration of the Concession: from 1 January 2021 to 31 December 2040 => 20 years;

Award criterion: economically most advantageous offer (70 points technical-qualitative part + 30 points to the economic part);

Term for presentation of the offer: 27 February 2020 at 17:00.

As regards the Management model, it provides - from the corporate point of view - for the incorporation of a limited-liability company, to be called *“Azienda Reggiana per la Cura dell’Acqua”* (Reggian Company for Water Treatment), abbreviated to ARCA. The private partner - selected with the dual-purpose procedure - will hold 40% of the share capital of the company in question, while AGAC Infrastrutture S.p.A. will be the public partner with 60% of the shares.

The tender procedure provides for an obligation for the private partner to create a territorial operating company (100% held) for management of the operating tasks assigned with the tender procedure. This company will not be linked to the mixed company through an equity investment, but only through an agreement that governs the assignment by ARCA S.r.l. to the operating company of the specific operating tasks identified in the tender procedure.

The preparatory operations for participation in the pre-qualification stage are in progress.

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

ATO	REGIME	SIGNING DATE	EXPIRY DATE
<i>Genoa area</i>	ATO/operator agreement	16-4-2004/5-10-2009	31 December 2032
<i>Reggio Emilia</i>	ATO/operator agreement	30 June 2003	31 December 2011 (*)
<i>Parma</i>	ATO/operator agreement	27 December 2004	30 June 2025
<i>Piacenza</i>	ATO/operator agreement	20 December 2004	31 December 2011 (*)
<i>Vercelli</i>	ATO/operator agreement	13 March 2006	31 December 2023
<i>La Spezia</i>	ATO/operator agreement	20 October 2006	31 December 2033

(*) Service extended until new agreements are defined

Other geographical areas

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

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

We can remind you finally that on 30 December 2016 IRETI acquired from Società Acque Potabili S.p.A. of Turin a business unit related to the management of the integrated water service in various Municipalities in northern Italy. Several of these managements, outside the Group's territories of reference, have been gradually sold to third parties. At 31 December 2019 IRETI is still responsible for the management in the Municipalities of Costigliole Saluzzo, Racconigi, Ceresole d'Alba, Sanfrè and Montà, all in the province of Cuneo, and Gazzuolo and Viadana in the province of Mantua. For 2020 negotiations are expected to be held for the sale of the managements of the province of Cuneo.

ENVIRONMENTAL SERVICE MANAGEMENT

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

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

(*) Service extended until new agreements are defined

(**) the term is 20 years running from the end of provisional operation of the Waste-to-Energy plant of TRM S.p.A.

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

Services provided to the Municipality of Turin

On 31 October 2006, Iren Servizi e Innovazione took over the following from AEM Torino S.p.A.:

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

With a resolution of 3 November 2010, the Turin Municipal Executive Committee decided to assign service agreements to the Company for management of the Electrical and Special Systems and of the Heating and Conditioning Systems for municipal buildings, until 31 December 2017. The assignments were extended up to 31 December 2020 with a resolution of the Turin Municipal Executive Committee of 27 November 2012. Following the merger by incorporation of Iren Servizi e Innovazione into Iren Energia, with a deed of 27 December 2016, starting from 1 January 2017, Iren Energia took over the above Agreement and the above service contracts. From 1 October 2018, following the partial demerger of the business unit related to management of the public lighting service, traffic lights and heating, electric and special systems maintenance for the Municipality of Turin, Iren Rinnovabili (now Iren Smart Solutions) took over these activities from Iren Energia.

REGULATORY MEASURES FINANCIAL YEAR 2019

The main regulatory measures referred to financial year 2019 with the greatest impact for the energy businesses of the Iren Group are presented below.

GAS

Gas Energy Management

Res 148/2019 - Reform of the rules on gas settlement

Resolution 148/2019 amended the Consolidated Rules on Gas Settlement (Testo Integrato del Settlement Gas - TISG) to incorporate the reform of the process of updating the relationship of correspondence between balancing user and redelivery point of the distribution network approved by resolution 155/2019: this states that management of the commercial supply chain must be entrusted to the Integrated Information System (IIS) from 1 January 2020: the relationship of correspondence between Balancing User (shipper), distribution user (seller company) and redelivery point (RP) will therefore be mapped on the IIS. This process is also functional to reform of the processes of conferment on the City Gate which will come into force from thermal year 2020-2021.

Res. 147/2019, Res. 155/2019- Revision of the processes of defining commercial relationships between balancing users and distribution users. Revision of the processes of conferring capacity at redelivery points on the transport network

With resolution 147/2019/R/gas, the Regulatory Authority for Energy, Networks and the Environment (Autorità di Regolazione per Energia Reti e Ambiente - ARERA) reformed the process of conferment of capacity at the output points of the gas transport network that supply distribution networks (City Gates), starting from 1 October 2020. The measure simplifies the process as the capacity no longer has to be requested from the Balancing User (BU) and the conferment is completed automatically, at the moment in which the Central Register of the IIS certifies the "relationship of correspondence" that defines, for each RP present in the distribution contract of a Distribution User (DU), to which BU the withdrawals must be attributed. The quantities conferred are determined on the basis of only the characteristics of the RPs served on the distribution network by the DUs: annual consumption, withdrawal profile and metering frequency. In particular, this resolution, which follows CDs nos 114/2018/R/gas and 512/2018/R/gas, provides for:

- the definition of maximum "conventional withdrawal" of an RP, which:
 - in the case of points with daily metering, coincides with the figure of the consumption peak of the year;
 - for points without daily metering, is equal to the maximum amount of the conventional profile;
- the definition of "conventional capacity" of the withdrawal point which is equal to the maximum conventional withdrawal multiplied by a repositioning coefficient "z" which takes into account the contemporaneity of consumption and converts the figure for "consumption" into "capacity";
- the "capacity conferred" to a balancing user, understood as the sum of the conventional capacities of the withdrawal points served by it.

The automatic attribution to the BU of the capacity on the City Gates determines the superseding of the current conferment procedures and of the penalties for exceeding the capacity conferred.

Res 114/2019 - Criteria for tariff adjustment for the service of transport and metering of natural gas for the fifth regulatory period (5RP)

For the fifth regulatory period ARERA, with Resolution 114/2019 which follows CD 512/2019, defines a 40/60 entry/exit division of revenue (as in the transitional arrangement) and, in addition, the inclusion of the regional networks in the entry/exit perimeter, as provided for in the TAR Code, with attribution of the revenue from the regional network totally to the exit (the resulting entry/exit ratio would be 28/72). The variable component of the transport tariff will be applied in the same way at the exit.

As regards determination of the reference prices, ARERA has approved the methodology based on the weighted distance for the capacity provided for again in the TAR code. ARERA's new regulations on the subject are aimed at safeguarding the competitiveness of the Italian system in relation to the costs of

importing and exporting natural gas. Finally, as regards determining the revenue recognised, ARERA has begun to introduce a number of incentive elements (output-based regulation elements in preparation for gradual transition to TOTAl EXpense regulation). With Resolution 201/2019 the new tariffs were approved; these will be applied from 1 January 2020.

Resolution 577/2019/R/gas - Update of the QVD (Retail Sale Portion) component of the economic conditions of the natural gas protection service, for the year 2020

The measure defines the amounts of the QVD component, the component covering the marketing activity costs of the service of selling natural gas to customers that make use of the protection service in force starting from 1 January 2020. In particular, the QVD for a domestic customer is defined as 63.61 euro /RP/year and 0.7946 euro cents/m³, while that for an apartment building for domestic use (< 200,000 sm³) amounts to 83.55 euro/RP/year and 0.7946 euro cents/m³.

Gas networks

Resolution 98/2019 – Determination of the definitive reference tariffs for the gas distribution and metering services, for the year 2018

The Authority approved the definitive reference tariffs for the gas distribution and metering services for the year 2018, considering also the requests for adjustment of the figures presented by 15 February 2019 and of the applications for tariff re-determination presented by the distributors.

Resolution 570/2019 - Tariff regulation of the gas distribution and metering services for the period 2020-2025 (RDTG)

This measure approved the regulation of the gas distribution and metering service tariffs, for the regulation period 2020-2025.

As regards **recognition of operating expenses**:

- the update of the recognition of operating expenses of gas distribution was made on the basis of the effective expenses of 2018 with a view to recovering the efficiency achieved by the operators in the fourth period; the expenses will be recognised with a price-cap criterion through a constant productivity recovery rate (“X-factor”) during the first semi-period of regulation;
- the tariff components related to metering, marketing costs and centralised costs were also updated;
- as regard the tariff components covering the remote management costs and concentrators, advance payment recognition mechanisms were introduced taking into account the latest year for which data are available;
- in the same way advance payment mechanisms will be established for metrological checks;
- as regards the recognition of operating expenses related to area managements, the criteria provided for in the fourth regulatory period were maintained, confirming a value of zero of the X factor for the first 3 years and subsequently a gradual absorption of the differentiation by dimensional cluster.

As regards **recognition of Capital Costs**:

- the value of the parameter of the asset of the measure is updated for the period 2020-2023 aligning it to the distribution;
- procedures were launched with the aim of introducing incentive regulation schemes for capital costs related to the distribution service, founded on logics of recognition of standard costs, envisaging that they can be applied starting for the investments made in 2022;
- the mechanism of parametric revaluation of the misaligned RABs was updated, the “unfreezing” of contributions before 2011 was diluted over more time;
- as regards aggregations, the regulation is postponed to assess the possibility of providing both for specific measures to strengthen operators in the single ATEMs, and for measures for generalised aggregations providing for possible modulations on the basis of the dimensions of the entities involved in the aggregation operations.

Resolution 569/2019 - Quality regulation of the gas distribution and metering services for the period 2020-2025 (RQDG)

The resolution approved the new integrated text on the quality of gas distribution and metering services for the years 2020-2025, which pays great attention to the security of the service, providing for:

- the introduction of new indicators;

- the tightening of the security indicators;
- the obligation to put into cathodic protection 98% from 2023 with intermediate replacement stages;
- the obligation to replace cast iron by 2025, with intermediate replacement stages (cases of possible derogation permitted);
- the obligation of the presence of only modernised odourisation systems starting from 2023;
- the introduction of a pressure monitoring system for low-pressure networks;
- the postponement to 2023 of the revision of the standards for the work estimation time;
- new meter reading obligations by July 2020.

CD 487/2019 – new obligations for gas meters of diffused users

With CD 487/2019/R/gas, ARERA proposes the introduction of a number of provisions on the obligations to put into service smart gas meters, in particular on:

- obligations to put into service smart meters for diffused users and monitoring of the effective installations of the current obligations of 85% for distributors with more than 50,000 points of delivery;
- greater frequency of meter readings for smart meters, for which 6 bi-monthly readings are envisaged for consumption up to 5,000 sm³ per year and monthly readings for higher consumption;
- new indemnity of 25 euro for final customers with smart meters in the case of failure to read effectively for two consecutive readings (two bi-monthly or two monthly readings);
- more information to the customer: the data on installation and commissioning of smart meters must be made available on the consumption portal and in the first useful bill;
- cost recognised for smart meters: the weighted average between the standard cost (30%) and the effective cost incurred by the distributor (70%) is proposed and, in the case of a reinstalled meter, it is proposed that the book value of the meter should be equal to the regulatory value of the asset removed, to be depreciated over 10 years.

Resolution 537/2019 - Recognition of the operating expenses for the natural gas metering system, related to remote reading/remote management systems and to the concentrators for the years 2011-2016, incurred by natural gas distributor companies that have adopted buy solutions

With this resolution ARERA approves the amounts covering the operating expenses related to remote reading/remote management systems and to concentrators of the period 2011-2016.

ELECTRICITY

Energy management

Italian Ministerial Decree of 28 June 2019

The Italian Ministry of Economic Development (MED) approved the Rules of the Capacity Market, so the two auctions planned were held respectively on 6 and 28 November 2019 with delivery years 2022 and 2023.

For the purposes of defining the demand for capacity, the MED set at 6 hours/year the value of the adequacy indicator of the electricity system beneath which the electricity system is inadequate.

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

Under the terms of the Rules, approved by the MED, the following were able to access the mechanism:

- holders or entities that have received a mandate without representation for existing or new production capacity, referred to Production Units located in Italy directly or indirectly connected to the National Transmission Grid in possession of a “Unit Emission Index” of not more than 550 gr CO₂/kWh and in observance of the limit of “Unitary Total Emissions” of not more than 350 kg CO₂/kW;
- holders of a capacity referred to UCMCs (Consumption Units) as defined in the Regulation, located in Italy;
- Entities admitted to operate on the Day-Ahead Market (DAM), for offers referred to Foreign CAP (“Capacity Available in Probability”).

The market was organised into two multi-session descending auctions in order to maximise the net value of the transactions on the entire system compatibly with observance of the transit limits between Areas of the significant network.

The Rules may possibly be reviewed and re-proposed for examination by the Commission in the light of the European Regulation on the internal market, which came into force this past 4 July 2019 in the context of the so-called Clean Energy Package.

At the moment the rules are the subject of an appeal to the Lombardy RAC, presented by Italia Solare, Tirreno Power, Axpo and Repower. Iren Energia joined the case *ad opponendum*.

ARERA Opinion 281/2019/R/eel on the draft Decree for approval of the rules of the capacity market and Resolution 363/2019/R/eel containing the economic Parameters of the competition procedures of the capacity market for the delivery years 2022 and 2023

ARERA, with this Opinion, expressed itself in favour of the draft of the related MED decree.

To complete the rules of the CM, the Authority also resolved (with Measure 363/2019) on the final economic parameters of the mechanism.

Consultation Document 322/2019/R/eel - Integrated Text on Electricity Dispatching (Testo Integrato Dispacciamento Elettrico - TIDE), Overall Orientations

The document contains the orientations of the Authority with the aim of achieving two macro objectives:

- identification of the main lines of action for the evolution of the dispatching service in the new context in rapid and continual evolution, also in view of the achievement of the European objectives at 2030, as a result of the diffusion of non-programmable renewable sources and of distributed generation, and of the progressive cessation of the programmable systems that historically made available resources to guarantee a balance between demand and supply of electricity;
- the completion of integration of the Italian markets with those of the other European countries, taking into account the European legislative framework.

Resolution 576/2019 - Update of the RCV and DISPBT components of the PCV price related to the sale of electricity and amendments to the TIV

The measure defines the values of the RCV components and of the PCV price related to the activity of marketing of the electricity sale service in force starting from 1 January 2020.

As regards the PCV component, it will be:

- for LV Domestic customers: 6,512.39 euro cents/POD/year;
- for customers with Other LV uses: 12,564.26 euro cents/POD/year;
- for users of LV public lighting: 0.336 euro cents/POD/year;

As regards the RCVsm component (Centre North Territorial Zone), the values provided for are:

- for LV domestic customers: 4,155.04 euro cents/POD/year;
- for customers with Other LV uses: 6,967.28 euro cents/POD/year;
- for users of LV public lighting: 0.153 euro cents/POD/year.

ELECTRICITY NETWORKS

2G ("2nd Generation") Smart Metering Systems

Resolution 409/2019 - Conclusion of the proceeding on the subject of version "2.1" of low-voltage smart electricity meters

The resolution concludes the proceeding in question:

- without introducing 2G version 2.1 (so a complementary obligatory channel for Chain 2 is not introduced nor is remote resetting of meters);
- providing for the memorisation and display of removal readings of the previous meter replaced for 26 months and 15 days from the replacement date;
- deferring to subsequent rules for prepaid contracts;
- activating the CEI for the analysis of the feasibility of creation and sale of a "smart terminal cover" that can also operate with services based on data offered by third parties;
- inviting the potential parties interested in proposing an update of the monitoring of the communication performance on Chain 2 in the case of high diffusion of the user devices.

Resolution 306/2019 – rules for large-scale plans launched in 2020 - 2022

After CD 100/2019, resolution 306/2019 defines the rules for recognition of the costs of large-scale plans for the installation of 2G smart meters being launched in the three years 2020-2022 by DSOs with more than 100,000 users. In detail, it confirms the incentive mechanism on only investment costs (already provided for in the 2017-2019 plans), introducing however a number of refinements (accelerated conventional profile of replacement of 1st generation - 1G - devices, maximum recognition of 130 euro/2G for access to the abbreviated cost recognition procedure). It also introduces timing obligations for the start of large-scale replacement/installation (by 2022) and for its conclusion (90% of 1Gs by 2025, 95% of 1Gs by 2026). For DSOs up to 100,000 users, the regulation is postponed to a subsequent resolution.

Resolution 467/2019 – experimental regulation on the reclamation of obsolete Risers

The reclamation of obsolete Risers is regulated by the resolution in question, which provides for:

- an experimental regulation for the three years 2020-2022;
- identification, by all DSOs, of their risers made before the end of 1969 (or between 1970 and 1985 if critical according to the DSO) and the subsequent disclosure to all tenants of the possibility of accepting the experimentation;
- the communication by 30 June 2020 by the DSOs (or by their associations) in agreement with the associations of apartment building administrators of preparation of a standard DSO-apartment building contract for 2021-2022;
- the guarantee, when reclamation has been done, to all apartment buildings to be able to increase their contractual power up to 6.6 kW;
- the possibility of centralising meters on the occasion of the reclamation;
- in the case of non-centralisation of the meters, the performance of the building work by the tenants or by the DSO (if delegated by the tenants);
- in the case of centralisation of the meters, the performance of the building and electrical work by the tenants;
- the obligation for the tenants that perform the reclamation to prepare and conserve specific documentation, and to assume liability on the work performed;
- the recognition to tenants that perform building work (also electrical work, in the case of centralisation of meters) of a contribution by the DSOs defined by ARERA, on the basis of the number of floors and users of the building, and of the quality level of the finishing of the building work;
- the notice, from the DSOs, of the start of their riser reclamation programme on their website and of the start of work for each apartment building, with an indication of a CEM (Certified E-Mail) address usable by telecommunication companies for any requests;
- the communication by the DSOs to ARERA of the on-site survey of their risers by 30 September 2022, for which a unit contribution of 20 euro will be paid to them;
- the introduction of a new “obsolete risers” asset item, with a duration of 15 years to which the DSO will charge the costs of the building work (and of the electrical work in the case of centralisation).

Resolution 534/2019 – resilience plan of DSOs

ARERA, with resolution 534/2019, published the set of actions to increase the resilience of the electricity distribution grids in relation to the 2019-2021 plans eligible for bonus and/or penalty of the main DSOs, including IRETI.

These actions observe the rules on the subject of resilience that were defined by resolution 668/2018, which provided for:

- bonuses/penalties for actions in 2018-2023 development plans launched from 2017 and completed between 2019 and 2024;
- a bonus of 20% of the delta between costs and benefits of only actions with benefits higher than the costs;
- a ceiling on the net bonus, equal to 25% of the expected cost of all actions, subject to partial return in the event of interruptions of more than 8 hours that occur in the 5 subsequent years on infrastructures subject to resilience actions;
- penalties proportional to the cost and increasing according to the delay, with a ceiling of 25% of the effective cost of all the actions.

Electricity distribution and metering tariffs

Resolution 568/2019

The resolution approves the electricity transmission, distribution and metering tariff regulation for the 2020-2023 regulation semi-period.

Its main contents are:

- the provision for future consultations for a new regulation approach rewarding the benefits obtained and based on the efficiency of the total cost, medium-term planning and the evaluation of the level of service rendered (“Totex” approach);
- the definition of costs recognised to the DSOs in 2020-2023 such as to recover by 2023 the higher productivity recoveries obtained by the operators in the four years 2016-2019;
- the introduction of a mechanism to reintegrate unenforceable receivables for network expenses;
- the definition of aggregation incentives only for small operators, also obtained through new contractual solutions (network contracts);
- confirmation up to 2023 of the incentive mechanism for power increase requests on the part of domestic customers;
- changes for reactive energy: new prices from 2021 for reactive energy withdrawn, new prices from 2022 for reactive energy injected;
- evolutions for electrical recharging: the current transport and metering rules for withdrawal points dedicated to recharging in places accessible to the public are extended until 2023 and the minimum requisites for enabling LV users to withdraw for recharging up to 6 kW in night-time hours will be defined by June 2020; the contractual types of the transport will be applied by the operators on the basis of the indications provided by the user;
- the extension of the transitional regimen (under the terms of resolutions 67/2010 and 294/2012) for subjects requesting connections for travelling shows and pertinent domestic uses until new rules are defined, by 31 December 2021.

Resolution 566/2019 - integrated text on electricity distribution and metering quality

Resolution 566/2019 regards the regulation of the quality of the electricity distribution and metering service for the four years 2020-23.

Among the issues dealt with, it is worth noting:

- for prolonged and extended blackouts, the revision of the conditions for the disbursement of automatic indemnities chargeable to the exceptional events Fund, including the disproportion of the said automatic indemnities for certain types of non-domestic customers;
- for the reporting of unplanned interruptions, the introduction of the allowance of four hours for identification of the starting instant of interruptions with LV origin if the user is not in the place of the interruption at the moment of the call;
- Experimental incentives for the reclamation of risers.

WASTE

The Regulatory Authority ARERA began performing its functions between 2018 and 2019 through the following measures.

Resolution 715/2018 - Launch of proceeding for establishment of a tariff monitoring system for the integrated waste management service, including separate, municipal and assimilated waste and the single services that constitute management activities for the years 2018 and 2019

A proceeding was launched for the establishment of a system for monitoring the tariffs of the integrated waste management service, including separate, municipal and assimilated waste and the single services (conclusion planned for 30.06.2019). In the context of the proceeding, the following were sent:

- observations, also at the level of associations, on the ARERA presentation of 19.04.2019 related to criteria for recognising efficient costs (2018-2019);
- statements of the Monitoring of the test stage on the Reggio Emilia Area on 4.06.2019.

CD 139/2019/A and Resolution 242/2019 - “2019-2021 Strategic Framework”

Following the consultation the main strategic objectives in the waste sector were approved; these regard in particular:

- clear and transparent tariff rules for covering the efficient costs of waste management;
- Improvement of the quality of service and limitation of arrears in the waste cycle;
- promotion of adequate infrastructures for management of the waste cycle.

Resolution 443/2019 - definition of the Waste Tariff Method valid in the period 2018-2021

The measure, published on 31 October 2019, provides for the definition of the Waste Tariff Method (WTM) valid in the period 2018-2021, enabling a derogation for processing and disposal, while awaiting the prices for access to the plants which will be determined with a subsequent measure of the Authority (presumably during 2020).

The WTM provides for the following significant aspects:

- transition from presumptive to final costs (from financial statements) with base 2018 (time lag of 2 years);
- application of the WACC of 6.3%;
- graduality in application of the 2018 and 2019 adjustments
- the tariffability of forecast costs
- the application of a sharing factor on energy and material revenue (CONAI and market).

Resolution 444/2019 - Rules on Transparency between 1.04.2020 and 31.12.2023

The measure, also published on 31 October 2019, contains the rules on the subject of Transparency valid in the period 1 April 2020 – 31 December 2023.

Specifically it defined the minimum information items to be made available to users of the service through websites, collection documents (notice of payment or invoice) and individual communications related to significant changes in management.

Work groups at the Ministry of the Environment – Circular economy

Parallel to the regulatory activity of the Authority, the Ministry of the Environment and Protection of the Territory and of the Sea (MEPTS) has set up 14 Work groups for the purpose of legislative revisions/amendments with a view to transposing the new EU directives on waste (Circular Economy package). The main themes regard:

- the reform of the packaging system and the consortia;
- the reform of the Extended Producer Responsibility (EPR) system;
- the definitions and classification of waste;
- the reform of the landfill tariff and tax system in coordination with the activity of ARERA;
- the reform of the rules on End Of Waste (EOW) and by-products with particular reference to the definition of the procedure for defining EOW.

Ministerial works - rules on sludge

Finally, in the last few months of 2019 the revision of the rules on sludge was launched through the preparation by the MEPTS of a draft improvement decree which provides for:

- the priority of agricultural use;
- the concession of technical time for making the plants compliant with the new requirements;
- promotion of the recovery of sludge also through incineration and drying;
- the provision for a Regional Sludge Plan (in the context of the regional waste management plan);
- exclusion from the scope of application of the Decree of defecation lime.

WATER SERVICE

Resolution 311/2019 – Regulation of arrears in the IWS (REMSI)

After an articulated consultation process, in July 2019 ARERA approved the regulation of the procedure for limiting arrears in the integrated water service, with effect from 1 January 2020. Uniform rules are introduced all over Italy in the case of non-payment by users in the water sector; standard times and methods are defined for declaring default, payment in instalments, suspension of the supply and

termination of the contract, safeguarding vulnerable users in a documented status of economic/social difficulty (users that are direct beneficiaries of bonuses) and non-disconnectable public users (such as hospitals and schools).

In cases of arrears of resident domestic (non-vulnerable) users the suspension of the supply is permitted:

- if there is non-payment of bills for an amount at least equal to the annual fee payable for the subsidised consumption band;
- after a limitation of the flow, when technically possible, capable of guaranteeing the minimum vital quantity (50 litres of water per person per day).

Specific rules are laid down on the treatment of arrears in the case of apartment building users: as well as providing for specific forms of protection (in the case of payment of at least 50% of the amount payable within the deadline indicated in the communication declaring default payment in instalments over 6 months is permitted) the Governing Body of the Area is required to launch procedures capable of stimulating the installation of individual meters.

The Authority also introduces the obligation to send an amicable reminder, prior to the communication declaring default, and sets at 10 days and 25 days the minimum term between due date of the bill and, respectively sending an amicable reminder and subsequent communication declaring default.

A minimum period is set for payment in instalments in the case of arrears, of 12 months. Automatic indemnities finally are provided for in the case of failure to observe the procedures provided for.

Resolution 547/2019 – Supplement to the rules on contractual quality

With the resolution, effective from 1 January 2020, the Authority supplements the regulation of contractual quality of the integrated water service (RQSII), with the introduction of incentive (bonus/penalty) mechanisms in a way very similar to what is already envisaged for technical quality (RQTI).

In particular this new mechanism is based on the construction of two macro-indicators, obtained starting from 42 simple indicators provided for in the RQSII:

- the macro indicator MC1 “Beginning and termination of the contractual relationship” is made up of the simple indicators (18) with regard to the performance related to estimates, the execution of connections and work, the activation and deactivation of the supply
- the macro indicator MC2 “Management of the contractual relationship and accessibility to the service”: is made up of the simple indicators (24) with regard to the performance related to appointments, invoicing, testing of meters and of the pressure level, replies to written requests and the management of points of contact with users.

On the basis of the initial performance levels (referred to 2018) the appropriate classes are identified for each macro-indicator and then the annual improvement target is set (or possibly maintenance target if the provider is in class A). Depending on whether or not this target is achieved assessment levels in two stages (basic and excellence) will be implemented for the application of the bonuses/penalties.

With the resolution in question specific disclosure obligations are also introduced in the case of bi-annual prescription, transposing what is provided for in Italian Law no. 205 of 27 December 2017.

Resolution 580/2019 – Approval of the Water Tariff Method for the third regulatory period (MTI-3)

The Authority approved the Water Tariff Method for the period 2020-2023 (MTI-3). This method, although it confirms the main contents of MTI-2 (tariff method for the period 2016-2019), introduces numerous changes including:

- mechanisms aimed at improving the energy efficiency and environmental sustainability of the service: incentives are envisaged to limit electricity consumption and for making investments, including those related to biogas or to energy production from hydroelectric sources, which can limit the environmental repercussions of the service;
- mechanisms to make endogenous operating expenses more efficient: depending on the positioning of the single management with respect to the frontier of efficient cost per inhabitant identified by the Authority a percentage of reduction of any margin existing between the endogenous costs in the tariff

and final costs for the year 2016 is defined, for the purposes of quantifying the endogenous costs for the period 2020-2023;

- recognition, in a pass-through logic, of the higher costs of disposing of purification sludge with respect to those incurred in 2017;
- re-introduction of the adjustments, between forecast costs and final costs, regarding wholesale services (primarily on the purchase of water);
- for work in progress, if not related to strategic works, an OF rate lower than that of investments in operation is provided for; the recognition of the OF-OFisc rates linked to strategic works is instead kept equal to those of assets in operation;
- a change, valid from 2020 investments, in the categories and useful lives of the assets;
- introduction of control procedures on the implementation of expected investments regarding the period 2016-2019: if an operator that has not observed the Action Plan has also not achieved the quality targets (technical and, from 2020 also contractual), it is subject both to application of penalties calculated according to a rigid scheme fixed by the Authority, and to the return of any benefits received (financial amortisation, New Investments Fund tariff contributions) if the non-observance of the planning entails repositioning in the matrix of tariff schemes.

OTHER GENERAL MATTERS

Incentives – White certificates

Resolution 487/2018 and resolution 273/2019 - Definition of the tariff contribution to cover the costs incurred by electricity and natural gas distributors subject to the obligations in the context of the energy efficiency certificate mechanism, under the terms of the inter-ministerial decree of 10 May 2018

The Authority, with resolution 487/2018, approved the new rules on the tariff contribution for EECs, which, implementing the “corrective” inter-ministerial decree of 10 May 2018, provide for, among other things, the setting of a ceiling of 250 euro/certificate.

Resolution 273/2019 on the subject then changed the calculation formula pursuant to resolution 487/2018 in the terms in which, for the weighting, only the quantities of bilaterals traded at a price lower than the ceiling provided for are considered.

Resolution 529/2019/R/efr - Launch of the proceeding of reform of the tariff contribution to be recognised to distributors in execution of the judgement of the Lombardy RAC 2538/2019 and urgent actions in the context of the mechanism of energy efficiency certificates (EECs)

With Resolution 529/2019, dated 10 December 2019, the Authority launched a proceeding for reform of the tariff contribution to be recognised to distributors that fulfil the energy saving obligations in the context of the EEC mechanism, in execution of the judgement of the Lombardy RAC no. 2538/2019: with the said judgement, in particular, the RAC cancelled the whole of Resolution 487/2018 (mechanism for determining the tariff contribution recognised for EECs delivered by electricity and gas distributors) and provided for the partial loss of effectiveness of the Italian Interministerial Decree of 10 May 2018, with particular reference to the setting of the maximum value recognised for the tariff contribution.

Further objectives of the proceeding will be:

- updating of the value of the tariff contribution recognised for obligation year 2018, the subject of the Decision of 10 July 2019, on the basis of the new criteria that will be adopted;
- verification of any need to proceed with adjustments with respect to what will result owing to the new value of the contribution for 2018 that will be determined.

According to the Authority, the most correct driver for the definition of the total cost of the mechanism in its current form would be represented by the cost incurred by distributors that take advantage of the possibility of purchasing EECs not corresponding to energy efficiency projects, pursuant to art. 14bis of the Italian Law Decree of 11 January 2017. A cost that would be defined as the difference between 260 euro/EEC and the value of the tariff contribution for the corresponding obligation year, with a maximum limit of 15 euro/EEC.

PERSONNEL

Personnel

At 31 December 2019 the Iren Group had 8,102 employees, up compared to the 7,042 employees at 31 December 2018, as can be seen in the table below, divided into Holding and first-level companies and related subsidiaries.

Company	Workforce at 31.12.2019	Workforce at 31.12.2018
Iren S.p.A.	1,060	1,036
IRETI and subsidiaries	2,150	2,120
Iren Ambiente and subsidiaries	3,508	2,550
Iren Energia and subsidiaries	875	832
Iren Mercato and subsidiaries	509	504
Total	8,102	7,042

The main changes in the workforce compared to 31 December 2018 were due to:

- acquisition in January 2019, by Iren Ambiente, of the Company San Germano and of its subsidiary C.M.T. for a total of 770 resources, subject to change depending on the acquisition or cessation of the services performed under contract, some also of a seasonal nature;
- acquisition, with effect from 1 January 2019, by ReCos (controlled by Iren Ambiente) of a business unit related to the management of two waste processing plants located in the province of La Spezia. The unit transferred involves 13 employment relationships held with employees operating in the context of the functions transferred;
- acquisition in July 2019, by Iren Ambiente, of Ferrania Ecologia and of the business unit related to the waste sector of FG Riciclaggi for a total of 66 resources;
- continuation of the generational turnover plan, with a considerable number of recruitments on the labour market.

ORGANISATION AND IT SYSTEMS

Organisation

During 2019, a number of actions on reorganising the Group took place, with the aim mainly of achieving the objectives of operational effectiveness and efficiency and focusing on the business, in keeping with the provisions of the Strategic Guidelines of the Business Plan.

In addition, the corporate rationalisation and integration operations continued, with the aim of strengthening the Group Organisational Model, also following the entry of new businesses acquired through corporate and Merger & Acquisition operations, through forms of functional coordination, where other forms of corporate integration were not possible.

To facilitate achievement of the objectives of the Group and of the single Companies that are a part of it, important projects were launched or continued. These were developed together with a profound change management process, and are based on four main lines: Customer relations, improving the service and performance, digitalisation and human resources.

Making reference to the paragraph “Information Technology” below, we present below by way of example a number of existing projects that have organisational implications:

- as regards Customer Relations, a complex programme continued with the aim of redesigning the entire customer management and relation process, from the first contact to invoicing, entitled “Market Transformation Programme”;
- as regards improving the service and performance, in the context of the Networks Business Unit the project for the use of a new Asset Management system and of a Work Force Management (WFM) system was completed. In addition, the project entitled “IrenWay” was launched; this has the objective of creating a new and single technical-commercial information system for management of the Gas and Electricity distribution service and of the Integrated Water Cycle in order to guarantee high performance levels and increase the quality of technical reporting for customers and the Authority;
- in the context of the Waste Management Business Unit, important progress was made on the “Just Iren” project, which provides for the creation of a new management, operational and IT model capable of optimising the management of the waste collection, sweeping and conferment process, facilitating also the interaction with Customers/Citizens and with local authorities to which the service is provided;
- as regards human resources, work continued on the Performance Management and Compensation systems and important progress was made on the project for implementing the new application aimed at managing the entire Recruiting and Career & Succession Planning process. With a view to integrated management of processes and systems, the project was also launched for implementing the new Information Technology system aimed at managing the personnel and organisational structures databases, which will be the “master” system for all the other systems used to manage human resources in their corporate pathway (including the aforementioned Performance Management and Compensation, Recruiting and Career & Succession Planning systems).

Among actions for organisational improvement we can note also the pilot project for testing the Lean methodology for making processes more efficient and improving the business performance and the project for testing an application for mapping processes and organisational development (with a sharp focus on corporate roles and on how these are effectively “operated” in the organisation).

During 2019 finally the work on implementing the actions to improve conduct and the Group’s organisational policies continued. These policies were developed on the basis of the results of a survey that saw the participation of the personnel employed by the Group. After this implementation, a further survey was carried out to assess the effectiveness of the actions performed, with a view to continual and positive evolution. The 2019 survey recorded sharp growth in the level of participation, providing further indications for organisational and managerial improvement.

Information Technology

2019 saw the continuation and/or completion of important projects which are strategic for the Group, as presented below.

In general, besides the necessary adjustments, the computerisation and digitalisation plan provided for in the Business Plan is in the implementation stage, with a significant increase in investments and operating costs for sustaining the process of transformation and development of the Group. In 2019 the incorporations/corporate mergers were also supported, proceeding to the integration or standardisation of the systems starting from the administrative-management area.

To sustain this change and achieve the expected results among other things the organisational redesign of the Information Technology Unit was carried out, strengthening the structures responsible for governance and security and improving the internal levels of service, and numerous change management projects were launched, among which the largest was Iren4Digital (aimed at providing to all the Group's personnel the necessary skills for handling successfully, in all organisational roles, the current and future digitalisation process). Finally the structure responsible for Advanced Analytics projects was launched. This manages the study and creation of projects connected to big data, artificial intelligence and robot process automation (RPA), with the use of agile work methods.

At the level of transversal initiatives on the Infrastructure front we can note in particular:

- The project for the consolidation of the back-up systems on a single platform and the use of cloud solutions;
- The release of the end-to-end monitoring tool which makes it possible to measure the performance of the IT systems and application platforms;
- The introduction of the "Incident Response" platform to respond to security incidents automating the security operations, orchestrating the work flows, processes, and reporting;
- The launch of the project for the adoption of the NIS (Network and Information Security) Directive, 2016/1148, and that for the adoption of the standard ISO 27001 (Information Security Management Systems).

As regards the Corporate area the main projects involved the Human Resources area (new integrated technological platform that provides for the standardisation from 2020 of all the databases and the digitalisation of the personnel selection and development processes) and the AFC area (Group VAT, electronic invoicing and accrual calculation tools).

In relation to the Energy BU, in 2019 the main projects regarded the Power Exchange area and the District Heating area, with ample recourse to Analytics and sensors in the field.

For the Waste Management BU the activities linked to the "Just Iren" programme continued. This programme provides for the complete redesign of the application map starting from the sector of collection and sweeping and of the activities related to the relationship with Municipalities and citizens. The programme represents one of the Group's main digitalisation projects, with ample use of sensors in the field, and provides for the first go lives during 2020.

As far as the Market BU is concerned, the "Market Transformation" programme continued; this will see its delivery in 2020 for the electricity and gas market, with the adoption of new platforms for all customer relationship management (CRM) and invoicing processes, and the redesign of the customer experience through the revision of the web/social channels and the release of new applications. Another significant initiative launched in 2019 is the "PSD2" project for the introduction of services in the context of the electronic payments market.

In relation to the Networks BU, the new Asset and Work Force Management (WFM) system came into operation also for the integrated water cycle and the first releases of this system were made for electricity distribution, thus completing the programme implemented for the different business lines. The activities related to the "Iren Way" project also continued; this is aimed at revising and standardising the processes and information systems in support of the technical-commercial network management activities. The releases of this project will begin in 2020. Finally, the "Geolren" project is continuing; this saw the release of the web component (GeoWeb) on all areas (Gas, Electricity and Integrated Water Cycle), integrating with the WFM world.

Despite the constant and increasing attention to the issue of cyber security, on 4 December 2019 there was an attack (ascribable to a virus of the cryptolocker/ransomware type) which affected approximately 40% of the Group's servers making them unavailable. The reactivation process was gradual, in order to verify precisely that each service reinstated had not been compromised, and at the end of December 2019 most of the services and applications involved in the attack had become available again, although it was possible to complete the full reinstatement of all the functions only in February 2020. Thanks to the existing backup systems, no data were lost.

In any case, no disservice occurred on the continuity of the functions for the technical services (for example, electricity dispatching, water and gas, functioning of the power stations, collection and management of urban hygiene, etc.) and the indispensable services for citizens and customers, the essential functions for the technical service, the free phone numbers for emergencies, and the accessibility at offices were always guaranteed.

The above episode determined an acceleration of projects to increase the Group's cyber security and management of the related risks, with the adoption of a series of measures that will be completed in 2020.

QUALITY, ENVIRONMENT AND SAFETY

As expressed in its corporate mission the Iren Group provides integrated services aimed at safeguarding the environment and personnel safety. As customer needs and expectations are evolving constantly, strongly backed by market competitiveness, calling for flexible organisational models and streamlined management systems and requiring monitoring of efficiency in terms of expected results, the Group has developed an Integrated System (Quality, Environment and Safety) as a means to support the achievement of the predefined objectives.

The Integrated System is structured in such a way as to envisage adequate control of all operating processes affecting service quality, adopting an approach based increasingly on customers, workers' safety and environmental protection.

The Values on which the Iren Group is based, at the general level, are:

- belonging;
- responsibility;
- customer satisfaction;
- teamwork;
- change and flexibility;
- employee development and support;
- sustainability;
- transparency.

These Values are indicated and translated in the QAS Policy into the following basic principles of the Certificate System:

- satisfaction of all the parties involved;
- environmental safeguarding and rational use of natural resources;
- health and safety of the personnel;
- sustainable development;
- responsibility and cooperation with the community;
- efficiency of the services;
- attention to and governance of risks, with continual analysis of the context of the organisation and the needs and expectations of the parties involved;
- respect for and enhancement of people;
- innovation and change;
- supply and contract quality;
- constant improvement.

The Parent Company, all its direct (first level) subsidiaries and the investees AMIAT, ACAM Acque, ASM Vercelli, Atena Trading and San Germano have systems certified according to the international standards ISO 9001 (Quality) and BS OHSAS 18001 (Safety).

The Parent Company, the first level companies (with the exception of Iren Mercato as it is a commercial company) and the investees AMIAT, ASM Vercelli and San Germano are certified according to the international standard ISO 14001 (Environment).

In addition, Iren Energia and Iren Smart Solutions are certified in accordance with the standard ISO 50001 for Energy Efficiency; Iren Smart Solutions is, in addition, certified in relation to UNI 11352 (for Energy Service Companies) and F-GAS. Finally, Iren Mercato is certified in accordance with the Certiquality 66 Technical Document in relation to the Sale of Green Energy.

The Quality, Safety and Environment management systems are overseen for each first-level company by the Personnel, Organisation and Information Systems Department of IREN.

All audits carried out by the Certification Bodies at the Group companies in 2019 ended with a positive result confirming the maintenance of the Certifications in possession of the single companies.

RESEARCH AND DEVELOPMENT

In the Iren Group technological innovation is central in strategic decisions and in defining the products and services offered by the Group.

The Business Plan to 2024 confirms the centrality of innovation in the Iren Group's Vision which will be expressed over the period of the plan in the development of all the sectors in which it operates with the objective of making Iren an example of excellence and innovation in the multi-utility sector. In particular the Business Plan provides for investments of approximately 350 million euro in the digitalisation of processes as part of an important digital transformation project that has impacts on operating activities, customer management, the re-qualification of skills and the launch of new services.

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

- energy efficiency divided into several levels and assets (customer, building, urban agglomerate, energy assets of the Group);
- study of new systems for the recovery of energy losses and an increase in the efficiency of the plants;
- advanced remote management, remote reading, smart metering and multi-metering systems;
- solutions for the production of renewable hydrogen and for the production of synthetic methane combined with the capture of carbon dioxide;
- thermal and electrical storage systems;
- processes aimed at maximising the recovery of energy and materials from different waste fractions, separately and not separately collected;
- Internet of Things (IoT) and domotics;
- data intelligence ICT tools;
- optimised management of the integrated water cycle (districtualisation, identification and reduction of network losses) and instruments in support of sensors in the field;
- systems for the quantitative reduction and recovery of material and/or energy from sludge deriving from waste water treatment processes;
- innovative solutions connected with electric mobility;
- "industry 4.0" solutions in support of the personnel involved in plant operation and maintenance activities, for predictive maintenance and monitoring in the field.

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

2019 was characterised both by the continuation of technical activities related to the Group's various co-financed projects and by the development, also in partnership with innovative companies and start-ups, of internal technological projects on the basis of planning which, starting from an analysis of the long-term scenario, is aimed at giving the Group the tools needed to seize the opportunities and mitigate the risks deriving from evolution of the markets in which it operates.

"IREN UP", an innovative Corporate Venture Capital programme with the objective of accompanying Italian start-ups with the highest potential in the cleantech sector, was structured further during 2019. The programme makes available a completely new personalised package of services that includes testing, technical support, legal advice, market tests, and commercial and industrial agreements. During 2019 IREN UP completed three investments in the start-ups Enerbrain, i-Tes and Smart Mobility.

In the second half of the year the third edition of the IREN Startup Award was also held, thus strengthening the search for startups that have developed innovative solutions capable of bringing benefits to the Group's business lines, also through participation in events devoted to putting into contact the demand and the supply of technology.

During 2019 IREN's participation and collaboration in events linked to innovation also continued. These were:

- ContaminationLab: support to the team of students who won the 2018 contest for the study of innovative projects in the field of electric mobility;
- Innovation 4 Change: in the 2019 edition IREN organised a challenge focused on the recycling of certain fractions of post-consumption plastics;
- Hackaton: launch of a 24-hour marathon devoted to the theme of electricity, held at the Genoa Chamber of Commerce;
- Tech Week: participation, with a dedicated stand, at the event aimed at promoting meetings with the protagonists of global tech entrepreneurship, conferences, seminar, fund raising opportunities for startups and exhibitions of leading-edge technologies;
- Festival of Technology: participation, with a dedicated pavilion, in the event organised by the Turin Polytechnic, an occasion for meetings among universities, citizens, businesses, the public administration and the third sector for obtaining information and reflecting on the great challenges of an increasingly technological society;
- Liguria Crea Impresa: in 2019 IREN participated in the initiative, aimed at enhancing creativity and entrepreneurial talent in Liguria, as a partner for the Environment subject area;
- Tech-Up: launch of a call for startups in the context of Industry 4.0 collaborating with the partners of the Fondazione Ricerca ed Imprenditorialità (Research and Entrepreneurship Foundation).

FINANCED RESEARCH PROJECTS COMPLETED AND IN PROGRESS

Also in 2019 IREN contributed to the creation of important innovation projects co-financed with public funds for research. On this point, the main projects underway are presented below. The total investment for the IREN Group is approximately 8.3 million euro, of which around half being financed. In relation to these amounts, the expense incurred in 2019 was approximately 900,000 euro, of which approximately 523,000 euro covered by loans.

The projects in progress in 2019 are presented below:

Biometh-ER (Life+)

The aim of this project is to create the first plants for the production and distribution of biomethane to end users in Italy. The project was completed in September 2019 with the approval testing and the first uses of the demonstrator plant for the production of biomethane for motor transport, through the refining of biogas obtained from the anaerobic digestion of purification sludge at the Roncoresi (RE) site.

In 2019 a collaboration agreement was also signed by IREN and VGI with the aim of promoting the consolidation of policies for the production of biomethane and its use as fuel. The agreement was also signed by ART-ER and ENEA.

Recovery of material from WEEE R1/R2 (Ministry of the Environment Call for Tenders)

The project has as its main objective the development of technologies with high replicability and rapidly transferable to the industrial world, aimed at optimising the management of waste electrical and electronic equipment (WEEE), and in particular the recovery of polyurethane from refrigerators (WEEE R1) as secondary raw material and optimisation of the separation of cement from the carcass of washing machines (WEEE R2).

SATURNO (Bioeconomic Technological Platform – Piedmont Region Call for Tenders)

The project provides for the validation, on an industrial platform, of the conversion of the organic fraction of waste and of the CO₂ of vehicle exhausts and industrial production, into biofuels and biochemicals; specifically, the project provides for use of the organic fraction of waste of municipal origin, normally converted into thermal energy, electricity, bio-methane and compost, through the extraction of substances with high added value such as H₂, carboxylic acids, biofertilisers and biostimulants.

In July 2019, the project kick-off was held. Subsequently the activities in which IREN is involved were launched, aimed mainly at characterising the plastic fraction of waste produced by the processing of OFMSW in the 2 industrial sites present in the project, including the plant of the associate GAIA.

CHESTER (Horizon 2020)

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

Energy Shield (Horizon 2020)

The project intends to develop an integrated cyber security platform, usable by all actors of the energy chain (Transmission System Operators, Distributors, Aggregators, Producers).

IREN participates as a Distributor (through IRETI) supporting the partners in the definition of the specific cyber security instruments, preparing a feasibility test (on paper) and possibly an “offline” field test applied to one or more subsystems of the network (remote control, SCADA, that is a distributed IT system for monitoring and supervising physical systems, smart meters, supporting TLC networks...).

ENERGYNIUS (POR-FESR 2014-2020 Emilia Romagna)

The ENERGYNIUS (acronym of Energy Networks Integration for Urban Systems) project intends to outline models of development that enable Energy Communities and Energy Districts to carry out bidirectional exchanges with energy networks, thus offering energy and services to the regional/national system. Software instruments based on optimised management algorithms, real-time simulation models and energy district diagnostics will also be developed to identify the best technological and control solutions for energy production, storage and distribution systems. Some of the algorithms developed will be integrated into a hardware device for the control of energy plants. Software and hardware instruments will be validated in both simulated and real environments on at least three study cases.

ESACOM (Piedmont Region - innovation hubs tender)

The ESACOM (acronym of Energy SAVING and COMfort optimisation) project, completed in 2019, developed a platform of sensors, algorithms, databases and Apps capable of providing an instrument, scalable to different levels, of data management and implementation; this is a support for energy optimisation decisions, in order to implement energy management that takes into account the effective condition of well-being of the users of a building.

The system was tested on two civil buildings in the city of Turin.

EVERYWHERE (Horizon 2020)

The objective of the project is to develop a power generator with “plug and play” fuel cells, easy to transport around the city for temporary electrical power in various sectors (building sites, music festivals, temporary events, exhibition centres).

The IREN Group, as a third party of Environment Park, will test a hydrogen skid for electricity production during events/trade fairs (uninterruptible power supply/mobile generator mode).

OTTEMPO (Piedmont Region tender - innovation hubs)

The project, completed in 2019, studied and tested methods for distributing, through a fibre-optic or wireless telecommunication network, the time sample, that is the exact time, with a precision in the order of microseconds for network management in the sector of electricity distribution and the water service.

PLANET – (Horizon 2020)

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

In the context of the project, IREN is developing the pilot site at a building, in order to test the joint management of energy vectors for the regulation of energy networks.

PUMP-HEAT – (Horizon 2020)

The project has the objective of increasing the flexibility of conventional fossil source plants, in particular combined cycles, in order to satisfy the ever-increasing needs of the network to offset the demand fluctuations deriving from renewable sources. The project will study the combination of heat pumps with cogenerative combined cycle and conventional combined cycle plants; the combination with systems for heat and cold storage will also be analysed.

In particular, at the IREN facility of Moncalieri (TO) a pilot plant will be built, in which the technologies studied and developed during the project will be tested as regards cogenerative combined-cycle applications.

STORE&GO – (Horizon 2020)

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

5G-Solutions (Horizon 2020)

The objective of the 5G-Solutions project, launched in 2019, is to test, in different field tests, the functioning, potential and limits of the 5G network, con particular attention to assessing the performance indicators defined by the standardisation bodies responsible. These tests will involve the following verticals: Factories of the Future, Smart Energy, Smart Cities, Smart Ports, Media & Entertainment.

IREN will take an active part in the activities of the "Energy" vertical, assessing the benefits related to integration and use of the 5G network (and of its main characteristics of speed, limited latency and high reliability) in the cases of use of Demand Side Management at the industrial level and of Smart Charging of electrical vehicles.

Evolution2G (EMEurope Call 2016)

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

The main innovations of the project are based on:

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

NeMo- Hyper-Network for electroMobility (Horizon 2020)

The NeMo project, completed in 2019, developed an e-roaming platform applied to different electric mobility systems (recharging infrastructure and motor vehicles). The main objective is to create a "Hyper network", namely a high-level ICT infrastructure that can standardise data originating from various stakeholders and generate innovative services and applications on different verticals.

Iren's role was focused on defining the use-cases, with special reference to the electricity distributors' and vendors' requirements, providing technical and regulatory expertise to identify their requirements/constraints and assessing the results and developments of the project.

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

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

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

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

OTHER INNOVATION ACTIVITIES

During 2019, alongside the financed projects, IREN launched approximately 60 self-financed projects, which engaged resources internal and external to the company. In particular, as regards external collaborations, IREN activated multiple research contracts with Italian Universities which regarded aspects such as the design and testing of innovative plant solutions in support of the IREN businesses, the creation of models and the identification of new processes and services.

A number of significant self-financed projects are presented below:

Water

During 2019 research activities continued for optimisation of water pipeline networks.

In particular, tests continued on sensors for monitoring hydraulic transients in water distribution networks and on the instrumentation, in order to identify and eliminate the causes generating the effects of the said hydraulic transients, which are harmful for pipelines and the cause of breakages.

In addition IREN awarded an important research project aimed at improving the ARERA technical quality indicators in the integrated water cycle sector, for the purpose of responding to the needs of competitiveness and efficiency required by the new Regulation of the Technical Quality of the Integrated Water Service supporting the adoption of innovation in the planning of Investments.

Activities connected with research on new technologies to be applied to purification processes also continued, with the aim of reducing the production of surplus sludge and recovering material and energy from this (biogas – biomethane) with the objective of reducing total operating costs. In addition collaboration activities with startups and research bodies were completed, with the objective of assessing yields and applicability of innovative processes such as pyrolysis, gasification, hydrothermal conversion (HTC) process, hydrodynamic cavitation, etc.

During the year feasibility studies were carried out for the energy optimisation of a number of purification plants in order to assess the applicability of a strategy that makes it possible to minimise electricity consumption and maximise energy self-production with a view to ZEPs (Zero Energy Plants) and the optimisation of the measurement and reduction of the odour concentration.

The research activity involving Hera, IREN, Smat and A2A also continued. During 2019, in fact, IREN continued to share its experience and knowledge through joint development of innovative projects, with repercussions to the benefit of the said Companies, with the objective of developing applied research, innovation and technological development in the context of management of the water service.

Projects included in the AMGA Foundation's research programme

During 2019, IREN collaborated on the selection and identification of a number of financed research projects, included in the AMGA Foundation's programme; these projects refer to economic regulatory issues and technical-scientific questions associated with water, energy and environmental resources. Among these, we can note the research on:

- Applicability of Landfill Mining to old landfill sites in Italy;
- MYRAEE - MYco Recovery of Electrical and Electronic Equipment;
- Nanocatalysers based on manganese oxides for sustainable energy production (Mn4Energy);
- Comparative assessment of biogas cleaning and upgrading processes;
- Markets in search of regulation: tender procedures for gas distribution concessions;
- Optimal methods of managing urban drainage systems based on innovative monitoring of rainfall using IoT low-power wide-area network technology;
- The economic, environmental and organisational performance of the Italian water sector;
- Reuse of purified waste water: analysis of the hygienic-sanitary impact;
- Regulation of water and environmental services: analysis of the factors that determine the operating and capital expenses and possible reflections on the models of cost recognition in tariffs;
- Energy markets and switching by consumers: what the drivers are and what instruments for action are potentially effective;
- Proposed actions for the removal of emerging pollutants and micropollutants in water treatment plants. Conventional and innovative processes;
- National guidelines for the sustainability of third-sector entities (TSEs) with particular reference to energy and water;
- Behavioural economy and energy market;
- Cost-benefit analysis in the energy field (reference to no-dig);
- Cost characteristics and economies of scale in the waste management sector;
- Application of WSPs to the water service: methodological and informative aspects for the stakeholders involved;
- Development and validation of procedures for the assessment of the input of biomethane into distribution networks;
- Resilience indicators in water distribution systems with respect to climatic and socio-economic changes;
- Models for the forecasting and management of damage to networks in the case of floods. The project was launched in 2017.

Waste Management

During 2019, IREN continued research activity for the development and testing of a reaction for fixing CO₂ deriving from combustion processes in matrices at the solid state, using reactions that make use of acids and/or analogous substances extractable from vegetable matter. During the year, after the creation of the experimental setup, reaction yields and kinetics were characterised on the basis of the process variables. A feasibility study was also launched on the integration of innovative solutions for the decarbonisation of combustion plants, with particular reference to the conversion of carbon dioxide-rich flows into molecules with high added value, such as methane, making use of systems for the production of thermal energy and electricity from renewable sources.

During the year the research activity continued; this regards the use that can be made of bottom and fly ashes produced by the Group's incineration plants. In particular the activity carried out in this last year focused on the validation, through laboratory tests, of treatment alternatives for the different classes and granulometric fractions of bottom and fly ashes (washing with the use of steam, carbonation, use of inorganic binders, etc.).

During the early months of 2019 IREN awarded a research bursary for the study and testing of innovative processes and methods for the recovery of material from waste electrical and electronic equipment (WEEE). In particular, the study concentrated on certain fractions of WEEE which as of today do not have a recycled market outlet.

Further studies were also carried out on the possibility of producing biopolymers and biocompounds from vegetable organic waste.

Finally, during 2019, IREN studied solutions for the production of biomethane from animal excreta and agricultural production waste, alongside plants for the production of hydrogen from renewable sources and subsequent methanation with the carbon dioxide produced by the biogas upgrading processes.

Energy

Industry 4.0 Innovation

IREN is continuing activity on seeking innovative solutions falling under the definition of “Industry 4.0” applicable to the Energy Business Unit, with particular reference to the maintenance sector. The analysis focused on specific verticals, that is operator safety, infrastructure monitoring and big data, concentrating on the thermoelectric, hydroelectric and district heating sectors.

During 2019 testing activities continued using drones for inspections of dams, reservoirs and rocky slopes, and the development of a rover for the inspection of shunting tunnels is in the completion stage: the robot will be capable of travelling along tunnels, acquiring images and 3D maps, communicating with the outside world via a wireless network during the inspections.

Again, in the hydroelectric sector tests are continuing on the use, in an operating context, of smart glasses systems in order to enable interaction between the operating field and the control room and real-time data communication. Training days were organised for maintenance staff.

During 2019 the technique of monitoring district heating networks through overhead flights was industrialised. Thanks to the use of a high-resolution thermographic camera, mounted on an aircraft, it was possible to fly, in a winter night, over the city of Turin and identify using thermal image processing software the water and heat leaks of the network.

In the field of predictive maintenance tests continued, at the Group’s main plants, on models which, starting from the operating data of the plant, are capable of predicting its operation, thus optimising the maintenance activities and preventing any malfunctioning and breakdowns.

In the district heating field, instead, an experimental activity was completed for the remote monitoring of the environmental parameters of the network valve chambers, considered confined spaces, making use of a connectivity technology capable of sending the data to a centralised database and analysing this information. The goal of the project is to increase operator safety and provide additional information useful for planning maintenance activities in such spaces.

During 2019 IREN tested driving support solutions using ADASs (Advanced Driver Assistance Systems). These systems were tested on cars and heavy vehicles for waste collection (in this case above all for the monitoring of blind corners).

In addition, again during the year, projects in the big data and data analytics field were launched and developed. These, starting from the stock of available data, made it possible to define optimisation algorithms.

Again, during 2019, the second stage of the LoRa project came to an end, with completion of the IoT connectivity network based on the LoRaWan communication protocol covering the City of Turin and the launch of the test on IoT equipment with a view to smart services (e.g. Smart Parking), in collaboration with 5T. IREN and the Municipality of Turin then entered into a collaboration for regulating the principles for use of the LoRa network for the “innovation ecosystem” (a set of startups and other companies authorised to access the infrastructure) interested in testing devices connected to this network.

Finally in 2019 a test was carried out on the use of the blockchain technology to improve operating efficiency and the control of IoT devices connected to IREN networks.

Other innovations in the energy field

In the research field, during 2019, IREN analysed solutions for the recovery of geothermal heat and waste heat in combination with metropolitan transport networks. Finally studies were carried out on fourth generation district heating networks powered by renewable sources or heat pumps, as well as feasibility studies for the reconstruction of existing networks.

Corporate Venture Capital – IREN UP

During 2019 numerous activities were also carried out in the context of the Corporate Venture Capital programme. First of all 3 investments were completed in innovative startups: Enerbrain, operating in the optimisation of heating systems through sensors and algorithms, i-Tes, operating in phase change storages, and Smart Mobility, which offers innovative bike sharing services.

During the year the activities for the scouting and analysis of the best startup opportunities at the national level were expanded: from January to today, contacts have been made with more than 350 startups, approximately a dozen of which are at an advanced stage of study of the related dossier.

The third edition of the IREN Startup Award, organised in collaboration with Intesa San Paolo Innovation Center, was also held. 100 startups were candidates; among these, 30 gained access to the further study stage and 8 to the final. The winners were Isaac for the seed category and Newlisi for the growth category; both will be able to make use during 2020 of an acceleration process and of collaboration with the IREN Group.

IREN AND SUSTAINABILITY

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

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

The Business Plan to 2024, in line with the previous Plan, substantiates the Group's vision and mission and defines the following strategic lines: customers/citizens, growth, efficiency, sustainability, people, digitalisation. The objectives and targets defined in these contexts, represent a contribution of Iren to the aims of the UN 2030 Agenda, and increasingly make the Sustainability Report/Non-Financial Declaration – to which you are referred under the terms of Italian Legislative Decree 254/2016 – an instrument for monitoring operations, and their economic, environmental and social impacts.

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

OTHER INFORMATION

Protection of natural persons with reference to personal data

During 2017 the “Project for implementing the corporate personal data protection system” was launched for Iren S.p.A. and for the main Group companies in order to make the existing Privacy System compliant with the new EU Regulation 679/16 (GDPR), continuing at the same time to ensure compliance with the current national legislation (Italian Legislative Decree 196/2003 as amended, and with the supplementary measures issued by the Privacy Authority, etc.).

The GDPR substantially changed the concept of Privacy with the objective of strengthening the rights of individuals to personal data protection, introducing among other things, the concepts of privacy by design and by default and of accountability, thus obliging Companies to set up their Privacy right from the start, adopting the best solutions in order to minimise personal data processing.

The Project launched was developed during 2018 and in May the Data Protection Officer (DPO) of Iren S.p.A. was identified in the figure of the 231 System Compliance and Privacy Manager, subsequently designated by the Data Controller (Iren S.p.A. CEO). The same then gave instructions, in the context of the activity of management and coordination of the subsidiaries, to the Data Controllers of these companies, that they were to appoint as DPO the same person chosen for the Parent Company.

Subsequently all the Data Controllers of the main Group Companies therefore designated as DPO the Parent Company DPO and made the relevant communication to the Supervisory Authority.

During 2019 the activities to make the Group privacy system compliant continued defining, among other things, the procedures containing rules of conduct to be implemented by the personnel (procedures for Management of the personal data breach process, Management of the rights of data subjects, Updating and review of the Processing Register in the light of the Principle of Privacy by Design, Management of the third parties) performing training activities and completing the stage of implementation of the privacy staff structure, with appointment of the processors with roles of responsibility and providing instructions to the data processors.

The Processing Registers, provided for under the terms of art. 30 GDPR are also constantly updated. This document, revised annually, is provided for in the legislation for the purpose of providing full knowledge of the existing processing, identifying, among other things, a number of elements of particular significance such as data processed, conservation times, risk levels, etc. This document is then sent to the Chief Executive Officers of the various Companies for reading and approval.

Certifications pursuant to Art. 2.6.2 of the Stock Exchange Regulations

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

Report on Corporate Governance and Ownership Structures and Report on the policy on the subject of remuneration and on fees paid

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

INFORMATION ON IREN'S CORPORATE GOVERNANCE

INTRODUCTION

IREN S.p.A. (hereinafter "Iren") is the result of the merger by incorporation of Enia S.p.A. into IRIDE S.p.A. which took effect on 1 July 2010.

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

At the date of the present report three Shareholders' Agreements are in force among the public shareholders of Iren S.p.A.. These are listed below:

- FSU - FCT– so-called Emilian Parties – La Spezia Shareholders Agreement, in effect from 5 April 2019.
This agreement (hereinafter also the "Shareholders' Agreement") is attributable to a blocking and voting syndicate with the purpose of guaranteeing the development of the Company, of its investees and of its business, and of ensuring to the same unity and stability of guidance, also through the use of the instrument of increased votes, and in particular: (i) determining methods of consultation and joint decision-making regarding certain resolutions of the Company's Shareholders' Meeting; and (ii) setting certain limits on the circulation of the shares contributed.
The Agreement has a duration of 3 years and will be tacitly renewed, subject to the option to withdraw with the methods and in the terms pursuant to the Agreement, for a further 2 years; subsequently, any further renewal must be agreed in advance in writing.
- Emilian Parties Sub-Agreement in effect from 5 April 2019.
This agreement is intended, among other things, to determine the respective rights and obligations, in order to (i) ensure uniformity of conduct and rules on decisions that must be taken by the Emilian parties in the context of what is provided for in the FSU-FCT-Emilian Parties-La Spezia Shareholders Agreement; (ii) provide for further commitments in order to guarantee the development of the Company, of its investees and of its business, and of ensuring to the same unity and stability of guidance; (iii) attribute a right of pre-emption in favour of the signatories in the event of sale of the Company's shares other than shares covered by the Block Syndicate under the terms of the Agreement; and (iv) confer on the Municipality of Reggio Emilia an irrevocable mandate to exercise on behalf of the signatories the rights attributed to these latter under the terms of the Agreement.
The Emilian Parties Sub-Agreement has a duration of 3 years and will be tacitly renewed, subject to the option to withdraw with the methods and in the terms pursuant to the said Sub-Agreement, for a further 2 years; subsequently, any further renewal must be agreed in advance in writing.
- FSU – FCT Sub-Agreement in effect from 17 July 2018.
This agreement is attributable to a blocking and voting syndicate with the purpose of ensuring that, following the Demerger, FCT and FSU will exercise jointly the powers of voting and indicating candidates for IREN's company officers, in substantial compliance with what is provided for in the Articles of Association of FSU current up to the date of the Demerger; all this, in the context and with the necessary observance of the Shareholders' Agreement, so that the provisions regarding FSU in this Shareholders' Agreement are passed on jointly, without a break, to FSU and FCT, which will act as a single party in relation to the other signatories, in accordance with what is provided for in the Sub-Agreement.
The FSU-FCT Sub-Agreement has a duration of 3 years from the date of effectiveness of the Demerger and is renewed automatically on expiry for a period of a further 2 years, subject to withdrawal to be communicated at least 6 months before expiry.

In the period between 1 January 2019 and 31 December 2019, 9 Signatories sold, on the market, a total of 6,059,410 shares contributed to the FSU-FCT-Emilian Parties-La Spezia Shareholders Agreement.

The Company adopts a traditional corporate governance system, compliant, as will be seen below, with the principles of the Corporate Governance Code for Listed Companies issued by the Italian Corporate Governance Committee – July 2018 edition (hereinafter the "Code"). The Board of Directors has the broadest range of powers for the ordinary and extraordinary administration of the company and, in

particular, the power to take all action deemed appropriate to implement and achieve the corporate purpose, also organising the company and the Group into business segments, whether in the form of companies or operating divisions, with the sole exclusion of powers which by law or by the Articles of Association are the responsibility of the shareholders' meeting. Under the terms of the current Articles of Association, the Board of Directors delegates its powers to one or more of its members and may also assign powers to the Chairperson, Deputy Chairperson and CEO provided they do not conflict with each other.

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

Iren's corporate governance system is in line with the provisions of the Consolidated Finance Act and of the Corporate Governance Code of Listed Companies (July 2018 edition).

Lastly, with a resolution of the Board of Directors of 5 April 2019, the Company formally adopted the Corporate Governance Code for Listed Companies in the version updated in July 2018.

After adoption a disclosure was made to the public through a press release distributed to the market.

On the same date the Board of Directors also approved an update of the document which highlights the governance solutions adopted by the Company with reference to the provisions of the Code. This was published on the IREN Group's website (www.gruppoiren.it), in the Section "*Investors– Corporate Governance – Corporate documents*".

The current Articles of Association are in keeping with the rules of the Consolidated Act and the other provisions of laws or regulations applicable to listed companies.

In particular the Articles of Association state, among other things, that:

- the directors must be in possession of the requisites provided for by law and by the regulations on the subject (art. 147-*quinquies* of the Consolidated Finance Act);
- at least two members of the Board of Directors must possess the requisites of independence established by the applicable legislation (art. 147-*ter*, paragraph 4, and art. 148, paragraph 3, CFA);
- the members of the entire Board of Directors are appointed on the basis of lists (art. 147-*ter*, paragraph one, of the CFA);
- the non-controlling shareholders have the right to appoint at least two Directors (art. 147-*ter*, paragraph 3 of the CFA);
- balanced representation between genders must be observed in the composition of the corporate bodies. We can note, in this regard, that, in relation to the amendments made to arts 147-*ter* and 148 of the CFA by Italian Law no. 160 of 27 December 2019 (2020 Budget Law), the opportune amendments to the articles of association are being adopted;
- one standing and one alternate member of the Board of Statutory Auditors must be elected from the list presented by the minority (art. 148, paragraph 2 of the CFA);
- the Chairperson of the Board of Statutory Auditors and one supplementary auditor must be appointed on the basis of the list presented by the minority (art. 148, paragraph 2-*bis* of the CFA);
- a person responsible for corporate financial reporting must be appointed, setting the requisites of professionalism and the powers and tasks attributed to the same (art. 154-*bis* of the Consolidated Act).

On 22 May 2019 the Iren Shareholders' Meeting, called *inter alia* to approve the financial statements at 31 December 2018, also proceeded to appoint the Company's Board of Directors for the three years 2019-2021, with expiry on the date of approval of the financial statements at 31 December 2021.

With a resolution of the Board of Directors meeting of 22 May 2019, the Chairperson just appointed, Renato Boero, was given powers, delegated powers and responsibilities in relation to communication and external relations, institutional relations (including relations with Regulators, Regions and Local Authorities), and mergers & acquisitions.

The Deputy Chairperson, Moris Ferretti, was given powers, delegated powers and responsibilities in relation to corporate affairs, corporate compliance, corporate social responsibility (which also covers support for the activities of Local Committees), risk management and internal auditing. The Chief Executive Officer, Massimiliano Bianco, was given powers, delegated powers and responsibilities in relation to administration, finance and control (including investor relations); personnel, organisation and information systems; procurement, logistics and services; legal affairs; Energy, Market, Networks and Waste Management business units, as well as wide delegated powers and powers of representation. On 2 July 2019, at the same time as his appointment as General Manager, the Board of Directors of Iren gave Massimiliano Bianco powers and delegated powers of an operational kind, with a transversal impact on the Departments and Business Units.

In compliance with the provisions of the Code, with resolutions passed at the meetings on 22 and 30 May 2019, the Board of Directors also appointed:

- a Remuneration and Appointments Committee (hereinafter also “RAC”);
- a Control, Risk and Sustainability Committee (henceforth also “CRSC”).

In accordance with the provisions of the CONSOB Regulation and of current TRP Procedure, with a resolution passed at the meeting on 22 May 2019 (amended with a resolution passed on 30 May 2019), the Board of Directors also appointed the Independent Directors’ Committee for dealing with Transactions with Related Parties, named the Committee for Transactions with Related Parties (hereinafter also “CTRP”).

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

BOARD OF DIRECTORS

As mentioned above, on 22 May 2019, the Shareholders’ Meeting appointed the current Board of Directors, made up of fifteen members, in office for the years 2019/2020/2021 (until approval of the separate financial statements at 31 December 2021).

The composition is as follows:

Office	Name and Surname	Place of birth	Date of birth
Chairperson of the Board of Directors	Renato Boero	Turin (TO)	09 March 1962
Deputy Chairperson	Moris Ferretti	Reggio Emilia	28 May 1972
Chief Executive Officer and General Manager	Massimiliano Bianco	Gioia del Colle (BA)	30 August 1971
Director	Sonia Maria Margherita Cantoni	Milan	16 February 1958
Director	Pietro Paolo Giampellegrini	Massa (MS)	14 November 1968
Director	Enrica Maria Ghia	Rome	26 November 1969
Director	Alessandro Giglio	Genoa	30 July 1965
Director	Francesca Grasselli	Reggio Emilia	13 June 1979
Director	Maurizio Irrera	Turin	17 September 1958
Director	Cristiano Lavaggi	Carrara (MS)	08 August 1975
Director	Ginevra Virginia Lombardi	Viareggio (LU)	04 July 1966
Director	Giacomo Malmesi	Parma	29 October 1971
Director	Gianluca Micconi	Ponte dell’Olio (PC)	19 March 1956
Director	Tiziana Merlinò	Finale Ligure (SV)	08 June 1974
Director	Licia Soncini	Rome	24 April 1961

In accordance with art. 25 of the current Articles of Association, resolutions of the IREN Board of Directors are carried by a vote in favour of the absolute majority of Directors in office.

For the matters indicated in Art. 25.5 of the Articles of Association (“Significant Matters”), resolutions of the Board are instead carried by the vote in favour of at least 12 Directors.

Articles 18, 19 and 20 of the Articles of Association govern the appointment, methods and criteria for the presentation of lists for the appointment of Directors, which adopts the list voting system.

During financial year 2019 the IREN Board of Directors held 22 meetings.

At 31 December 2019, in the Board of Directors, made up of 15 directors, nine of them possess the requisites of independence both under the terms of the combined provisions of arts 147-ter, paragraph 4, and 148, paragraph 3, of the CFA, and under the terms of art. 3 of the Code.

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

As of 31 December 2019, one meeting of the Independent Directors had been held, under the terms of Application Criterion 3.C.6. of the Code.

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

During its meeting on 27 November 2018, the Company's Board of Directors, on the basis of the enquiry carried out by the Remuneration and Appointments Committee, approved the 2019-2021 Long-Term Monetary Incentive Plan for the Group's Key Management Personnel and other resources (the so-called "Key Resources") who can contribute in a significant way to achieving the targets in the 2018-2023 Business Plan (as approved by the Board of Directors on 26 September 2018). On 2 July 2019, considering the enquiry carried out by the Company's Remuneration and Appointments Committee, also in performing the duties pursuant to the TRP Procedure, the Iren Board of Directors approved the acceptance by Mr Massimiliano Bianco (Chief Executive Officer and General Manager of the Company), of the 2019-2021 Long-Term Monetary Incentive Plan.

For more information on the remuneration policy, please see the Report on the policy on the subject of remuneration and on fees paid for financial year 2019 made available to the shareholders, in observance of the terms provided for in the current legislation, in view of the Shareholders' Meeting called to approve the Financial Statements at 31 December 2019.

As envisaged in the Italian Civil Code, directors with an interest in a given transaction must report such interest beforehand. On this point, with a resolution passed on 30 May 2019, the current text of IREN's Procedure for Transactions with Related Parties was approved by the Board of Directors.

REMUNERATION AND APPOINTMENTS COMMITTEE

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

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

- a) to formulate proposals to the Company's Board of Directors on the definition of the policy on remuneration of Directors and Key Managers of the IREN Group, in compliance with the current legislation and having regard to the criteria recommended by the Code, after interaction with the Company's Control, Risk and Sustainability Committee, as regards the risk profiles;

- b) to submit for the approval of the Company's Board of Directors the annual Report on the policy on the subject of remuneration and on fees paid prepared under the terms of art. 123-ter of the CFA, for its presentation to the Shareholders' Meeting called for approval of the annual financial statements;
- c) to assess periodically the adequacy, overall consistency and actual application of the policy under a) above, availing itself, in this last regard, of the information provided by the competent delegated bodies and formulating proposals on the subject to the Board of Directors;
- d) to present proposals or express opinions to the Company's Board of Directors on the remuneration of executive directors and other directors who hold special positions and establishing performance objectives relating to the short and medium/long-term variable component connected with this remuneration;
- e) to monitor the application of the decisions adopted by the said Board by verifying, in particular, the actual achievement of the short- and medium/long-term performance targets pursuant to point d) above;
- f) to formulate proposals to the Company's Board of Directors on the remuneration of the members of the Committees set up within the Board itself;
- g) to establish the annual board evaluation procedure on the operation of the Board itself and of its Committees and on their size and composition, also taking into account elements such as the professional characteristics, experience, including managerial, and gender of its members, and their seniority in office; specifically, after coordination with the Chairperson of the Board of Directors, the Committee identifies the subjects with which the assessment is concerned and, having regard to the best practices, also availing itself of the assistance of an expert consultant in the sector;
- h) taking into account the results of the board evaluation as in point g) above, to formulate opinions to the Board of Directors on the subject of the dimensions and composition of the same and of its Committees (including the requisites of professionalism, integrity and independence of the related members) and to express recommendations on the professional and managerial figures whose presence on the Board of Directors is considered opportune, so that the Board of Directors can express its guidance to the shareholders before the appointment of the new administrative body;
- i) to express recommendations to the Board of Directors as regards the maximum number of appointments as Director or Statutory Auditor in other listed companies in regulated markets (including abroad), in financial, banking and insurance companies or in large companies, compatible with an effective fulfilment of the appointment as Director of IREN S.p.A. taking into consideration the participation of the Directors in the Committees set up within the Board;
- j) to express recommendations to the Board of Directors on any problematic cases connected with application of the prohibition on competition provided for in relation to Directors in art. 2390 of the Italian Civil Code;
- k) compatibly with the current with statutory provisions, to propose to the Board of Directors candidates for the position of Director in the cases of co-optation pursuant to Art. 2386 paragraph 1 of the Italian Civil Code, if it is necessary to replace Independent Directors, ensuring observance of the prescriptions on the minimum number of independent directors and on the quotas reserved for the less represented gender;
- l) to carry out the enquiry on preparation of the plan for the succession of the Executive Directors, if the Board of Directors decides to adopt this plan;
- m) to report, through its Chairperson, on the most significant questions examined by the Committee on the occasion of the first useful meeting of the Board of Directors of IREN;
- n) to report on the methods of performing its duties to the Shareholders' Meeting called for approval of the annual financial statements, through its Chairperson or another member indicated by the same.

No Director shall take part in meetings of the Committee in which proposals are formulated to the Company's Board of Directors on their remuneration, unless the proposals regard all the members of the Committees set up within the administrative body.

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

In the case of operations regarding the remuneration of the Directors of the Company and the Key Management Personnel of the IREN Group, the Committee also performs the duties of the Committee of independent directors responsible for the examination and enquiry pursuant to the current TRP Procedure, limited to cases in which its composition makes it possible to meet the minimum requisites of independence and non-relatedness of its members required by the CONSOB T.R.P. Regulation.

Up to 22 May 2019, the following directors were members of the Remuneration and Appointments Committee:

- Marta Rocco (Chairperson);
- Moris Ferretti;
- Isabella Tagliavini.

With resolutions passed on 22 and 30 May 2019, IREN's Board of Directors identified, as members of the Remuneration and Appointments Committee for the three years 2019-2021, the following Directors:

- Pietro Paolo Giampellegrini, recognising that he possessed adequate knowledge and experience on the subject of remuneration policies;
- Maurizio Irrera, recognising that he possessed adequate knowledge and experience on the subject of remuneration policies;
- Francesca Grasselli, recognising that she possessed adequate knowledge and experience on financial matters and remuneration policies.

On 30 May 2019 the Iren S.p.A. Board of Directors appointed as Chairperson of the RAC Mr Pietro Paolo Giampellegrini, in possession of the requisites of independence under the terms of arts 147-ter, paragraph 4, and 148, paragraph 3, CFA and under the terms of art. 3 of the Code.

In financial year 2019 the Remuneration and Appointments Committee met 19 times (of which once jointly with the Control, Risk and Sustainability Committee), preparing proposals and opinions recorded in the minutes of the Committee meetings. Of the above, 8 meetings were held after the renewal of the board's mandate.

As per the indications of the Code, the meetings of the Committee were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him.

CONTROL, RISK AND SUSTAINABILITY COMMITTEE

In accordance with what is established by the Code, the Board of Directors set up within it a Control, Risk and Sustainability Committee (hereinafter also "CRSC"), composed, as of today, of four non-executive Directors, most of whom independent, from among whom the Board of Directors appointed the Chairperson.

The Control, Risk and Sustainability Committee performs the general task of supporting, through adequate preliminary activities, the assessments and decisions of the Board of Directors relating to the internal control and risk management system, as well as those concerning approval of the periodic reports of both a financial and a non-accounting nature.

The functions pursuant to Application Criterion 7.C.1 of the Code were attributed to the Committee (namely expressing preliminary opinions with respect to resolutions of the Board of Directors on a series of questions, including, among other things, the appointment / dismissal and remuneration of the Manager of the Internal Audit Unit) as were those pursuant to Application Criterion 7.C.2. of the Code (incorporated into a Regulation approved by the Board of Directors of IREN S.p.A. on 5 April 2019 and which the CRSC in office acknowledged at the first useful meeting after taking office), listed below:

- to assess, together with the Financial Reporting Manager, and after consulting the independent auditors and the Board of Statutory Auditors, the proper use of accounting standards, and in the case of Groups, their uniformity for the purpose of drafting the Consolidated Financial Statements;
- to express opinions on specific aspects related to identifying the main business risks (in particular, on specific aspects related to the Risk Policies, identifying the main business risks and the Audit Plan, and on Guidelines for the internal control and risk management system);

- to examine the periodic reports, concerning the evaluation of the internal control and risk management system, and those of particular significance drafted by the Internal Audit Unit;
- to monitor the autonomy, adequacy, effectiveness and efficiency of the Internal Audit Unit;
- to ask the Internal Audit Unit to perform checks on specific areas of operations, providing simultaneous communication to the Chairperson of the Board of Statutory Auditors;
- to report to the Board, at least every six months, on the occasion of approval of the annual and interim Financial Report, on its activity and on the adequacy of the internal control and risk management system;
- to support, with adequate enquiries, the assessments and decisions of the Board of Directors in relation to the management of risks deriving from detrimental events of which the Board of Directors has become aware;
- to examine the risk analysis carried out (a) with reference to the multi-annual Business Plan of the IREN Group, prior to its approval by the Board of Directors; (b) with reference to the strategic initiatives, including the merger & acquisition operations, carried out by the Company and/or by the subsidiaries, if they come within the matters for which the Iren Board of Directors is responsible;
- to express to the Board of Directors of the Company its prior opinion on the proposal related (a) to the appointment and dismissal of the Manager of the Internal Audit unit; (b) to the adequacy of the resources assigned to the same for performing his or her duties; (c) to the definition of the related remuneration in keeping with the corporate policies;
- in agreement with the Remuneration and Appointments Committee, prior to its approval by the Board of Directors, to examine the Company's policy for the remuneration of the Directors and Key Management Personnel of the Group, with a particular focus on the risk profiles.

The Board of Directors of Iren S.p.A. also attributed to the Control, Risk and Sustainability Committee the functions of consultation and proposal in relation to the administrative body on the subject of sustainability listed below.

- to express opinions to the Board of Directors of the Company on (a) the definition of "sustainability" policies and principles of conduct, in order to ensure the creation of value over time for the shareholders and for all the other stakeholders; (b) the definition of a sustainability plan (strategic priorities, commitments and objectives) for the development of the economic, environmental and social responsibility of the Group;
- to supervise the "sustainability" policies and observance of any principles of conduct adopted on the subject by the Company and its subsidiaries;
- to examine the issues under enquiry in terms of long-term sustainability of the basic principles and guidelines of strategic planning, of the business plan and of short-term planning, supervising the methods for implementing the same;
- to assess, together with the competent Group Unit and after consulting the Independent Auditors, the proper use of the standards adopted for the purposes of preparing the non-accounting disclosures provided for in the current legislation;
- to supervise the system for assessing and improving the environmental, economic and social impacts deriving from the business activities in the local areas;
- to examine the periodic reports on the implementation of the structured methods of discussion with stakeholders in the local areas in which the Group operates, also through instruments such as Local Committees, and those on the consistency with the corporate social responsibility questions of the Group's cultural and image promotion activities.

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

Up to 22 May 2019, the following directors were members of the Control, Risk and Sustainability Committee:

- Paolo Pietrogrande (Chairperson);
- Alessandro Ghibellini;
- Marco Mezzalama.

With resolutions passed on 22 and 30 May 2019, Iren's Board of Directors identified as members of the Control, Risk and Sustainability Committee for the three years 2019-2021, the following Directors:

- Giacomo Malmesi, recognising that he possessed adequate experience on strategic planning processes and aspects of corporate social responsibility;
- Sonia Maria Margherita Cantoni, recognising that she possessed adequate experience on assessment of functioning processes of complex organisations, on strategic planning processes, on strategic risk management, on aspects of corporate social responsibility and on guidance and assessment of environmental aspects;
- Enrica Maria Ghia, recognising that she possessed adequate experience regarding assessment of functioning processes of complex organisations, of strategic planning processes, of strategic risk management, of aspects of corporate social responsibility and of guidance and assessment of environmental aspects;
- Cristiano Lavaggi, recognising that he possessed adequate experience regarding the analysis of accounting and financial disclosures and aspects of corporate social responsibility.

On 30 May 2019 the Iren S.p.A. Board of Directors in office appointed as Chairperson of the CRSC Mr Giacomo Malmesi, in possession of the requisites of independence under the terms of arts 147-ter, paragraph 4, and 148, paragraph 3, CFA and under the terms of art. 3 of the Code.

During financial year 2019 the Control, Risk and Sustainability Committee held 20 meetings (of which one jointly with the Remuneration and Appointments Committee and three jointly with the Committee for Transactions with Related Parties). Of the above, 12 meetings were held after the renewal of the board's mandate.

As per the indications of the Code, all the meetings of the Committee were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him.

COMMITTEE FOR TRANSACTIONS WITH RELATED PARTIES

In accordance with what is established by the current TRP Procedure, the Board of Directors set up a specific Committee for Transactions with Related Parties ("CTRP").

The CTRP is made up of four Directors in possession of the requisites of independence provided for in Arts 147-ter paragraph 4 and 148, paragraph 3 of the CFA and of the further requisites provided for in art. 3 of the current Code. In order to guarantee the double requisite of independence and non-relatedness in each transaction to be examined, in the context of the current TRP Procedure mechanisms were put in place to identify any subjects responsible, as an alternative, for the enquiry.

Specifically, without prejudice to the competence of the RAC in the case of transactions related to the remuneration of the Company's Directors and the Group's Key Management Personnel, it is envisaged that:

- if possible, the CTRP is expanded to include other independent Directors, "*unrelated to the transaction under review*" who are members of the Company's Board of Directors, attributing to same administrative body the task of identifying a Sub-Committee composed of three Independent Directors unrelated to the individual transaction with Related Party under review;
- if there is not even one member of the CTRP or of the Board of Directors in possession of the aforementioned requisites of independence and non-relatedness, the task of the enquiry will be given, as Alternative Overseers to (a) the Company's Board of Statutory Auditors or (b) an Independent Expert appointed by the Company's Board of Directors.

Up to 22 May 2019, the following directors were members of the Committee for Transactions with Related Parties in office for the three years 2016-2018:

- Barbara Zanardi (Chairperson);
- Lorenza Franca Franzino;
- Licia Soncini;

all in possession of the requisites of independence under the terms of the provisions of the CFA, and under the terms of art. 3 of the Code.

With resolutions passed on 22 and 30 May 2019, the Board of Directors identified, as members of the Committee for Transactions with Related Parties for the three years 2019-2021, the following Directors:

- Licia Soncini;
- Alessandro Giglio;
- Giacomo Malmesi;
- Ginevra Virginia Lombardi;

all in possession of the requisites of independence under the terms of the provisions of the CFA, and under the terms of art. 3 of the Code.

On 29 May 2019 the CTRP appointed Licia Soncini as its Chairperson.

In financial year 2019 the CTRP met 10 times (of which three jointly with the Control, Risk and Sustainability Committee), preparing, among other things, opinions that are recorded in the minutes of the Committee meetings. Of the above, 8 meetings were held after the renewal of the board's mandate.

The meetings of the Committee were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him.

BOARD OF STATUTORY AUDITORS

As of today, the Board of Statutory Auditors is composed of three standing auditors and two supplementary auditors¹, with a three-year term of office expiring on the date of the shareholders' meeting called to approve the financial statements in their last year of office, and they can be re-elected.

On 19 April 2018 the Shareholders' Meeting appointed the members of the auditing body, which will remain in office for the years 2018/2019/2020 (until approval of the 2020 financial statements).

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

Arts 27 et seq. of the Articles of Association, to which reference should be made, establish list voting as the method for appointing the Board of Statutory Auditors.

The members of the Board of Statutory Auditors attend the shareholders' meetings and meetings of the Board of Directors. The presence of at least one member of the Board of Statutory Auditors at Board of Directors' meetings ensures that the Board of Statutory Auditors remains informed of activities conducted by the company and on the transactions of greatest economic, financial and equity significance performed by the company and its subsidiaries, particularly transactions in which the directors have an interest.

As specified above, in accordance with the indications of the Code, the meetings of the Committees set up within the Board of Directors held during financial year 2019, were attended by the Chairperson of the Board of Statutory Auditors and/or another/other statutory auditor(s) designated by him.

The Board of Statutory Auditors supervised the independence of the independent auditors and, in conducting its own activities liaised with the Internal Audit Unit and the Control, Risk and Sustainability Committee, attending their respective meetings.

In 2019, the Board of Statutory Auditors held 21 meetings.

¹ The Shareholders' Meeting of Iren S.p.A. held on 5 April 2019 (extraordinary part) resolved to amend, *inter alia*, art. 27, paragraph 1, of the Company's Articles of Association, with reference to the number of standing members of the Board of Statutory Auditors, which increases from the current three to five.

For further details, please see the Report on Corporate Governance and Ownership Structures available on the website www.grupporen.it.

Financial Reporting Manager

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

Independent Auditors

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

Maximum number of positions held in other companies

According to the Corporate Governance Code of Listed Companies (July 2018 edition) - which Iren has endorsed - the directors accept the position when they believe they can devote the necessary time to diligent performance of their tasks, also taking into account the commitment associated with their working and professional activities, the number of positions of director or statutory auditor held by them in other companies listed in regulated markets (including abroad), in financial, banking and insurance companies or in large companies.

In addition, on the basis of the commitment required from the directors to perform their duties in Iren, the Board of Directors may express its orientation as regards the maximum number of positions of director or statutory auditor in the companies pursuant to the previous paragraph that can be considered compatible with fulfilment of this commitment, taking into account the participation of Directors in the Committees set up within the Board. To this end it may propose to the Shareholders to introduce into the Articles of Association particular rules aimed at regulating consistently the appointment of directors.

In the current context, the Remuneration and Appointments Committee and the Company's Board of Directors decided not to implement the provision, judging that the number of appointments currently held by the board members in other companies is compatible with performance of the duties of Director of Iren S.p.A..

Director responsible for the internal control and risk management system

Under the terms of Principle 7.P.3. of the Code, during 2019 the Iren Board of Directors identified within it one or more Directors responsible for the internal control and risk management system (hereinafter the "ICRMS Director(s)").

Up to 22 May 2019, in relation to his position as Deputy Chairperson of Iren and considering the delegated powers attributed to the same, the position of ICRMS Director was held by Prof. Ettore Rocchi.

With a resolution passed on 4 June 2019, considering the division of the delegated powers attributed to the same, the Board of Directors identified, as ICRMS Directors, Mr Renato Boero (Chairperson), Mr Massimiliano Bianco (Chief Executive Officer and General Manager) and Mr Moris Ferretti (Deputy Chairperson), each for what is related to the duties and delegated powers held.

Each Director responsible for the internal control and risk management system, with reference to the areas each is responsible for and in accordance with the delegated powers conferred, is entrusted with the duties pursuant to Application Criterion 7.C.4 of the Code, indicated below:

- to identify the main business risks, taking into account the characteristics of the activities performed by Iren S.p.A. and by its subsidiaries and check that the same are submitted periodically to examination by the Board of Directors; in more detail, in the current governance system, the ICRMS Director with delegated powers on the subject of Risk Management, in agreement with the other ICRMS Directors, as far as each is responsible, also submits to examination by the Board of Directors the Risk Policies and the Audit Plan;
- to put into practice the guidelines defined by the Board of Directors, dealing with the planning, creation and management of the internal control and risk management system and checking constantly its adequacy and effectiveness;

- to adapt this system to changes in the operating conditions and the legislative and regulatory framework;
- to ask the Internal Audit Unit to perform audits on specific operating areas and on compliance with the internal rules and procedures in the execution of business operations, communicating this at the same time to the Chairperson of the Board of Directors, to the Chairperson of the Control, Risk and Sustainability Committee and to the Chairperson of the Board of Statutory Auditors;
- to report promptly to the Control, Risk and Sustainability Committee (or to the Board of Directors) on the problems and critical issues that have emerged in performance of his or her work or which he or she has in any case been informed, so that the Committee (or the Board) may take the opportune initiatives.

Supplementing the above, the ICRMS Director with delegated powers on the subject of Risk Management (in the current system, this is the Deputy Chairperson), in agreement with the Chairperson (who, equally, holds the position of ICRMS Director), proposes to the Control, Risk and Sustainability Committee, for the opinion it has to provide, and to the Board of Directors, for the related decision, the appointment, dismissal and remuneration of the Manager of the Internal Audit unit.

Requisites of directors

All members of the Company's Board of Directors in office possess the requisites of integrity, pursuant to Article 147-*quinquies* of the CFA. At 31 December 2019 the Directors Sonia Maria Margherita Cantoni, Pietro Paolo Giampellegrini, Enrica Maria Ghia, Alessandro Giglio, Francesca Grasselli, Ginevra Virginia Lombardi, Giacomo Malmesi, Gianluca Micconi and Licia Soncini are also in possession of the requisites of independence provided for both in the provisions of the CFA (cf. arts 147-*ter*, paragraph 4, and 148, paragraph 3, CFA) and in art. 3 of the Code according to the Corporate Governance solutions adopted by IREN S.p.A.

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

Iren and the main Group companies have adopted organisation, management and control models under the terms of Italian Legislative Decree No. 231/2001 with the objective of creating a structured and organic system of procedures and control activities aimed at preventing, as far as possible, conduct that can entail committing the crimes contemplated by Italian Legislative Decree 231/2001.

Alongside the Organisation, Management and Control Model, Iren S.p.A. has adopted, with a resolution of the Board of Directors of 10 December 2010, also the Code of Ethics. This document has been updated several times over the years and was approved in its current version by the Board of Directors on 20 December 2017.

During 2019 the Holding and the main Group Companies continued the Project for substantial revision and updating of the Organisation, Management and Control Models in order to guarantee their constant consistency with the organisational changes that had occurred and with the introduction by parliament of new crimes, so that they maintain over time their effective ability to prevent 231 crimes from being committed. The updated 231 Models were then submitted to the Oversight Committees, presented to the Boards of Directors of each Company for their approval and published in a full version on the Companies' Intranet sites.

Iren and the main Group companies set up, with resolutions of the Boards of Directors, an Oversight Committee under the terms of art. 6 of Italian Legislative Decree 231/2001, with the task of overseeing the operation and observance of the model and updating it. In 2019 the Board of Directors of Iren S.p.A. confirmed the collegial composition of its Oversight Committee appointing three external professionals with legal, corporate governance, organisational, economic and financial skills, with the objective of meeting the requisites of autonomy, independence and professionalism required by the law. The Board of Directors also appointed a Contact Person within the OC in order to ensure the coordination and continuity of action of the Committee itself and the constant identification of a reference in the Company. IREN S.p.A.'s Oversight Committee, availing itself of the competent corporate units, performs checks on areas of activity considered at risk under the terms of Italian Legislative Decree 231/2001 and reports twice a year to the Board of Directors on the activities carried out and the results that have emerged. If it is considered necessary, the Oversight Committee expresses suggestions aimed at improving the system for controlling the activities and monitors its implementation.

Both the general part of the Model and the Code of Ethics are available on the Company's website.

PROPOSALS OF THE BOARD OF DIRECTORS TO THE SHAREHOLDERS' MEETING

PROPOSALS RELATING TO THE AGENDA ITEMS “Financial Statements at 31 December 2019; Directors’ Report, Report of the Board of Statutory Auditors and of the Independent Auditors” and “Proposal for allocation of the profit: related and consequent resolutions”

Dear Shareholders,

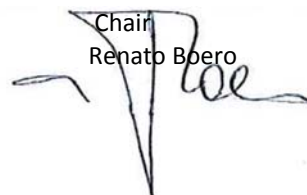
in relation to the above, we propose that you:

- approve the Financial statements of Iren S.p.A. at 31 December 2019 and the Director’s Report prepared by the Board of Directors;
 - approve the proposed allocation of the profit for the year, Euro 241,413,435.42, as follows:
 - Euro 12,070,671.77, 5% of the profit for the year, to the legal reserve;
 - a maximum of Euro 120,336,152.37 as dividend to Shareholders, corresponding to Euro 0.0925 for each of the maximum no. of 1,300,931,377 ordinary shares constituting the Company’s share capital, specifying that treasury shares, if any, will not benefit from the dividend; the dividend will be paid starting from 24 June 2020, ex-dividend date 22 June 2020 and record date 23 June 2020;
 - to a specific retained earnings reserve, the remaining amount of at least Euro 109,006,611.28.

Reggio Emilia, 25 March 2020

On behalf of the Board of Directors

Chair
Renato Boero





Consolidated Financial Statements
and Notes to the Financial Statements
at 31 December **2019**

STATEMENT OF FINANCIAL POSITION

		thousands of euro			
	Notes	31.12.2019	of which related parties	31.12.2018	of which related parties
ASSETS					
Property, plant and equipment	(1)	3,600,408		3,471,958	
Investment property	(2)	3,003		12,820	
Intangible assets with a finite useful life	(3)	2,175,232		2,009,986	
Goodwill	(4)	172,677		149,713	
Investments accounted for using the equity method	(5)	137,275		134,594	
Other equity investments	(6)	7,403		7,223	
Non-current trade receivables	(7)	74,443	14,469	69,068	10,286
Non-current financial assets	(8)	148,051	131,362	147,867	137,329
Other non-current assets	(9)	35,490	6,944	43,130	6,944
Deferred tax assets	(10)	368,436		360,298	
Total non-current assets		6,722,418	152,775	6,406,657	154,559
Inventories	(11)	71,789		73,799	
Trade receivables	(12)	905,628	120,751	983,836	112,518
Current tax assets	(13)	18,851		11,445	
Other receivables and other current assets	(14)	305,296	829	241,879	537
Current financial assets	(15)	75,807	24,211	78,775	26,889
Cash and cash equivalents	(16)	345,876		369,318	
Total current assets		1,723,247	145,791	1,759,052	139,944
Assets held for sale	(17)	354,193	362,500	402,424	401,900
TOTAL ASSETS		8,799,858	661,066	8,568,133	696,403

thousands of euro

	Notes	31.12.2019	of which related parties	31.12.2018	of which related parties
EQUITY					
Equity attributable to shareholders					
Share capital		1,300,931		1,300,931	
Reserves and Retained Earnings (Losses)		750,264		642,396	
Net profit (loss) for the period		236,578		242,116	
Total equity attributable to shareholders		2,287,773		2,185,443	
Equity attributable to minorities		363,756		376,928	
TOTAL EQUITY	(18)	2,651,529		2,562,371	
LIABILITIES					
Non-current financial liabilities	(19)	3,167,048		3,013,303	
Employee benefits	(20)	106,420		108,109	
Provisions for risks and charges	(21)	415,260		439,497	
Deferred tax liabilities	(22)	204,538		211,553	
Other payables and other non-current liabilities	(23)	480,040	133	474,778	111
Total non-current liabilities		4,373,306	133	4,247,240	111
Current financial liabilities	(24)	461,163	3,868	437,363	6,042
Trade payables	(25)	887,062	35,364	914,938	32,073
Other payables and other current liabilities	(26)	306,735	26	284,285	98
Current tax liabilities	(27)	1,761		32,049	
Provisions for risks and charges - current portion	(28)	118,302		89,887	
Total current liabilities		1,775,023	39,258	1,758,522	38,213
Liabilities related to assets held for sale	(29)	-		-	
TOTAL LIABILITIES		6,148,329	39,391	6,005,762	38,324
TOTAL EQUITY AND LIABILITIES		8,799,858	39,391	8,568,133	38,324

INCOME STATEMENT

		thousands of euro			
	Notes	Financial Year 2019	of which related parties	Financial Year 2018	of which related parties
Revenue					
Revenue from goods and services	(30)	4,081,333	327,849	3,764,302	324,000
- of which non-recurring				41,238	
Other income	(31)	193,373	6,039	276,387	5,133
Total revenue		4,274,706	333,888	4,040,689	329,133
Operating expense					
Raw materials, consumables, supplies and goods	(32)	(1,410,798)	(59,448)	(1,377,066)	(76,684)
Services and use of third-party assets	(33)	(1,458,394)	(31,346)	(1,271,959)	(30,136)
Other operating expenses	(34)	(78,976)	(13,361)	(64,653)	(9,975)
Capitalised expenses for internal work	(35)	33,444		33,198	
Personnel expense	(36)	(442,721)		(393,618)	
Total operating expense		(3,357,445)	(104,155)	(3,074,098)	(116,795)
GROSS OPERATING PROFIT (EBITDA)		917,261	229,733	966,591	212,338
Depreciation, amortisation, provisions and impairment losses					
Depreciation and amortisation	(37)	(403,262)		(354,947)	
Provisions for impairment of receivables	(38)	(37,203)		(52,217)	
Other provisions and impairment losses	(38)	(24,647)		(28,933)	
Total depreciation, amortisation, provisions and impairment losses		(465,112)		(436,097)	
OPERATING PROFIT (EBIT)		452,149	229,733	530,494	212,338
Financial income and expense	(39)				
Financial income		34,614	18,253	42,844	18,117
Financial expense		(114,482)	(26)	(148,976)	(14)
Total financial income and expense		(79,868)	18,227	(106,132)	18,103
Share of profit (loss) of associates accounted for using the equity method	(40)	4,477		776	
Value adjustments on equity investments	(41)	558		(35,614)	
Profit (loss) before tax		377,316	247,960	389,524	230,441
Income tax expense	(42)	(111,635)		(116,287)	
Net profit (loss) from continuing operations		265,681		273,237	
Net profit (loss) from discontinued operations	(43)	-		-	
Net profit (loss) for the period		265,681		273,237	
attributable to:					
- Profit (loss) for the period attributable to shareholders		236,578		242,116	
- Profit (loss) for the period attributable to minorities	(44)	29,103		31,121	
Earnings per ordinary and savings share	(45)				
- basic (euro)		0.18		0.19	
- diluted (euro)		0.18		0.19	

STATEMENT OF OTHER COMPREHENSIVE INCOME

	thousands of euro	
	Financial Year 2019	Financial Year 2018
Profit/(loss) for the period – Shareholders and minorities (A)	265,681	273,237
Other comprehensive income that will subsequently be reclassified to the Income Statement		
- effective portion of changes in fair value of cash flow hedges	(22,679)	(22,342)
- changes in fair value of financial assets	-	-
- share of other profits/(losses) of companies accounted for using the equity method	1,719	222
Tax effect of other comprehensive income	5,912	6,198
Total other comprehensive income to be subsequently be reclassified to the Income Statement, net of tax effect (B1)	(46)	(15,048)
Other comprehensive income that will subsequently not be reclassified to the Income Statement		
- actuarial gains/(losses) on employee defined benefit plans (IAS 19)	(3,731)	2,403
- portion of other profits/(losses) of companies accounted for using the equity method related to employee defined benefit plans (IAS 19)	(298)	(115)
Tax effect of other comprehensive income	814	(1,248)
Total other comprehensive income that will subsequently not be reclassified to the Income Statement, net of tax effect (B2)	(46)	1,040
Total comprehensive income/(expense) (A)+(B1)+(B2)	247,418	258,355
attributable to:		
- Profit (loss) for the period attributable to shareholders	219,445	227,373
- Profit (loss) for the period attributable to minorities	27,973	30,982

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserve	Legal reserve
31/12/2017	1,276,226	105,102	49,998
First application of IFRS 9 and IFRS 15			
Retained earnings			
01/01/2018	1,276,226	105,102	49,998
Capital increase	24,705	27,917	
Legal reserve			8,348
Dividends to shareholders			
Changes in consolidation scope			
Change in equity interests			
Other changes			
Comprehensive income for the period			
of which:			
- Net profit for the period			
- Other comprehensive income			
31/12/2018	1,300,931	133,019	58,346
Legal reserve			6,296
Dividends to shareholders			
Retained earnings			
Purchases of treasury shares			
Changes in consolidation scope			
Change in equity interests			
Other changes			
Comprehensive income for the period			
of which:			
- Net profit for the period			
- Other comprehensive income			
31/12/2019	1,300,931	133,019	64,642

thousands of euro

Cash flow hedging reserve	Other reserves and retained earnings (losses)	Total reserves and retained earnings (losses)	Profit (loss) for the period	Total equity attributable to shareholders	Equity attributable to minorities	Total equity
(1,729)	454,813	608,184	237,720	2,122,130	376,673	2,498,803
	(133,719)	(133,719)		(133,719)	(4,273)	(137,992)
	237,720	237,720	(237,720)	-		-
(1,729)	558,814	712,185	-	1,988,411	372,400	2,360,811
		27,917		52,622		52,622
	(8,348)	-		-		-
	(91,065)	(91,065)		(91,065)	(21,908)	(112,973)
	-	-		-	2,943	2,943
	(445)	(445)		(445)	415	(30)
	8,551	8,551		8,551	(7,908)	643
(15,624)	877	(14,747)	242,116	227,369	30,986	258,355
				-		
			242,116	242,116	31,121	273,237
(15,624)	877	(14,747)		(14,747)	(135)	(14,882)
(17,353)	468,384	642,396	242,116	2,185,443	376,928	2,562,371
	(6,296)	-		-		-
	(108,995)	(108,995)		(108,995)	(40,731)	(149,726)
	242,116	242,116	(242,116)	-		-
	(9,054)	(9,054)		(9,054)		(9,054)
	-	-		-	-	-
	490	490		490	(415)	75
	444	444		444	1	445
(14,076)	(3,057)	(17,133)	236,578	219,445	27,973	247,418
			236,578	236,578	29,103	265,681
(14,076)	(3,057)	(17,133)		(17,133)	(1,130)	(18,263)
(31,429)	584,032	750,264	236,578	2,287,773	363,756	2,651,529

STATEMENT OF CASH FLOWS

	thousands of euro	
	Financial Year 2019	Financial Year 2018
A. Opening cash and cash equivalents	369,318	169,086
Cash flows from operating activities		
Profit (loss) for the period	265,681	273,237
Adjustments:		
Income tax expense for the period	111,635	116,287
Share of profit (loss) of associates and joint ventures	(4,477)	(776)
Net financial expense (income)	79,868	106,132
Amortisation of intangible assets and depreciation of property, plant and equipment	403,262	354,947
Net impairment losses (reversals of impairment losses) on assets	12,087	40,252
Net provisions for risks and other charges	112,712	124,052
Capital (gains) losses	3,688	(2,070)
Utilisations of employee benefits	(10,950)	(16,764)
Utilisations of provisions for risks and other charges	(42,306)	(40,272)
Change in other non-current assets and liabilities	10,827	13,450
Other changes in capital	(37,635)	(58,329)
Taxes paid	(157,924)	(128,947)
B. Cash flows from operating activities before changes in NWC	746,468	781,199
Change in inventories	2,860	(10,280)
Change in trade receivables	65,994	(65,436)
Change in tax assets and other current assets	(42,299)	53,302
Change in trade payables	(61,668)	35,121
Change in tax liabilities and other current liabilities	13,296	(16,009)
C. Cash flows from changes in NWC	(21,817)	(3,302)
D. Cash flows from/(used in) operating activities (B+C)	724,651	777,897
Cash flows from/(used in) investing activities		
Investments in property, plant and equipment and intangible assets	(523,985)	(446,984)
Investments in financial assets	(277)	(800)
Proceeds from the sale of investments and changes in assets held for sale	5,955	22,780
Changes in consolidation scope	(50,196)	(202,098)
Dividends received	1,784	3,339
E. Total cash flows from/(used in) investing activities	(566,719)	(623,763)
F. Free cash flow (D+E)	157,932	154,134
Cash flows from/(used in) financing activities		
Capital increase	-	52,622
Purchases of treasury shares	(9,054)	-
Dividends paid	(150,225)	(113,080)
New non-current loans	530,750	581,000
Repayment of non-current loans	(555,158)	(393,940)
Change in financial payables for leasing	(11,240)	(3,389)
Change in other financial liabilities	49,750	(20,209)
Change in financial receivables	58,527	42,038
Interest paid	(109,122)	(113,539)
Interest received	14,398	14,595
G. Total cash flows from/(used in) financing activities	(181,374)	46,098
H. Cash flows for the period (F+G)	(23,442)	200,232
I. Closing cash and cash equivalents (A+H)	345,876	369,318

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

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

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

The business segments in which the Group operates are:

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

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

The company's consolidated financial statements for the year to 31 December 2019 include those of the Company and its subsidiaries, (collectively referred to as the "Group" and individually as "Group entities") and the Group's equity interest in jointly-controlled companies and in associates measured using the equity method.

I. CONTENT AND STRUCTURE OF THE CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements of the Iren Group at 31 December 2019 have been prepared in accordance with the International Financial Reporting Standards (IFRSs), issued by the International Accounting Standards Board (IASB) and endorsed by the European Union, as well as with the provisions set forth in implementation of Art. 9 of Italian Legislative Decree No. 38/2005. The IFRSs also include all the revised international accounting standards (“IASs/IFRSs”) and all interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), previously known as the Standing Interpretations Committee (“SIC”).

In drawing up these consolidated financial statements, the same accounting standards were applied as those adopted for the previous year’s statements, with the exception of certain amendments to the IFRSs, presented in the section “Accounting standards, amendments and interpretations applied from 1 January 2019”.

The financial statement formats adopted by the Iren Group in preparing these financial statements are the same as those applied in preparing the financial statements at 31 December 2018, with the exception of the Income Statement in which the item “Change in work in progress” has been incorporated into the item “Revenue from goods and services” given the insignificance of the related amounts and of the Statement of Cash Flows to which has been added the item “Change in financial liabilities for leases”.

In line with what was previously published, in the statement of financial position, assets and liabilities are classified as “current/non-current”. Assets and liabilities classified as discontinued or held for sale are shown separately. Current assets, which include cash and cash equivalents, are those that will be realised, transferred or consumed during the Group’s ordinary operating cycle or during the twelve months following year end. Current liabilities are those for which settlement is envisaged during the Group’s ordinary operating cycle or during the twelve months following year end.

The Income Statement is classified on the basis of the nature of the costs. In addition to the Operating Profit (EBIT), the Income Statement also shows the Gross Operating Profit (EBITDA) obtained by deducting total operating expense from total revenue.

The indirect method is used in the cash flow statement. The cash configuration analysed in the cash flow statement includes cash on hand and cash in current accounts.

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

The financial statements have been drawn up on the basis of the historical cost principle, except for certain financial instruments measured at fair value.

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

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

ALTERNATIVE PERFORMANCE MEASURES

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

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

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

Net invested capital: determined by the algebraic sum of Non-current assets, Other non-current assets (liabilities), Net working capital, Deferred tax assets (liabilities), Provisions for risks and employee benefits and Assets (Liabilities) held for sale. For further details on the construction of the single items that make up the indicator please see the statement of reconciliation of the reclassified balance sheet with the accounting statement presented in the annexes to the consolidated financial statements.

This APM is used by the Group in the context of documents both internal to the Group and external and is a useful measure for the purpose of measuring total net assets, both current and non-current, also through comparison between the period with which the report is concerned and previous periods or financial years. This indicator also makes it possible to carry out analyses on operating performance and to measure performance in terms of operating efficiency over time.

Net financial debt: determined by the sum of Non-current financial liabilities net of Non-current financial assets and Current financial liabilities net of Current financial assets and of Cash and cash equivalents.

This APM is used by the Group in the context of documents both internal and external to the Group and is a useful measure of the Group's financial structure, also through comparison between the period with which the report is concerned and previous periods or financial years.

Gross Operating Profit (EBITDA): determined subtracting total operating expenses from total revenue.

This APM is used by the Group in the context of documents, both internal to the Group and external, and is a useful tool for assessing the Group's operating performance (as a whole and at the individual Business Unit level), also through comparison between the operating profit of the period with which the report is concerned and those of previous periods or financial years. This indicator also makes it possible to carry out analyses on operating performance and to measure performance in terms of operating efficiency over time.

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

Operating cash flow: determined starting from net profit /(loss) for the period, adjusted for financial income and expenses and for non-monetary items (depreciation and amortisation, provisions, impairment losses...), to which are added the changes of Net working capital, utilisations of provisions and employee benefits and other operating changes.

This APM is used by the Group in the context of documents both internal to the Group and external and measures the cash generation capacity of the group's operating activities and therefore its self-financing capacity.

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

Investments: determined by the sum of investments in property, plant and equipment, intangible assets and financial assets (equity investments) and presented gross of capital grants.

This APM is used by the Group in the context of documents both internal to the Group and external and is a measure of the financial resources absorbed in purchases of durable goods in the period.

Gross operating profit over revenue: determined making a proportion, in percentage terms, between gross operating profit and value of revenue.

This APM is used by the Group in the context of documents both internal to the Group and external and is a useful instrument for assessing the Group's operating performance (both as a whole and at the level of single Business Units), also through comparison with previous periods or financial years.

Net financial debt over equity: determined as the ratio between net financial debt and equity including minority interests.

This APM is used by the Group in the context of documents both internal to the Group and external and is a useful instrument for assessing the financial structure in terms of relative proportion of financing sources between third-party funds and own funds.

II. CONSOLIDATION PRINCIPLES

The consolidation scope includes subsidiaries, joint ventures and associates.

Subsidiaries

Entities controlled by the Group are considered subsidiaries, as defined by IFRS 10 - *Consolidated Financial Statements*. Control exists when the Parent Company has at the same time:

- decision-making power over the investee, that is the power to direct the relevant activities of the investee, that is activities that have a significant influence on the results of the said investee;
- the right to variable (positive or negative) returns from its involvement with the entity;
- the ability to use its decision-making power to determine the amount of the returns coming from its involvement with the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases.

Equity and portion of profit/loss attributable to minority interests are identified separately in the consolidated statement of financial position and income statement.

Subsidiaries are consolidated on a line-by-line basis intra-group balances, transactions, unrealised income and expenses are eliminated in full.

We can note also that: a) all changes in the equity interest that do not constitute a loss of control are treated as *equity transactions* and therefore have a contra entry in equity; b) when a parent company transfers control to one of its investees, but continues all the same to hold an interest in the company, it measures the equity investment retained in the financial statements at *fair value* and recognises any gains or losses deriving from loss of control in the income statement.

Joint ventures

These are companies over whose activity the Group has joint control, in virtue of contractual agreements. Joint control, as defined by IFRS 11 – *Joint Arrangements*, is the “contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require the unanimous consent of the parties sharing control”.

With reference to entities jointly owned by mixed public and private ventures, given the objective possibility for the public shareholder to influence the company not only by means of *governance* agreements, but also because of its nature of public entity, the existence of joint control is judged on the basis of contractual agreements, assessing the actual possibility for the private partner to jointly control strategic decisions regarding the joint venture.

Joint arrangements are divided into 2 types:

- a Joint Venture (JV) is an arrangement whereby the parties have rights to the net assets of the arrangement. Joint Ventures are measured using the equity method;
- a Joint Operation (JO) is an arrangement whereby the parties are not limited exclusively to participating in the company's net profit or loss, but have rights to its assets and obligations for its liabilities. In this

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

Associates (accounted for using the equity method)

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

Transactions eliminated on consolidation

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

III. CONSOLIDATION SCOPE

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

Parent Company:

Iren S.p.A.

Companies consolidated on a line-by-line basis

The four companies responsible for the single business lines and their direct and indirect subsidiaries are consolidated on a line-by-line basis.

1) Iren Ambiente and its subsidiaries:

- ACAM Ambiente
- AMIAT V and the subsidiary:
 - AMIAT
- Bonifica Autocisterne
- Ferrania Ecologia
- CMT
- Montequerce
- ReCos
- San Germano
- Territorio e risorse
- TRM

2) Iren Energia and its subsidiaries:

- Iren Smart Solutions (formerly Iren Rinnovabili) and its subsidiary:
 - Studio Alfa and its subsidiary
 - Coin Consultech
- Maira and its subsidiary:
 - Formaira

3) Iren Mercato and its subsidiaries:

- Salerno Energia Vendite
- Spezia Energia Trading

4) IRETI and its subsidiaries:

- ACAM Acque
- ASM Vercelli and its subsidiary:
 - ATENA Trading
- Busseto Servizi
- Consorzio GPO
- Iren Laboratori
- Iren Acqua and its subsidiaries:
 - Immobiliare delle Fabbriche
 - Iren Acqua Tigullio

During financial year 2019 the mergers by incorporation into Iren Ambiente S.p.A. of the subsidiary R.E.I. S.r.l. and into Iren Energia S.p.A. of the subsidiaries Greensource S.p.A., Enia Solaris S.r.l. and Varsi Fotovoltaico S.r.l. took effect.

Although they had an effect on the Group's structure, these operations did not entail changes in the consolidation scope, and they occurred as part of the Group's "overall" corporate and organisational rationalisation Project, aimed at simplifying the equity investment structure and reducing the number of business Companies wholly held, directly or indirectly, by the Parent Company and at integrating/optimising the business processes/activities with uniform operating characteristics.

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

CHANGES IN FULL CONSOLIDATION SCOPE

The full consolidation scope changed during 2019 following the acquisitions, which occurred in January, of Busseto Servizi S.r.l., operating in the gas distribution sector, of San Germano S.r.l. and CMT S.p.A., active in the waste cycle field, as well as the acquisition of a branch related to the operation of plants of the waste management business. Subsequently, in July the acquisition of Ferrania Ecologia S.r.l. took effect; this company operates a bio-digester in the province of Savona and includes a business unit related to activities in the waste sector contributed to it by FG Riciclaggi S.r.l. Finally, in October the acquisition of Territorio e Risorse S.r.l. took effect; this is a company that operates a composting and aerobic digestion plant in the province of Vercelli.

Control over Busseto Servizi was obtained through the purchase by IRETI of 100% of the company's share capital for a price of 4,099 thousand euro.

Under the terms of IFRS 3 - Business Combinations the cost of the business combination indicated above was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed. In particular the net carrying amount of the company's gas distribution infrastructure was adjusted downwards to align it to the tariff value (RAB), representing its fair value.

The positive difference between the price transferred and the fair value of the identifiable assets purchased and the identifiable liabilities assumed at the acquisition date was recognised as goodwill of 1,638 thousand euro.

The acquisition of control over San Germano and CMT occurred in January through the purchase by Iren Ambiente of 100% of the share capital of the companies for a price, subject to adjustment, of a thousand euro. During the year the price adjustment in favour of the purchaser was determined as 3,083 thousand euro.

Under the terms of IFRS 3 - Business Combinations the cost of the business combination indicated above was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed.

The fair value, at the acquisition date, of the identifiable assets acquired and the identifiable liabilities assumed was substantially more than the fair value of the price paid and, therefore, in the accounting for the business combination a gain deriving from a purchase at favourable prices of 1,766 thousand euro was recognised.

In addition, again in January, the acquisition of a business unit related to the activity of managing waste treatment plants located in the province of La Spezia took effect, for a price of 8,950 thousand euro.

Under the terms of IFRS 3 - Business Combinations the cost of the business combination indicated above was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed.

The positive difference between the price transferred and the fair value of the identifiable assets purchased and the identifiable liabilities assumed at the acquisition date was recognised as goodwill of 9,039 thousand euro.

In July Iren Ambiente obtained control over Ferrania Ecologia S.r.l. through the purchase of 100% of the company's share capital for a price of 6,480 thousand euro.

The positive difference between the price transferred and the fair value of the identifiable assets purchased and the identifiable liabilities assumed, determined provisionally at the acquisition date as permitted by IFRS 3 – *Business Combinations*, was recognised as goodwill of 20,103 thousand euro.

As regards the acquisition of Territorio e Risorse S.r.l., again in the context of what is permitted by IFRS 3 the positive difference between the price transferred (5,024 thousand euro) and the provisional fair value of the net assets acquired was recognised as goodwill of 1,223 thousand euro.

The table below summarises, for the five business combinations described above, the fair value of the price paid at the acquisition date, the pro-rata carrying amount of the assets acquired (net of goodwill) and the

liabilities assumed and the adjustments made following measurement at fair value of the assets acquired and the liabilities assumed.

thousands of euro

	Busseto Servizi	San Germano and CMT	"Waste Mgmt" unit	Ferrania Ecologia	Territorio e Risorse
Fair value of the price paid at the acquisition date (A)	4,099	(3,082)	8,950	6,480	5,024
Pro-rata carrying amount of the assets acquired (net of goodwill) and the liabilities assumed (B)	4,251	(1,316)	(89)	(13,623)	3,801
Difference (A-B)	(152)	(1,766)	9,039	20,103	1,223
Adjustments made following the measurement at fair value of the assets acquired and the liabilities assumed:					
Property, plant and equipment	(2,493)				-
Intangible assets					-
Investments accounted for using the equity method					-
Deferred taxation	703				-
Equity attributable to non-controlling interests					-
Goodwill (Gain deriving from a bargain)	1,638	(1,766)	9,039	20,103	1,223

IV. ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The criteria adopted in drawing up these Consolidated Financial Statements at 31 December 2019 of the Iren Group are indicated below; the accounting standards described were applied consistently by all the Group entities and have not changed with respect to those adopted at 31 December 2018, with the exception of what is indicated in the section “ Accounting standards, amendments and interpretations applied from 1 January 2019”.

Property, plant and equipment

- Property, plant and equipment owned

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

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

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

In particular, under this policy, land and buildings located on the land are to be recognised separately; only the buildings are depreciated, while the carrying amount of land is subject to impairment, as described in the section “Impairment losses on non-financial assets” below.

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

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

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

Transferable assets are depreciated according to the expiry term of the related concession decrees. Italian Law Decree no. 135 of 14 December 2018 (Urgent provisions on support and simplification for businesses and the public administration – the so-called “Simplifications Law Decree”) converted, with amendments, by Italian Law no. 12 of 11 February 2019, governs the new regimen of remuneration of the so-called Wet Works in relation to large shunting concessions for hydroelectric plants; the new law establishes that the so-called Wet Works must be transferred without consideration to the Regions. If the Operator has made new investments during the useful life and provided that these investments have been authorised or permitted by the competent Public Administration, the Operator will have the right to a remuneration limited to the non-depreciated value. As regards the so-called “dry works” (property, plant and equipment included in the business unit of the outgoing operator and not included in the “wet assets” category, the so-called non-transferable assets), the new law did not introduce changes and therefore the outgoing operator has the right to a consideration determined on the basis of the value of reconstruction as new, less normal wear. Consequently, in order to make it consistent with the new law, the depreciation schedule of the Wet works referable to the expired concessions was redetermined, also taking into account the possible reassignment dates of the same, which, on the basis of the previous law, was interrupted starting from the 2012 financial statements.

The rates applied are set out in the following table:

	Min. rate	Max. rate
Buildings	1.30%	20.00%
Lightweight constructions	2.00%	10.00%
Vehicles	5.00%	25.00%
Sundry equipment	5.00%	25.00%
Furniture and office machines	5.00%	20.00%
Hardware	10.00%	50.00%
Plants	1.20%	33.00%

The changes in rates compared to 2018 are due to the new companies that came into the full consolidation scope, the updating of the economic and technical useful lives of individual assets and the result of verification performed on these by the technicians responsible for the plants.

The table below shows the residual duration of the leasing contracts on the basis of which the rights of use recognised among property, plant and equipment are depreciated:

	Years	
	from	to
Rights of use IFRS 16 - Leases	1	44

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

- Leased assets

Starting from 1 January 2019 leased assets are governed by IFRS 16. The new standard, published by the IASB on 13 January 2016, replaced IAS 17 - Leases, as well as the interpretations IFRIC 4 "Determining whether an Arrangement contains a Lease", SIC 15 "Operating Leases - Incentives" and SIC 27 "Evaluating the Substance of Transactions Involving the Legal Form of a Lease".

IFRS 16 provides a new definition of "lease", which is irrespective of the contractual form adopted (leasing, rental or hire), introducing a criterion based on control (right of use) of an asset to distinguish leasing contracts from contracts for services. The discriminants are: the identification of the asset, the right to replace the same, the right to obtain substantially all the economic benefits deriving from use of the asset and the right to direct the use of the asset underlying the contract. On the lessee's part, in practice the new standard marks the end of the distinction between operating leases and financial leases, providing for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value.

The leasing liability is initially measured at the present value of the payments due for the leasing, primarily the fixed and/or variable payments contractually provided for and the exercise price of the option if there is the reasonable certainty of exercising it; subsequently the liability is reduced by the principal repaid and possibly redetermined to take account of new valuations or changes.

The right of use of the asset underlying the leasing contract is recognised under property, plant and equipment at cost, consisting of the initial measurement of the financial liability increased by any initial costs incurred. The asset is depreciated over the duration of the lease or, if the transfer of ownership at the end of the lease is provided for, over the expected useful life of the underlying asset. The asset may also be reduced as the result of any impairment losses, and adjusted to take into account any redeterminations of the leasing liability.

In the income statement interest on the debt and depreciation are recognised separately, as is any impairment of the asset consisting of the right of use.

On the lessor's part instead the distinction between operating leases and finance leases remains. Assets transferred in financial leasing are excluded from property, plant and equipment, while the related financial receivable is recognised in the statement of financial position. Its value decreases over time in line with

collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the repayment plan.

Investment property

Investment property is initially measured at purchase or construction cost. Such cost includes the purchase price and any directly attributable expenditure. The related transaction costs are recognised among the property costs, when purchase is recognised. Real estate investments are measured at cost in the following evaluation.

Expenses incurred after the purchase or completion of a property intended as an investment property increase the initial cost of the asset, if the company is likely to obtain higher future benefits than those previously estimated, thanks to these expenses. Otherwise, such costs are charged to the income statement.

Investment property is depreciated systematically annually on a straight-line basis using rates held to represent the residual useful life of the relevant asset.

Intangible assets

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

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

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

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

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

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

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

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

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

Goodwill

Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the fair value of the identifiable assets, liabilities and contingent liabilities related to the complex acquired. If, after this restatement, the value of current and contingent assets and liabilities exceeds the acquisition cost, the difference is recognised immediately in the income statement.

Any goodwill deriving from the acquisition of an associate or joint venture is included in the carrying amount of the investment.

Goodwill is allocated to one or more cash-generating units and is not amortised, but is annually tested for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on “Impairment losses on non-financial assets”).

Non-current assets held for sale - Discontinued operations

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

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

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

If a single non-current asset is involved (e.g. a property or an investment in an associate), the recognition of profit or loss from the disposal or valuation depends on the nature of the asset.

If it is a discontinued operation and is a material component of the item “Net profit/loss from discontinued operations”, a single amount is recorded represented by the total of:

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

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

Service concession arrangements

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

In particular, the operator purchases a financial asset to the extent that it has an unconditioned contractual right to payment or another financial asset from, or upon instruction of, the grantor with reference to the building services. The financial asset recognised is subject to the provisions of IAS 32, IAS 9 and IFRS 7.

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

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

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

Impairment losses on non-financial assets

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

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

The value in use is generally defined by discounting the cash flows expected from use of the asset or Cash Generating Units and from the value expected from its disposal at the end of its useful life.

The Cash Generating Units were identified in keeping with the Group's organisational and business structure, as assets that generate independent incoming cash flows deriving from continuous use of the same.

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

Investments measured using the equity method

These are equity investments in associates or joint ventures, measured using the equity method, that is by recognising an amount equal to the investor's share of equity as per the most recent financial statements available, adjusted to account for the difference between the price paid and equity at the acquisition date and any intra-group transactions, if relevant.

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

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

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

Financial instruments

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

- Financial assets and liabilities

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

Financial assets are classified in three categories: a) financial assets carried at amortised cost; b) financial assets carried at fair value through other comprehensive income (FVOCI); c) financial assets carried at fair value through profit or loss (FVTPL).

The classification within the categories indicated above is made on the basis of the entity's business model and in relation to the characteristics of the cash flows generated by the said assets:

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

At each reporting date all financial assets, with the exception of those measured at fair value recognised in profit (loss) for the period, are subjected to an impairment test to determine whether there is objective evidence that can lead to the belief that the value of the asset is not fully recoverable. In accordance with what is provided for in IFRS9 the impairment model adopted by the Iren group is based on *expected losses*, where "loss" means the present value of all future lost revenue, opportunely integrated to take into account future expectations ("forward-looking information"). In accordance with the general approach applicable to all financial assets, the expected loss is a function of the probability of default (PD), of the loss given default (LGD) and of the exposure at default (EAD): the PD represents the probability that an asset will not be repaid and will go into default; the LGD represents the amount expected to be non-recoverable if the default event occurs; the EAD represents the receivable exposure claimed against the counterparty, including any guarantees, collateral, etc. The estimate is made initially on the expected losses in the next 12 months; in consideration of any gradual deterioration of the receivable the estimate is adjusted to cover the expected losses along the whole life of the receivable.

Financial liabilities are generally classified as measured at amortised cost, with the exception of derivatives which are measured at fair value recognised in profit (loss) for the period. Changes in the fair value of a financial liability designated as measured at fair value through profit or loss, if these are due to a change in the creditworthiness of the liability itself are recognised under other comprehensive income.

- Other equity investments

Other equity investments, consisting of non-controlling interests in unlisted companies that the Group intends to keep in its portfolio in the near future, are measured at fair value through profit or loss (FVTPL).

- Hedging instruments

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

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

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

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

At each reporting date, hedging instruments are tested for effectiveness to check whether the hedge still meets the requirements for designation as effective and can be recognised using hedge accounting. A hedging relationship is effective if:

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

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

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

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

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

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

- Trade receivables and payables

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

- Cash and cash equivalents

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

Cash and cash equivalents, including ancillary charges, are measured at fair value.

Cash on hand and revenue stamps are measured at their nominal amount.

Inventories

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

Cost is determined using the weighted average cost method.

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

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

Shareholders' equity

Share capital, including the various categories of shares, is stated at its nominal amount less share capital proceeds to be received.

The purchase cost of treasury shares is recognised as a reduction in equity.

Costs directly attributable to share capital transactions of the parent are offset against equity.

Dividends are recognised as liabilities when they are approved by the shareholders' meeting.

Employee benefits

Post-employment benefits are defined according to plans which, based on their characteristics, are separated into "defined contribution" and "defined benefit" plans.

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

The liability relating to defined benefit plans, net of any plan assets, is calculated according to actuarial assumptions. For the Group, included in this category are post-employment benefits accrued until 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the tariff discounts for employees and former employees, additional monthly salaries (Art. 47, national labour agreement for the sector), the loyalty bonus paid to employees and contributions paid to the Premungas fund.

The present value of the liability is calculated for each employee using the projected unit credit method. The total liability is calculated by estimating the amount payable on termination of the employment relations, taking into account economic, financial and demographic factors. This amount is recognised on a proportional basis over the period of service matured. For post-employment benefits accrued at 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the proportional basis is not applied because at the reporting date the benefits can be considered accrued in full.

The demographic, economic and financial variables are validated annually by an independent actuary.

As regards presentation in the financial statements, the changes in liabilities connected with the obligation related to a defined benefit plan are broken down into three components:

- 1) operating (service cost), personnel expenses;
- 2) financial (finance cost), net interest income/expense;
- 3) measuring (remeasurement cost), actuarial gains/losses.

Gains and losses deriving from actuarial calculations regarding post-employment benefits are immediately recognised in Other comprehensive income, except for the loyalty bonus which is entirely recognised in the Income Statement.

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

Provisions for risks and charges

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

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

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

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

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

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

Provisions for landfill post-closure are discounted to the present on the basis of the cash flows indicated in the report drawn up by an independent expert.

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

Revenue from goods and services

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

For correct recognition of revenue from contracts with customers, reference is made to what is laid down in IFRS 15 which provides for a revenue recognition model based on 5 steps:

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

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

Grants related to assets and grants related to income

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

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

Connection contributions invoiced by companies that provide the distribution service as reimbursement of the costs incurred for the connection/meter installation under the terms of IFRS 15 cannot be considered part of the price of the distribution service because there is no transfer of control over the asset. They are therefore deferred and released along the life of the asset of reference in line with what is envisaged for tariff purposes.

Other income

Other income includes all kinds of revenue not included in the previous types and not of a financial nature. Income is measured at the fair value of the price received or due and is recognised when:

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

Costs for the purchase of goods and services

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

Financial income and expense

Financial income and expenses are recognised when they accrue on the basis of the interest earned on the net amount of the related financial assets and liabilities using the effective interest rate.

Financial expenses directly attributable to the acquisition, construction or production of a plant are capitalised when:

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

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

Income tax expense

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

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

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

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

Deferred tax liabilities are calculated at the tax rates that are expected to apply for the year in which the differences are reversed.

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

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

Translation criteria

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

Emission Trading Scheme

The Emission Trading Scheme, which came into force in the European Union on 1 January 2005, is one of the 'flexible mechanisms' permitted under the Kyoto Protocol in order to reach greenhouse gas emission targets. The target for Italy was a 6.5% reduction in CO₂ emissions by 2012 compared with 1990.

Italian Legislative Decree No. 30 of 13 March 2013 transposed Directive 2009/29/EC into Italian law. This directive introduced new rules for trading greenhouse gas emissions and new activities subject to application of the regulations in the period 2013-2020.

The Group actively participates in the emissions trading scheme to reduce greenhouse gas emissions and contribute to reaching the targets with respect to the national reduction plan.

Emission quotas acquired in the context of activities associated with achieving these targets are accounted for as intangible assets. The quotas are measured initially at fair value, represented by the effective purchase price, and are not amortised. Quotas received free of charge are not recognised.

As regards obligations related to the period, the CO₂ emissions made are measured at fair value, represented by the market price at the end of the period and/or by the effective price of quotas already purchased, and are set aside as provisions for charges, used at the moment in which the rights are cancelled. In the event of sale of emission quotas, together with the decrease in intangible assets, any capital gain/loss deriving from the selling price is recognised.

Any emission quotas held for trading which are still unsold at year end are recognised in the statement of financial position under the item Inventories. These quotas are measured at the lower of cost and market value.

Other energy certificates

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

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

For accounting purposes, these cases are treated as follows:

- the incentive tariff (ex-green certificates) deriving from the annual production of electricity from renewable sources is recognised on the basis of the accruals concept when the right matures;
- White Certificates are accounted for in a slightly different way according to whether the entity is obliged or not obliged to return the EECs.

In fact, entities that are obliged to return EECs recognise among other income the grant related to the obligation for the year and among cost for raw materials the cost of EECs purchased to meet this obligation in the year of accrual. If the EECs purchased exceed the compulsory amount, the cost of the exceeding purchased certificates is discounted; conversely, if the certificates purchased are not enough to meet obligations, the cost of certificates to be purchased will be allocated to meet the compulsory amount for the year.

Entities not obliged to return the EECs:

- if they operate in trading activities, recognise revenue and costs of the certificates bought and sold and suspend among Inventories any unsold certificates, measured at the weighted average cost and at the lower between cost and market;

- if white certificates mature in the context of energy efficiency and energy saving activities, the related revenue is recognised as it accrues.

Earnings per share

- Basic earnings per share

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

- Diluted earnings per share

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

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

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2019

As of 1 January 2019, the following accounting standards and amendments to accounting standards, issued by the IASB and endorsed by the European Union, are obligatorily applicable:

IFRS 16 – Leases. The standard, published by the IASB on 13 January 2016 and endorsed with Reg. (EU) 2018/1986 of 31 October 2018, replaced IAS 17 - “Leases”, as well as the interpretations IFRIC 4 “Determining whether an Arrangement contains a Lease”, SIC 15 “Operating Leases - Incentives” and SIC 27 “Evaluating the Substance of Transactions Involving the Legal Form of a Lease”.

As better illustrated in the paragraph on the accounting standards applicable to Assets under finance lease in the context of Property, plant and equipment, IFRS 16 provides a new definition of lease, which is irrespective of the contractual form adopted (leasing, rental or hire) and in practice marks the end of the distinction between operating leasing and financial leasing. On the lessee’s part, the new standard provides for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value; in the income statement depreciation and interest expense must be recognised separately. On the lessor’s part the impact on the financial statements consists only of greater disclosure.

Application in the Iren Group took effect starting from 1 January 2019. On the basis of the analyses carried out the contracts in which Iren plays the role of lessee refer mainly to property leasing and long-term hires of cars and other motor vehicles.

In accordance with the provisions of IFRS 16.C3 the Iren Group decided to apply the standard to contracts previously classified as leases in accordance with IAS 17 - *Leases* and IFRIC 4 - *Determining Whether an Arrangement Contains a Lease*, instead of redetermining whether or not a contract is or contains a lease.

For the leases previously classified as operating leases, as practical expedients provided for in the transitional provisions of IFRS 16, the Iren Group opted to:

- apply the standard retroactively accounting for the cumulative effect of initial application of IFRS 16 at the date of initial application, without redetermining the comparative information, but instead recognising any cumulative effect as an adjustment of the opening balance of retained earnings (IFRS 16.C5 b) and C7);
- measure the leasing liability at the date of initial application at the present value of the remaining payments owed discounted using Iren’s marginal loan rate at the date of initial application (IFRS 16.C8 a);
- measure the asset consisting of the right of use at an amount equal to the initial leasing liability, net of any prepaid expenses recognized in the statement of financial position immediately before the date of initial application (IFRS 16.C8 b (ii));

- not recognize assets and liabilities related to leases the term of which ends with 12 months from the date of initial application. These leases are treated as short-term leases in accordance with IFRS16.C10 C.

The effects of first application of IFRS 16, taking into account the aforementioned practical expedients, entailed an increase in financial liabilities of 104,974 thousand euro and an equivalent increase in assets for property, plant and equipment. The impact on shareholders' equity is therefore zero.

The weighted average of the marginal lending rate, applied to leasing liabilities recognised in the statement of financial position at 1 January 2019, is 3.20%. This rate is determined weighting the market returns of bond loans issued by Iren diversified according to the duration of the various leasing contracts.

Amendment to IFRS9 - Prepayment Features with Negative Compensation. The amendments, endorsed with Reg. (EU) 2018/498 of 22 March 2018, introduces an exception for particular financial assets that would feature contractual cash flows that are solely payments of principal and interest (IFRS 9, para. 4.1.2), but do not fulfil this condition owing only to the presence of a contractual clause providing for prepayment. In particular, the amendments state that financial assets with a contractual clause that allows (or imposes on) the issuer to repay a debt instrument or permits (or imposes on) the holder to repay a debt instrument to the issuer before maturity can be measured at amortised cost or at fair value through other comprehensive income, subordinately to assessment of the business model in which they are held, if the following conditions are met:

- the company acquires or issues the financial asset with a premium or a discount with respect to the nominal amount of the contract;
- the prepayment amount is substantially the nominal contractual amount and the contractual interest accrued (but not paid), which can include reasonable additional compensation for early termination of the contract; and
- when the company initially recognises the financial asset, the fair value of the prepayment feature is insignificant.

IFRIC 23 – Uncertainty over Income Tax Treatments. The interpretation, issued in June 2017 and endorsed with Reg. (EU) 2018/1595 of 23 October 2018, clarifies how to apply the recognition and measurement requirements of IAS 12 in the case of uncertainty over tax treatments related to income taxes. If there are uncertainties on the application of the tax laws to a specific transaction or group of transactions, IFRIC 23 requires the company to assess whether it is probable that the tax authority will accept the choice made by the company on the tax treatment of the transaction: on the basis of this probability, the company must recognise in its financial statements an amount of taxes that it may pay or defer with respect to what is included in its income tax filings.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures. The amendment, issued in October 2017 and endorsed with Reg. (EU) 2019/237 of 8 February 2019, clarifies that a company must apply the provisions of IFRS 9 to any other long-term interest that substantially represents a further component of the equity investment in the associate or joint venture, to which the equity method is not applied (e.g. privileged shares, loans and non-trade receivables). Any losses recognised on the basis of the equity method, in excess with respect to the equity investment of the entity in ordinary shares of the associate or joint venture, are attributed to the other components of the equity investment in inverse order with respect to their degree of subordination (that is, liquidation priority) after applying IFRS 9.

Annual improvements to IFRSs 2015-2017 cycle. Issued in December 2017 and endorsed with Reg. (EU) 2019/412 of 14 March 2019, the document contains formal amendments and clarifications to already existing standards. We can note in particular the following amendments:

- *IFRS 3 - Business Combinations.* The amendment specifies that a joint operator, which acquires control over a jointly-controlled activity that represents a business, must remeasure previously held interests in the jointly-controlled business at fair value at the acquisition date.
- *IFRS 11 – Joint Arrangements.* The amendment clarifies that when an entity that has an interest in a jointly-controlled activity that represents a business (under the terms of IFRS 3) without exercising joint control, acquires joint control, the entity does not have to remeasure previously held interests in that business.

- *IAS 23 – Borrowing Costs*. The amendment establishes that the capitalisation rate applied in order to determine the amount of borrowing costs capitalised must correspond to the weighted average of interest rates related to *all* loans outstanding during the period, other than those obtained specifically for the purpose of acquiring an asset. Therefore the part of specific borrowing remains outstanding, after the related “qualifying asset” is ready for its intended use or sale, must be included in the amount of funds that a company borrows generally.

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

On 22 July 2014 the Financial Stability Board published the report “Reforming Major Interest Rate Benchmarks” containing recommendations aimed at strengthening existing benchmarks and other potential reference rates based on interbank markets, as well as developing alternative nearly risk-free reference rates. To take into account the consequences of the reform of financial disclosure, in particular in the period that precedes the replacement of a benchmark for determining the existing interest rates with an alternative reference rate, on 26 September 2019 the IASB published *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*, endorsed with Reg. (EU) 2020/ 34 of 16 January 2020.

The amendments, applicable starting from 1 January 2020, establish temporary and limited exception to the provision on hedge accounting, so that entities can continue to observe the provisions presuming that existing benchmarks for determining interest rates are not modified following the reform of interbank rates.

The exceptions regard:

- the designation of a risk component of an element as a hedged element;
- the requirements on the subject of “high probability” for cash flow hedging;
- the assessment of the economic relationship between the hedged element and hedging instrument;
- The reclassification of the amount accumulated in the cash flow hedging reserve.

The exceptions apply to hedging relationships directly affected by the reform of the interest rate benchmarks, that is to say hedging relationships for which the reform generates uncertainties as regards: a) interest rate benchmark (defined contractually or non-contractually) designated as risk hedged; b) timing or amount of the cash flows related to the interest rate benchmarks of the hedged element or of the hedging instrument.

With reference to hedging relationships to which the exceptions are applied, specific supplementary information is required.

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

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

Amendments to IFRS 3 - Business Combinations. The amendment involved the definition of business, to be understood as an integrated set of activities that it is possible to conduct and manage for the purpose of providing goods and services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. This clarification makes it possible to distinguish whether an acquisition refers to a business or a group of assets: only in the first case goodwill can be recognised. The new definition of business must be applied to acquisitions made starting from 1 January 2020.

Definition of Material - Amendments to IAS 1 and IAS 8. The amendment, issued on 31 October 2018, has the purpose of clarifying better the definition of “material”, providing indications useful for identifying all the relevant information to be included in the financial statements and making uniform the application of the concept of materiality in the body of the International Accounting Standards. The amendment will be applicable, after endorsement, for annual reporting periods beginning on or after 1 January 2020.

Amendments to IAS1 - Presentation of Financial Statements: Classification of Liabilities as Current or Non-current. The amendment specifies that, if the debtor has the right to defer payment of the debt by more than 12 months with respect to the reporting date, and this right is immediately exercisable, the liability must be classified as non-current, irrespective of the probability that this right will be exercised. Even if the management has the intention to extinguish the debt within the 12 months following the reporting date and/or the debt is repaid before approval of the financial statements, the liability should equally be classified as non-current, but adequate disclosure of this must be provided in the notes to the financial statements. The amendment will be applicable for annual reporting periods beginning on or after 1 January 2022.

As regards the new standards applicable starting from financial year 2020 or subsequent years, assessments for their correct application and analyses of the presumable impacts on future financial statements are in progress.

V. GROUP FINANCIAL RISK MANAGEMENT

A summary of the risk management and control methods is shown below with respect to financial instruments (liquidity risk, exchange rate risk, interest rate risk, credit risk) and commodity price risk related to fluctuations in the prices of energy commodities.

1. FINANCIAL RISKS

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

a) Liquidity risk

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

The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored, and no critical points have emerged regarding the coverage of short-term financial commitments. At the end of the period short-term bank credit facilities used by the Parent Company totalled 75 million euro.

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

Financial liabilities at 31 December 2019:

	thousands of euro				
	Carrying amount	Contractual cash flows	within one year	1-5 years	Over 5 years
Loan and bond payables (*)	3,267,486	(3,524,043)	(262,289)	(1,401,546)	(1,860,208)
Hedging of interest rate risk(**)	78,273	(78,273)	(16,111)	(45,848)	(16,313)
Payables for leases	132,014	(132,831)	(106,777)	(19,038)	(7,016)

(*) The carrying amount of "Mortgage loan and bond payables" includes both current and non-current portions.

(**) The carrying amount of "Hedging of interest rate risk" includes the positive and negative fair value of the hedging contracts.

Financial liabilities at 31 December 2018:

	thousands of euro				
	Carrying amount	Contractual cash flows	within one year	1-5 years	Over 5 years
Loan and bond payables (*)	3,293,125	(3,638,739)	(451,320)	(1,210,974)	(1,976,445)
Hedging of interest rate risk(**)	74,965	(74,965)	(17,210)	(44,181)	(13,574)

(*) The carrying amount of "Mortgage loan and bond payables" includes both current and non-current portions.

(**) The carrying amount of "Hedging of interest rate risk" includes the positive and negative fair value of the hedging contracts.

Cash flows required to settle other financial liabilities, other than those to lenders and those related to the application of IFRS 16 on the subject of leases, shown in the above tables, do not differ significantly from the recognised carrying amount.

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

Details of the activities performed in this area and of the individual transactions are shown in the chapter Financial Income and Expenses of the Directors' Report.

Financial debt from financing at the end of the period was made up 20% of loans and 80% of bonds.

At 31 December 2019, 82% of the residual amount payable for loans was contractualised at a fixed interest rate and 18% at a floating rate.

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

b) Exchange rate risk

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

c) Interest rate risk

The Iren Group is exposed to interest rate fluctuations especially with regard to the measurement of financial expenses related to indebtedness. The Iren Group's strategy is to limit exposure to the risk of interest rate volatility, maintaining at the same time a low cost of funding.

In a non-speculative view, the risks associated with the increase in interest rates are monitored and, if necessary, reduced or eliminated by swap and collar contracts with financial counterparties of high credit standing, for the sole purpose of hedging. At the end of the period, all the contracts entered into meet the requisite of limiting the exposure to the risk of oscillation of interest rates and, except for a few positions with insignificant impacts, they also meet the formal requirements for the application of hedge accounting. The total fair value of the aforementioned interest rate hedges was a negative 78,273 thousand euro at 31 December 2019.

The hedging contracts entered into, together with fixed-rate loans, hedge approximately 96% of financial debt from financing against interest rate risk, in line with the Iren Group's target of maintaining adequate protection against significant increases in the interest rate.

For a more complete understanding of the interest rate risks to which the Group is subject, stress testing was performed on the sensitivity of net financial expense and evaluation components in derivatives contracts to changes in interest rates. As regards financial charges, this analysis was performed on the basis of reasonable assumptions as follows:

- a theoretical increase and decrease of 100 basis points in the Euribor interest rates over the year was applied to net financial debt;
- if there was any existing hedge, interest rate shock was applied to both the debt position and related hedging derivative with an extremely limited net effect on the income statement;
- the change in interest rates is also applied to any portion of interest expenses capitalised in the year.

With regard to hedging derivatives existing at year end, a 100 basis points theoretical upward and downward change was applied to the forward curve of interest rates used to measure the fair value of the hedges.

The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2019.

	thousands of euro	
	increase of 100 bps	100 bps decrease
Increase (decrease) in net financial charges	(235)	(22)
Increase (decrease) in derivative fair value charges	2,454	(2,576)
Increase (decrease) in hedging reserve	31,675	(34,650)

2. CREDIT RISK

The Group's credit risk is mainly related to trade receivables deriving from the sale of electricity, district heating, gas and the provision of energy, water and environmental services. The receivables are spread across a large number of counterparties, belonging to non-uniform customer categories (retail and business customers and public bodies); some exposures are of a high amount and are constantly monitored and, if necessary, covered by repayment plans. The Iren Group's Credit Management units devoted to credit recovery are responsible for this activity.

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

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

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

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

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

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

Provisions set aside for impairment of receivables reflect, carefully and in accordance with the current legislation (applying the IFRS 9 method), the effective credit risks, and are determined on the basis of the extraction from databases of the amounts making up the receivable and, in general, assessing any changes in the said risk compared to the initial measurement and, in particular for trade receivables, estimating the related expected losses determined on a prospective basis, taking into due consideration the historical series.

The control of credit risks is also strengthened by the monitoring and reporting procedures, in order to identify promptly possible countermeasures.

In addition, on a quarterly basis, the Risk Management Department collects and integrates the main data regarding the evolution of the Group companies' trade receivables, in terms of type of customers, status of the contract, business chain and ageing band. Credit risk is assessed both at the consolidated and at the Business Unit and company levels.

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

For further observations regarding the Coronavirus outbreak, please also see the "Business Outlook" section in the Directors' Report.

With reference to credit concentration we can note the relations between the subsidiaries Iren Smart Solutions and AMIAT and the Municipality of Turin. For further details, see in particular Note 8 "Non-current financial assets" of the Notes to the statement of financial position.

3. ENERGY RISK

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

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

The objective is to obtain sufficient stability in the margins through:

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

Besides the normal activity with physical contracts, Over the Counter (OTC) commodity derivative contracts (Commodity swaps on TTF and PSV indices) are in place to hedge the energy portfolio, for a total of 7.1 TWh. As regards activity on the EEX regulated platform, derivative operations on the SNP are in place for a total net notional amount of 0.8 TWh. The Fair Value of these instruments at 31 December 2019 totalled a negative 43,733 thousand euro.

RECOGNITION OF DERIVATIVES

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

In order to recognise derivatives, it is necessary to distinguish between transactions that meet all of the IFRS 9 requirements in order to account for them in compliance with the hedge accounting rules and transactions that do not fulfil all of the aforesaid requirements.

Transactions recognised in compliance with hedge accounting rules

These transactions may include:

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

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

Transactions not recognised in compliance with hedge accounting rules

The derivative is recognised at fair value in the statement of financial position.

The change in the fair value of the derivative is recognised in the income statement and is classified based on the type of underlying instrument:

- in the case of commodity derivatives, in the gross operating profit (EBITDA); specifically, the realised component is recognised to adjust the income or expense to which it refers, while the portion determined from measuring the derivative at the end of the period is classified under other expense or other income;
- in the case of interest rate risk hedges, in financial income or expenses.

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

FAIR VALUE

In addition to the carrying amount, the fair value, along with the methods and major assumptions used to determine it, must be disclosed for every asset and liability class shown in the financial statements.

Fair value is determined as the sum of estimated future cash flows in relation to assets or liabilities, including the related financial income or expense, discounted with reference to the reporting date. The present value of future flows is determined by applying the curve of forward interest rates at the reporting date. In order to provide a disclosure as complete as possible, the corresponding figure from the previous year is also indicated.

	31.12.2019		31.12.2018	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Assets for hedging derivatives	693	693	311	311
Bonds due at more than 12 months	(2,516,069)	(2,667,775)	(2,185,550)	(2,174,032)
Bonds due within 12 months	(167,831)	(174,955)	(89,069)	(91,779)
Loans - non-current portion	(539,949)	(542,108)	(743,902)	(709,996)
Loans - current portion	(43,637)	(45,502)	(274,604)	(285,723)
Liabilities for hedging derivatives	(78,966)	(78,966)	(75,276)	(75,276)
Total	(3,345,759)	(3,508,613)	(3,368,090)	(3,336,494)

The amounts related to assets and liabilities for hedging derivatives in the table refer exclusively to derivatives hedging interest rate risk.

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

FAIR VALUE HIERARCHY

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

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

	thousands of euro			
31.12.2019	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income				
Financial assets measured at fair value through profit or loss			7,403	7,403
Derivative financial assets in Cash Flow Hedges		693		693
Derivative financial assets in Fair Value Hedges				
Derivative financial assets outside hedge accounting				
Total assets		693	7,403	8,096
Derivative financial liabilities in Cash Flow Hedges		(117,361)		(117,361)
Derivative financial liabilities in Fair Value Hedges				
Derivative financial liabilities outside hedge accounting		(2,319)		(2,319)
Total liabilities		(119,680)		(119,680)
Grand total		(118,987)	7,403	(111,584)

	thousands of euro			
31.12.2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income				
Financial assets measured at fair value through profit or loss			7,223	7,223
Derivative financial assets in Cash Flow Hedges		636		636
Derivative financial assets in Fair Value Hedges		1,156		1,156
Derivative financial assets outside hedge accounting				
Total assets		1,792	7,223	9,015
Derivative financial liabilities in Cash Flow Hedges		(91,477)		(91,477)
Derivative financial liabilities in Fair Value Hedges		(108)		(108)
Derivative financial liabilities outside hedge accounting		(3,188)		(3,188)
Total liabilities		(94,773)		(94,773)
Grand total		(92,981)	7,223	(85,758)

All the Group's hedging instruments have a fair value which can be classified at level 2. This level is measured through valuation techniques, that take, as a reference, parameters that can be observed on the market (e.g. interest rates, commodity prices) and are different from the price of the financial instrument, or in any case that do not require a significant adjustment based on data which cannot be observed on the market. We can also note that no transfers occurred amongst the various Levels of the fair value hierarchy.

CAPITAL MANAGEMENT

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

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

VI. INFORMATION ON TRANSACTIONS WITH RELATED PARTIES

As indicated in the Directors' Report the information on financial and economic transactions with related parties is provided below.

Transactions with related-party Shareholder Municipalities and with FSU S.r.l.

We present, for the Group's subsidiaries, the main transactions directly carried out with the Shareholder Municipalities which have been classified as related parties (Municipality of Turin, Municipality of Reggio Emilia, Municipality of Parma, Municipality of Piacenza and Municipality of Genoa) in the territory of which Iren operates.

The Group, through Iren Smart Solutions (formerly Iren Rinnovabili S.p.A. up to 1 August 2019), manages services awarded by the Municipality of Turin, namely public street lighting and traffic light services, management of heating and electrical systems of buildings used as administrative offices or to provide services to the community. The services rendered by Iren Smart Solutions are governed by specific long-term agreements.

In this regard we can note that an onerous current account contract is in place between the City of Turin and Iren Smart Solutions for management of the past-due receivables related to the above activities. Over the last three years some important work on plant regeneration and energy efficiency has been carried out. This has involved municipal street lighting systems and heating plants in numerous publicly-owned buildings.

The Iren Group, through Iren Mercato, provides to the Municipalities of Genoa, Reggio Emilia, Parma, Piacenza and Turin commercial supplies of energy vectors, at the conditions normally applied to all other customers.

Iren Acqua and IRETI provide water services respectively to the Municipality of Genoa and to the Municipalities of Reggio Emilia, Parma and Piacenza, based on supply contracts similar to those signed with all other customers.

Iren Ambiente provides the Municipalities of Reggio Emilia, Parma and Piacenza with urban waste collection and disposal services on the basis of the conditions provided for in the existing agreements. Again in the context of the sector, for the Municipality of Turin the environmental hygiene and snow clearing services, and post-operative management of the "Basse di Stura" landfill site are provided by AMIAT in accordance with the Service Contract in being. In this regard we can note that an onerous current account contract is in place between the City and the said AMIAT for management of the past-due receivables related to the above activities.

Up to 31 December 2019, Iren S.p.A. also provided Finanziaria Sviluppo Utilities S.r.l., a special purpose company through which the Municipality of Genoa holds its equity investment in Iren S.p.A., with a series of corporate services, in accordance with a specific service contract.

Transactions with joint ventures and associates

Among the main transactions carried out by the Iren Group with joint ventures and associates, we can note:

- the loan granted to OLT Offshore LNG Toscana in relation to the Livorno regasification plant and the credit facility in centralised treasury in favour of Valle Dora Energia;
- the commercial supplies of electricity, natural gas and district heating to the company Global Service Parma;
- the sales of electricity and water, and the work related to the integrated water service provided to AMTER;
- the waste disposal service, covering also special waste, provided by Iren Ambiente and TRM in favour of GAIA and SETA, operating in the field of the collection sector;
- the procurement of natural gas from Sinergie Italiane;

Transactions with other related parties

On the basis of the TRP Procedure, companies controlled, directly or indirectly, by one of the following Provincial Capitals have been identified as related parties: Parma, Piacenza, Reggio Emilia, Turin and Genoa. In particular we can note that in order to supply the integrated water service in the provinces of Parma, Piacenza and Reggio Emilia, the company IRETI, with the payment of an annual lease, uses the assets of the companies Parma Infrastrutture, Piacenza Infrastrutture and AGAC Infrastrutture, controlled by the Municipalities involved.

In addition, during 2019, after the tender procedure called by AMIU Genoa (controlled by the Municipality of Genoa) and following the presentation, by Iren Ambiente, of a project financing proposal, the said Iren Ambiente was awarded the concession for the design, construction, management and operation of a plant for the mechanical-biological processing of residual municipal waste, with production of CSS, to be built in the Scarpino district. In execution of the commitments pursuant to the concession, on 21 January 2020 Rigenera Materiali s.r.l. (fully controlled by Iren Ambiente) was set up for the design, construction and management of the aforementioned plant. The above operation was treated in accordance with the TRP Procedure and, more specifically, was classified as an operation benefiting from the exclusion pursuant to art. 6 lett. (e) of the said TRP Procedure because it was *"(...) Ordinary (...) concluded at conditions equivalent to those of the market or standard"*.

The remaining transactions with the companies controlled by the above Municipalities are mainly of a commercial nature and regard services provided to all other customers.

Quantitative information on financial transactions with related parties is provided in chapter "XII. Annexes to the Consolidated Financial Statements", considered an integral part of these notes.

Lastly and as regards the Directors and Statutory Auditors of IREN, with the exception of payment of the emoluments envisaged for the performance of duties in the administrative or auditing bodies of the Parent Company or of other Group companies, we can report that there were no transactions.

Transactions that consist of assigning remunerations and economic benefits, in any form, to members of the administration and control bodies of IREN and Key Management Personnel of the IREN Group are also subject to the provisions of the TRP Procedure.

Disclosure pursuant to Art. 5.8 lett. a) and 5.9 CONSOB Regulation

At the meeting on 14 February 2019 (the work of which continued on 18 February 2019), the CTRP in office at the time expressed, unanimously, its favourable opinion with reference to the transaction, classified as "of minor importance", regarding the presentation, by Iren Smart Solutions, in a Temporary Consortium with other entities, to the Municipality of Genoa of a Project Financing proposal for increasing the energy efficiency of the public lighting systems of the said Municipality. During the year, the *medio tempore* CTRP that had taken office received periodic information on the activities carried out following the presentation of the Project Financing proposal, with particular regard to the decisions taken by the competent bodies of the Municipality of Genoa.

We can note that, during 2019, the CTRP received periodic information on the status of performance of the transaction, classified as of major importance, regarding the signing of an Agreement between the Municipality of Turin, as one party, and IREN, as principal of its subsidiaries AMIAT, Iren Energia (which, as mentioned above, was replaced by Iren Smart Solutions) and Iren Mercato, as the other party, to govern the relationships in being among the parties – an operation on which the CTRP had expressed a favourable opinion and for which please see the Disclosure Document published on 29 March 2018 and the supplementary Disclosure Document published on 9 July 2018, both documents available on the website www.gruppoiren.it.

On 2 July 2019, after an enquiry carried out by the Company's Remuneration and Appointments Committee, also in performing the duties pursuant to the TRP Procedure, the Board of Directors approved the economic-contractual conditions of the new temporary employment relationship determined between the Company and Mr Massimiliano Bianco and the acceptance of the same, as Chief Executive Officer and General Manager of the Company, the 2019-2021 Long-Term Monetary Incentive Plan approved on 27 November 2018.

On 19 September 2019, the CTRP expressed, unanimously, its favourable opinion with reference to the transaction, classified as "of minor importance", regarding the presentation, by Iren Smart Solutions, to the Municipality of Turin, of a Project Financing proposal to carry out building and system renovation works on the buildings in Via Reiss Romoli, owned by the said Municipality. At its meeting on 9 March 2020, after examining the updates provided by the Iren Smart Solutions structures consequent to discussions held with the Municipality of Turin after the presentation of the Project Financing proposal, the CTRP, with the unanimous approval of the related members present, confirmed its favourable opinion with reference to the operation.

Finally, on 12 December 2019, the CTRP expressed, unanimously, its favourable opinion on the subject of the transaction, classified as "of minor importance", regarding the signing and presentation of a binding offer to the Municipality of Turin for the purchase of the equity investment representing 17.36% of the share capital of TRM, then approved by the Board of Directors the next day.

In execution of the board resolution binding offer to the Municipality of Turin was formalised. This was effective until 30 December 2019; as the deadline has passed, in the absence of written communications from the Municipality on its interest in selling the equity investment in question in the terms and at the conditions proposed and approved by Iren's competent bodies, the said offer is understood as lapsed and ineffective.

VII. OTHER INFORMATION

CONSOB COMMUNICATION NO. DEM/6064293 of 28 July 2006

Significant non-recurring events and transactions

During financial year 2019 the Iren Group was not affected by “non-recurring” events and did not carry out significant transactions identified as such on the basis of the definitions contained in the Communication. In particular, it was not affected by events which do not reoccur frequently during the normal performance of the business.

We can note that in financial year 2018 the Group’s economic results had been affected by the recognition of significant income consequent to the revision of the estimate of receivables for invoices to be issued related to the sale of electricity, gas and heat (of 41,238 thousand euro). In order to permit a better analysis of the results of the Group and of the sectors in which it operates, this element of discontinuity was in any case highlighted in the Income Statement as a “non-recurring” item.

Positions or transactions deriving from atypical and/or unusual operations

We can specify that during financial year 2019 the Group did not engage in any atypical and/or unusual operations, as defined in the Communication. Atypical and/or unusual operations are operations which owing to their significance/relevance, nature of the counterparties, subject of the transaction, the method by which the sales price is calculated and the timescale of the event (nearness to reporting date) may give rise to doubts with regard to the correctness/completeness of the information given in the financial statements, conflict of interest and safeguarding of the company’s equity or protection of minority shareholders.

DISCLOSURE ON PUBLIC DISBURSEMENTS

With reference to what is provided for on the subject of transparency in the system of public disbursements pursuant to article 35 of Italian Law Decree no. 34/2019 (‘growth decree’) we can specify what follows:

- the National Register of State Aid includes aid, in favour of Iren Group companies, which must be disclosed. For the related details please see the aforementioned Register, under the terms of article 35, paragraph 125-quinquies;
- under the terms of article 35, paragraphs 125 and 125-bis the disclosure does not consider grants, subsidies, advantages, contributions or aid, in cash or in kind, of a general character and with the nature of consideration, remuneration or compensation such as the amounts deriving from former green certificates, white certificates, all-inclusive tariff, energy account and in general all incentives connected with consideration for supplies and services rendered;
- during 2019 grants were received that come under the relevant legislation; these are listed in the table presented in paragraph “XII. Annexes to the Consolidated Financial Statements”, with the exclusion of those less than 10 thousand euro per disbursing Body.

PUBLICATION OF THE FINANCIAL STATEMENTS

The Financial Statements were approved for publication by Iren S.p.A.’s Board of Directors at its meeting of 25 March 2020. The Board of Directors authorised the Chairperson, and the Chief Executive Officer to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders.

The shareholders’ meeting to be called to approve the separate financial statements of the Parent has the right to request amendments to the aforementioned consolidated financial statements.

VIII. NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

ASSETS

NON-CURRENT ASSETS

NOTE 1_PROPERTY, PLANT AND EQUIPMENT

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

	thousands of euro					
	Cost at 31/12/2019	Accumulated depreciation at 31/12/2019	Carrying amount at 31/12/2019	Cost at 31/12/2018	Accumulated depreciation at 31/12/2018	Carrying amount at 31/12/2018
Land	119,986	(4,062)	115,924	110,732	(2,648)	108,084
- of which for right of use	6,179	-	6,179	-	-	-
Buildings	749,071	(252,364)	496,707	584,467	(214,588)	369,879
- of which for right of use	116,803	(7,948)	108,855	-	-	-
Plant and machinery	5,332,608	(2,574,870)	2,757,738	5,184,276	(2,365,057)	2,819,219
- of which for right of use	8,008	(442)	7,566	-	-	-
Industrial and commercial equipment	149,902	(115,301)	34,601	122,471	(94,856)	27,615
- of which for right of use	393	(228)	165	-	-	-
Other assets	262,665	(164,735)	97,930	184,384	(128,292)	56,092
- of which for right of use	14,158	(3,742)	10,416	-	-	-
Assets under construction and payments on account	97,508	-	97,508	91,069	-	91,069
Total	6,711,740	(3,111,332)	3,600,408	6,277,399	(2,805,441)	3,471,958
- of which for right of use	145,541	(12,360)	133,181	-	-	-

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

	thousands of euro						
	Opening balance	Increases	Decreases	Changes in consolidation scope	Reclassifications	Other changes	Closing balance
Land	110,732	461	(572)	1,071	2,775	5,519	119,986
- of which for right of use	-	548	(84)	196	-	5,519	6,179
Buildings	584,467	29,106	(653)	22,534	25,507	88,110	749,071
- of which for right of use	-	20,489	-	3,106	5,098	88,110	116,803
Plant and machinery	5,184,276	103,219	(6,152)	17,451	33,814	-	5,332,608
- of which for right of use	-	-	-	8,008	-	-	8,008
Industrial and commercial equipment	122,471	11,355	(3,105)	8,842	10,022	317	149,902
- of which for right of use	-	55	-	21	-	317	393
Other assets	184,384	46,210	(9,225)	40,087	(9,819)	11,028	262,665
- of which for right of use	-	2,029	(2,334)	3,435	-	11,028	14,158
Assets under construction and payments on account	91,069	55,941	(852)	839	(49,489)	-	97,508
Total	6,277,399	246,292	(20,559)	90,824	12,810	104,974	6,711,740

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

thousands of euro

	Opening balance	Amortisation for the period	Decreases	Changes in consolidation scope	Reclassifications	Closing balance
Accumulated depreciation, land	(2,648)	(1,414)	-	-	-	(4,062)
- of which for right of use	-	(567)	-	-	-	(567)
Accumulated depreciation, buildings	(214,588)	(28,597)	472	(9,304)	(347)	(252,364)
- of which for right of use	-	(6,968)	-	-	(980)	(7,948)
Accumulated depreciation, plant and machinery	(2,365,057)	(207,624)	4,049	(6,144)	(94)	(2,574,870)
- of which for right of use	-	(442)	-	-	-	(442)
Accumulated depreciation, ind. and comm. equipment	(94,856)	(7,554)	3,016	(14,612)	(1,295)	(115,301)
- of which for right of use	-	(228)	-	-	-	(228)
Accumulated depreciation of other assets	(128,292)	(21,691)	6,373	(20,804)	(321)	(164,735)
- of which for right of use	-	(4,364)	680	-	(58)	(3,742)
Total	(2,805,441)	(266,880)	13,910	(50,864)	(2,057)	(3,111,332)

Starting from 1 January 2019 the accounting standard IFRS 16 – Leases is applied. This introduces a criterion based on control (right of use) of an assets to distinguish leasing contracts from contracts for services. On the lessee's part, the new standard provides for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value. The contracts in which the Iren Group plays the role of lessee refer mainly to property leasing and long-term hires of cars and other motor vehicles. The effects of first application of IFRS 16, taking into account the practical expedients described in the paragraph "Accounting standards, amendments and interpretations applied from 1 January 2019", entailed an increase in financial liabilities of 104,974 thousand euro and an equivalent increase in assets for property, plant and equipment, which is recognised in the column "Other Changes". In relation to the rental contract related to a part of the Group's headquarters we can note that at the end of financial year 2019 the management considered probable the exercise of the redemption option on the said properties provided for in the contract during 2020. Following the change, with respect to 1 January 2019, in the assessment of the purchase option, the leasing liability was redetermined to take into account the changes made to the payments owed. The recalculation entailed an increase in the liability and in the right of use of the buildings, shown in the column Increases, of 19,943 thousand euro.

The column "Changes in consolidation scope" refers to the purchase balances during the period relating to the companies Busseto Servizi, San Germano, CMT, Ferrania Ecologia and Territorio e Risorse.

The balance of the "reclassifications" column refers mainly to the net transfers from investment property to property, plant and equipment of items that no longer have the characteristics to be classified under the terms of IAS 40 and from intangible assets to property, plant and equipment of items that do not come within the scope of application of IFRIC 12. Additionally, the net amount of 4,118 thousand euro reported in "reclassifications" of buildings rights of use refers to existing contracts as at 31 December 2018 classified as financial leases and falling under the scope of application of the IAS 17 standard.

Land and buildings

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

Plant and machinery

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

Industrial and commercial equipment

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

Other assets

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

Investments in progress and payments on account

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

Increases

The increases in the period, of 246,292 thousand euro, mainly refer to:

- development of the district-heating network and new connections to the network, including heat exchange substations, meters and remote reading appliances, for 34,818 thousand euro;
- investments in the electricity distribution grids, including primary substations, of 46,503 thousand euro;
- investments in the gas networks not in a concession arrangement in accordance with the provisions of IFRIC 12 of 17,931 thousand euro;
- investments in thermoelectric and hydroelectric plants of 29,605 thousand euro;
- investments for collection and disposal in the waste management segment of 62,197 thousand euro.

Depreciation and amortisation

Ordinary depreciation for 2019, totalling 266,880 thousand euro, was calculated on the basis of the rates previously indicated in paragraph "IV. Accounting standards and measurement criteria" and considered representative of the residual useful life of the assets.

We can note that Italian Law Decree no. 135 of 14 December 2018 (Urgent provisions on support and simplification for businesses and the public administration – the so-called "Simplifications Law Decree") converted, with amendments, by Italian Law no. 12 of 11 February 2019, governs the new regimen of remuneration of Wet Works in relation to large shunting concessions for hydroelectric plants; the new law establishes that Wet Works must be transferred without consideration to the Regions. If the Operator has made new investments during the useful life and provided that these investments have been authorised or permitted by the competent Public Administration, the Operator will have the right to a remuneration limited to the non-depreciated value. Consequently, in order to make it consistent with the new law, the depreciation schedule of the Wet works referable to the expired concessions was redetermined, also taking into account the possible reassignment dates of the same, which, on the basis of the previous law, was interrupted starting from the 2012 financial statements. The depreciation for financial year 2019 of the aforesaid assets amounted to approximately 9.2 million euro.

Lastly, no assets are pledged against liabilities.

NOTE 2_INVESTMENT PROPERTY

The following table highlights the breakdown of the item:

	thousands of euro					
	Cost at 31/12/2019	Accumulated depreciation at 31/12/2019	Carrying amount at 31/12/2019	Cost at 31/12/2018	Accumulated depreciation at 31/12/2018	Carrying amount at 31/12/2018
Land	728	-	728	2,859	-	2,859
Buildings	4,334	(2,059)	2,275	13,133	(3,172)	9,961
Total	5,062	(2,059)	3,003	15,992	(3,172)	12,820

During 2019, in virtue of the purchase for 2,884 thousand euro of the residual portion, the Iren Group became the owner of the entire property complex located at Piazza Raggi in Genoa.

The results of the appraisal carried out by an independent expert aimed at determining the purchase price of this property portion, commensurate with the total value of the property area, entailed a downward adjustment of the carrying amount of the portion already held by the Group of 2,717 thousand euro. In the last quarter of the year a project to restore the aforesaid property complex was launched for the purpose of its use by the Group as headquarters and therefore, no longer meeting the requisites provided for in IAS 40, it was reclassified to the item Property, plant and equipment for the entire amount of 8,873 thousand euro.

We can note finally that, following the manifestation of structural damage, the impairment losses regarded also another property in the present item for 878 thousand euro aligning it therefore to the values resulting from a subsequent appraisal.

Also following these value adjustments, the fair value of the land and buildings recognised in the present items is not less than the carrying amount.

NOTE 3_ INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

The breakdown of intangible assets, divided between historical cost, accumulated amortisation and net amount is shown in the following table:

	thousands of euro					
	Cost at 31/12/2019	Accumulated depreciation at 31/12/2019	Carrying amount at 31/12/2019	Cost at 31/12/2018	Accumulated depreciation at 31/12/2018	Carrying amount at 31/12/2018
Development costs	7,529	(2,260)	5,269	3,755	(1,176)	2,579
Industrial patents and intellectual property use rights	136,626	(80,625)	56,001	106,274	(60,678)	45,596
Concessions, licences, trademarks and similar rights	2,867,223	(1,132,754)	1,734,469	2,692,758	(1,057,536)	1,635,222
Other intangible assets	334,682	(140,158)	194,524	285,801	(112,249)	173,552
Investments in progress and payments on account	184,969	-	184,969	153,037	-	153,037
Total	3,531,029	(1,355,797)	2,175,232	3,241,625	(1,231,639)	2,009,986

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

	thousands of euro					
	Opening balance	Increases	Decreases	Changes in consolidation scope	Reclassifications	Closing balance
Development costs	3,755	1,859	-	685	1,230	7,529
Industrial patents and intellectual property use rights	106,274	18,819	(58)	147	11,444	136,626
Concessions, licences, trademarks and similar rights	2,692,758	142,201	(12,838)	435	44,667	2,867,223
Other intangible assets	285,801	87,013	(39,760)	713	915	334,682
Investments in progress and payments on account	153,037	98,192	(1,241)	-	(65,019)	184,969
Total	3,241,625	348,084	(53,897)	1,980	(6,763)	3,531,029

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

	thousands of euro					
	Opening balance	Amortisation for the period	Decreases	Changes in consolidation scope	Reclassifications	Closing balance
Accumulated amortisation of development costs	(1,176)	(797)	-	(476)	189	(2,260)
Accumulated amortisation of ind. patents and intellectual property use rights	(60,678)	(18,662)	20	(139)	(1,166)	(80,625)
Accumulated amortisation of licences, trademarks and similar rights	(1,057,536)	(89,867)	9,584	(418)	5,483	(1,132,754)
Accumulated amortisation of other intangible assets	(112,249)	(26,829)	6	(702)	(384)	(140,158)
Total	(1,231,639)	(136,155)	9,610	(1,735)	4,122	(1,355,797)

The column Changes in consolidation scope refers to the purchase balances during the period relating to the companies Busseto Servizi, San Germano, CMT, Ferrania Ecologia and Territorio e Risorse.

The balance of the reclassification column refers mainly to net transfers from intangible assets to property, plant and equipment of items that do not come within the scope of application of IFRIC 12 and from intangible assets to assets held for sale.

The increases in the item "other intangible assets" refer mainly to the purchases of emission quotas (emission trading) and the capitalisation of costs for commercial development of customers, while the decreases refer to the cancellation of the emission allowances.

Industrial patents and intellectual property use rights

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

Concessions, licences, trademarks and similar rights

This item is primarily composed of:

- assets recognised in application of IFRIC 12, related to the operating business segments of natural gas distribution, the Integrated Water Service and, marginally, district heating;
- the right of use of pipeline networks by virtue of the concessions granted by the Municipality of Genoa and other neighbouring municipalities;
- the right of use of penstocks, not owned, of hydroelectric plants;
- concessions for the operation and management of photovoltaic systems.

Other intangible assets

This item is primarily composed of:

- rights to use telecommunication infrastructure owned by third parties;
- emission trading quotas held for internal needs;
- costs for the commercial development of customers;
- measurement of the customer list made on allocation of the price for acquiring control over Atena Trading, Salerno Energia Vendite, Studio Alfa and Spezia Energy Trading.

Investments in progress and payments on account

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

NOTE 4_GOODWILL

Goodwill, of 172,677 thousand euro (149,713 thousand euro at 31 December 2018), during financial year 2019 showed an upward change of 22,964 thousand euro following the acquisitions (business combinations) carried out by the Group during the year. In particular the increase refers to the acquisition of control over the company Busseto Servizi (1,638 thousand euro), in which under the terms of IFRS 3 - Business Combinations, the positive difference, calculated on a definitive basis, between the purchase price and the fair value, at the acquisition date, of the identifiable assets acquired and the identifiable liabilities assumed, was allocated to goodwill. For the acquisitions of the companies Ferrania Ecologia (20,103 thousand euro) and Territorio e Risorse (1,223 thousand euro) while awaiting the assessment to be carried out under the terms of IFRS 3 - Business Combinations, the positive difference calculated on a provisional basis between the purchase price and the provisional fair value, at the acquisition date, of the identifiable assets acquired and the identifiable liabilities assumed, was allocated to goodwill.

In addition, on 1 January 2019, the acquisition of a business unit related to the activity of managing waste treatment plants located in the province of La Spezia took effect.

Under the terms of IFRS 3 - Business Combinations the cost of the business combination indicated above was allocated, at the acquisition date, to the identifiable assets acquired and the identifiable liabilities assumed. The positive difference between the price transferred and the fair value of the identifiable assets purchased and the identifiable liabilities assumed at the acquisition date was recognised as goodwill of 9,039 thousand euro.

At the end of the year as provided for in IAS 36 - *Impairment of Assets* the goodwill referred to the assets acquired related to the waste processing plants located in the province of La Spezia was subjected to an impairment test that had a negative result. Therefore a portion of this goodwill of approximately 9 million euro was written down.

We can note that during financial year 2019 the accounting for the acquisition of control over a business unit from SMC S.p.A. was made definitive. This consisted of a 48.85% stake in the share capital of Società Ecologica Territorio Ambiente (SETA) S.p.A. and the activities of closure and post-closure management of the Chivasso 0 landfill site in October 2018 and that the values accounted for provisionally in the 2018 financial statements were not changed.

Since goodwill does not generate independent cash flows and cannot be sold on its own, the impairment test on the goodwill recognised in the financial statements is carried out making reference to the Cash Generating Unit to which the same can be allocated. At the Group level the Cash Generating Units are identified with the single Business Units and correspond to the business segments presented in the foreword to these notes. They are based on the Group's management structure and internal reporting system.

This method allows for a more effective disclosure of goodwill and future investment plans and supplies a homogeneous analysis of information communicated to the market.

The table below shows the allocation of the item goodwill to the Cash Generating Units.

	thousands of euro
	31/12/2019
Waste Management	25,394
Energy	4,686
Market	32,460
Networks	110,137
Total	172,677

The impairment test procedure at 31 December 2019 was carried out in methodological continuity with that adopted at 31 December 2018.

The impairment test consists of verifying that the carrying amount of an asset recognised in the financial statements is not more than the recoverable amount of the said asset.

The recoverable amount of an asset is the higher between fair value, less costs to sell, and the value in use.

The fair value is defined as the amount at which an asset could be exchanged between knowledgeable, willing parties in an arm's length transaction, less costs to sell.

The value in use is the present value of the estimate of future outgoing and incoming cash flows that will derive from continuous use of the asset and from its final disposal. To measure the value in use, assessments were made by using pre-tax operating cash flows, which derive from the economic and financial projections based on the medium-term Business Plan approved by the Iren Board of Directors on 25 September 2019, with an explicit horizon up to 2024, as well as the pre-tax terminal value, calculated using the perpetual yield method, if applicable, based on going concern assumptions for all businesses. It can be noted that the investments contained in the economic flows of the plan include investments for maintaining the plants and infrastructures, in keeping with the going concern assumption. The average of the perpetual yield and net invested capital was used as the control method. This is based on the reasonable assumption that, if the business is discontinued, the recovery value will be at least equal to the value of the net invested capital. The discount rate, defined starting from the pre-tax weighted average cost of capital (WACC), is calculated specifically for each CGU and is included in the 5%-8% range, according to the related business line.

The table below shows the goodwill attributed to the single Cash Generating Units, specifying for each of them the discount rate (WACC) used.

	Amount at 31/12/2019	WACC 2019
Waste Management	25,394	6.50%
Energy	4,686	6.50%
Market	32,460	8.00%
Networks	110,137	5.00% - 6.00% (1)
Total	172,677	

(1) Range between 5.00% and 6.00% according to whether they are Electricity Networks, Gas Networks or Water Networks

The recoverable value of the goodwill attributed to the Cash Generating Units was determined making reference to the value in use of the same.

In general, and prudentially, the "g" growth rate was used to calculate the terminal value equal to zero at real values. In the event of standalone plans used at nominal values, the "g" growth rate used was equal to programmed inflation (1.5%).

Waste Management Cash Generating Unit

The value of goodwill, of 25,394 thousand euro, refers mainly:

- to acquisition of control over Ferrania Ecologia s.r.l. in July 2019 (20,103 thousand euro).
- to acquisition of control over ACAM Ambiente (ACAM group) in April 2018 (2,572 thousand euro);
- to acquisition of control over a business unit from SMC S.p.A. consisting of a 48.85% stake in the share capital of Società Ecologica Territorio Ambiente (SETA) S.p.A. and the activities of closure and post-closure management of the Chivasso 0 landfill site in October 2018 (894,000 euro);
- to acquisition of control over Territorio e Risorse s.r.l. in October 2019 (1,223 thousand euro);
- to acquisition of control over ReCos S.p.A. in April 2018 (597,000 euro).

No further loss of value, besides what is presented above, was detected when the impairment test was performed, because the recoverable value of the Waste Management Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

Energy Cash Generating Unit

The value of goodwill, of 4,686 thousand euro, refers to:

- acquisition of control over Iren Rinnovabili in 2017 following the expiry of the governance agreements entered into with the other shareholder CCPL S.p.A. which made Iren Rinnovabili a joint venture. The goodwill of 3,544 thousand euro was recognised as the surplus between the fair value of the price paid for acquisition of control and the fair value of the identifiable assets acquired and the identifiable liabilities assumed at the acquisition;
- the Heat Service Management business unit transferred in 2017 from the Market Cash Generating Unit to the Energy Cash Generating Unit (948,000 euro).

No loss of value was detected when the impairment test was performed, because the recoverable value of the Energia Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

Market Cash Generating Unit

The value of goodwill, 32,460 thousand euro, derives mainly from:

- the equity interest in Enia Energia (now merged into Iren Mercato), acquired from Sat Finanziaria S.p.A. and Edison in 2008, for an amount of 16,761 thousand euro;
- the business unit acquired from ENEL in 2000 and referred to electricity users of the city of Parma, for an amount of 7,421 thousand euro;
- acquisition in 2012 of the business unit from ERG Power & Gas related to the marketing and sale of electricity for an amount of 3,401 thousand euro;
- acquisition of control over Spezia Energy Trading s.r.l. in September 2018 (2,694 thousand euro).

No loss of value was detected when the impairment test was performed, because the recoverable value of the Market Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

Networks Cash Generating Unit

The value of goodwill, 110,137 thousand euro, derives mainly from:

- acquisition in 2000 from ENEL of the business unit related to the distribution and sale of electrical energy to non-eligible customers in the Municipality of Turin, in which the positive difference between the purchase cost and the fair value of acquired and identifiable assets and liabilities was recognised as goodwill for 64,608 thousand euro;
- acquisition in 2005 of control over Acqua Italia S.p.A. (now Iren Acqua S.p.A.), where the positive difference between the purchase cost and the fair value of acquired and identifiable assets and liabilities was recognised as goodwill of 23,202 thousand euro;
- to acquisition of control over ACAM Acque (ACAM group) in April 2018 (15,442 thousand euro);
- the business unit acquired from ENEL in 2000 and referred to electricity users of the city of Parma, for an amount of 3,023 thousand euro;
- to acquisition of control over Busseto Servizi in April 2019 (1,638 thousand euro).

No loss of value was detected when the impairment test was performed, because the recoverable value of the Reti Cash Generating Unit is more than the net invested capital of the same including the value of goodwill recognised.

In the light of the considerations presented above the recoverable value is higher than the carrying amount of the net invested capital for all the Cash Generating Units. This difference is particularly sensitive to changes in the pre-tax weighted average cost of capital (WACC) and the definition of the Terminal Value. The definition of these two variables follows a prudential approach in terms of construction logic and absolute value. Appropriate stress tests were therefore performed on the sensitivity of the recoverable value as the two variables deteriorate, without any significant problems emerging.

In the light of the current volatility of markets and the uncertain economic prospects for the future, the company considers it opportune to point out that the regulated businesses are subject to a specific sectoral legislation which governs margins. These businesses, therefore, have more stable and more easily foreseeable margins also in turbulent market periods.

We can note that the results of the aforementioned procedures were the subject of specific approval by the Board of Directors of Iren S.p.A., prior to approval of the draft financial statements, as recommended in the rules issued by CONSOB, the Bank of Italy and IVASS.

NOTE 5_INVESTMENTS ACCOUNTED FOR USING THE EQUITY METHOD

Equity investments accounted for using the equity method are shareholdings in companies in which the Group has joint control or exercises a significant influence. We must specify that measurement at equity is carried out on the basis of the latest available financial statements (consolidated if prepared) of the investees.

The Group companies measured using the equity method at 31 December 2019 are shown in an annex. Changes for the year are shown in the following tables:

Equity investments in joint ventures

	thousands of euro		
	31/12/2018	Write-downs for equity	31/12/2019
Acque Potabili	10,714	(807)	9,907
TOTAL	10,714	(807)	9,907

The company Acque Potabili, during financial year 2018, discontinued the last water service management concession that it held and, at 31 December 2019, had no direct operating activities.

Equity investments in associates

thousands of euro

	31/12/2018	Increases (Decreases)	Write-backs (write-downs) for equity	Write- downs	Dividend distribution	Changes with effect on equity	31/12/2019
A2A Alfa	-	-	-	-	-	-	-
Acos	10,928	-	827	-	(164)	1	11,592
Acos Energia	957	-	288	-	(275)	-	970
Acquaenna	3,219	100	534	-	-	(132)	3,721
Aguas de San Pedro	10,561	-	1,665	-	(432)	(634)	11,160
Aiga	-	-	-	-	-	-	-
Amat	-	-	-	-	-	-	-
Amter	913	-	136	-	(68)	-	981
Asa	34,184	-	316	-	-	1,914	36,414
Astea	23,424	-	852	(1,208)	(319)	17	22,766
Asti Energia Calore	127	-	39	-	-	-	166
Energy BI	1,009	-	(35)	-	-	-	974
Campo Base	9	(9)	(1)	-	-	1	-
CSP Innovazione nelle ICT	109	-	2	-	-	-	111
Domus Acqua	55	(53)	(2)	-	-	-	-
Fingas	-	-	-	-	-	-	-
Fratello Sole Energie Solidali	300	-	(8)	-	-	-	292
G.A.I.A.	14,705	-	360	-	(342)	-	14,723
Global Service Parma	6	-	-	-	-	-	6
Iniziative Ambientali	459	-	6	-	-	-	465
Mondo Acqua	649	-	(2)	-	-	-	647
Nord Ovest Servizi	4,375	-	241	-	(164)	-	4,452
Rio Riazzone	146	-	-	-	-	-	146
SETA	10,800	-	-	-	-	-	10,800
Sinergie Italiane	-	-	-	-	-	-	-
Sosel	1,056	(947)	11	-	(120)	-	-
STU Reggiane	3,890	-	357	-	-	1,158	5,405
Tirana Acque	-	-	-	-	-	-	-
Valle Dora Energia	1,999	-	(302)	-	(120)	-	1,577
TOTAL	123,880	(909)	5,284	(1,208)	(2,004)	2,325	127,368

As regards the equity investment in the company Acquaenna we can note that during the year the stake was increased from 46% to 48.5% with an investment of 100,000 euro.

As regards the equity investment in Sinergie Italiane, the carrying amount of which is zero, the provisions for risks set aside to cover the risk of losses related to this investee amounts to 6,500 thousand euro (10,000 thousand euro at 31 December 2018).

The amounts related to the column Changes with effect on Shareholders' Equity are due mainly to payments made as capital grants by the Municipality of Reggio Emilia in the investee STU Reggiane, to the exchange difference (Aguas de San Pedro) and to changes in the cash flow hedging reserves (ASA and Acquaenna) and in those connected to actuarial gains (losses) on employee benefits.

NOTE 6_OTHER EQUITY INVESTMENTS

This item relates to equity investments in companies over which the Group has neither control, nor joint control, nor significant influence. These equity investments are measured at fair value but, as the most recent information available for measuring the fair value is insufficient and the cost represents the best estimate of the fair value, they are carried at cost.

The list of other Group equity investments at 31 December 2019 is shown in an annex.

Changes for the year are shown in the following table:

	31/12/2018	Changes in consolidation scope	Increases (Decreases)	31/12/2019
Alpen 2.0	100		-	100
Autostrade Centro Padane	1,248		-	1,248
BT Enia	2,110		-	2,110
CIDIU	2,305		-	2,305
Environment Park	1,243		-	1,243
Fondo Core MultiUtilities	100		-	100
Smart Mobility	-		100	100
Others	117	3	77	197
TOTAL	7,223	3	177	7,403

thousands of euro

NOTE 7_NON-CURRENT TRADE RECEIVABLES

Receivables, which reflect the effect of discounting, amounted to 74,443 thousand euro (69,068 thousand at 31 December 2018) and refer mainly to:

- receivables of the integrated water service for tariff adjustments and for lower volumes supplied with respect to the constraint of revenue due to the operator; the current tariff method provides generally (unless the fee growth limit is reached) for their recovery through fees after two years (41,505 thousand euro at 31 December 2019, 43,323 thousand at 31 December 2018);
- receivables of the electricity transmission, distribution, and metering services deriving from the rules issued in AEEGSI Resolution no. 654/2015 on the subject of tariff regulation for the period 2016-2023 which entailed the recognition of revenue from electricity transport and of the related receivables (14,394 thousand euro at 31 December 2019, 13,801 thousand at 31 December 2018);
- receivables from the Municipality of Turin for technological renewal and increased efficiency of heating systems in a number of municipal buildings (14,469 thousand euro at 31 December 2019, 10,286 thousand euro 31 December 2018). For more information on the overall receivable position of the Iren Group in relation to the Municipality of Turin please see Note 8 "Non-current financial assets".

NOTE 8_NON-CURRENT FINANCIAL ASSETS

The item of 148,051 thousand euro (147,867 thousand at 31 December 2018) is made up of financial receivables, the measurement of derivatives with positive fair value and securities other than equity investments. These are detailed in the following table.

	thousands of euro	
	31/12/2019	31/12/2018
Non-current financial receivables from associates	9,899	9,882
Non-current financial receivables from related-party shareholders	121,463	127,447
Non-current financial receivables from others	15,972	10,187
Fair value of derivatives – non-current portion	693	315
Securities other than equity investments	24	36
Total	148,051	147,867

Non-current financial receivables from associates

These refer to receivables from the companies Acos (5,287 thousand euro), Acquaenna (3,832 thousand euro), Asti Energia Calore (720 thousand euro) and Campo Base (60 thousand euro). Also present is a receivable of 817 thousand euro from the associate AIGA which was completely written off.

Non-current financial receivables from related-party shareholders

Receivables from related-party shareholders, of 121,463 thousand euro (127,447 thousand euro at 31 December 2018), regard receivables from the Municipality of Turin and relate to:

- the medium/long-term portion of receivables, including interest, related to the current account which governs transactions between the subsidiaries AMIAT S.p.A., Iren Smart Solutions S.p.A. (formerly Iren Rinnovabili S.p.A.) and the Municipality of Turin (101,600 thousand euro);
- application of the financial asset model provided for in IFRIC 12 to the efficiency project ("Turin LED") associated with the Public Lighting service performed under concession by Smart Solutions S.p.A. (formerly Iren Rinnovabili S.p.A.) in the city of Turin, for the long-term portion (19,863 thousand euro). Recognition of the discounted financial asset is a result of maturation of the current unconditional right to receive the cash flows contractually recognised, which occurred with completion of the installation of the related LED devices.

The accounting treatment of the aforementioned current account agreement determines a reduction of trade receivables presented in the statement of cash flows as a generation of operating cash flows, and a corresponding increase in financial receivables, presented as a cash absorption in cash flows from financing activities.

These receivables form part of an overall position, totalling 225,625 thousand euro, and are divided among various accounting items according to their classification by type and maturity: Non-current trade receivables (Note 7), Non-current financial assets (Note 8), Trade receivables (Note 12) and Current financial assets (Note 15), as shown in the table presented below.

Receivables were divided by the directors between current portion and non-current portion on the basis of a forecast of their collection times determined also following the results of the agreement signed by the Municipality of Turin and the Iren Group during financial year 2018.

	thousands of euro	
	31/12/2019	31/12/2018
Non-current trade receivables	14,469	10,286
Trade receivables for services on invoices issued	63,277	59,841
Trade receivables for services on invoices to be issued	9,079	6,938
Trade receivables for electricity and other supplies	3,880	2,086
Provisions for impairment of trade receivables	(69)	(62)
Total current trade receivables	76,167	68,803
Non-current portion of financial receivables in current account	100,942	108,726
Non-current portion of financial receivables for interest	658	658
Non-current portion of financial receivables for services in concession	19,863	18,063
Total non-current financial receivables	121,463	127,447
Current portion of financial receivables in current account	9,448	18,353
Current portion of financial receivables for interest	4,078	4,403
Total current financial receivables	13,526	22,756
Total	225,625	229,292

Non-current financial receivables from others

Non-current financial receivables from others includes the long-term portion of the receivable deriving from the sale of the business unit made up of the telecommunication (TLC) network present in Emilia Romagna during 2016 and the business unit related to management of the integrated water service of two municipalities of the Catchment Area of the Verona ATO during 2019 and the receivables deriving from application of the financial asset model provided for in IFRIC 12 to the efficiency project related to the Public Lighting service performed in a regimen of concession in the cities of Vercelli, Biella and Fidenza.

Fair value of derivatives – non-current portion

The fair value of derivatives refers to instruments in the portfolio for hedging the risk of changes in interest rates.

Securities other than equity investments

These amounted to 24 thousand euro (36 thousand euro at 31 December 2018) and refer to securities given as collateral which are measured at amortised cost because the business model provides for the financial asset being held to collect the related cash flows which correspond to solely payment of principal and interest.

NOTE 9_OTHER NON-CURRENT ASSETS

These are detailed in the following table:

	thousands of euro	
	31/12/2019	31/12/2018
Guarantee deposits	10,225	9,580
Tax assets after 12 months	7,417	12,995
Other non-current assets	14,514	15,770
Non-current accrued income and prepaid expenses	3,334	4,785
Total	35,490	43,130

Receivables for guarantee deposits refer mainly to amounts paid by Iren Mercato to the investee Sinergie Italiane in relation to the natural gas supply contract signed by the parties.

Tax assets after 12 months refer mainly to credits for deductions on work done in order to improve the energy efficiency of buildings (ecobonus) and to VAT credits for which an application for rebate has been made. The reduction in the item compared to 31 December 2018 was due for 9,713 thousand euro to the factoring operation with derecognition of the assets matured following the application for IRAP deduction from the IRES taxable base (Art. 2 paragraph 1-*quater* of Italian Law Decree no. 201 of 6 December 2011).

Other non-current assets include receivables of 6,255 thousand euro related to advance payment of the purchase price of a business unit organised for performance of the greater protection service of the electrical segment, named "Sanremo Luce", put up for sale by AMAIE S.p.A., a company of the municipality of Sanremo (province of Imperia), the transfer of which took effect on 1 January 2020.

Prepayments mainly include the long-term prepaid portion, relating to energy service contracts signed by the subsidiary Iren Smart Solutions S.p.A. (formerly Iren Rinnovabili S.p.A.).

NOTE 10_DEFERRED TAX ASSETS

These amounted to 368,436 thousand euro (360,298 thousand euro at 31 December 2018) and refer to deferred tax assets deriving from earnings deductible in future years. They also include the tax effect on adjustments made on adoption of the international accounting standards.

For further details please see the income statement, "Income tax expense" (Note 42) and the statement in the annex.

CURRENT ASSETS

NOTE 11_INVENTORIES

Inventories, measured at weighted average cost, primarily comprise natural gas and consumables intended for maintenance and construction of the Group plants.

Construction Contracts refers mainly to activities performed for the Municipality of Turin.

The table below summarises the amounts of the item in the periods in question:

	thousands of euro	
	31/12/2019	31/12/2018
Raw materials	75,631	78,397
Inventory write-down provision	(4,500)	(5,390)
Net	71,131	73,007
Construction Contracts	658	792
Total	71,789	73,799

The inventory write-down provision was set aside and is used to take into consideration inventories that are technically obsolete and slow-moving.

At 31 December 2019 no inventories were pledged against liabilities.

NOTE 12_TRADE RECEIVABLES

These are detailed in the following table:

	thousands of euro	
	31/12/2019	31/12/2018
Receivables from customers	976,980	1,061,471
Provisions for impairment of receivables	(192,106)	(190,152)
Net receivables from customers	784,874	871,319
Trade receivables from joint ventures	357	932
Trade receivables from associates	15,627	12,810
Trade receivables from related-party shareholders	97,990	90,452
Trade receivables from other related parties	6,849	8,385
Provisions for impairment of receivables from related-party shareholders	(69)	(62)
Total	905,628	983,836

We can note that at 31 December 2019 factoring transactions were completed with derecognition of the receivables for a total of 55,286 thousand euro (19,683 thousand euro at 31 December 2018).

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

	thousands of euro	
	31/12/2019	31/12/2018
Not past due	796,197	877,269
Past due from 0 to 3 months	105,113	90,415
Past due from 3 to 12 months	71,986	68,708
Past due for more than 12 months	124,507	137,658
Total	1,097,803	1,174,050

Receivables not past due include receivables for invoices to be issued of 517,974 thousand euro (481,081 thousand at 31 December 2018) which include the estimate of revenue earned for services supplied between the date of the last reading of effective consumption and the year-end date.

Receivables from customers

These mainly relate to receivables due for electricity, gas, water and heat supplies, environmental services and sundry services. The net balance takes into account the provisions for impairment of receivables, illustrated below, of 192,106 thousand euro (190,152 thousand at 31 December 2018).

Receivables from joint ventures

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

Receivables from associates

These relate to normal trade transactions performed at arm's length. For further details, please see the table of related-party transactions shown in the annex.

Receivables from related-party shareholders

Receivables from related-party shareholders refer to trading transactions performed at arm's length with territorial authorities classified as related parties (Municipalities of Genoa, Parma, Piacenza, Reggio Emilia and Turin) and, marginally, with the company FSU. The balance takes into account provisions for

impairment of receivables of 69 thousand euro (62 thousand euro at 31 December 2018). For further details, please see the table of related-party transactions shown in the annex.

Receivables from other related parties

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

Provisions for impairment of receivables

The provisions for impairment feature the movements shown in the following table:

	thousands of euro					
	31/12/2018	Changes in consolidation scope	Provisions in the period	Decreases	Reclassifications	31/12/2019
Provisions for impairment of receivables	190,152	4,004	34,280	(36,489)	159	192,106
Provisions for impairment of receivables from related-party shareholders	62	-	7	-	-	69
Total	190,214	4,004	34,287	(36,489)	159	192,175

The column Changes in consolidation scope refers to the purchase balances during the period relating to the companies Busseto Servizi, San Germano, CMT and Ferrania Ecologia.

The provisions in the period were set aside to adjust the amount of provisions for impairment of receivables to the amount of expected losses on the basis of the simplified model provided for in the standard IFRS 9, where "loss" means the present value of all future lost revenue, opportunely integrated to take into account future expectations ("forward looking information").

The item "decreases" refers to utilisations for losses on receivables of 34,903 thousand euro and to releases of 1,586 thousand euro.

The increased balance of the item reclassifications refers to amounts related to receivables previously presented as long-term.

NOTE 13_CURRENT TAX ASSETS

These amounted to 18,851 thousand euro (11,445 thousand euro at 31 December 2018) and include receivables from the tax authority for IRES and IRAP.

NOTE 14_OTHER RECEIVABLES AND OTHER CURRENT ASSETS

These are detailed in the following table:

	thousands of euro	
	31/12/2019	31/12/2018
Receivables for revenue tax/Ufficio Tecnico delle Imposte di Fabbricazione (UTIF) [Excise Duties Technical Office]	21,569	3,640
VAT credit	93,880	73,546
Other tax assets	23,557	17,977
Tax assets due within 12 months	139,006	95,163
Receivables from Cassa Servizi Energetici e Ambientali (CSEA)	56,527	49,965
Receivables for former green certificate incentive	35,597	46,558
Advances to suppliers	15,467	19,797
Other current assets	48,403	21,917
Other current assets	155,994	138,237
Accruals and deferrals	10,296	8,479
Total	305,296	241,879

We can note that at 31 December 2019 factoring transactions had been completed with derecognition of receivables for VAT and energy efficiency certificates for a total of 7,872 thousand euro (46,077 thousand euro at 31 December 2018).

The increase in receivables for income taxes is due to pre-payments and settlement payments which are influenced by invoicing volumes for the current year and the previous year.

In terms of procedures, for financial year 2019, the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding VAT settlements and periodic payments. The companies that take part in the Group settlement procedure, besides the Parent Company Iren S.p.A., are the following: Iren Energia, IRETI, Iren Mercato, Iren Ambiente, AMIAT, Iren Smart Solutions (formerly Iren Rinnovabili), Iren Acqua Tigullio, Iren Acqua, Immobiliare delle Fabbriche, Iren Laboratori, Bonifica Autocisterne, ASM Vercelli, Atena Trading, ACAM Ambiente, ACAM Acque, ReCos, Studio Alfa and Coin Consultech.

In September 2019 Iren exercised the option for establishment of Group VAT to which the Revenues Agency attributed a new VAT number with effect from 1 January 2020.

In relation to receivables from the Cassa Servizi Energetici e Ambientali (CSEA) a portion of the amounts shown may not be collectable within the next 12 months.

The increase in the item Other current assets is attributable mainly to the change in the consolidation scope and to the reclassification from Other non-current assets of the receivable as repayment for the remodulation of the variable fee covering the costs of procuring natural gas incurred by the operators to serve final customers under protection in thermal years 2010-2011 and 2011-2012.

NOTE 15_CURRENT FINANCIAL ASSETS

These are detailed in the following table:

	thousands of euro	
	31/12/2019	31/12/2018
Financial receivables from associates	10,685	4,130
Financial receivables from related-party shareholder Municipalities	13,526	22,756
Other financial receivables	51,596	50,411
Derivative receivables - current	-	1,478
Total	75,807	78,775

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

Financial receivables from associates

The item refers mainly to the centralised treasury relationship with Valle Dora Energia (6,372 thousand euro), and to loans to Acquaenna (1,356 thousand euro), BI Energia (792 thousand euro) and STU Reggiane (492 thousand euro). The remainder regards essentially receivables for dividends to be received.

For further details please see the schedule of related-party transactions shown in the annex.

Financial receivables from related-party shareholders

These regard receivables from the Municipality of Turin, on which interest accrues in favour of the Group, and amounted to 13,526 thousand euro (22,756 thousand at 31 December 2018) and are related to relationships between the subsidiaries AMIAT S.p.A. and Iren Smart Solutions and the Municipality of Turin. For details of the overall receivable position of the Iren Group in relation to the Municipality of Turin please see Note 8 "Non-current financial assets".

Other financial receivables

These refer for 39,543 thousand euro to tied bank deposits of the subsidiary TRM S.p.A. deriving from the loan contract which specifies that amounts serving the instalment due, the costs regarding environmental offsets and extraordinary maintenance of the waste-to-energy plant are tied. The remainder refers to guarantee deposits paid to operate on the commodity futures markets, the receivable for price adjustment related to the acquisition of control over San Germano and CMT, accrued income and prepaid expenses of a financial nature and sundry financial receivables.

Derivative receivables - current

These relate to the positive fair value of derivative contracts on commodities.

NOTE 16_CASH AND CASH EQUIVALENTS

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

	thousands of euro	
	31/12/2019	31/12/2018
Bank and postal deposits	345,753	369,153
Cash and valuables in hand	123	165
Total	345,876	369,318

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

NOTE 17_ASSETS HELD FOR SALE

Assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. They amounted to 354,193 thousand euro (402,424 thousand at 31 December 2018). This item relates:

- for 352,900 thousand euro (401,900 thousand at 31 December 2018) to the loan granted to the joint venture OLT Offshore LNG Toscana. Starting from 31 December 2018 the equity investment in OLT Offshore LNG Toscana and the related shareholder's loan were classified among assets held for sale, as an asset disposal group, because their carrying amount will be recovered with a sale transaction instead of with their continuing use. During financial year 2018 the Board of Directors began work on a programme for the disposal of the assets, working to identify a buyer. On 20 September 2019 the Iren Group and Snam signed an agreement for the acquisition by Snam of the equity investment in Offshore LNG Toscana and of the related shareholder's loan. The operation was completed on 26 February 2020 following receipt of the authorisations from the competent authorities. For further details, see the chapters "Significant events of the period" "Significant events after the reporting date" in the Director's Report.

The value of the equity investment was written off during financial year 2018 because, on the basis of a fairness opinion prepared by independent experts confirmed by the operation of sale to Snam, the fair value of the interest is zero.

As specifically indicated in IFRS 5, the financial receivable, although it is classified among assets held for sale, continues to be measured according to the rules of IFRS 9 and in particular at amortised cost since the company's business model provides for the financial asset being held to collect the cash flows exclusively related to principal and interest. The amount of the shareholder's loan decreased compared to 31 December 2018 following the repayments made by the investee.

- for 987 thousand euro (226 thousand euro at 31 December 2018) to net assets related to the concessions of the integrated water service of four municipalities of the province of Alessandria and two municipalities of Valle d'Aosta for which the takeover of the new operator is being defined;
- for 140,000 euro (unchanged compared to 31 December 2018), to the equity investment in Plurigas in liquidation. The equity investment was classified among assets held for sale because during 2014 the company ceased to operate;
- for 158 thousand euro (unchanged from 31 December 2018) to the associate Piana Ambiente;
- for 9 thousand euro (unchanged from 31 December 2018, when it was classified among Equity-accounted investees) to the associate Campo Base the sale of which was completed at the beginning of 2020.

In addition, assets held for sale include the equity investment in Fata Morgana, already completely written down in previous periods.

LIABILITIES

NOTE 18_EQUITY

Equity may be analysed as follows:

	thousands of euro	
	31/12/2019	31/12/2018
Share capital	1,300,931	1,300,931
Reserves and Retained Earnings (Losses)	750,264	642,396
Net profit (loss) for the period	236,578	242,116
Total equity attributable to shareholders	2,287,773	2,185,443
Capital and reserves attributable to non-controlling interests	334,653	345,807
Profit/(loss) attributable to non-controlling interests	29,103	31,121
Total consolidated equity	2,651,529	2,562,371

Share capital

The share capital, unchanged compared to 31 December 2018 amounts to 1,300,931,377 euro, which is fully paid-up and comprises 1,300,931,377 ordinary shares with a face value of 1 euro each.

On 5 April 2019 the Shareholders' Meeting of Iren S.p.A. Authorised the Board of Directors to carry out a purchase programme involving the Company's treasury shares aimed at purchasing a maximum number of shares of 26,000,000, such as, however, not to exceed 2% of the share capital. The programme was launched on 14 May and up to 31 December 3,950,587 shares were purchased for a total price of 9,054 thousand euro recognised as a reduction of shareholders' equity in the item "Reserves and Retained Earnings (Losses)".

For further details on the operation, please see the disclosures in "Significant events of the year" in the Director's Report.

Reserves and Retained Earnings (Losses)

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

	thousands of euro	
	31/12/2019	31/12/2018
Treasury shares	(9,054)	-
Share premium reserve	133,019	133,019
Legal reserve	64,642	58,346
Cash flow hedging reserve	(31,429)	(17,353)
Other reserves and retained earnings (losses)	593,086	468,384
Total reserves	750,264	642,396

Hedging reserve

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

Other reserves and retained earnings (losses)

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

During financial year 2019 they changed owing mainly to the carrying forward of the profits of financial year 2018 not distributed (+126,825 thousand euro).

For further details, reference should be made to the statement of changes in equity.

NON-CURRENT LIABILITIES

NOTE 19_NON-CURRENT FINANCIAL LIABILITIES

These amounted to a total of 3,167,048 thousand euro (3,013,303 thousand euro at 31 December 2018).

Bonds

These amounted to 2,516,069 thousand euro (2,185,550 thousand at 31 December 2018). The item consisted entirely of positions of the Parent Company referred to Public Bond issues, accounted for at amortised cost, against a total nominal amount in issue at 31 December 2019 of 2,541,470 thousand euro (2,209,340 thousand at 31 December 2018). The details of Public Bonds with maturity at more than 12 months are presented below:

- Bond maturity 2021, coupon 3%, issue amount 300 million euro, in issue at 31 December 2019 for 181,836 million following repurchases (tender offers) carried out in 2015, 2016 and 2017 (amount at amortised cost 181,243 thousand euro);
- Bond maturity 2022, coupon 2.75%, issue amount 500 million euro, in issue at 31 December 2019 for 359,634 thousand euro following repurchases (tender offers) carried out in 2016 and 2017 (amount at amortised cost 357,966 thousand euro);
- Bond maturity 2024, coupon 0.875%, amount 500 million euro, all in issue (amount at amortised cost 495,613 thousand euro);
- Green Bond maturity 2027, coupon 1.5%, amount 500 million euro, all in issue (amount at amortised cost 491,949 thousand euro);
- Green Bond maturity 2025, coupon 1.95%, amount 500 million euro, all in issue (amount at amortised cost 494,622 thousand euro);
- Green Bond maturity 2029, coupon 0.875%, amount 500 million euro, all in issue (amount at amortised cost 494,676 thousand euro).

The bond loans were subscribed by Italian and foreign institutional investors and are listed on the Irish Stock Exchange; the Public Bonds were given a Fitch rating.

The change in the total book value compared to 31 December 2018 was due to the issue of the third Green Bond, the reclassification as short-term of a Bond maturing and the allocation of the financial expenses accruing, calculated on the basis of the amortised cost method according to the IAS/IFRS standards.

Non-current bank loans

Medium/long term loans relate exclusively to the non-current portion of loans/credit lines due at more than 12 months, granted by banks and amounted to 539,949 thousand euro (743,902 thousand at 31 December 2018).

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

thousands of euro

	fixed rate	floating rate	TOTAL
min/max interest rate	4.095% - 5.151%	0.00% - 0.515%	
maturity	2021-2028	2021-2034	
1.1.2021 – 31.12.2021	1,456	45,370	46,825
1.1.2022 – 31.12.2022	1,339	59,458	60,797
1.1.2023 – 31.12.2023	1,171	57,114	58,285
1.1.2024 – 31.12.2024	1,115	53,200	54,315
subsequent	4,943	314,785	319,728
Total payables beyond 12 months at 31/12/2019	10,023	529,926	539,949
Total payables beyond 12 months at 31/12/2018	157,093	586,809	743,902

All loans are denominated in euro.

The changes in medium/long term loans during the year are summarised below:

thousands of euro

	31/12/2018 Total payables beyond 12 months	Increases	Changes in consolidation scope	Repayments	Change to amortised cost	31/12/2019 Total payables beyond 12 months
- fixed rate	157,093	750	-	(147,857)	37	10,023
- floating-rate	586,809	30,000	-	(87,234)	351	529,926
TOTAL	743,902	30,750	0	(235,091)	388	539,949

Total medium/long term payables at 31 December 2019 decreased overall compared to 31 December 2018, as a result of:

- disbursement of loans for a total of 30,750 thousand euro, of which 30 million to the Parent Company by the European Investment Bank as part of the District Heating and Environment project, and 750 thousand euro to the consolidated Company Studio Alfa S.p.A.;
- reduction of 235,091 thousand euro, owing to early repayment of loans by the Parent Company in the context of the liability management activities and to the reclassification to short term of the portions of loans maturing within the next 12 months;
- an increase of 338,000 euro due to recognition of the loans at amortised cost.

Other financial liabilities

These amounted to 111,030 thousand euro (31 December 2018: 83,851 thousand), and refer:

- for 79,673 thousand euro (75,500 thousand at 31 December 2018) to the fair value of derivative contracts entered into as hedges against the interest rate fluctuation risk on floating rate loans and commodity prices (please see the paragraph "Group Financial Risk Management" for comments);
- for 25,500 thousand euro (1,867 thousand at 31 December 2018) to payables for leasing contracts, up following the application of IFRS 16;
- for 4,074 thousand euro (6,228 thousand at 31 December 2018) to the long-term portion of the debt resulting from the operation to acquire the right to use 25% of the total capacity of the TLC network sold to BT Enia;
- for 1,783 thousand euro (31 December 2018: 256,000 euro) to sundry financial payables.

NOTE 20_EMPLOYEE BENEFITS

Changes in this item in 2019 were as follows:

	thousands of euro
Amount at 31/12/2018	108,109
Current service costs	732
Financial expense	1,651
Disbursements of the period	(10,950)
Actuarial (gains)/losses	3,821
Changes in consolidation scope	3,057
Amount at 31/12/2019	106,420

The line changes in consolidation scope refers to the balances acquired during the year related to the companies San Germano, CMT, Busseto Servizi, Ferrania Ecologia and Territorio e Risorse and to the business unit related to the activity of managing waste treatment plants located in the province of La Spezia.

Liabilities for employee benefits consist of:

Post-employment benefits

Post-employment benefits underwent the following movements during 2019:

	thousands of euro
Amount at 31/12/2018	91,534
Current service costs	607
Financial expense	1,459
Disbursements of the period	(6,504)
Actuarial (gains)/losses	2,944
Changes in consolidation scope	3,057
Amount at 31/12/2019	93,097

Other benefits

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

Additional months' salaries (long-service bonus)

	thousands of euro
Amount at 31/12/2018	2,544
Current service costs	91
Financial expense	39
Disbursements of the period	(70)
Actuarial (gains)/losses	213
Amount at 31/12/2019	2,817

Loyalty bonus

	thousands of euro
Amount at 31/12/2018	3,270
Current service costs	34
Financial expense	39
Disbursements of the period	(234)
Actuarial (gains)/losses	90
Amount at 31/12/2019	3,199

Tariff discounts

	thousands of euro
Amount at 31/12/2018	4,828
Financial expense	75
Disbursements of the period	(366)
Actuarial (gains)/losses	324
Amount at 31/12/2019	4,861

The tariff discounts include benefits related to the supply of natural gas for domestic use. Following the signing of specific agreements with the trade unions, the “Energy discount” awarded up to 30 September 2017 to employees in service was converted into other forms of employee benefits. The “Energy discount” awarded up to 30 September 2017 to retired employees was revoked unilaterally and replaced with lump sums included in provisions for former employee benefits.

Premungas Provisions

	thousands of euro
Amount at 31/12/2018	2,643
Financial expense	39
Disbursements of the period	(578)
Actuarial (gains)/losses	250
Amount at 31/12/2019	2,354

Provisions for ex-employee benefits

The provisions amounted to 92 thousand euro (3,290 thousand at 31 December 2018) and contain the lump-sum amounts that will be paid to retired employees to replace the energy discount no longer paid starting from 1 October 2017.

Actuarial assumptions

The above-mentioned liabilities are measured by independent actuaries. The liability relating to the defined benefit plans is calculated in accordance with actuarial assumptions and is recognised on an accrual basis in line with the service necessary to obtain benefits.

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

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

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

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

The economic and financial assumptions adopted in the calculations are the following:

Annual discount rate	0.60% - 1.00%
Annual inflation rate	1.00% - 1.50%
Annual increase rate of post-employment benefits	2.50%

Pursuant to IAS 19, the following additional information is supplied:

- sensitivity analysis for each material actuarial assumption at year end, showing the effects that would have resulted from changes in the actuarial assumptions reasonably possible at that date, in absolute terms;
- contributions for the following year;
- indication of the average maturity of the obligation for defined benefit plans.

This information is shown in the following table.

	Change in liabilities according to changes in discount rate		Service cost 2020	Duration of the plan
	+0.25%	-0.25%		
Post-employment benefits	(2,154)	2,230	723	9.4
Additional monthly salaries	(70)	72	95	10.1
Loyalty bonus	(51)	52	135	7.4
Tariff discounts	(122)	128	-	10.4
Premungas	(41)	42	-	7.0

The method used to estimate sensitivity was unchanged compared to the previous financial year.

NOTE 21_ PROVISIONS FOR RISKS AND CHARGES

The item amounted to 415,260 thousand euro (439,497 thousand euro at 31 December 2018). These are detailed in the following table, and refer both to the current and non-current portions:

	thousands of euro						
	Opening balance	Changes in consolidation scope	Increases	Decreases	(Income) expense from discounting	Closing balance	Current portion
Provisions for restoration of third-party assets	165,529	-	11,693	(1,640)	281	175,863	1,074
“Post mortem” provisions	45,152	-	3,145	(5,576)	1,619	44,340	8,713
Provisions for dismantling and reclaiming sites	29,932	-	4,272	(196)	1,686	35,694	46
Provisions for early retirement expenses	42,602	-	9,307	(25,513)	-	26,396	1,562
Provisions for risks on equity investments	10,065	-	-	(3,500)	-	6,565	6,565
Other provisions for risks and charges	236,104	6,560	99,818	(97,778)	-	244,704	100,342
Total	529,384	6,560	128,235	(134,203)	3,586	533,562	118,302

If the effect of discounting the value of money is significant, the provisions are discounted using a pre-tax discount rate which, on the basis of the time period envisaged for the future cash flows, does not exceed 3.46%.

The column “Changes in consolidation scope” refers to the purchase balances during the period relating to the companies San Germano, CMT and Ferrania Ecologia.

Provisions for restoration of third-party assets

These provisions refer to liabilities which, if the water service concessions for the Parma, Piacenza and Reggio Emilia ATOs are reassigned to third parties, will be deducted from the fee to be paid to the Group by the incoming operator. These liabilities are estimated according to the depreciation of the pool of assets and equipment relating to the aforementioned integrated water cycle which, as a result of the spin-offs completed in 2005 by the three companies AGAC, Tesa and AMPS (later merged into Enìa), were transferred to the financial statements of three full publicly-held companies as envisaged in Art. 113, paragraph 13 of the Consolidated Law on Local Entities. This pool of assets is used to perform the water service against the payment of a rental fee and with a contractual commitment to set aside the aforementioned provisions.

The provisions for the restoration of transferable works represent an estimate of the expense necessary to return assets in concession in the hydroelectric sector in perfect working order.

“Post mortem” provisions

These are mainly provisions for future expense for environmental recovery of controlled landfill plants which also include costs for post-operating management until the sites involved have been completely converted to green areas. These provisions are supported by specific appraisals periodically updated in order to adjust the existing provisions to the estimate of the future costs to be incurred. The decreases refer in particular to the utilisation of the provision to cover costs incurred in the post-operating phase until the mineralisation of waste and the conversion of landfills into green areas are completed.

Provisions for dismantling and reclaiming sites

The “Provision for dismantling and reclaiming sites” represents the estimate of expense associated with the future dismantling of the Group’s waste-to-energy plants and the estimate of charges to be incurred in relation to the future reclamation of former AMNU land on which an incinerator was located.

Provisions for early retirement expenses

The provisions refer to expenses associated with early retirement of some employees and arises from the results of agreements between the Iren Group and the Trade Unions that provide for retirement incentives for some employees, on a voluntary basis among the Group’s personnel who are potentially involved. The operation must be seen in the wider context of professional and demographic rebalancing of the Iren Group’s personnel, in view of a plan to recruit young people.

The incentive, completely chargeable to the Iren Group (in application of Art. 4 of Italian Law 92/2012), will enable the personnel in possession of the legal requisites to retire in advance with respect to the date of eligibility, making up in part for the delay in terminating the employment determined after the reform of the pensions system.

The provisions represent the estimated payment to the employees involved in the Plan, through the Pensions Agency, of a benefit of an amount equal to the pension that would be payable on the basis of the current rules (isopension) with payment to the Pensions Agency of the contribution until the minimum requirements for retirement are reached (in accordance with the aforementioned Law 92/2012), and a sum, for each of the employees involved, as a one-off payment as an incentive.

During the year, in order to continue in the programme for professional and demographic rebalancing of the personnel and following agreements with the Trade Unions, the Group set aside provisions for retirement incentives on a voluntary basis for employees interested and with the requisites introduced by Italian Law Decree 4/2019 containing the so-called “quota 100”. Article 14 of the aforementioned Italian Law Decree 4/2019 introduces starting from 2019 the possibility of retiring with the requisites of 62 years of age and 38 years of contributions matured by 31 December 2021.

Provisions for risks on equity investments

This item mainly refers to risks relating to future charges deriving from management of the investee Sinergie Italiane. During the year the estimate of the expense was revised downwards by 3,500 thousand euro following the improvement of the company's financial situation.

Other provisions for risks and charges

The amount of the provisions mainly refers to the probable risk of higher charges for the construction of plants which are completed or yet to be finished, the estimated IMU/ICI tax to be paid based on the value of plant systems as envisaged in Art. 1-*quinquies* of Italian Law Decree no. 44 of 31 March 2005, the estimate of charges related to the return of emissions quotas, charges for environmental offsets, risks of a regulatory nature and probable charges for various disputes.

The current portion referring to the provisions described above was presented under "provisions, current portion" (Note 28).

NOTE 22_DEFERRED TAX LIABILITIES

Deferred tax liabilities of 204,538 thousand euro (211,553 thousand at 31 December 2018) are due to the temporary difference between the carrying amount and tax value of assets and liabilities recognised in the financial statements.

Deferred taxation is calculated with reference to the expected tax rates applicable at the time the differences will reverse.

For further details reference should be made to the income statement, Note 42 "Income tax expense" and to the statement in the annex.

NOTE 23_OTHER PAYABLES AND OTHER NON-CURRENT LIABILITIES

This item can be broken down as follows:

	thousands of euro	
	31/12/2019	31/12/2018
Payables after 12 months	47,806	49,872
Deferred income for grants related to plants – non current	429,479	421,090
Non-current accrued expenses and deferred income	2,755	3,816
Total	480,040	474,778

The item "Payables after 12 months" refers to advances paid by users to guarantee water supply, to amounts related to previous years to be paid for the redundancy fund (CIG), for the extraordinary redundancy fund (CIGS) and for mobility and to tax payables for substitutive taxes to be paid at more than 12 months from the reporting date.

Deferred income for grants for plant facilities includes the amounts related to connection contributions for an amount of 192,625 thousand euro and to the Fo.N.I. (Fondo Nuovi Investimenti - New Investment Fund) component, for an amount of 49,008 thousand euro, provided for in the tariff method of the Integrated Water Service which will be booked to the income statement beyond 12 months from the reporting date. The portion that will be booked to the income statement in the 12 months following the reporting date amounts respectively to 8,747 and 2,835 thousand euro and is included in the item "Other payables and other current liabilities among deferred income" for grants related to plants.

CURRENT LIABILITIES

NOTE 24_CURRENT FINANCIAL LIABILITIES

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

Short-term financial liabilities can be analysed as follows:

	thousands of euro	
	31/12/2019	31/12/2018
Bonds	167,831	89,069
Bank loans	130,709	288,556
Financial payables to associates	68	2,734
Financial payables to related-party shareholders	3,867	3,308
Financial payables for leases	106,514	344
Financial payables to others	12,167	34,079
Current liabilities for derivatives	40,007	19,273
Total	461,163	437,363

Bonds

The amounts refer to Private Placements with maturity within 12 months:

- at 31 December 2019 these were Notes issued in 2013 with maturity 2020; the amount refers to the value at amortised cost according to the IAS/IFRS standards, against a nominal value on maturity of 167,870 thousand euro;
- at 31 December 2018 the value at amortised cost of the Notes issued in 2014 was shown; these were repaid on maturity in February 2019 at their nominal value of 89,100 thousand euro.

Bank loans

Short-term bank loans may be broken down as follows:

	thousands of euro	
	31/12/2019	31/12/2018
Loans - current portion	43,637	274,604
Other current payables to banks	75,256	44
Accrued financial expenses and deferred financial income	11,816	13,908
Total	130,709	288,556

Financial payables to associates

These refer to payables to the company Amter, while at 31 December 2018 they referred to payables to the company Valle Dora Energia for the centralised treasury relationship with Iren S.p.A. which at 31 December 2019 had a receivable balance.

Financial payables to related-party shareholders

This item relates to dividends of the company TRM still to be paid to the shareholder Municipality of Turin.

Financial payables to others

These regard payables to factoring companies for the portions collected from customers and to be paid to the factor (9,360 thousand euro), and amounts that are individually less significant.

Current liabilities for derivatives

These relate to the fair value of derivative contracts entered into to hedge the exposure to the risk of oscillating commodity prices.

NOTE 25_TRADE PAYABLES

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

	thousands of euro	
	31/12/2019	31/12/2018
Trade payables	830,377	860,574
Trade payables to joint ventures	311	349
Trade payables to associates	12,950	14,237
Trade payables to related-party shareholders	12,874	13,054
Trade payables to other related parties	9,225	4,426
Advances due within 12 months	6,801	5,506
Guarantee deposits due within 12 months	14,514	16,782
Charges to be reimbursed within 12 months	10	10
Total	887,062	914,938

NOTE 26_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

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

	thousands of euro	
	31/12/2019	31/12/2018
VAT payable	572	4,242
Revenue tax payable /UTIF	494	6,355
IRPEF payable	444	1,230
Other tax liabilities	28,142	28,945
Tax liabilities due within 12 months	29,652	40,772
Payables to employees	44,853	42,620
Payables to Cassa Servizi Energetici e Ambientali (CSEA)	62,972	51,964
Accounts payable to social security institutions within 12 months	30,272	22,072
Other current liabilities	117,751	105,985
Other payables due within 12 months	255,848	222,641
Accrued expenses and deferred income	21,236	20,872
Total	306,736	284,285

The reduction in payables for income taxes is due to pre-payments and settlement payments which are influenced by invoicing volumes for the current year and the previous year.

The increase in payables to Cassa per i Servizi Energetici e Ambientali (the Energy and Environmental Services Fund) of the period is related to the estimates of negative equalisation of electricity and gas.

Other current liabilities refer mainly to cost estimates for the obligations related to energy efficiency certificates, payables for electricity distribution tariff components to be paid to GSE, payables for purification fees and payables for the TV licence fee collected in bills.

NOTE 27_CURRENT TAX LIABILITIES

The item "Current tax liabilities" amounting to 1,761 thousand euro (32,049 thousand euro at 31 December 2018) is made up of IRES and IRAP payables, and was determined on the basis of the estimate of taxes for the year.

NOTE 28_ PROVISIONS FOR RISKS AND CHARGES - CURRENT PORTION

This item amounted to 118,302 thousand euro (89,887 thousand euro at 31 December 2018) and refers to the short-term portion of the provisions, divided as follows:

- provisions for environmental offset charges of 14,742 thousand euro;
- provisions for charges related to the obligation to return emission quotas of 67,741 thousand euro;
- provisions for equity investment risks of 6,500 thousand euro, related to the associate Sinergie Italiane;
- provisions for restoration of transferable works of 1,074 thousand euro;
- provisions for dismantling and reclaiming sites and post mortem provisions of 8,758 thousand euro, which are expected to be used within the next 12 months;
- other provisions for risks of 19,487 thousand euro.

For further details on the breakdown of and changes in provisions for risks and charges see Note 21.

NOTE 29_ LIABILITIES RELATED TO ASSETS HELD FOR SALE

There are not liabilities related to assets held for sale at 31 December 2019.

FINANCIAL POSITION

The net financial debt, calculated as the difference between short/medium/long-term financial liabilities and short/medium/long-term financial assets, can be broken down as indicated in the following table:

	thousands of euro	
	31/12/2019	31/12/2018
Non-current financial assets	(148,051)	(147,867)
Non-current financial debt	3,167,048	3,013,303
Non-current net financial debt	3,018,997	2,865,436
Current financial assets	(774,583)	(849,993)
Current financial debt	461,163	437,363
Current net financial debt	(313,420)	(412,630)
Net financial debt	2,705,577	2,452,806

Detail of Net Financial Position regarding related parties

Non-current financial assets relate for 121,463 thousand euro to receivables from the Municipality of Turin and for 9,899 thousand euro to receivables from associates.

Current financial assets relate for 13,526 thousand euro to receivables from the Municipality of Turin, for 352,900 thousand euro to receivables from the joint venture OLT Offshore and for 10,685 thousand euro to receivables from associates.

Non-current financial liabilities relate for 3,867 thousand euro to payables to the Municipality of Turin and for 68 thousand euro to payables to associates.

Below is the net financial position in the format proposed by the ESMA recommendation of 10 February 2005 transposed with CONSOB Communication of 28 July 2006, which does not include non-current financial assets.

	thousands of euro	
	31/12/2019	31/12/2018
A. Cash in hand	(345,876)	(369,318)
B. Other cash and cash equivalents (details)	-	-
C. Securities held for trading	-	-
D. Cash and cash equivalents (A) + (B) + (C)	(345,876)	(369,318)
E. Current financial receivables	(428,707)	(480,675)
F. Current bank debt	87,072	13,952
G. Current portion of non-current debt	211,468	363,673
H. Other current financial debt	162,623	59,738
I. Current financial debt (F)+(G)+(H)	461,163	437,363
J. Net current financial debt (I) – (E) – (D)	(313,420)	(412,630)
K. Non-current bank debt	539,949	743,902
L. Bonds issued	2,516,069	2,185,550
M. Other non-current debt	111,030	83,851
N. Non-current financial debt (K) + (L) + (M)	3,167,048	3,013,303
O. Net financial debt (J) + (N)	2,853,628	2,600,673

The table below shows the changes in the year in current and non-current financial liabilities.

	thousands of euro
Current and non-current financial liabilities 31.12.2018	3,450,666
Opening of medium/long-term loans	530,750
Repayment of medium/long-term loans	(555,158)
Liabilities acquired following change in consolidation scope	17,132
Change in payables for leases	115,036
Fair value changes on derivatives	24,907
Other changes	44,878
Current and non-current financial liabilities 31.12.2019	3,628,211

IX. NOTES TO THE INCOME STATEMENT

Unless otherwise stated, the following comments and tables show the figures in thousands of euro.

Starting from 1 January 2019 the Group's consolidated income statement contains the economic figures of the companies San Germano, CMT and Busseto Servizi, starting from 1 July 2019 those of the company Ferrania Ecologia and, starting from 1 October 2019, those of the company Territorio e Risorse; the economic results of 2019 are therefore affected by the inclusion of these figures in the consolidation scope. Again for the purposes of a correct analysis of the income statement, we can also note that the items include, along the entire time horizon in question, the results of the ACAM group companies, ReCos, Maira, Formaira and Spezia Energy Trading. In financial year 2018 the income statement items of the ACAM Group and of ReCos were in fact included starting from April, while those of Maira, Formaira and Spezia Energia Trading starting from September.

REVENUE

NOTE 30_REVENUE FROM GOODS AND SERVICES

This item amounts to Euro 4,081,333 thousand (Euro 3,764,302 thousand in 2018). For more details on the trend in revenue by business segments please refer to what is explained in the chapter "Segment reporting" of the Directors' Report and to the tables contained in paragraph XI "Segment reporting" below.

We can note that for financial year 2018 the item included non-recurring income of 41,238 thousand euro attributable to the revision of the estimate of receivables for invoices to be issued on the sale of electricity, gas and heat, carried out following the introduction of a new method for calculating revenue accruing, which completed the analysis of invoices issued and the estimate of end-of-year assessments.

NOTE 31_OTHER INCOME

Other income totalled 193,373 thousand euro (276,387 thousand euro in financial year 2018) and refers to contributions, revenue for energy certificates and sundry income. The tables below show the details of the single items.

Contributions

	thousands of euro	
	Financial year 2019	Financial year 2018
Grants related to plant	8,707	10,834
Connection contributions	10,030	9,541
Other grants	3,462	1,061
Total	22,199	21,436

The grants for plant facilities and connection contributions represent the pertaining portion of grants calculated in proportion to the depreciation rates of the plants to which they refer. The connection contributions include amounts received for connection to the Group's electricity, water, gas and heat distribution networks.

Revenue from energy efficiency certificates

	thousands of euro	
	Financial year 2019	Financial year 2018
Revenue from Emission Trading	-	350
Revenue from ex-Green Certificates incentive	65,834	97,947
Revenue from Energy Efficiency Certificates (White Certificates)	49,681	110,979
Total	115,515	209,276

The revenue for former Green Certificates decreased owing to the expiry, on 1 January 2019, of the incentives related to the hydroelectric plants of Pont Ventoux and Bussento.

We can note also that in FY 2018 there were revenues from White Certificates of 59,735 thousand euro deriving from the recognition of energy efficiency certificates for earlier periods.

Other income

	thousands of euro	
	Financial year 2019	Financial year 2018
Revenue from service contracts	2,507	4,551
Revenue from rental income and leases	1,483	1,582
Capital gains on goods disposal	934	1,163
Insurance reimbursement	6,119	396
Sundry repayments	7,556	6,775
Other revenue and income	37,060	31,208
Total	55,659	45,675

Other revenue and income includes adjustments of revenue accruing to previous years.

COSTS

NOTE 32_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

This item is broken down as follows:

	thousands of euro	
	Financial year 2019	Financial year 2018
Purchase of electricity	534,896	446,192
Purchase of gas	677,591	781,277
Purchase of heat	164	169
Purchase of other fuels	17	50
Purchase of water	3,958	3,372
Other raw materials and inventory materials	108,648	83,148
Emission Trading	67,741	39,969
White certificates	15,364	33,160
Change in inventories	2,419	(10,271)
Total	1,410,798	1,377,066

Costs for raw materials, consumables, supplies and goods increased by approximately 33,732 thousand euro. The increase in electricity purchase costs was related mainly to an increase in volumes purchased on the power exchange.

The reduction in costs for the purchase of gas is attributable mainly to the drop in the prices of this commodity compared to the levels of the previous year, despite an increase recorded in volumes purchased.

As regards energy certificates, the increase in the costs for Emission Trading compared to 2018 was also a consequence of the upward trend of the related prices. The change in the costs for White Certificates is instead related, on the one hand, to the drop in market prices and, on the other, to the lower quantities purchased to fulfil the obligations of the period.

The change in inventories was partly due to gas storages.

NOTE 33_SERVICES AND USE OF THIRD-PARTY ASSETS

Costs for services amounted to 1,422,864 thousand euro (1,227,435 thousand euro in 2018) and are detailed in the table below:

	thousands of euro	
	Financial year 2019	Financial year 2018
Electricity transport and electricity system expenses	715,456	627,506
Gas carriage	66,906	45,737
Heat carriage	112	-
Third-party works, maintenance and industrial services	230,457	199,970
Collection and disposal, snow clearing, public parks	209,503	172,157
Expenses related to personnel (canteen, training, travel)	11,859	10,459
Technical, administrative and commercial consulting and advertising expenses	59,451	63,073
Legal and notary fees	1,996	2,543
Insurance	13,832	13,035
Banking costs	7,521	7,872
Telephone costs	7,211	6,950
IT expenses	47,871	35,539
Reading and invoicing services	11,912	13,748
Fees of the Board of Statutory Auditors	925	860
Other costs for services	37,852	27,986
Total costs for services	1,422,864	1,227,435

Costs for third-party works mainly relate to operating and maintenance costs of plants and networks.

“Other costs for services” consist of the remaining costs for internal consumption, back office, transport and other services.

Costs for the use of third-party assets amounted to 35,530 thousand euro (down compared to 44,524 thousand in financial year 2018). In the period in question the item included mainly fees paid to the single operator of the Genoa Area, fees paid to the companies that own the assets of the integrated water service of the Municipalities of Parma, Piacenza and Reggio Emilia.

In financial year 2018 the item also included fees for property leases (including the rent of the buildings from the Core Multiutilities Fund), long-term hire (including that referred to motor vehicles) and various rents. These expenses, starting from 1 January 2019, and no restated in the comparative period, are no longer recognised in the income statement and, in application of IFRS 16 the liabilities and rights of use inherent in the assets to which they refer are recognised in the balance sheet.

Residually, there are also costs present for short-term hire or hire in which the underlying asset is of modest value, which the group has decided to exclude from the scope of application of IFRS 16.

NOTE 34_OTHER OPERATING EXPENSES

Other operating expenses amounted to 64,649 thousand euro (64,653 thousand euro in 2018) and are detailed in the table below:

	thousands of euro	
	Financial year 2019	Financial year 2018
General expenses	19,359	14,630
Instalments and higher instalments for water shunting	18,636	16,492
Taxes and duties	25,145	23,037
Capital losses on goods disposal	1,022	936
Other sundry operating expenses	14,814	9,558
Total	78,976	64,653

General expenses include among other things contributions to the running costs of various entities and penalties from service providers. The item "taxes and duties" relates mainly to expenses for IMU (Council Tax) on the Group's plants and buildings and expenses for occupying and reclaiming public land. The item Other sundry operating expenses includes adjustments of revenue accruing to previous years.

NOTE 35_CAPITALISED EXPENSES FOR INTERNAL WORK

Capitalised expenses for internal work amounted to 33,444 thousand euro (33,198 thousand euro in 2018), and regard increases in capital assets made with internal resources and production factors.

	thousands of euro	
	Financial year 2019	Financial year 2018
Capitalised labour costs	(26,779)	(22,852)
Capitalised inventory materials	(6,665)	(10,346)
Total	(33,444)	(33,198)

NOTE 36_PERSONNEL EXPENSES

Personnel expenses amounted to 442,721 thousand euro (393,618 thousand euro in 2018) and are detailed in the table below:

	thousands of euro	
	Financial year 2019	Financial year 2018
Gross remuneration	309,629	275,058
Social security contributions	99,042	88,504
Post-employment benefits	565	434
Other long-term employee benefits	216	210
Other personnel expense	31,936	28,081
Directors' fees	1,333	1,331
Total	442,721	393,618

As described in Note 35, 26,779 thousand euro of costs related to employees were capitalised.

Other personnel expenses include provisions set aside for the charges associated with the new agreements for early retirements incentives according to Art. 14 of Italian Law Decree 4/2019 (Quota 100), social security and recreational contributions, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, and the portion of post-employment benefits and contributions to be paid by the employer to supplementary pension funds.

The composition of personnel is shown in the following table.

	31/12/2019	31/12/2018	Average for the period
Senior managers	94	93	96
Junior managers	314	296	306
White collar	3,495	3,304	3,443
Blue collar	4,199	3,349	4,145
Total	8,102	7,042	7,990

The changes in the composition of the staff were due both to management policies and, in particular, to the consolidation of the companies San Germano and Ferrania Ecologia.

NOTE 37_ DEPRECIATION AND AMORTISATION

Depreciation/amortisation of the period amounted to 403,262 thousand euro (354,947 thousand euro in 2018).

	thousands of euro	
	Financial year 2019	Financial year 2018
Property, plant and equipment and investment property	267,106	233,867
Intangible assets	136,156	121,080
Total	403,262	354,947

For further details on depreciation/amortisation, reference should be made to the tables of changes in property, plant and equipment and intangible assets.

NOTE 38_ PROVISIONS AND IMPAIRMENT LOSSES

This item amounted to a total of 61,850 thousand euro (81,150 thousand euro in financial year 2018) and is detailed in the table below.

	thousands of euro	
	Financial year 2019	Financial year 2018
Provisions for impairment of receivables	37,203	52,217
Provisions set aside for risks and restoration of third-party assets	41,816	40,323
Provision releases	(29,803)	(16,028)
Write-downs	12,634	4,638
Total net other provisions and impairment losses	24,647	28,933
Total	61,850	81,150

The provisions in the period were set aside to adjust the amount of provisions for impairment of receivables to the amount of expected losses on the basis of the simplified model provided for in the standard IFRS 9, where "loss" means the present value of all future lost revenue, opportunely integrated to take into account future expectations ("forward looking information").

The trend of provisions set aside for risks and restoration of third-party assets is referable to the assessment of risks of liabilities in the electrical and water fields, as well as to probable costs in the waste management segment, while releases of provisions in the period refer to the revision of estimates of expenses set aside in previous years.

Details of changes in provisions are given in the comment on the Balance Sheet item “Provisions for risks and charges”.

The impairment losses of the period refer mainly to the downward adjustment of the carrying amount of a portion of goodwill related to assets of the waste processing plants located in the province of La Spezia and of the property complex in Piazza Raggi in Genoa. For more details please see respectively note 4 and note 2 of the Statement of Financial Position.

NOTE 39 FINANCIAL INCOME AND EXPENSE

Financial income

Financial income amounted to 34,614 thousand euro (42,844 thousand euro in 2018). The details are shown in the following table:

	thousands of euro	
	Financial year 2019	Financial year 2018
Dividends	48	693
Bank interest income	394	581
Interest income from receivables/loans	17,342	18,757
Interest income from customers	3,977	5,253
Fair value gains on derivatives	9,360	10,956
Gains made on derivatives	322	743
Exchange rate gains	9	45
Other financial income	3,162	5,816
Total	34,614	42,844

Interest income from receivables/loans refers mainly to interest receivable from the joint venture OLT Offshore (12,964 thousand euro) and interest accrued on current accounts between the Group and the Municipality of Turin (3,586 thousand euro).

Income from fair value on derivative contracts refers to the non-effective portion of hedging instruments and to the fair value changes of hedging instruments that do not meet the formal requirements for the application of hedge accounting.

Other financial income consists mainly of income for the discounting of provisions and for adjustments to estimates of previous years.

Financial expense

This item amounted to 114,482 thousand euro (148,976 thousand euro in financial year 2018). The breakdown of financial expenses is provided in the following table:

	thousands of euro	
	Financial year 2019	Financial year 2018
Interest expense on loans	31,506	79,057
Interest expense on bonds	49,525	43,232
Interest expense on bank current accounts	140	47
Other interest expense	1,190	997
Derivative fair value charges	735	714
Expenses paid on derivatives	17,446	17,645
Capital loss on disposal of financial assets	551	219
Interest cost – Employee benefits	1,652	1,570
Financial expense on leasing liabilities	3,344	44
Other financial expenses	8,393	5,451
Total	114,482	148,976

Interest expense on loans of the period includes expenses for liability management operations of 19.3 million euro (in financial year 2018, for liability management operations regarding loans and committed lines, there were expenses of 51.8 million euro).

Interest on loans and bonds includes the expenses relating to the measurement at amortised cost.

Derivative fair value expenses consist of the reversal of a portion of the cash flow hedging reserve to the income statement, relating to certain hedging positions that do not meet the formal requirements for the application of hedge accounting.

Reference should be made to the note to the statement of financial position on the item “Employee benefits” for details of financial expenses on employee benefits.

Other financial expenses mainly includes financial expenses for the discounting of provisions.

NOTE 40_SHARE OF PROFIT (LOSS) OF ASSOCIATES ACCOUNTED FOR USING THE EQUITY METHOD

The profit of equity-accounted companies amounted to 4,477 thousand euro (a profit of 776 thousand in financial year 2018). For more details please see Note 5 “Investments accounted for using the equity method”.

NOTE 41_VALUE ADJUSTMENTS ON EQUITY INVESTMENTS

The item was a positive 558 thousand euro (a negative 35,614 thousand euro in financial year 2018) and refers to:

- the difference between the fair value of the net assets acquired of the companies San Germano and CMT and the price transferred for the acquisition of the same (+1,766 thousand euro);
- the write-down of the equity investment in Astea (-1,208 thousand euro) made following the impairment test carried out on the value of the investee.

In financial year 2018 the item was a negative 35,614 thousand euro and referred mainly to:

- the write-down of the equity investment in OLT Offshore LNG Toscana (-27,674 thousand euro) made for alignment to the fair value provided for as a consequence of the probable sale, in the light of the results that emerged in the programme of activities launched for this purpose;
- the write-downs related to the investees Acque Potabili (-5,000 thousand euro) and AMAT (-2,111 thousand euro, writing it off), made respectively owing to the prospects of uncertain income and the adverse regulatory context;
- to the write-back of Acquaenna in the light of cessation of the conditions for a write-down made in previous years (+1,380 thousand euro);

- to the restatement at fair value, at the date the controlling stake was acquired, of the minority interest held at 31 March 2018, in ReCos. (-1,706 thousand euro).

NOTE 42_INCOME TAX EXPENSE

Income taxes for 2019 are estimated at 111,635 thousand euro (116,287 thousand euro in 2018). The breakdown of taxes is provided in the following table:

	thousands of euro	
	Financial year 2019	Financial year 2018
Current taxes (IRES)	97,308	116,505
Current taxes (IRAP)	24,203	30,188
Current taxes (IRES and IRAP) previous years	(4,472)	(14,711)
Deferred tax assets	4,659	(12,897)
Deferred tax liabilities	(10,063)	(2,798)
Total	111,635	116,287

We can note that, starting from 2010, Iren S.p.A. adopted the domestic tax consolidation scheme pursuant to Arts 117 et seq. of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.

The tax consolidation scope for 2019 includes the following companies, in addition to the consolidating company Iren S.p.A.: IRETI SpA, Iren Mercato SpA, Iren Energia SpA and the incorporated companies (Green Source, Enìa Solaris, Varsi Fotovoltaico), Iren Acqua SpA, Immobiliare delle Fabbriche, Iren Ambiente SpA, Iren Smart Solutions SpA (formerly Iren Rinnovabili), AMIAT SpA, AMIAT V Srl, ACAM Ambiente SpA, ACAM Acque SpA, Maira SpA, Formaira srl, Studio Alfa SpA, Coin Consultech Srl, Recos SpA and Iren Laboratori SpA.

The table below shows the breakdown of the tax rate for financial year 2019 and for financial year 2018.

	thousands of euro			
	Financial year 2019		Financial year 2018	
Profit (loss) before tax	377,316		389,524	
IRES tax	90,556	24.0%	93,486	24.0%
Permanent differences	1,083	0.3%	12,397	3.2%
IRAP (regional business tax)	24,203	6.4%	30,188	7.7%
Previous years' taxes and other differences	(4,207)	-1.1%	(19,785)	-5.1%
Total taxes in the income statement	111,635	29.6%	116,287	29.9%

The following table shows deferred tax assets and liabilities and their impact.

	thousands of euro	
	Financial year 2019	Financial year 2018
Deferred tax assets		
Non-taxable provisions	140,586	125,549
Differences in value of fixed assets	132,392	125,543
Connection contributions	48,563	48,793
Derivatives	30,706	23,728
Tax losses carried forward + ACE	5,120	5,462
Other	11,069	31,222
Total	368,436	360,298
Deferred tax liabilities		
Differences in value of fixed assets	194,702	201,410
Provisions for impairment of receivables	441	3,814
Other provisions	526	583
Other	8,869	5,746
Total	204,538	211,553
Total net deferred tax assets (liabilities)	163,898	148,745
Total change	15,153	
of which:		
Equity	6,727	
to the Income statement	5,404	
owing to changes in the consolidation scope	3,022	

NOTE 43_ NET PROFIT/(LOSS) FROM DISCONTINUED OPERATIONS

Not present in financial year 2019 and in financial year 2018.

NOTE 44_ PROFIT/(LOSS) FOR THE PERIOD ATTRIBUTABLE TO MINORITIES

Profit attributable to non-controlling interests, which amounted to 29,103 thousand euro (31,121 thousand euro in 2018), relates to the share of profit of non-controlling interests in companies fully 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 shares of financial year 2019 is the weighted average of shares outstanding over the reference period based on the provisions of paragraph 20, IAS 33. The company has not issued financial instruments that have the potential to dilute ordinary and savings shares, therefore diluted earnings per share is equal to basic earnings per share.

	Financial year 2019	Financial year 2018
Net profit (loss) for the period (thousands of euro)	236,578	242,116
Weighted average number of shares outstanding over the year (thousand)	1,298,646	1,292,132
Basic earnings/(loss) per share (euro)	0.18	0.19

NOTE 46_OTHER COMPREHENSIVE INCOME

Other comprehensive income amounted to a negative 18,263 thousand euro (a negative 14,882 thousand euro in 2018) and included other comprehensive income that will be subsequently reclassified to the Income Statement and other comprehensive income that will not be subsequently reclassified to the Income Statement.

Other comprehensive income that will not be subsequently reclassified to the Income Statement relates to:

- the effective portion of changes in the fair value of cash flow hedging instruments, a negative 22,679 thousand euro, which refers to derivatives hedging changes in interest rates and derivatives hedging changes in commodity prices (for the Group this is gas).
- the share of other profits/(losses) of equity-accounted companies, a positive 1,719 thousand euro, which refers to changes in the fair value of cash flow hedging instruments of associates.
- the tax effect of other comprehensive income, for 5,912 thousand euro.

Other comprehensive income that will not be subsequently reclassified to the Income Statement relates to:

- actuarial losses, related to defined benefit plans, for 3,731 thousand euro.
- the portion of actuarial losses of equity-accounted companies related to employee defined benefit plans, for 298 thousand euro.
- the tax effect of other comprehensive income, for 814 thousand euro.

X. GUARANTEES AND CONTINGENT LIABILITIES

Guarantees relate to:

- a) Sureties for own commitments of 492,226 thousand euro (403,780 thousand at 31 December 2018); the most significant items refer to sureties issued in favour of:
- the Turin Provincial/Metropolitan City Governments, for 101,219 thousand euro for waste conferment and post-closure management of plants subject to I.E.A.;
 - ARPAE for 78,139 thousand euro for waste conferment and operating and post-closure management of plants subject to Integrated Environmental Authorisation (hereinafter I.E.A.);
 - ATO-R, for 44,335 thousand euro, as definitive guarantees in the Amiat/TRM tender procedure;
 - CONSIP for 34,627 thousand euro for electricity supply contracts;
 - the Electricity Market Operator (GME) for 27,790 thousand euro to guarantee the market participation contract;
 - the City of Turin for 27,616 thousand euro as definitive guarantees in the AMIAT/TRM tender procedure;
 - the Customs Authority, for 22,003 thousand euro to guarantee the regular payment of revenue tax and additional local and provincial duties on electricity consumption and gas excise;
 - SEI Energia for 21,500 thousand euro as expenses for the Assumptor for the related arrangement procedure;
 - ATERSIR for 14,306 thousand euro for S.I.I. and S.G.R.U. agreements and tenders in progress;
 - Terna, for 10,194 thousand euro to guarantee injection and withdrawal dispatching contracts and to guarantee the electricity transport service contract;
 - the Ministry of the Environment, for 9,647 thousand euro;
 - SNAM Reti Gas for 9,600 thousand euro to guarantee contracts and network codes;
 - the Tax Authority for 9,543 thousand euro annual VAT rebate procedures;
 - INPS for 9,425 thousand euro for the planned redundancy procedure for group employees;
 - SETA SpA for 5,850 thousand euro to guarantee regular execution of post-closure activities at the Chivasso 0 landfill site;
 - Province of La Spezia for 5,342 thousand euro for contributions and management of plants;
 - the Municipality of Parma for 3,678 thousand euro to guarantee the Cornocchio plant and for maintenance contracts;
 - Consorzio SEA for 3,034 thousand euro to guarantee the urban hygiene service and similar services;
 - FCT Holding, for 2,000 thousand euro, as definitive guarantee in the AMIAT/TRM tender procedure;
 - REAM Sgr S.p.A. for 1,931 thousand euro, to guarantee lease payments of properties transferred to the real estate fund called Fondo Core MultiUtilities;
- b) Guarantees provided on behalf of subsidiaries and associates for 357,842 thousand euro, primarily to guarantee credit facilities and sales/Parent Company Guarantee contracts on behalf of Iren Mercato SpA;

The most significant amounts, regarding the guarantees given on behalf of associates, refer to the associate Sinergie Italiane in liquidation (namely guarantees for credit facilities and letters of patronage for 25,332 thousand euro, unchanged compared to 31 December 2018). The liquidators concluded the main procurement contracts and since 1 October 2012 the Company's operating activity therefore includes only the purchase of gas from the Russian Gazprom supplier and the sale of gas to shareholders or their subsidiaries, including Iren Mercato.

COMMITMENTS

In relation to the subsidiary Iren Acqua (formerly Mediterranea delle Acque), we can note the existence of a commitment within the framework Agreement with the Shareholder F2i rete idrica S.p.A. Article 15 of this agreement envisages that Ireti is bound to pay damages in the event of liabilities, losses or damage suffered by F2i or Iren Acqua or its investees, resulting from incorrect or unfair statements included in the agreement.

CONTINGENT LIABILITIES

Disclosure on the Inspection Report of 26 July 2019 served on Iren Mercato S.p.A.

On 20 February 2019, the Revenues Agency, Liguria Regional Department began a tax audit, for the tax periods 2013 and 2014, in relation to the company Iren Mercato S.p.A. which ended with the serving of the Inspection Report (Processo Verbale di Constatazione - PVC) of 26 July 2019: the audit regarded, mainly, the commercial transactions made between the company and the investee Sinergie Italiane, implementing the natural gas purchase contract signed on 20 March 2013.

The Office with the aforementioned PVC, accused the company, for IRES and IRAP purposes, of undue deduction, in breach of art. 109 of the Consolidated Income Tax Act (TUIR), of part of the price of the gas paid to Sinergie Italiane (for the part made up, in fact, of the mark-up applied by the latter on its natural gas purchase price), for a total of Euro 4,274,009 for the year 2013 and Euro 3,748,010 for the year 2014.

In the PVC the Office also made the accusation of undue subtraction (in breach of art. 19, paragraph 1, of Italian Presidential Decree no. 633/1972) of the VAT (applied at a rate of 10%) paid by the company in relation to the invoices issued by Sinergie Italiane.

In relation to the transactions covered by the accusation, Iren Mercato produced, during the audit, briefs with which ample clarifications were provided on the nature of the commercial transactions that occurred between the two companies.

As of today, the Office has not yet served on the company any notice of assessment.

The risks connected with the Agency's findings did not lead to any provisions in the present financial statements as they are estimated as "potential" in application of the international accounting standards, considering that there are a series of factual circumstances and considerations on points of law in support of the legitimate operation of the company.

XI. SEGMENT REPORTING

Segment reporting, based on the Group's management and internal reporting structure, is given below in accordance with IFRS 8.

Given the nature of the activity performed by Group companies, a geographical segment analysis is not relevant.

OPERATING BUSINESS SEGMENTS

The business segments in which the Group operates are:

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

For a more uniform presentation of the assets included in Group's operating segments, we can note that the "Smart solutions" business line (energy efficiency, heat management and public lighting) was reallocated from the "Services and other" segment to the "Energy" segment.

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

For a proper interpretation of the economic results relating to individual businesses, revenue and expense referring to joint activities were fully allocated to the businesses based on actual usage of the services provided or according to technical and economic drivers.

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

The financial and economic amounts presented below, for the comparative periods of 2018, were restated in keeping with the segment structure explained above.

Net invested capital by business segment compared to the figures at 31 December 2018 and income statements (up to the operating profit/(loss)) by business segment are presented below, and include a comparison with the figures for financial year 2018.

Statement of financial position by business segment at 31 December 2019

	millions of euro						
	Networks	Waste Management	Energy	Market	Other services	Non-allocable	Total
Non-current assets	2,823	1,031	1,884	175	38	145	6,096
Net Working Capital	(69)	64	87	71	13	-	166
Other non-current assets and liabilities	(603)	(165)	(140)	0	3	-	(905)
Net invested capital (NIC)	2,151	930	1,831	246	54	145	5,357
Equity							2,651
Net financial debt							2,706
Own funds and net financial debt							5,357

Statement of financial position by business segment at 31 December 2018

millions of euro

	Networks	Waste Management	Energy	Market	Other services	Non-allocable	Total
Non-current assets	2,609	946	1,884	146	59	142	5,786
Net Working Capital	(21)	70	66	41	(24)		132
Other non-current assets and liabilities	(610)	(156)	(124)	(7)	(6)		(903)
Net invested capital (NIC)	1,978	860	1,826	180	29	142	5,015
Equity							2,562
Net financial debt							2,453
Own funds and net financial debt							5,015

Income Statement by business segment of financial year 2019

millions of euro

	Networks	Waste Management	Energy	Market	Other services	Netting and adjustments	Total
Total revenue and income	1,046	715	1,473	2,746	22	(1,727)	4,275
Total operating expense	(673)	(557)	(1,199)	(2,636)	(20)	1,727	(3,358)
Gross Operating Profit (EBITDA)	373	158	274	110	2	-	917
Net am./depr., provisions and impairment losses	(175)	(102)	(134)	(53)	(1)	-	(465)
Operating profit (EBIT)	198	56	140	57	1	-	452

Income Statement by business segment of financial year 2018

millions of euro

	Networks	Waste Management	Energy	Market	Other services	Netting and adjustments	Total
Total revenue and income	947	610	1,412	2,602	17	(1,547)	4,041
Total operating expense	(606)	(454)	(1,082)	(2,463)	(16)	1,547	(3,074)
Gross Operating Profit (EBITDA)	342	155	330	139	1	-	967
Net am./depr., provisions and impairment losses	(166)	(80)	(136)	(53)	(1)	-	(436)
Operating profit (EBIT)	176	75	194	86	0	-	530

XII. ANNEXES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FULLY CONSOLIDATED COMPANIES

LIST OF JOINT VENTURES

LIST OF ASSOCIATES

EQUITY INVESTMENTS IN OTHER COMPANIES

ACCOUNTING DATA OF THE MAIN COMPANIES CONSOLIDATED LINE-BY-LINE, JOINT VENTURES AND ASSOCIATES

RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB Communication no. 6064293 dated 26 July 2006)

DEFERRED TAX ASSETS AND LIABILITIES

TRANSACTIONS WITH RELATED PARTIES

LIST OF CONTRIBUTIONS PURSUANT TO ITALIAN LAW DECREE 34/2019 ART. 35

INDEPENDENT AUDITORS' FEES

FULLY CONSOLIDATED COMPANIES

Company	Registered office	Currency	Share capital	% interest	Shareholder company
Iren Ambiente S.p.A.	Piacenza	Euro	63,622,002	100.00	Iren
Iren Energia S.p.A.	Turin	Euro	918,767,148	100.00	Iren
Iren Mercato S.p.A.	Genoa	Euro	61,356,220	100.00	Iren
Ireti S.p.A.	Genoa	Euro	196,832,103	100.00	Iren
Acam Acque S.p.A.	La Spezia	Euro	24,260,050	100.00	IRETI
Acam Ambiente S.p.A.	La Spezia	Euro	6,313,620	100.00	Iren Ambiente
AMIAT S.p.A.	Turin	Euro	46,326,462	80.00	AMIAT V
AMIAT V. S.p.A.	Turin	Euro	1,000,000	93.06	Iren Ambiente
ASM Vercelli S.p.A.	Vercelli	Euro	120,812,720	59.97	IRETI
Atena Trading S.r.l.	Vercelli	Euro	556,000	100.00	ASM Vercelli
Bonifica Autocisterne S.r.l.	Piacenza	Euro	595,000	51.00	Iren Ambiente
Busseto Servizi S.r.l.	Parma	Euro	3,990,000	100.00	IRETI
CMT S.p.A.	Turin	Euro	500,000	100.00	Iren Ambiente
Coin Consultech S.r.l.	Reggio Emilia	Euro	10,000	72.87	Studio Alfa
Consorzio GPO	Reggio Emilia	Euro	20,197,260	62.35	IRETI
Ferrania Ecologia S.r.l.	Cairo Montenotte	Euro	1,559,042	100.00	Iren Ambiente
Formaira S.r.l.	San Damiano Macra (Cuneo)	Euro	10,000	100.00	Maira
Immobiliare delle Fabbriche S.r.l.	Genoa	Euro	90,000	100.00	Iren Acqua
Iren Acqua S.p.A.	Genoa	Euro	19,203,420	60.00	IRETI
Iren Acqua Tigullio S.p.A.	Chiavari (Genoa)	Euro	979,000	66.55	Iren Acqua
Iren Laboratori S.p.A.	Genoa	Euro	2,000,000	90.89	IRETI
Iren Smart Solutions S.p.A.	Reggio Emilia	Euro	2,596,721	60.00	Iren Energia
				20.00	Iren Ambiente
				20.00	Iren Mercato
Maira S.p.A.	San Damiano Macra (Cuneo)	Euro	596,442	66.23	Iren Energia
Monte Querce S.c.a.r.l.	Reggio Emilia	Euro	100,000	60.00	Iren Ambiente
ReCos S.p.A.	La Spezia	Euro	12,466,000	98.60	Iren Ambiente
Salerno Energia Vendite S.p.A.	Salerno	Euro	3,312,060	50.00	Iren Mercato
San Germano S.p.A.	Turin	Euro	1,425,000	100.00	Iren Ambiente
Spezia Energy Trading S.r.l.	La Spezia	Euro	60,000	100.00	Iren Mercato
Studio Alfa S.p.A.	Reggio Emilia	Euro	100,000	86.00	Iren Smart Solutions
Territorio e Risorse S.r.l.	Tortona	Euro	2,510,000	100.00	Iren Ambiente
TRM S.p.A.	Turin	Euro	86,794,220	80.00	Iren Ambiente

LIST OF JOINT VENTURES

Company	Registered office	Currency	Share capital	% interest	Shareholder company
Acque Potabili S.p.A.	Turin	Euro	7,633,096	44.92	IRETI
Olt Offshore Toscana LNG S.p.A. (1)	Milan	Euro	40,489,544	46.79	Iren Mercato

(1) Company classified among assets held for sale

LIST OF ASSOCIATES

Company	Registered office	Currency	Share capital	% interest	Shareholder company
A2A Alfa S.r.l. (1)	Milan	Euro	100,000	30.00	Iren Mercato
Acos Energia S.p.A.	Novi Ligure	Euro	150,000	25.00	Iren Mercato
Acos S.p.A.	Novi Ligure	Euro	17,075,864	25.00	IRETI
Acquaenna S.c.p.a.	Enna	Euro	3,000,000	48.50	IRETI
Aguas de San Pedro	S.Pedro Sula (Honduras)	Lempiras	159,900	39.34	IRETI
Aiga S.p.A.	Ventimiglia	Euro	104,000	49.00	IRETI
Amat S.p.A.	Imperia	Euro	5,435,372	48.00	IRETI
Amter S.p.A.	Cogoleto (Genoa)	Euro	404,263	49.00	Iren Acqua
ASA S.p.A.	Livorno	Euro	28,613,406	40.00	IRETI
ASTEA S.p.A.	Recanati	Euro	76,115,676	21.32	Consorzio GPO
Asti Energia e Calore S.p.A.	Asti	Euro	120,000	34.00	Iren Energia
BI Energia S.r.l.	Reggio Emilia	Euro	100,000	47.50	Iren Energia
Campo Base S.r.l.	Cuneo	Euro	20,000	49.00	Maira
CSP Innovazione nelle ICT S.c.r.l.	Turin	Euro	600,000	25.00	Iren Energia
Fata Morgana S.p.A. (2)	Reggio Calabria	Euro	2,225,694	25.00	IRETI
Fin Gas S.r.l.	Milan	Euro	10,000	50.00	Iren Mercato
Fratello Sole Energie Solidali Impresa Sociale S.r.l.	Genoa	Euro	350,000	40.00	Iren Energia
G.A.I.A. S.p.A.	Asti	Euro	5,539,700	45.00	Iren Ambiente
Global Service Parma S.c.a r.l. (1)	Parma	Euro	20,000	30.00	IRETI
Iniziative Ambientali S.r.l.	Novellara (Reggio Emilia)	Euro	100,000	40.00	Iren Ambiente
Mondo Acqua S.p.A.	Mondovi (Cuneo)	Euro	1,100,000	38.50	IRETI
Nord Ovest Servizi S.p.A.	Turin	Euro	7,800,000	10.00	IRETI
				15.00	AMIAT
				25.00	IRETI
Piana Ambiente S.p.A. (2)	Gioia Tauro	Euro	1,719,322	25.00	IRETI
Plurigas S.p.A. (2)	Milan	Euro	800,000	30.00	Iren
Rio Riazzone S.p.A. (1)	Castellarano (Reggio Emilia)	Euro	103,292	44.00	Iren Ambiente
Seta SpA	Turin	Euro	12,378,237	48.85	Iren Ambiente
Sinergie Italiane S.r.l. (1)	Milan	Euro	1,000,000	30.94	Iren Mercato
STU Reggiane S.p.A.	Reggio Emilia	Euro	6,587,558	30.00	Iren Smart Solutions
Tirana Acque S.c. a r.l. (1)	Genoa	Euro	95,000	50.00	IRETI
Valle Dora Energia S.r.l.	Turin	Euro	537,582	49.00	Iren Energia

(1) Company in liquidation

(2) Company in liquidation classified among discontinuing operations

EQUITY INVESTMENTS IN OTHER COMPANIES

Company	Registered office	Currency	Share capital	% interest	Shareholder company
Acque Potabili Siciliane in bankruptcy (1)	Palermo	Euro	5,000,000	9.83	Iren Acqua
Aeroporto di Reggio Emilia	Reggio Emilia	Euro	2,177,871	0.11	Studio Alfa
Alpen 2.0	Turin	Euro	70,000	14.29	Maira
ATO2ACQUE S.c.a.r.l.	Biella	Euro	48,000	16.67	ASM Vercelli
Aurora S.r.l.	S. Martino in Rio (RE)	Euro	514,176	0.10	Studio Alfa
Autostrade Centro Padane	Cremona	Euro	30,000,000	1.46	IRETI
BT ENIA Telecomunicazioni	Parma	Euro	4,226,000	12.01	IRETI
C.R.P.A.	Reggio Emilia	Euro	2,201,350	2.84	IRETI
CIDIU SPA	Collegno (TO)	Euro	4,335,314	4.82	AMIAT
CNA Servizi Scrl	Reggio Emilia	Euro			Studio Alfa
Consorzio CIM 4.0	Turin	Euro	75,000	4.00	Iren
Consorzio L.E.A.P.	Piacenza	Euro	150,000	8.57	Iren Ambiente
Consorzio Topix	Turin	Euro	1,600,000	0.30	Iren Energia
Credito Cooperativo Reggiano	S.Giovanni di Querciola (RE)	Euro			Studio Alfa
Enerbrain s.r.l.	Turin	Euro	21,073	1.00	Iren Smart Solutions
Emilbanca BCC	Bologna	Euro			Studio Alfa
Environment Park S.p.A.	Turin	Euro	11,406,780	3.39	Iren Energia
I-TES	Turin	Euro	10,204	2.00	Iren Energia
Parma Servizi Integrati	Parma	Euro	20,000	11.00	Iren Smart Solutions
Reggio Emilia Innovazione (2)	Reggio Emilia	Euro	871,956	0.99	Iren Ambiente
Smart Mobility	Rome	Euro	14,175	5.14	Iren Mercato
Società di Biotecnologie S.p.A.	Turin	Euro	536,000	1.00	Iren Smart Solutions
Stadio Albaro (2)	Genoa	Euro	1,230,000	2.00	Iren Mercato
T.I.C.A.S.S.	Genoa	Euro	176,000	3.13	IRETI

(1) in bankruptcy from 29.10.2013

(2) Company in liquidation

ACCOUNTING DATA OF THE MAIN COMPANIES CONSOLIDATED LINE-BY-LINE, JOINT VENTURES AND ASSOCIATES

Fully consolidated companies

Company	Currency	Total Assets	Shareholders' equity	Total revenue	Profit/loss
Iren Ambiente S.p.A.	Euro	705,671,463	240,568,711	329,787,733	6,626,140
Iren Energia S.p.A.	Euro	2,254,131,982	1,264,947,404	1,350,739,674	85,352,329
Iren Mercato S.p.A.	Euro	757,552,307	175,079,399	2,512,512,912	38,884,895
Ireti S.p.A.	Euro	2,623,434,930	1,187,467,771	590,955,632	118,243,690
Acam Acque S.p.A.	Euro	268,746,659	36,315,261	75,458,580	3,737,291
Acam Ambiente S.p.A.	Euro	60,411,167	3,126,133	46,318,581	(1,458,549)
AMIAT S.p.A.	Euro	271,327,321	90,579,301	199,556,000	12,377,357
AMIAT V. S.p.A.	Euro	50,538,267	43,505,645	-	12,867,720
ASM Vercelli S.p.A.	Euro	167,265,799	134,810,157	50,879,432	5,612,974
Atena Trading s.r.l.	Euro	22,339,371	9,388,321	48,876,943	2,035,554
Bonifica Autocisterne S.r.l.	Euro	1,314,080	857,612	1,297,222	84,857
Busseto Servizi S.r.l.	Euro	5,303,135	4,376,171	463,951	120,865
CMT S.p.A.	Euro	12,913,160	2,024,087	7,940,102	(1,768,322)
Coin Consultech S.r.l.	Euro	471,203	201,771	930,243	65,326
Consorzio GPO	Euro	22,844,804	22,813,271	-	234,466
Ferrania Ecologia S.r.l.	Euro	30,985,101	(226,919)	7,434,827	(4,464,944)
Formaira S.r.l.	Euro	214,017	10,581	113,402	470
Immobiliare delle Fabbriche S.r.l.	Euro	10,099,504	10,030,130	-	(70,746)
Iren Acqua S.p.A.	Euro	675,597,131	466,569,953	225,688,579	45,967,798
Iren Acqua Tigullio S.p.A.	Euro	43,760,072	17,872,562	23,921,048	1,678,669
Iren Laboratori S.p.A.	Euro	14,627,740	6,641,994	13,242,195	1,000,164
Iren Smart Solutions S.p.A.	Euro	133,458,584	33,083,921	63,533,324	5,083,899
Maira S.p.A.	Euro	9,818,386	7,843,599	1,122,957	(42,107)
Monte Querce S.c.a.r.l.	Euro	733,699	99,999	35,288	-
ReCos S.p.A.	Euro	46,473,604	(1,579,392)	14,634,377	(7,497,809)
Salerno Energia Vendite S.p.A.	Euro	31,109,138	9,441,692	55,781,225	2,170,185
San Germano S.p.A.	Euro	52,440,781	6,657,609	81,316,756	(6,372,340)
Spezia Energy Trading S.r.l.	Euro	56,368,212	1,479,511	245,108,280	1,123,859
Studio Alfa S.p.A.	Euro	16,235,989	4,300,962	19,860,301	1,072,208
Territorio e Risorse S.r.l.	Euro	7,973,062	3,679,992	1,930,123	(60,913)
TRM S.p.A.	Euro	446,080,783	61,524,030	101,665,976	21,724,477

Joint ventures

Company	Currency	Total Assets	Shareholders' equity	Total revenue	Profit/loss
Acque Potabili S.p.A.	Euro	51,490,000	22,053,000	243,000	(690,000)
Olt Offshore Toscana LNG S.p.A.	Euro	904,983,870	61,425,282	141,659,522	280,154

Associates

Company	Currency	Total Assets	Shareholders' equity	Total revenue	Profit/loss
A2A Alfa S.r.l. (1)	Euro	252,405	99,921	-	(34,678)
Acos Energia S.p.A. (1)	Euro	12,045,637	4,981,826	20,721,833	1,155,444
Acos S.p.A. (1)	Euro	147,645,910	55,182,136	75,453,640	4,574,142
Acquaenna S.c.p.a. (1)	Euro	95,968,137	7,671,999	24,696,490	1,100,182
Aguas de San Pedro (1)	Lempiras	1,558,924,486	814,543,009	1,032,391,368	97,926,446
Aiga S.p.A. (1)	Euro	4,458,232	(542,413)	2,485,888	(339,187)
Amat S.p.A. (1)	Euro	33,991,201	2,674,823	8,189,731	(1,722,904)
Amter S.p.A. (1)	Euro	11,492,036	2,139,380	5,413,936	276,139
ASA S.p.A. (1)	Euro	289,691,753	81,302,816	113,860,659	468,577
ASTEVA S.p.A. (1)	Euro	163,265,539	104,881,565	48,935,285	4,514,175
Asti Energia e Calore S.p.A. (1)	Euro	5,816,955	489,475	1,116,327	116,430
BI Energia S.r.l. (1)	Euro	8,938,371	1,735,321	658,276	(73,023)
Campo Base S.r.l. (1)	Euro	367,072	15,510	266,616	(6,381)
CSP Innovazione nelle ICT S.c.r.l. (1)	Euro	2,201,220	443,936	2,071,859	7,619
Fin Gas S.r.l.	Euro	11,824,828	11,820,253	-	(56,648)
Fratello Sole Energie Solidali Impresa Sociale S.r.l. (1)	Euro	517,360	330,816	117,975	(19,184)
G.A.I.A. S.p.A. (1)	Euro	41,908,781	19,535,700	18,743,926	800,699
Global Service Parma (1)	Euro	5,577,478	20,000	4,343,554	-
Iniziative Ambientali S.r.l. (1)	Euro	5,726,632	1,163,689	-	16,785
Mondo Acqua (1)	Euro	10,695,783	1,680,400	5,431,703	(44,716)
Nord Ovest Servizi (1)	Euro	18,554,970	18,464,936	112,000	692,865
Plurigas S.p.A. (in liquidation)	Euro	4,619,881	2,680,416	607,046	532,949
Rio Riazzone S.p.A. (in liquidation) (2)	Euro	432,605	261,468	151,571	(9,538)
Seta S.p.A (1)	Euro	27,785,662	12,714,399	37,767,878	1,277,467
Sinergie Italiane S.r.l. (in liquidation) (3)	Euro	38,570,474	(3,052,986)	200,946,331	3,467,414
STU Reggiane S.p.A. (1)	Euro	23,089,892	9,781,899	4,169,747	1,187,883
Valle Dora Energia S.r.l.	Euro	11,209,368	2,742,415	276,130	(615,184)

(1) data at 31.12.2018

(2) data at 31.12.2017

(3) data at 30.09.2019

RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB Communication no. 6064293 dated 26 July 2006)

thousands of euro

IAS/IFRS STATEMENT OF FINANCIAL POSITION		RECLASSIFIED STATEMENT OF FINANCIAL POSITION	
Property, plant and equipment	3,600,408	Property, plant and equipment	3,600,408
Investment property	3,003	Investment property	3,003
Intangible assets	2,175,232	Intangible assets	2,175,232
Goodwill	172,677	Goodwill	172,677
Investments accounted for using the equity method	137,275	Investments accounted for using the equity method	137,275
Other equity investments	7,403	Other equity investments	7,403
Total (A)	6,095,998	Non-Current Assets (A)	6,095,998
Other non-current assets	35,490	Other non-current assets	35,490
Other payables and other non-current liabilities	(480,040)	Other payables and other non-current liabilities	(480,040)
Total (B)	(444,550)	Other non-current assets (liabilities) (B)	(444,550)
Inventories	71,789	Inventories	71,789
Non-current trade receivables	74,443	Non-current trade receivables	74,443
Trade receivables	905,628	Trade receivables	905,628
Current tax assets	18,851	Current tax assets	18,851
Other receivables and other current assets	305,296	Other receivables and other current assets	305,296
Trade payables	(887,062)	Trade payables	(887,062)
Other payables and other current liabilities	(306,735)	Other payables and other current liabilities	(321,477)
Current tax liabilities	(1,761)	Current tax liabilities	(1,761)
Total (C)	180,449	Net working capital (C)	165,707
Deferred tax assets	368,436	Deferred tax assets	368,436
Deferred tax liabilities	(204,538)	Deferred tax liabilities	(204,538)
Total (D)	163,898	Deferred tax assets (liabilities) (D)	163,898
Employee benefits	(106,420)	Employee benefits	(106,420)
Provisions for risks and charges	(415,260)	Provisions for risks and charges	(415,260)
Provisions for risks and charges - current portion	(118,302)	Provisions for risks and charges - current portion	(103,560)
Total (E)	(639,982)	Provisions and employee benefits (E)	(625,240)
Assets held for sale	354,193	Assets held for sale	1,293
- of which financial receivables from OLT Offshore LNG	352,900		
Liabilities related to assets held for sale	-	Liabilities related to assets held for sale	-
Total (F)	354,193	Assets (Liabilities) held for sale (F)	1,293
		Net invested capital (G=A+B+C+D+E+F)	5,357,106
Equity (H)	2,651,529	Equity (H)	2,651,529
Non-current financial assets	(148,051)	Non-current financial assets	(148,051)
Non-current financial liabilities	3,167,048	Non-current financial liabilities	3,167,048
Total (I)	3,018,997	Non-current financial debt (I)	3,018,997
Current financial assets	(75,807)	Current financial assets	(477,707)
		- of which financial receivables from OLT Offshore LNG	(352,900)
Cash and cash equivalents	(345,876)	Cash and cash equivalents	(345,876)
Current financial liabilities	461,163	Current financial liabilities	461,163
Total (L)	39,480	Current financial debt (L)	(313,420)
		Net financial debt (M=I+L)	2,705,577
		Own funds and net financial debt (H+M)	5,357,106

DEFERRED TAX ASSETS AND LIABILITIES FOR 2019

	initial	formation	differences Change consolid. scope	payment	remainder
Deferred tax assets					
Non-taxable provisions	522,362	3,666	171,161	125,273	571,917
Differences in value of fixed assets	650,151	5,600	106,995	205,796	556,950
Connection contributions	197,060	-	142,544	1,794	337,810
Derivatives	99,503	-	52,647	27,609	124,540
Tax losses carried forward + ACE	19,617	787	15,263	16,921	18,746
Other	120,785	571	18,304	91,876	47,784
Total taxable base/deferred tax assets	1,609,478	10,624	506,914	469,269	1,657,748
Deferred tax liabilities					
Differences in value of fixed assets	761,801	-	31,633	43,979	749,455
Provisions for impairment of receivables	20,624	-	-	14,000	6,624
Other provisions	2,736	-	62	261	2,536
Other	59,223	-	16,583	21,229	54,576
Total taxable base/deferred tax liabilities	844,384	-	48,278	79,469	813,192
Net deferred tax assets (liabilities)	765,094	10,624	458,637	389,800	844,555

DEFERRED TAX ASSETS AND LIABILITIES FOR 2018

	initial	formation	differences Change consolid. scope	payment	remainder
Deferred tax assets					
Non-taxable provisions	464,645	147,716	5,451	95,450	522,362
Differences in value of fixed assets	629,203	28,133	2,885	10,070	650,151
Connection contributions	-	186,570	12,190	1,700	197,060
Derivatives	77,760	30,124	6,452	14,833	99,503
Tax losses carried forward + ACE	-	22,725	1,660	4,768	19,617
Other	88,206	67,530	9,376	44,327	120,785
Total taxable base/deferred tax assets	1,259,814	482,798	38,014	171,148	1,609,478
Deferred tax liabilities					
Differences in value of fixed assets	700,319	87,641	24,639	50,798	761,801
Provisions for impairment of receivables	20,625	-	-	1	20,624
Other provisions	6,170	1,964	8	5,406	2,736
Other	34,559	27,777	2,971	6,084	59,223
Total taxable base/deferred tax liabilities	761,673	117,382	27,618	62,289	844,384
Net deferred tax assets (liabilities)	498,141	365,416	10,396	108,859	765,094

thousands of euro

Change consolid. scope	taxes				total
	taxes to inc. stat.	taxes to equity	IRES (corporate income tax):	IRAP (regional business tax)	
690	14,321	27	127,160	13,425	140,586
1,818	5,014	17	122,485	9,908	132,392
-	(230)	-	41,695	6,868	48,563
-	(2,041)	9,019	28,930	1,776	30,706
406	(749)	-	5,120	-	5,120
108	(20,974)	712	9,430	1,639	11,069
3,023	(4,659)	9,774	334,820	33,616	368,436
-	(6,722)	14	167,136	27,566	194,702
-	(3,373)	-	441	-	441
0	(9)	(47)	526	-	526
-	41	3,081	8,077	791	8,869
0	(10,063)	3,048	176,181	28,357	204,538
3,022	5,404	6,727	158,639	5,259	163,898

thousands of euro

Change consolid. scope	taxes				total
	taxes to inc. stat.	taxes to equity	IRES (corporate income tax):	IRAP (regional business tax)	
1,537	8,487	1,274	116,367	9,182	125,549
814	5,114	-	119,938	5,605	125,543
3,438	(7,257)	52,613	47,294	1,499	48,793
1,819	(3,912)	6,198	23,728	-	23,728
398	5,064	-	5,462	-	5,462
1,540	5,402	-	26,884	4,338	31,222
9,546	12,897	60,085	339,674	20,624	360,298
2,370	95	-	175,505	25,905	201,410
-	-	-	3,814	-	3,814
2	(2,422)	1,248	512	71	583
838	(4,338)	-	5,354	392	5,746
3,210	(6,665)	1,248	185,185	26,368	211,553
6,336	19,562	58,837	154,489	(5,744)	148,745

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Trade Receivables	Financial Receivables	Other receivables	Trade Payables	Financial payables
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	808	-	-	6,148	-
Municipality of Parma	12,286	-	-	1,220	-
Municipality of Piacenza	2,045	-	-	1,134	-
Municipality of Reggio Emilia	6,588	-	-	990	-
Municipality of Turin	90,636	134,989	-	3,382	3,867
Finanziaria Sviluppo Utilities	16	-	41	-	-
Finanziaria Città di Torino Holding	8	-	-	-	-
JOINT VENTURES					
OLT Offshore LNG	64	362,500	-	-	-
Acque Potabili	293	-	-	311	-
ASSOCIATES					
A2A Alfa	-	-	-	-	-
ACOS	29	5,451	-	-	-
ACOS Energia	7	-	-	-	-
Acquaenna	330	5,188	-	384	-
Aguas de San Pedro	2	855	-	-	-
AIGA	160	-	-	89	-
AMAT	29	-	-	-	-
AMTER	6,190	-	-	535	-
ASA	898	-	-	1	-
ASTEA	21	640	-	-	-
Asti Energia e Calore	56	732	-	-	-
Energy BI	35	792	-	-	-
Campo Base	4	62	-	1	-
CSP - Innovazione nelle ICT	-	-	-	149	-
Fratello Sole Energie Solidali	145	-	-	-	-
GAIA	784	-	-	1,617	-
Global Service Parma	3,705	-	-	4,339	-
Iniziative Ambientali	4	-	-	-	-
Mondo Acqua	947	-	-	-	-
Nord Ovest Servizi	7	-	-	-	-
Piana Ambiente in liquidation	70	-	-	-	-
Plurigas in liquidation	-	-	-	(259)	-
Rio Riazzone in liquidation	-	-	-	2	-
SETA	1,871	-	-	255	-
Sinergie Italiane in liquidation	21	-	6,901	5,484	-
STU Reggiane	14	492	725	-	-
Valle Dora Energia	298	6,372	-	353	-
OTHER RELATED PARTIES					
Subsidiaries of Municipality of Turin	2,046	-	22	3,472	-
Subsidiaries of Municipality of Genoa	1,899	-	84	477	1
Subsidiaries of Municipality of Parma	2,678	-	-	2,931	-
Subsidiaries of Municipality of Piacenza	25	-	-	571	-
Subsidiaries of Municipality of Reggio Emilia	166	-	-	1,778	-
Others	35	-	-	-	-
TOTAL	135,220	518,073	7,773	35,364	3,868

thousands of euro

	Other payables	Revenue and income	Costs and other charges	Financial income	Financial expense
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	1	1,424	7,206	-	-
Municipality of Parma	-	36,246	1,411	-	-
Municipality of Piacenza	-	18,512	2,060	-	-
Municipality of Reggio Emilia	-	35,275	674	1	-
Municipality of Turin	-	211,307	4,473	4,789	16
Finanziaria Sviluppo Utilities	-	31	-	-	-
Finanziaria Città di Torino Holding	-	8	-	-	-
JOINT VENTURES					
OLT Offshore LNG	-	25	-	12,964	-
Acque Potabili	-	64	(4)	-	-
ASSOCIATES					
A2A Alfa	-	1	-	-	-
ACOS	-	57	-	120	-
ACOS Energia	-	10	2	-	-
Acquaenna	-	-	-	77	-
Aguas de San Pedro	-	-	-	-	-
AIGA	-	4	-	16	-
AMAT	-	-	-	-	-
AMTER	-	3,470	333	1	-
ASA	-	425	79	194	-
ASTEA	-	28	2	-	-
Asti Energia e Calore	-	167	-	24	-
Energy BI	-	9	-	9	-
Campo Base	-	5	2	2	-
CSP - Innovazione nelle ICT	-	1	408	-	-
Fratello Sole Energie Solidali	-	482	-	-	-
GAIA	-	1,886	4,643	-	-
Global Service Parma	-	536	791	-	-
Iniziative Ambientali	-	4	-	-	-
Mondo Acqua	-	298	-	-	-
Nord Ovest Servizi	-	6	-	-	-
Piana Ambiente in liquidation	-	-	-	-	-
Plurigas in liquidation	-	-	-	-	-
Rio Riazzone in liquidation	-	-	35	-	-
SETA	-	7,683	835	-	-
Sinergie Italiane in liquidation	-	85	58,088	-	-
STU Reggiane	25	45	7	12	-
Valle Dora Energia	-	439	286	42	-
OTHER RELATED PARTIES					
Subsidiaries of Municipality of Turin	-	4,891	8,741	-	10
Subsidiaries of Municipality of Genoa	-	6,391	2,055	2	-
Subsidiaries of Municipality of Parma	132	2,933	3,985	-	-
Subsidiaries of Municipality of Piacenza	-	220	1,143	-	-
Subsidiaries of Municipality of Reggio Emilia	1	876	6,900	-	-
Others	-	44	-	-	-
TOTAL	159	333,888	104,155	18,253	26

LIST OF CONTRIBUTIONS PURSUANT TO ITALIAN LAW DECREE 34/2019 ART. 35

ACAM ACQUE

Disbursing body	Type of contribution	Amount in euro
Municipality of Riomaggiore (SP)	Grants for plant facilities	175,000

AMIAT

Disbursing body	Type of contribution	Amount in euro
Metropolitan City	Grants for development of separate waste collection project	1,029,301
City of Turin	Grants for development of separate waste collection project	962,182

IREN ACQUA

Disbursing body	Type of contribution	Amount in euro
Ministry of Infrastructures and Transport	Grants for plant facilities	1,100,000

IREN AMBIENTE

Disbursing body	Type of contribution	Amount in euro
Atesir	Grants for development of separate waste collection project	43,911

IRETI

Disbursing body	Type of contribution	Amount in euro
Emilia Romagna Region	Work on Distribution Networks	607,810
Fontanazzo Water Consortium	Work on Distribution Networks	322,028
Piedmont Region	Expansion of Treatment Plants	224,994
Port System Authority	Work on Distribution Networks	140,730
Municipality of Collecchio	Expansion of Treatment Plants	105,661
Piedmont Region	Work on Distribution Networks	89,129
Municipalities of Reggio	Work on Distribution Networks	68,970
Municipality of Stella	Work on Distribution Networks	50,000
Lower Parma area Union	Work on Distribution Networks	27,272
Ato 5 Asti area	Work on Distribution Networks	12,700

INDEPENDENT AUDITORS' FEES

Under the terms of Art. 149-*duodecies* of the Regulations implementing Italian Legislative Decree 58/1998, fees for the year due to PricewaterhouseCoopers S.p.A. can be summarised as follows:

thousands of euro

	Independent auditing services	Services other than independent auditing		Total
		Services for the purpose of issuing an attestation	Other services	
Iren S.p.A.	251	112	38	401
Direct and indirect subsidiaries of Iren S.p.A.	1,024	186	0	1,210
Total Iren Group	1,275	298	38	1,611

STATEMENT REGARDING THE CONSOLIDATED FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Massimiliano Bianco, Chief Executive Officer, and Massimo Levrino, Administration, Finance, Control and M&A Manager and Corporate Financial Reporting Manager of Iren S.p.A., hereby certify, also in view of the provisions of Art. 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in respect of the company's characteristics and
- the effective application during 2019 of the administrative and accounting procedures in preparing the consolidated financial statements.

2. It is also certified that:

2.1 the consolidated financial statements:

- a) are prepared in compliance with the applicable international accounting standards endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council, of 19 July 2002;
- b) correspond to the results of the books and account records;
- c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the situation of the issuer and of all companies included in the consolidation, together with a description of the major risks and uncertainties to which they are exposed.

25 March 2020

The Chief Executive Officer



Massimiliano Bianco

Administration, Finance, Control and M&A
Manager
and Financial Reporting Manager appointed
under Law 262/05



Massimo Levrino



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
Iren SpA

Report on the Audit of the Consolidated Financial Statements

Opinion

We have audited the consolidated financial statements of Iren SpA and its subsidiaries (the “Iren Group” or the “Group”), which comprise the statement of financial position as of 31 December 2019, the income statement, the statement of other comprehensive income, the statement of changes in shareholders’ equity, the statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Iren Group as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Consolidated Financial Statements* section of this report. We are independent of Iren SpA (the “Company”) pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d’Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311



Key Audit Matters

Audit procedures in response to key audit matters

Assessment of recoverability of goodwill

Notes to the consolidated financial statements at 31 December 2019: Note 4 “Goodwill”

Goodwill recognised in the consolidated financial statements of the Iren Group at 31 December 2019 amounts to Euro 172.7 million.

At least once a year the management of the Company performs an impairment test to assess the recoverability of goodwill, based upon the higher between fair value less cost to sell and value in use of each Cash Generating Unit (CGU) to which goodwill has been allocated. Such test is carried out verifying the recoverability of the net invested capital of which goodwill is a component. The value in use was determined by discounting future cash flows expected from each CGU in the 2020-2024 period, as well as their respective terminal values. These flows were extracted from economic and financial projections based on the Business Plan approved by the Board of Directors on 25 September 2019.

Goodwill is considered as a key audit matter due to its size and to the inherent estimate elements influencing the valuations made by the Directors on its recoverability.

The main estimate elements are linked to the correct definition and identification of the CGUs, of future cash flows for each CGU and their discounting rates.

We carried out a preliminary understanding and valuation of the impairment test procedures prepared by management and approved by the Board of Directors of Iren SpA on 27 February 2020, to assess compliance with the requirements of the international accounting standard IAS 36.

We analysed the reasonableness of the considerations made by management regarding the CGUs identified and the allocation of goodwill thereto, verifying the consistency with the structure of the Group and with the operating sectors in which it operates.

Our procedures then focused on a critical examination of the main assumptions behind the drawing up of the 2020-2024 Business Plan and of the discounting rates used; furthermore, specific sensitivity analyses were performed, aimed at evaluating the impact, on the results of the tests, of changes in the main parameters adopted.

Moreover, we also verified the overall mathematical correctness of the plan and of the impairment test model prepared by management, reviewing the method followed to obtain the discounting rate and the constant growth rate of cash flows beyond the plan’s time frame. We also verified the correct determination of the carrying values of assets and liabilities attributed to each CGUs, including the goodwill values allocated to them, used for the comparison with the

related value in use.

These activities were performed also involving experts belonging to the PwC network.

We verified the completeness and accuracy of the information provided in the notes in relation to this matter.

Determination of revenues accrued and not yet invoiced

Notes to the consolidated financial statements at 31 December 2019: Note 12 to the consolidated financial statements “Trade receivables” and Note 30 to the consolidated financial statements “Revenue from goods and services”

The consolidated financial statements of the Iren Group at 31 December 2019 show revenue from goods and services amounting to Euro 4,081.3 million, which include accruals for invoices to be issued which were recognised among the assets for an amount of Euro 518 million.

Revenues from goods and services are recognised when the control over the good is actually transferred or when the service is rendered. They are valued at the fair value of the amounts received or due, considering any trade discounts or quantity reductions.

The above mentioned amounts include the estimate of revenues accruing for services provided between the date of the latest meter readings and the closure of the accounting period.

The recognition of these revenue items and of the related invoices to be issued was deemed as a key audit matter, in particular for what concerns the sale of electricity and gas, the distribution of electricity and gas as well as the supply of the integrated water service, as the ways of

We conducted our audit procedures in order to obtain an adequate understanding and valuation of both manual and automatic key controls behind the billing procedure, focusing - in particular, but not only - on meter readings, consumption estimates, determination of tariffs and the valuation of invoices.

With reference to the method to estimate accrued income we performed the following procedures:

- understanding and analysis of the dedicated IT application (*Tool Calcolo Ricavi* or “TCR”), which enables the availability and the analysis of the consumption data (invoiced and to be invoiced) according to the relevant period and by each withdrawal and/or redelivery point through the verification of the efficacy of the controls implemented by the company’s management;
- analysis and validation of the effects that the estimate model of the TCR had on the



determining the allocations are based on complex algorithms and entail a significant estimation element.

financial statements at 31 December 2019.

With reference to the single type of revenue, we verified:

1. *For revenue from the sale of electricity, gas and heat*
 - The agreement, on a sample basis, between the consumption periods invoiced and the estimated and/or actual meter readings from the billing systems;
 - The consistency of the unit price with the tariffs in effect at the time;
 - The verification of the agreement of the quantities of heat sold by the Group with the data contained in the printouts on heat production of each plant of the Energia business unit;
 - The correct valuation of electricity, gas and heat quantities delivered based on the tariffs in line with the market trends and the tariffs set by the Regulatory Authority for Energy, Networks and the Environment (“ARERA”).
2. *For revenue from gas distribution*
 - The verification of the agreement of the gas quantities used by the company to determine receivables for invoices to be issued, with the data communicated by the party in charge of the transport and dispatching;
 - The correct valuation of gas amounts yet to be invoiced, based upon the tariffs in force in the period under analysis;
 - The correct calculation of the balances related to the gas equalisation, through the comparison of the actual revenues with the admissible revenues for the year based on the ARERA resolutions.
3. *Revenue from electricity distribution*
 - The verification of the agreement of the electricity amounts used by the company to determine the receivables for invoices to be issued with the data communicated

-
- by the dispatchers adjusted to reflect grid losses;
- The correct valuation of electricity amounts yet to be invoiced, based upon the tariffs in force in the period under analysis;
 - The correct determination of the balances related to the electricity equalisation through the comparison of actual revenues with the regulatory revenues for the year, based on the AREGA resolutions.
4. *Revenue from the provision of the integrated water service*
- The verification of the agreement of sales revenue with the guaranteed revenues restriction limit (“VRG”) envisaged in the tariff plan concerning the second regulatory period 2016-19 approved by the relevant authorities;
 - The correct determination of receivables for invoices to be issued, by comparing the invoices issued and the VRG;
 - The correct determination of invoices issued through the validation of the operating effectiveness of the invoicing system, on the basis of sample inspections carried out to check the correct apportionment of tariffs.

Valuations on the recoverability of receivables

Notes to the consolidated financial statements at 31 December 2019: Note 7 to the consolidated financial statements “Non-current trade receivables”, Note 8 to the consolidated financial statements “Non-current financial assets - Non-current financial receivables from related-party shareholders”, Note 12 to the consolidated financial statements “Trade receivables– Net receivables from customers” and Note 15 to the consolidated financial statements “Current financial assets - Financial receivables from

related-party shareholders”

The consolidated financial statements at 31 December 2019 showed non-current trade receivables for Euro 74.4 million, current and non-current financial receivables from related-party shareholders for Euro 219.5 million, net receivables from customers for Euro 784.9 million net of a provision for impairment of receivables amounting to Euro 192.2 million.

The value of the abovementioned receivables includes Euro 225.6 million related to receivables from the Municipality of Turin.

Management periodically estimates the value of uncollectable trade receivables based on the analysis of the single specific credit positions and on calculation models that consider many variables like, for example, the type of customer, the age of receivables, historical data on collection performances modified in order to take into account the forward looking information on the customers being evaluated, in accordance with the provisions of IFRS 9 “Financial instruments”.

The determination of the collectability of the receivables was deemed as a key audit matter, considering the total value of the receivables analysed and the specific complexity related to the estimate of the recoverability of receivables that as for the retail part is also linked to the large number of customers and to the fragmentation of the amounts to be collected; in addition, this estimate is based upon valuation assumptions influenced by socio-economic variables which are difficult to foresee or attribute to the various classes of customers.

We directed our audit procedures in order to obtain an adequate understanding and valuation of the internal control system with reference to the corporate processes concerning the management of receivables as well as the correctness and completeness of the reports generated by the IT systems used to determine the provision for impairment of receivables (in particular with reference to clusters of customers and to segmentation of their balances by due date).

Subsequently, by interviewing the credit managers of the Group and of its companies and through an analysis of the replies received from lawyers as well as of any other information collected after the reporting date, we validated the information and the assumptions behind the calculation model.

Finally, to evaluate the reasonableness of the estimates on the recoverability of receivables we validated the consistency of the method adopted by the company with the provisions set forth in IFRS 9, on the basis of the expected credit losses model and the accuracy of the related mathematical calculation to determine the credit risk.

With reference to the receivable from the Municipality of Turin we:

- Performed an analysis of the contracts in force between the parties, with the aim of assessing their consistency with the accounting treatment of receivables at 31 December 2019, including the relevant classification under trade or financial items;
 - Requested the Municipality of Turin to confirm in writing the year-end balances, to validate their existence and obtain useful information for the assessment of their recoverability;
-

-
- Verified that the maximum amount provided for by the arrangement between the parties signed on 12 July 2019 was not exceeded.

Finally, we verified the completeness and accuracy of the information provided in the notes in relation to the abovementioned receivables.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Group's ability to continue as a going concern and, in preparing the consolidated financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the consolidated financial statements, management uses the going concern basis of accounting unless management either intends to liquidate Iren SpA or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible for overseeing, in the terms prescribed by law, the Group's financial reporting process.

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the consolidated financial statements.



As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the consolidated financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We obtained sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion on the consolidated financial statements.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.



From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.

Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 14 May 2012, the Shareholders of Iren SpA in general meeting engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the consolidated financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation (EU) No 537/2014.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Iren SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Iren Group as of 31 December 2019, including their consistency with the relevant consolidated financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the consolidated financial statements of the Iren Group as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the consolidated financial statements of the Iren Group as of 31 December 2019 and are prepared in compliance with the law.



With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Iren Group and its environment obtained in the course of the audit, we have nothing to report.

Declaration pursuant to Article 4 of the Consob Regulation implementing Legislative Decree 30 December 2016, No. 254

The directors of Iren SpA are responsible for the preparation of the consolidated non-financial statement pursuant to Legislative Decree 30 December 2016, No. 254. We verified the approval of the consolidated non-financial statement by the directors.

Pursuant to Article 3, paragraph 10 of Legislative Decree 30 December 2016, No. 254, this consolidated non-financial statement is the subject of a separate attestation of conformity by ourselves.

Genoa, 8 April 2020

PricewaterhouseCoopers SpA

Signed by

Andrea Manchelli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers



The background of the top half of the page is a solid blue color. Overlaid on this are several horizontal, wavy bands of varying shades of blue, creating a layered, wave-like effect. The bottom half of the page is a plain white background.

Separate Financial Statements
and Notes to the Financial Statements
at 31 December **2019**

STATEMENT OF FINANCIAL POSITION

				Amounts in euro	
	Notes	31.12.2019	of which related parties	31.12.2018	of which related parties
ASSETS					
Property, plant and equipment	(1)	144,816,275		23,085,900	
Intangible assets with a finite useful life	(2)	61,446,904		50,371,646	
Investments in subsidiaries, associates and joint ventures	(3)	2,564,031,856		2,564,031,856	
Other equity investments	(4)	150,000		100,000	
Non-current financial assets	(5)	1,810,266,376	1,809,533,137	1,620,371,397	1,620,020,383
Other non-current assets	(6)	1,871,797	41,520	10,660,177	41,520
Deferred tax assets	(7)	13,705,282		13,761,404	
Total non-current assets		4,596,288,490		4,282,382,380	
Inventories	(8)	3,040,506		1,751,240	
Trade receivables	(9)	114,160,508	113,429,174	109,603,041	108,277,050
Current tax assets	(10)	7,722,447		2,334,425	
Other receivables and other current assets	(11)	142,037,994	73,763,757	122,274,731	55,051,339
Current financial assets	(12)	382,342,933	382,210,459	418,642,544	418,394,950
Cash and cash equivalents	(13)	239,114,582		256,778,289	
Total current assets		888,418,970		911,384,270	
Assets held for sale	(14)	240,000		240,000	
TOTAL ASSETS		5,484,947,460		5,194,006,650	

				Amounts in euro	
	Notes	31.12.2019	of which related parties	31.12.2018	of which related parties
EQUITY					
Share capital		1,300,931,377		1,300,931,377	
Reserves and Retained Earnings (Losses)		365,813,716		362,928,049	
Net profit (loss) for the period		241,413,435		125,927,825	
TOTAL EQUITY	(15)	1,908,158,528		1,789,787,251	
LIABILITIES					
Non-current financial liabilities	(16)	2,835,231,430		2,676,601,623	
Employee benefits	(17)	18,161,714		18,283,912	
Provisions for risks and charges	(18)	18,058,011		36,750,095	
Deferred tax liabilities	(19)	945,186		1,005,162	
Other payables and other non-current liabilities	(20)	10,774,267	8,498,580	10,595,368	8,498,580
Total non-current liabilities		2,883,170,608		2,743,236,160	
Current financial liabilities	(21)	487,041,681	106,893,880	486,257,662	142,489,632
Trade payables	(22)	95,271,458	15,795,863	67,782,253	10,163,199
Other payables and other current liabilities	(23)	110,113,763	87,212,360	81,210,678	56,430,154
Current tax liabilities	(24)	-		23,720,674	
Provisions for risks and charges - current portion	(25)	1,191,422		2,011,972	
Total current liabilities		693,618,324		660,983,239	
Liabilities related to assets held for sale					
TOTAL LIABILITIES		3,576,788,932		3,404,219,399	
TOTAL EQUITY AND LIABILITIES		5,484,947,460		5,194,006,650	

INCOME STATEMENT

Amounts in euro

	Notes	Financial Year 2019	of which related parties	Financial Year 2018	of which related parties
Revenue					
Revenue from goods and services	(26)	198,928,801	198,146,604	179,288,358	176,646,615
Other income	(27)	14,711,599	13,158,671	11,849,870	7,311,143
Total revenue		213,640,400		191,138,228	
Operating expenses					
Raw materials, consumables, supplies and goods	(28)	(34,947,277)	(416,179)	(17,790,361)	(116,581)
Services and use of third-party assets	(29)	(112,745,453)	(17,423,459)	(106,372,309)	17,380,496
Other operating expenses	(30)	(7,869,536)	(949,423)	(7,202,430)	(1,094,977)
Capitalised expenses for internal work	(31)	24,438,339		10,368,710	
Personnel expense	(32)	(70,046,282)	(819)	(78,239,126)	(99,490)
Total operating expense		(201,170,209)		(199,235,516)	
GROSS OPERATING PROFIT (EBITDA)		12,470,191		(8,097,288)	
Depreciation, amortisation, provisions and impairment losses					
Depreciation and amortisation	(33)	(26,601,941)		(14,945,095)	
Provisions for impairment of receivables	(34)	(350,000)		(9,600,000)	
Other provisions and impairment losses	(34)	8,126,682		(55,261)	
Total amortisation, depreciation, provisions and impairment losses		(18,825,259)		(24,600,356)	
OPERATING PROFIT (EBIT)		(6,355,068)		(32,697,644)	
Financial income and expenses					
Financial income	(35)	331,643,790	329,339,687	265,479,861	263,735,314
Financial expense		(87,109,585)	(84,084)	(126,830,493)	(86,800)
Total financial income and expense		244,534,205		138,649,368	
Value adjustments on equity investments	(36)	-		-	
Profit (loss) before tax		238,179,137		105,951,724	
Income tax expense	(37)	3,234,298		19,976,101	
Net profit (loss) from continuing operations		241,413,435		125,927,825	
Net profit (loss) from discontinued operations					
Net profit (loss) for the period		241,413,435		125,927,825	

STATEMENT OF OTHER COMPREHENSIVE INCOME

		Amounts in euro	
	Notes	Financial Year 2019	Financial Year 2018
Profit/(loss) for the period (A)		241,413,435	125,927,825
Other comprehensive income to be subsequently reclassified to the Income Statement	(38)		
- effective portion of changes in fair value of cash flow hedges		(5,513,168)	(1,168,489)
- changes in fair value of available-for-sale financial assets			
Tax effect of other comprehensive income		1,323,160	280,437
Total other comprehensive income, net of tax effect (B1)		(4,190,008)	(888,052)
Other comprehensive income which will not be subsequently reclassified to the Income Statement			
- actuarial gains/(losses) on employee defined benefit plans (IAS 19)		(1,056,627)	301,581
Tax effect of other comprehensive income		253,590	(198,553)
Total other comprehensive income, net of tax effect (B2)		(803,037)	103,028
Total comprehensive income/(expense) (A)+(B1)+(B2)		236,420,390	125,142,801

STATEMENT OF CHANGES IN EQUITY

	Share capital	Share premium reserve	Legal reserve
31/12/2017	1,276,226	105,102	49,998
Legal reserve			8,348
Dividends to shareholders			
Retained earnings			
Other changes	24,706	27,917	
Total profit (loss) for the period			
of which:			
- Net profit/(loss) for the period			
- Other comprehensive income			
31/12/2018	1,300,932	133,019	58,346
Legal reserve			6,296
Dividends to shareholders			
Retained earnings			
Purchases of treasury shares			
Other changes			
Total profit (loss) for the period			
of which:			
- Net profit/(loss) for the period			
- Other comprehensive income			
31/12/2019	1,300,932	133,019	64,642

thousands of euro

Cash flow hedging reserve	Available for Sale reserve	Other reserves and retained earnings (losses)	Total reserves and retained earnings (losses)	Profit (loss) for the period	Equity
(4,262)	-	109,065	259,903	166,957	1,703,086
			8,348	(8,348)	-
			-	(91,065)	(91,065)
		67,544	67,544	(67,544)	-
(888)		103	27,917	125,928	52,623
			(785)	125,928	125,143
			-	125,928	-
(888)		103	(785)		125,928
					(785)
(5,150)	-	176,712	362,927	125,928	1,789,787
			6,296	(6,296)	-
			-	(108,994)	(108,994)
		10,638	10,638	(10,638)	-
		(9,054)	(9,054)	-	(9,054)
			-	-	-
(4,190)		(803)	(4,993)	241,413	236,420
			-	-	-
			-	241,413	241,413
(4,190)		(803)	(4,993)		(4,993)
(9,340)	-	177,493	365,814	241,413	1,908,159

STATEMENT OF CASH FLOWS

thousands of euro

	Financial Year 2019	Financial Year 2018
A. Opening balance of cash and cash equivalents and centralised treasury management	1,733,451	1,386,013
Cash flows from operating activities		
Profit (loss) for the period	241,413	125,928
Adjustments:		
Income tax expense for the period	(3,234)	(19,976)
Net financial expense (income)	(244,534)	(138,650)
Amortisation of intangible assets and depreciation of property, plant and equipment	26,602	14,945
Net impairment losses (reversals of impairment losses) on assets	-	-
Net provisions for risks and other charges	(10,556)	17,424
Capital (gains) losses	1,815	5
Utilisations of employee benefits	(1,494)	(2,653)
Utilisations of provisions for risks and other charges	(8,557)	(2,968)
Change in other non-current assets and liabilities	8,967	(699)
Other changes in capital	-	52
Taxes received (paid)	15,552	8,862
B. Cash flows from operating activities before changes in NWC	25,974	2,270
Change in inventories	(1,289)	(915)
Change in trade receivables	(4,908)	14,322
Change in tax assets and other current assets	(62,512)	(9,199)
Change in trade payables	27,490	(4,225)
Change in tax liabilities and other current liabilities	31,798	(6,232)
C. Cash flows from changes in NWC	(9,421)	(6,249)
D. Cash flows from/(used in) operating activities (B+C)	16,553	(3,979)
Cash flows from/(used in) investing activities		
Investments in property, plant and equipment and intangible assets	(46,681)	(27,156)
Investments in financial assets	(50)	-
Proceeds from the sale of investments and changes in assets held for sale	756	-
Change in company perimeter	-	(53,794)
Dividends received	266,515	200,560
E. Total cash flows from /(used in) investing activities	220,540	119,610
F. Free cash flow (D+E)	237,093	115,631
Cash flows from /(used in) financing activities		
Capital increase	-	52,623
Purchases of treasury shares	(9,054)	-
Dividends paid	(108,975)	(91,065)
New non-current loans	530,000	580,000
Repayment of non-current loans	(520,884)	(301,968)
Change in financial payables for leasing	(7,201)	(258)
Change in other financial liabilities	41,019	(35,055)
Change in financial receivables	80,429	57,236
Interest paid	(90,710)	(94,220)
Interest received	50,320	64,514
G. Total cash flows from /(used in) financing activities	(35,056)	231,807
H. Cash flows for the period (F+G)	202,037	347,438
I. Closing balance of cash and cash equivalents and centralised treasury management (A+H)	1,935,488	1,733,451
L. Current balance of centralised treasury management - subsidiaries	(1,696,373)	(1,476,673)
M. Closing cash and cash equivalents (I+L)	239,115	256,778

NOTES TO THE FINANCIAL STATEMENTS

INTRODUCTION

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

Iren S.p.A. is structured after the model of an industrial holding, with registered office in Reggio Emilia, at Via Nubi di Magellano 30, and operating offices in Genoa, Parma, Piacenza, Turin, Vercelli and La Spezia, as well as companies responsible for the single business lines.

Through its subsidiaries, Iren S.p.A. operates, in fact, in the following business segments:

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

I. CONTENT AND STRUCTURE OF THE FINANCIAL STATEMENTS

These financial statements are the separate financial statements of the Parent Company Iren S.p.A. and have been prepared in accordance with the International Financial Reporting Standards (“IFRSs”) issued by the International Accounting Standards Board (“IASB”) and endorsed by the European Union, as well as with the provisions set forth in implementation of Art. 9 of Italian Legislative Decree No. 38/2005. The “IFRSs” also include all the revised international accounting standards (“IASs”/“IFRSs”) and all interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”), previously known as the Standing Interpretations Committee (“SIC”).

In drawing up these financial statements, the same accounting standards were applied as those adopted for the Financial Statements at 31 December 2018, with the exceptions highlighted in the section “Accounting standards, amendments and interpretations effective from 1 January 2019”.

The separate financial statements at 31 December 2019 consist of a statement of financial position, an income statement, a statement of other comprehensive income, a statement of changes in equity, a statement of cash flows and these notes.

The financial statement formats adopted in preparing these financial statements are the same as those applied in preparing the financial statements at 31 December 2018, with the exception of the Statement of Cash Flows to which has been added the item “Change in financial liabilities for leases”.

In line with what was previously published, in the statement of financial position, assets and liabilities are classified as “current/non-current”. Assets and liabilities classified as discontinued or held for sale are shown separately. Current assets, which include cash and cash equivalents, are those that will be realised, transferred or consumed during the company’s ordinary operating cycle or during the twelve months following year end. Current liabilities are those for which settlement is envisaged during the company’s ordinary operating cycle or during the twelve months following year end.

The Income Statement is classified on the basis of the nature of the costs. In addition to the Operating Profit (EBIT), the Income Statement also shows the Gross Operating Profit (EBITDA) obtained by deducting total operating expense from total revenue.

The indirect method is used in the cash flow statement. The cash configuration analysed in the cash flow statement includes cash on hand and cash in current accounts.

The financial statements have been drawn up on the basis of the historical cost principle, except for certain financial instruments measured at fair value.

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

These separate financial statements are stated in euro, the company's functional currency. Data included in the notes, unless otherwise specified, are expressed in thousands of euro.

Lastly, in accordance with CONSOB Resolution No. 15519 of 27 July 2006 regarding the format of financial statements, specific additional columns have been added to the Income Statement and the Statement of Financial Position to highlight transactions with related parties.

II. ACCOUNTING STANDARDS AND MEASUREMENT CRITERIA

The criteria adopted in drawing up the annual financial statements at 31 December 2019 of Iren S.p.A. are indicated below; the aforesaid accounting standards have not changed with respect to those adopted at 31 December 2018, except for those indicated in the section "Accounting standards, amendments and interpretations effective from 1 January 2019".

Property, plant and equipment

- Property, plant and equipment owned

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

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

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

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

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

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

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

The rates applied are set out below. The tables also show the residual durations of the leasing contracts on the basis of which the rights of use recognised among property, plant and equipment are depreciated:

Item	Min. rate	Max. rate
Buildings	3.00%	7.00%
Vehicles	20.00%	25.00%
Sundry equipment	10.00%	10.00%
Furniture and office machines	12.00%	12.00%
Hardware	20.00%	20.00%
Plants	6.00%	10.00%

	Years	
	from	to
Rights of use IFRS 16 - Leases	2	44

The corporate Information Technology system conserves all details needed to identify the aforesaid rates.

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

- Leased assets

Starting from 1 January 2019 leased assets are governed by IFRS 16. The new standard, published by the IASB on 13 January 2016, replaced IAS 17 - *Leases*, as well as the interpretations IFRIC 4 - *Determining whether an Arrangement contains a Lease*, SIC 15 - *Operating Leases - Incentives* and SIC 27 - *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

IFRS 16 provides a new definition of "lease", which is irrespective of the contractual form adopted (leasing, rental or hire), introducing a criterion based on control (right of use) of an asset to distinguish leasing contracts from contracts for services. The discriminants are: the identification of the asset, the right to replace the same, the right to obtain substantially all the economic benefits deriving from use of the asset and the right to direct the use of the asset underlying the contract. On the lessee's part, in practice the new standard marks the end of the distinction between operating leases and financial leases, providing for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value.

The leasing liability is initially measured at the present value of the payments due for the leasing, primarily the fixed and/or variable payments contractually provided for and the exercise price of the option if there is the reasonable certainty of exercising it; subsequently the liability is reduced by the principal repaid and possibly redetermined to take account of new valuations or changes.

The right of use of the asset underlying the leasing contract is recognised under property, plant and equipment at cost, consisting of the initial measurement of the financial liability increased by any initial costs incurred. The asset is depreciated over the duration of the lease or, if the transfer of ownership at the end of the lease is provided for, over the expected useful life of the underlying asset. The asset may also be reduced as the result of any impairment losses, and adjusted to take into account any redeterminations of the leasing liability.

In the income statement interest on the debt and depreciation are recognised separately, as is any impairment of the asset consisting of the right of use.

On the lessor's part instead the distinction between operating leases and finance leases remains. Assets transferred in financial leasing are excluded from property, plant and equipment, while the related financial receivable is recognised in the statement of financial position. Its value decreases over time in line with collection of the relevant principal. Interest income on receivables is recognised in the income statement based on the repayment plan.

Investment property

Investment property is initially measured at purchase or construction cost. Such cost includes the purchase price and any directly attributable expenditure. The related transaction costs are recognised among the property costs, when purchase is recognised. Real estate investments are measured at cost in the following evaluation.

Expenses incurred after the purchase or completion of a property intended as an investment property increase the initial cost of the asset, if the company is likely to obtain higher future benefits than those previously estimated, thanks to these expenses. Otherwise, such costs are charged to the income statement.

Investment property is depreciated systematically annually on a straight-line basis using rates held to represent the residual useful life of the relevant asset.

Intangible assets

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

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

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

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

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

If even one of these requirements is not met, the costs in question are fully recognised in the income statement in the period in which they are incurred.

Industrial patents and similar rights are amortised, as are other intangible assets, on a straight-line basis over five years.

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

Assets under development and payments on account relate to internal and external costs referring to intangible assets for which the company has not yet acquired the right to and has not started to use in production. These investments are amortised from the date they begin to be used in production.

Under IAS 36, assets under development are tested for impairment annually, or whenever there is any indication of impairment, so as to check that the carrying amount matches the recoverable amount.

Goodwill

Goodwill is initially recognised at cost. It represents the difference between the cost of the acquisition and the value of non-controlling interests and the net fair value referred to the identifiable assets, and current 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.

Goodwill is allocated to one or more cash-generating units and is not amortised, but is annually tested for impairment or more frequently if specific events or changes in circumstances indicate that impairment may have taken place (see section on “Impairment losses on non-financial assets”).

Non-current assets held for sale - Discontinued operations

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

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

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

If a single non-current asset is involved (e.g. a property or an investment in an associate), the recognition of profit or loss from the disposal or valuation depends on the nature of the asset.

If it is a discontinued operation and is a material component of the item “Net profit/loss from discontinued operations”, a single amount is recorded represented by the total of:

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

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

Impairment losses on non-financial assets

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

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

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

Financial instruments

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

- Financial assets and liabilities

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

Financial assets are classified in three categories: a) financial assets carried at amortised cost; b) financial assets carried at fair value through other comprehensive income (FVOCI); c) financial assets carried at fair value through profit or loss (FVTPL).

The classification within the categories indicated above is made on the basis of the entity's business model and in relation to the characteristics of the cash flows generated by the said assets:

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

At each reporting date all financial assets, with the exception of those measured at fair value recognised in profit (loss) for the period, are subjected to an impairment test to determine whether there is objective evidence that can lead to the belief that the value of the asset is not fully recoverable. In accordance with what is provided for in IFRS9 the impairment model adopted by the Iren group is based on *expected losses*, where "loss" means the present value of all future lost revenue, opportunely integrated to take into account future expectations ("forward-looking information"). In accordance with the general approach applicable to all financial assets, the expected loss is a function of the probability of default (PD), of the loss given default (LGD) and of the exposure at default (EAD): the PD represents the probability that an asset will not be repaid and will go into default; the LGD represents the amount expected to be non-recoverable if the default event occurs; the EAD represents the receivable exposure claimed against the counterparty, including any guarantees, collateral, etc. The estimate is made initially on the expected losses in the next 12 months; in consideration of any gradual deterioration of the receivable the estimate is adjusted to cover the expected losses along the whole life of the receivable.

Financial liabilities are generally classified as measured at amortised cost, with the exception of derivatives which are measured at fair value recognised in profit (loss) for the period. Changes in the fair value of a financial liability designated as measured at fair value through profit or loss, if these are due to a change in the creditworthiness of the liability itself are recognised under other comprehensive income.

- *Equity investments in subsidiaries and associates*

Investments in subsidiaries and associates are measured at cost. In the event of impairment, the carrying amount of the investment is written down. The impairment loss is recognised in the income statement.

- *Other equity investments*

Other equity investments, consisting of non-controlling interests in unlisted companies that the Company intends to keep in its portfolio in the near future, are measured at fair value through profit or loss (FVTPL).

- *Hedging instruments*

Iren holds hedging instruments, acquired for non-speculative purposes, solely to hedge its exposure to interest rate and exchange rate risks.

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

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

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

At each reporting date, hedging instruments are tested for effectiveness to check whether the hedge still meets the requirements for designation as effective and can be recognised using hedge accounting. A hedging relationship is effective if:

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

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

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

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

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

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

- Trade receivables and payables

Trade receivables and payables, with repayment dates that are in line with normal commercial practices, are not discounted as the time value of money is not material for their measurement, and are recognised at fair value (equal to their nominal amount). After initial recognition they are measured at amortised cost.

Trade receivables are shown net of provisions for impairment of receivables determined, in accordance with IFRS 9, applying, instead of the general approach, valid for all financial assets with the exception of those measured at fair value through profit (loss) for the period, the simplified approach and, more specifically, the provision matrix model, which is based on identifying the default rates by maturity bands observed on a historical basis, applied for the entire expected life of the receivable and updated on the basis of significant future scenario elements.

- Cash and cash equivalents

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

Cash and cash equivalents, including ancillary charges, are measured at fair value.

Cash on hand and revenue stamps are measured at their nominal amount.

Inventories

Inventories 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 weighted average cost method.

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

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

Shareholders' equity

Share capital, including the various categories of shares, is stated at its nominal amount less share capital proceeds to be received.

The purchase cost of treasury shares is recognised as a reduction in equity.

Costs directly attributable to share capital transactions, for new subscriptions, are accounted for reducing equity.

Dividends are recognised as payables when they are approved by the Shareholders.

Employee benefits

Post-employment benefits are defined according to plans which, based on their characteristics, are separated into "defined contribution" and "defined benefit" plans.

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

The liability relating to defined benefit plans, net of any plan assets, is calculated according to actuarial assumptions. For the company, included in this category are post-employment benefits accrued until 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the tariff discounts for employees and former employees, additional monthly salaries (Art. 47, national labour agreement for the sector), the loyalty bonus paid to employees and contributions paid to the Premungas fund.

The present value of the liability is calculated for each employee using the projected unit credit method. The total liability is calculated by estimating the amount payable on termination of the employment relations, taking into account economic, financial and demographic factors. This amount is recognised on a proportional basis over the period of service matured. For post-employment benefits accrued at 31 December 2006 (or the date chosen by the employee if opting for allocation to supplementary funds), the proportional basis is not applied because at the reporting date the benefits can be considered accrued in full.

The demographic, economic and financial variables are validated annually by an independent actuary.

As regards presentation in the financial statements, the changes in liabilities connected with the obligation related to a defined benefit plan are broken down into three components:

- 1) operating (service costs), personnel expenses;
- 2) financial (finance costs), net interest income/expense;
- 3) measuring (remeasurement costs), actuarial gains/losses.

Gains and losses deriving from actuarial calculations regarding post-employment benefits are immediately recognised in Other comprehensive income, except for the loyalty bonus which is entirely recognised in the Income Statement.

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

Provisions for risks and charges

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

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

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

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

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

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

Revenue

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

For correct recognition of revenue from contracts with customers, reference is made to what is laid down in IFRS 15 which provides for a revenue recognition model based on 5 steps:

1. identify the contract with the customer. By contract is meant a commercial agreement approved by two or more parties that creates enforceable rights and obligations. A contract is identified when all of the following conditions are met: a) the parties have approved the contract (in writing or according to usual commercial practices); b) it is possible to identify the customer's rights as regards the goods or services that must be transferred; c) the payment terms are identifiable; d) the contract has

commercial substance; e) it is probable that the price will be collected (only the customer's ability and intention to pay are considered);

2. identify the "Performance Obligations" contained in the contract. Activities carried out to execute the contract, such as administrative formalities for preparing the contract itself, do not transfer separate goods and services to the customer, and therefore do not represent performance obligations. Non-refundable initial expenses charged to the customer are not revenue unless they refer to separate goods and services.

If in a contract an entity gives the customer an option to purchase future goods and services, this option constitutes a separate performance obligation only if it gives the customer a benefit that the customer would not have been able to obtain in another way, for example a discount higher than those typically given for those particular goods or services. An option to purchase goods or services at a price that reflects its stand-alone selling price, is not a separate performance obligation even if it can be obtained only by signing the contract in question;

3. determine the "Transaction Price". In order to determine the transaction price it is necessary to consider, among other things, the following elements: a) any amounts collected on behalf of third parties, which must be excluded from the price; b) variable components of the price (such as performance bonuses, penalties, discounts, refunds, incentives, etc.); c) financial component, if the payment terms grant the customer a significant extension;
4. allocate the price to the Performance Obligations on the basis of the "Relative Stand Alone Selling Price";
5. recognise revenue when the Performance Obligation is satisfied. The asset or service is transferred when the customer obtains control over the asset or service and that is when it has the ability to decide and/or direct its use and obtain substantially all its benefits. The transfer of control, and consequently the recognition of revenue may occur at a certain point in time or over time.

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

Grants related to assets and grants related to income

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

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

Other income

Other income includes all kinds of revenue not included in the previous types and not of a financial nature.

Income is measured at the fair value of the price received or due and is recognised when:

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

Costs for the purchase of goods and services

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

Financial income and expenses

Financial income and expenses are recognised when they accrue on the basis of the interest earned on the net amount of the related financial assets and liabilities using the effective interest rate.

Financial expenses directly attributable to the acquisition, construction or production of a plant are capitalised when:

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

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

Income tax expense

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

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

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

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

Deferred tax assets and liabilities are calculated at the tax rates that are expected to apply for the year in which the differences will be paid.

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

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

Translation criteria

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

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS APPLIED FROM 1 JANUARY 2019

As of 1 January 2019, the following accounting standards and amendments to accounting standards, issued by the IASB and endorsed by the European Union, are obligatorily applicable:

IFRS 16 – Leases. The standard, published by the IASB on 13 January 2016 and endorsed with Reg. (EU) 2018/1986 of 31 October 2018, replaced IAS 17 - *Leases*, as well as the interpretations IFRIC 4 - *Determining whether an Arrangement contains a Lease*, SIC 15 - *Operating Leases - Incentives* and SIC 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

As better illustrated in the paragraph on the accounting standards applicable to Assets under finance lease in the context of Property, plant and equipment, IFRS 16 provides a new definition of lease, which is irrespective of the contractual form adopted (leasing, rental or hire) and in practice marks the end of the distinction between operating leasing and financial leasing. On the lessee's part, the new standard provides for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value; in the income statement depreciation and interest expense must be recognised separately. On the lessor's part the impact on the financial statements consists only of greater disclosure.

Application in the Iren Group took effect starting from 1 January 2019. On the basis of the analyses carried out the contracts in which Iren plays the role of lessee refer mainly to property leasing and long-term hires of cars and other motor vehicles.

In accordance with the provisions of IFRS 16.C3 the Iren Group decided to apply the standard to contracts previously classified as leases in accordance with IAS 17 - *Leases* and IFRIC 4 - *Determining Whether an Arrangement Contains a Lease*, instead of redetermining whether or not a contract is or contains a lease.

For the leases previously classified as operating leases, as practical expedients provided for in the transitional provisions of IFRS 16, the Iren Group opted to:

- apply the standard retroactively accounting for the cumulative effect of initial application of IFRS 16 at the date of initial application, without redetermining the comparative information, but instead recognising any cumulative effect as an adjustment of the opening balance of retained earnings (IFRS 16.C5 b) and C7);
- measure the leasing liability at the date of initial application at the present value of the remaining payments owed discounted using Iren's marginal loan rate at the date of initial application (IFRS 16.C8 a);
- measure the asset consisting of the right of use at an amount equal to the initial leasing liability, net of any prepaid expenses recognized in the statement of financial position immediately before the date of initial application (IFRS 16.C8 b (ii));
- not recognize assets and liabilities related to leases the term of which ends with 12 months from the date of initial application. These leases are treated as short-term leases in accordance with IFRS 16.C10 c.

The effects of first application of IFRS 16, taking into account the aforementioned practical expedients, entailed an increase in financial liabilities of 93,852 thousand euro and an equivalent increase in assets for property, plant and equipment. The impact on shareholders' equity is therefore zero.

The weighted average of the marginal lending rate, applied to leasing liabilities recognised in the statement of financial position at 1 January 2019, is 3.20%. This rate is determined weighting the market returns of bond loans issued by Iren diversified according to the duration of the various leasing contracts.

Amendment to IFRS 9 - Prepayment Features with Negative Compensation. The amendments, endorsed with Reg. (EU) 2018/498 of 22 March 2018, introduces an exception for particular financial assets that would feature contractual cash flows that are solely payments of principal and interest (IFRS 9, para. 4.1.2), but do not fulfil this condition owing only to the presence of a contractual clause providing for prepayment. In particular, the amendments state that financial assets with a contractual clause that allows (or imposes on) the issuer to repay a debt instrument or permits (or imposes on) the holder to repay a debt instrument to the issuer before maturity can be measured at amortised cost or at fair value through other comprehensive income, subordinately to assessment of the business model in which they are held, if the following conditions are met:

- the company acquires or issues the financial asset with a premium or a discount with respect to the nominal amount of the contract;

- the prepayment amount is substantially the nominal contractual amount and the contractual interest accrued (but not paid), which can include reasonable additional compensation for early termination of the contract; and
- when the company initially recognises the financial asset, the fair value of the prepayment feature is insignificant.

IFRIC 23 – Uncertainty over Income Tax Treatment. The interpretation, issued in June 2017 and endorsed with Reg. (EU) 2018/1595 of 23 October 2018, clarifies how to apply the recognition and measurement requirements of IAS 12 in the case of uncertainty over tax treatments related to income taxes. If there are uncertainties on the application of the tax laws to a specific transaction or group of transactions, IFRIC 23 requires the company to assess whether it is probable that the tax authority will accept the choice made by the company on the tax treatment of the transaction: on the basis of this probability, the company must recognise in its financial statements an amount of taxes that it may pay or defer with respect to what is included in its income tax filings.

Amendments to IAS 28 – Long-term Interests in Associates and Joint Ventures. The amendment, issued in October 2017 and endorsed with Reg. (EU) 2019/237 of 8 February 2019, clarifies that a company must apply the provisions of IFRS 9 to any other long-term interest that substantially represents a further component of the equity investment in the associate or joint venture, to which the equity method is not applied (e.g. privileged shares, loans and non-trade receivables). Any losses recognised on the basis of the equity method, in excess with respect to the equity investment of the entity in ordinary shares of the associate or joint venture, are attributed to the other components of the equity investment in inverse order with respect to their degree of subordination (that is, liquidation priority) after applying IFRS 9.

Annual improvements to IFRSs 2015-2017 cycle. Issued in December 2017 and endorsed with Reg. (EU) 2019/412 of 14 March 2019, the document contains formal amendments and clarifications to already existing standards. We can note in particular the following amendments:

- *IFRS 3– Business Combinations.* The amendment specifies that a joint operator, which acquires control over a jointly-controlled activity that represents a business, must remeasure previously held interests in the jointly-controlled business at fair value at the acquisition date.
- *IFRS 11 – Joint Arrangements.* The amendment clarifies that when an entity that has an interest in a jointly-controlled activity that represents a business (under the terms of IFRS 3) without exercising joint control, acquires joint control, the entity does not have to remeasure previously held interests in that business.
- *IAS 23 – Borrowing Costs.* The amendment establishes that the capitalisation rate applied in order to determine the amount of borrowing costs capitalised must correspond to the weighted average of interest rates related to *all* loans outstanding during the period, other than those obtained specifically for the purpose of acquiring an asset. Therefore the part of specific borrowing remains outstanding, after the related “qualifying asset” is ready for its intended use or sale, must be included in the amount of funds that a company borrows generally.

ACCOUNTING STANDARDS, AMENDMENTS AND INTERPRETATIONS ENDORSED BUT NOT YET APPLICABLE AND NOT ADOPTED IN ADVANCE

On 22 July 2014 the Financial Stability Board published the report “Reforming Major Interest Rate Benchmarks” containing recommendations aimed at strengthening existing benchmarks and other potential reference rates based on interbank markets, as well as developing alternative nearly risk-free reference rates. To take into account the consequences of the reform of financial disclosure, in particular in the period that precedes the replacement of a benchmark for determining the existing interest rates with an alternative reference rate, on 26 September 2019 the IASB published *Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)*, endorsed with Reg. (EU) 2020/ 34 of 16 January 2020. The amendments, applicable starting from 1 January 2020, establish temporary and limited exception to the provision on hedge accounting, so that entities can continue to observe the provisions presuming that existing benchmarks for determining interest rates are not modified following the reform of interbank rates.

The exceptions regard:

- the designation of a risk component of an element as a hedged element;
- the requirements on the subject of “high probability” for cash flow hedging;
- the assessment of the economic relationship between the hedged element and hedging instrument;
- The reclassification of the amount accumulated in the cash flow hedging reserve.

The exceptions apply to hedging relationships directly affected by the reform of the interest rate benchmarks, that is to say hedging relationships for which the reform generates uncertainties as regards: a) interest rate benchmark (defined contractually or non-contractually) designated as risk hedged; b) timing or amount of the cash flows related to the interest rate benchmarks of the hedged element or of the hedging instrument.

With reference to hedging relationships to which the exceptions are applied, specific supplementary information is required.

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

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

Amendments to IFRS 3 - Business Combinations. The amendment involved the definition of business, to be understood as an integrated set of activities that it is possible to conduct and manage for the purpose of providing goods and services to customers, generating investment income (such as dividends or interest) or generating other income from ordinary activities. This clarification makes it possible to distinguish whether an acquisition refers to a business or a group of assets: only in the first case goodwill can be recognised. The new definition of business must be applied to acquisitions made starting from 1 January 2020.

Definition of Material - Amendments to IAS 1 and IAS 8. The amendment, issued on 31 October 2018, has the purpose of clarifying better the definition of “material”, providing indications useful for identifying all the relevant information to be included in the financial statements and making uniform the application of the concept of materiality in the body of the International Accounting Standards. The amendment will be applicable, after endorsement, for annual reporting periods beginning on or after 1 January 2020.

Amendments to IAS 1 - Presentation of Financial Statements: Classification of Liabilities as Current or Non-current. The amendment specifies that, if the debtor has the right to defer payment of the debt by more than 12 months with respect to the reporting date, and this right is immediately exercisable, the liability must be classified as non-current, irrespective of the probability that this right will be exercised. Even if the management has the intention to extinguish the debt within the 12 months following the reporting date and/or the debt is repaid before approval of the financial statements, the liability should equally be classified as non-current, but adequate disclosure of this must be provided in the notes to the financial statements. The amendment will be applicable for annual reporting periods beginning on or after 1 January 2022.

As regards the new standards applicable starting from financial year 2020 or subsequent years, assessments for their correct application and analyses of the presumable impacts on future financial statements are in progress.

III. IREN S.p.A. FINANCIAL RISK MANAGEMENT

A summary of the risk management methods is shown hereunder for the risk management and control with respect to the financial instruments (liquidity risk, exchange rate risk, interest rate risk, credit risk).

LIQUIDITY RISK

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

The financial position, both current and forecast, and the availability of adequate credit facilities are constantly monitored, and no critical points have emerged regarding the coverage of short-term financial commitments. At the end of the period short-term bank credit facilities used by the company totalled 75 million euro.

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

Data at 31/12/2019	thousands of euro				
	Carrying amount	Contractual cash flows	Within one year	1-5 years	Over 5 years
Loan and bond payables (*)	3,003,559	(3,245,435)	(239,125)	(1,295,363)	(1,710,947)
Hedging of interest rate risk (**)	13,206	(13,206)	(3,866)	(8,915)	(425)
Payables for leases	110,308	(110,747)	(102,599)	(6,998)	(1,150)

(*) The carrying amount of "Loan and bond payables" includes both current and non-current portions.

(**) The carrying amount of "Hedging of interest rate risk" includes the fair value of hedging contracts (both positive and negative).

Cash flows required to settle other financial liabilities, other than those shown in the above tables, 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

Iren is exposed to interest rate fluctuations especially with regard to the measurement of financial expenses related to indebtedness. The strategy is to limit exposure to the risk of interest rate volatility, maintaining at the same time a low cost of funding.

In a non-speculative view, the risks associated with the increase in interest rates are monitored and, if necessary, reduced or eliminated by swap and collar contracts with financial counterparties of high credit standing, for the sole purpose of hedging. At the end of the period, all the contracts entered into meet the requisite of limiting the exposure to the risk of oscillation of interest rates and, except for a few positions with insignificant impacts, they also meet the formal requirements for the application of hedge accounting.

The total fair value of the aforementioned interest rate hedges was a negative 13,206 thousand euro at 31 December 2019.

For a more complete understanding of the interest rate risks to which the Company is exposed, stress testing was performed on the sensitivity of net financial expense and evaluation components in derivatives contracts to changes in interest rates. As regards financial charges, this analysis was performed on the basis of reasonable assumptions as follows:

- a theoretical increase and decrease of 100 basis points in the Euribor interest rates over the year was applied to net financial debt;
- if there was any existing hedge, interest rate shock was applied to both the debt position and related hedging derivative with an extremely limited net effect on the income statement;
- the change in interest rates is also applied to any portion of interest expenses capitalised in the year.

With regard to hedging derivatives existing at year end, a 100 basis points theoretical upward and downward change was applied to the forward curve of interest rates used to measure the fair value of the hedges.

The following table illustrates the results of the above sensitivity analysis performed with reference to 31 December 2019.

thousands of euro

	Financial expense		Cash Flow Hedge Reserve	
	100 bps increase	100 bps decrease	100 bps increase	100 bps decrease
Cash flow sensitivity (net)				
Net financial debt (including hedging contracts)	(444)	182	-	-
Change in fair value				
Hedging contracts (assessment components only)	608	(612)	18,766	(20,587)
Total impact from sensitivity analysis	164	(430)	18,766	(20,587)

RECOGNITION OF DERIVATIVES

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

In order to recognise derivatives, it is necessary to distinguish between transactions that meet all of the IFRS 9 requirements in order to account for them in compliance with the hedge accounting rules and transactions that do not fulfil all of the aforesaid requirements.

Transactions recognised in compliance with hedge accounting rules

These transactions may include:

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

Classification in the income statement of the ineffective component and the deferred amount transferred from equity is based on the nature of the underlying instrument; in the case of interest rate risk hedges in financial income and expenses.

Transactions not recognised in compliance with hedge accounting rules

The derivative is recognised at fair value in the statement of financial position.

The change in the fair value of the derivative is recognised in the income statement and is classified based on the type of underlying instrument; in the case of interest rate risk hedges, in financial income and expenses.

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

FAIR VALUE

In addition to the carrying amount, the fair value, along with the methods and major assumptions used to determine it, must be disclosed for every asset and liability class shown in the financial statements.

Fair value is determined as the sum of estimated future cash flows in relation to assets or liabilities, including the related financial income or expense, discounted with reference to the reporting date. The present value of future flows is determined by applying the curve of forward interest rates at the reporting date.

In order to provide a disclosure as complete as possible, the corresponding figure from the previous year is also indicated.

thousands of euro

Asset/liability description	31/12/2019		31/12/2018	
	Carrying amount	Fair Value	Carrying amount	Fair Value
Non-current loans to related parties	1,809,533	2,022,049	1,620,020	1,781,135
Hedges – long-term assets	693	693	311	311
Bonds due at more than 12 months	(2,516,069)	(2,667,775)	(2,185,550)	(2,174,032)
Bonds due within 12 months (*)	(167,831)	(174,955)	(89,069)	(91,779)
Non-current bank loans	(297,430)	(293,596)	(481,059)	(460,538)
Hedges – long-term liabilities	(13,900)	(13,900)	(8,125)	(8,125)
Loans - current portion	(22,229)	(22,387)	(240,440)	(249,748)
Total	(1,207,233)	(1,149,871)	(1,383,912)	(1,202,776)

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

Fair value hierarchy

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

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

	thousands of euro			
31.12.2019	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income				
Financial assets measured at fair value through profit or loss			100	100
Derivative financial assets in Cash Flow Hedges		693		693
Derivative financial assets in Fair Value Hedges				
Derivative financial assets outside hedge accounting				
Total assets		693	100	793
Derivative financial liabilities in Cash Flow Hedges		(11,580)		(11,580)
Derivative financial liabilities in Fair Value Hedges				
Derivative financial liabilities outside hedge accounting		(2,319)		(2,319)
Total liabilities		(13,899)		(13,899)
Grand total		(13,206)	100	(13,106)

	thousands of euro			
31.12.2018	Level 1	Level 2	Level 3	Total
Financial assets measured at fair value through other comprehensive income				
Financial assets measured at fair value through profit or loss			100	100
Derivative financial assets in Cash Flow Hedges		311		311
Derivative financial assets in Fair Value Hedges				
Derivative financial assets outside hedge accounting				
Total assets		311	100	411
Derivative financial liabilities in Cash Flow Hedges		(4,937)		(4,937)
Derivative financial liabilities in Fair Value Hedges				
Derivative financial liabilities outside hedge accounting		(3,188)		(3,188)
Total liabilities		(8,125)		(8,125)
Grand total		(7,814)	100	(7,714)

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

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

CREDIT RISK

Iren S.p.A. is not particularly exposed to credit risk as it mainly provides professional services to the 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

As indicated in the Directors' Report, contained in this document, the information on financial and economic transactions with related parties, carried out for Iren S.p.A. is provided below.

Transactions with related-party Shareholders

Up to 31 December 2019, Iren S.p.A. provided Finanziaria Sviluppo Utilities S.r.l., a special purpose company through which the Municipality of Genoa holds its equity investment in Iren S.p.A., with a series of corporate services, in accordance with a specific service contract.

Transactions with subsidiaries

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

All these activities are governed by special supply contracts at arm's length terms.

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

To this end, loans are taken out by Iren with financial institutions, whereby the funds are subsequently transferred to the Group's companies to support the investments made by these companies based on intercompany facility agreements.

The regulation of financial transactions between the Parent and the Group subsidiaries has been approved. The conditions of intercompany contracts were defined according to the conditions at which the Parent procures on the financial market.

Tax consolidation - Starting from 2010, the company adopted the tax consolidation scheme pursuant to Arts. 117 *et seq* of the new Consolidated Income Tax Act (TUIR). Under this approach, IRES is calculated on the taxable income of the Group, calculated as the total taxable profits and losses recognised by the individual consolidated companies, properly adjusted for the consolidation changes.

All financial and legal transactions between the parties are governed by the specific intra-group agreement between the companies involved and the parent, Iren S.p.A.

The tax consolidation scope for 2019 includes the following companies, in addition to the consolidating company Iren S.p.A.: IRETI, Iren Mercato, Iren Energia and the incorporated companies (Green Source, Enìa Solaris, Varsi Fotovoltaico), Iren Acqua and the incorporated company Immobiliare delle Fabbriche, Iren Ambiente, Iren Smart Solutions (formerly Iren Rinnovabili), AMIAT, AMIAT V., ACAM Ambiente, ACAM Acque, Maira, Formaira, Studio Alfa, Coin Consultech, ReCos and Iren Laboratori.

In particular, this contract, recently updated to take account of the new scope and the new legislation, covers the way in which the IRES taxable amounts are transferred and the related remuneration, as well as the effects of any suspension of the above-mentioned regime or of its non-application in future years.

After the companies chose to adhere to the tax consolidation scheme, in return for the taxable income earned and transferred to the parent, the consolidated company commits to pay to the parent "tax settlements" equal to the amount of taxes owed on the income transferred, net of the transferred IRES receivables.

The other obligations of the parties are also pointed out in the Regulation, including the consolidated entities having to send information flows so that the Parent is able to determine the total Group Income for IRES purposes.

The consequences regarding early interruption of the consolidation, failure to renew and the responsibilities of the parties in the case of errors attributable to them, pursuant to Art. 127, paragraph 2 of the Consolidated Income Tax Act, are indicated in specific paragraphs.

Group VAT option - In terms of procedures, for 2019 the payment of Group VAT involved the transfer to the parent Iren S.p.A. of all obligations regarding settlements and VAT periodic payments.

The companies that take part in the Group settlement procedure are the Parent Company Iren S.p.A. and the following companies: Iren Energia and the incorporated companies (Green Source, Enìa Solaris, Varsi Fotovoltaico), IRETI, Iren Mercato, Iren Ambiente, AMIAT, Iren Smart Solutions (formerly Iren Rinnovabili), Iren Acqua Tigullio, Iren Acqua and the incorporated company Immobiliare delle Fabbriche, Iren Laboratori, Bonifica Autocisterne, RECOS, ASM Vercelli and ATENA Trading, ACAM Ambiente, ACAM Acque, Studio Alfa and Coin Consultech.

During 2019 Iren SpA and the companies that had the requisites provided for in the law established the new Group VAT to which a new VAT number was attributed.

Transactions with joint ventures and associates

Among the main transactions carried out by the Iren Group with joint ventures and associates, we can note:

- the loan granted by Iren S.p.A. to OLT Offshore LNG Toscana in relation to the Livorno regasification plant and the credit facility in centralised treasury in favour of Valle Dora Energia;
- the reversible fees paid to Iren S.p.A. for participation in the Boards of Directors of the related companies;
- the supply of services of an administrative nature.

Quantitative information on financial and economic transactions with related parties is provided in the chapter "X. Annexes to the Separate Financial Statements", considered an integral part of this note.

Lastly and as regards the Directors and Statutory Auditors of Iren S.p.A. with the exception of payment of the emoluments envisaged for the performance of duties in the administrative or auditing bodies, we can report that there were no transactions.

Transactions that consist of assigning remunerations and economic benefits, in any form, to members of the administration and control bodies of Iren S.p.A. and Key Management Personnel of the IREN Group are also subject to the provisions of the TRP Procedure.

V. SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

Completion of the disposal of the stake in OLT Offshore LNG Toscana

To complete the transaction highlighted in the “Significant events of the period” in the Directors' Report and following receipt of the authorisations from the competent authorities, on 26 February 2020, the Group transferred 49.07% of OLT Offshore LNG Toscana to SNAM. The selling price of the equity investment, and the remaining portion of the shareholders' loan, amounted to a total of 332 million euro, excluding any future upward adjustments on fulfilment of certain conditions.

The sale of the equity investment in OLT will enable the Group to improve its financial structure, having the resources necessary to accelerate the investments provided for in the business plan and to seize opportunities for growth along external lines.

VI. OTHER INFORMATION

CONSOB COMMUNICATION NO. DEM/6064293 of 28 July 2006

Significant non-recurring events and transactions

During financial year 2019, the company was not affected by “non-recurring” events and did not carry out significant transactions identified as such on the basis of the definitions contained, in the Communication. In particular, it was not affected by events which do not reoccur frequently during the normal performance of the business.

Positions or transactions deriving from atypical and/or unusual operations

In 2019 the company was not involved in atypical and/or unusual transactions, as defined in the Communication, i.e. transactions that may, due to their significance/relevance, nature of the counterparties, subject of the transaction, methods for determining the transfer price and timing of the event (near year end), give rise to concerns about the correctness/completeness of the financial statements disclosures, conflict of interest, safeguard of the company's assets or protection of minority shareholders.

Disclosure on treasury shares

On 5 April 2019 the Shareholders' Meeting of Iren S.p.A. Authorised the Board of Directors to carry out a purchase programme involving the Company's treasury shares aimed at purchasing a maximum number of shares of 26,000,000, such as, however, not to exceed 2% of the share capital. The programme was launched on 14 May and up to 31 December 3,950,587 shares were purchased for a total price of 9,054 thousand euro recognised as a reduction of shareholders' equity in the item “Reserves and Retained Earnings (Losses)”.

DISCLOSURE ON PUBLIC DISBURSEMENTS

With reference to what is provided for on the subject of transparency in the system of public disbursements pursuant to article 35 of Italian Law Decree no. 34/2019 (‘growth decree’) we can specify that the National Register of State Aid includes aid, in favour of the company, which must be disclosed. For the related details please see the aforementioned Register, under the terms of article 35, paragraph 125-quinquies.

PUBLICATION OF THE FINANCIAL STATEMENTS

The Financial Statements were approved for publication by Iren S.p.A.'s Board of Directors at its meeting of 25 March 2020. The Board of Directors authorised the Chairperson, and the Chief Executive Officer to make such changes to the financial statements as necessary or adequate to improve them until the date of approval by the Shareholders. The shareholders' meeting to be called to approve the separate financial statements of the Parent Company has the right to request amendments to the aforementioned separate financial statements.

VII. NOTES TO THE STATEMENT OF FINANCIAL POSITION

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

ASSETS

NON-CURRENT ASSETS

NOTE 1_PROPERTY, PLANT AND EQUIPMENT

The breakdown and change of property, plant and equipment may be analysed as follows:

	thousands of euro						
	31/12/2018	Increases	Reclassifications	Depreciation and amortisation	Disposals	Other changes	31/12/2019
Land	1,212	1,872	-	(22)	-	147	3,209
- of which for right of use	-	1	-	(22)	-	147	126
Buildings	8,202	29,543	756	(7,029)	-	89,832	121,304
- of which for right of use	-	20,288	4,118	(6,742)	-	89,832	107,496
Plant and machinery	794	430	215	(133)	-	-	1,306
Industrial and commercial equipment	285	210	-	(45)	-	-	450
Other assets	11,162	7,706	16	(5,923)	(11)	3,862	16,812
- of which for right of use	-	1,210	-	(1,606)	-	3,873	3,477
Investments in progress and payments on account	1,431	1,374	(987)	-	(83)	-	1,735
Total	23,086	41,135	-	(13,152)	(94)	93,841	144,816
- of which for right of use	-	21,499	4,118	(8,370)	-	93,852	111,099

Property, plant and equipment amounted to a total of 144,816 thousand euro (23,086 thousand euro at 31 December 2018).

We can note that, starting from 1 January 2019 the accounting standard IFRS 16 – Leases is applied. This introduces a criterion based on control (right of use) of an assets to distinguish leasing contracts from contracts for services. On the lessee's part, the new standard provides for recognition in the balance sheet of the assets and related financial liabilities for all leasing contracts with a duration of more than 12 months, unless the underlying asset is of little value. The contracts in which Iren plays the role of lessee refer mainly to property leasing and long-term hires of cars and other motor vehicles. The effects of first application of IFRS 16, taking into account the practical expedients described in the paragraph "Accounting standards, amendments and interpretations applied from 1 January 2019", entailed an increase in financial liabilities of 93,852 thousand euro and an equivalent increase in assets for property, plant and equipment, which is recognised in the column "Other Changes".

In relation to the rental contract related to a part of the Group's headquarters we can note that at the end of financial year 2019 the management considered probable the exercise of the redemption option on the said properties provided for in the contract during 2020. Following the change, with respect to 1 January 2019, in the assessment of the purchase option, the leasing liability was redetermined to take into account the changes made to the payments owed. The recalculation entailed an increase in the liability and in the right of use of the buildings, shown in the column "Increases", of 19,943 thousand euro.

Additionally, the amount of 4,118 thousand euro reported in "reclassifications" of building rights of use refers to existing contracts as at 31 December 2018 classified as financial leases and falling under the scope of application of the IAS 17 standard.

In addition, during financial year 2019, in virtue of the purchase of single property portions owned by third parties and Group companies, for a total of 8,873 thousand euro (also shown in the column "Increases"), Iren became the owner of all of the complex located in Piazza Raggi in Genoa. In the last quarter of the year a project was launched to restore the aforesaid property complex for the purpose of its use by the Group as its headquarters.

Again, with regard to the main investments, we can also note, in the item "Other assets", hardware and the corporate servers purchased in the year for approximately 4,404 thousand euro.

NOTE 2_ INTANGIBLE ASSETS WITH A FINITE USEFUL LIFE

The breakdown and change of intangible assets may be analysed as follows:

	thousands of euro					
	31/12/2018	Increases	Reclassifications	Depreciation and amortisation	Decreases and other changes	31/12/2019
Industrial patents and intellectual property use rights	32,138	15,545	6,339	(12,918)	(38)	41,066
Concessions, licences and trademarks	31	-	-	-	-	31
Other fixed assets	1,905	-	105	(532)	-	1,478
Investments in progress	16,298	11,744	(6,444)	-	(2,726)	18,872
Total	50,372	27,289	-	(13,450)	(2,764)	61,447

Intangible assets amounted to a total of 61,447 thousand euro (50,372 thousand euro at 31 December 2018).

Industrial patents and intellectual property use rights

This item increased by 8,928 thousand euro and consists of software licences and costs incurred for in-house customisation and updating of licensed software applications; these assets are amortised over a five-year period.

Other fixed assets

The increases in the period, of 105 thousand euro, were related to a study for the "Digital Payments" Project.

Intangible assets under development

This item mainly consists of costs incurred for implementations (referring mostly to the projects regarding information technology and applications supporting operating activities) and costs for studies for projects in the IT field. Among the particularly significant investments of the period we can note the "Market Transformation" Project, a programme aimed at redesigning the entire customer management and relations process, for approximately 8,325 thousand euro, while most of the "Decreases and other changes" are referable to the transfer to Group companies of a software for the management of waste collection in the implementation stage.

NOTE 3_INVESTMENTS IN SUBSIDIARIES, ASSOCIATED COMPANIES AND JOINT VENTURES

Equity investments in subsidiaries

The list of investments in subsidiaries at 31 December 2019 is annexed. The total of this item is broken down as shown in the table below:

	thousands of euro	
	31/12/2019	31/12/2018
Iren Ambiente S.p.A.	243,437	243,437
IRETI S.p.A.	1,039,418	1,039,418
Iren Energia S.p.A.	1,139,112	1,139,112
Iren Mercato S.p.A.	142,065	142,065
Total	2,564,032	2,564,032

NOTE 4_OTHER EQUITY INVESTMENTS

This item relates to investments in companies over which Iren S.p.A. has neither control nor significant influence. These equity investments are measured at fair value but, as the most recent information available for measuring the fair value is insufficient and the cost represents the best estimate of the fair value, they are carried at cost.

The value of the equity investment in the Core MultiUtilities Fund amounted, at 31 December 2019 (unchanged compared to 31 December 2018), to 100 thousand euro. At the same date the equity investment in the Consortium C.I.M. 4.0 was also recognised, at 50 thousand euro (not present at 31 December 2018).

NOTE 5_NON-CURRENT FINANCIAL ASSETS

The total of the item amounted to 1,810,266 thousand euro (1,620,371 thousand euro at 31 December 2018).

	thousands of euro	
	31/12/2019	31/12/2018
Loans to associates	-	880
Receivables for centralised treasury management	1,809,533	1,619,140
Fair value of derivatives – non-current portion	693	311
From others	40	40
Total	1,810,266	1,620,371

At 31 December 2019 there were no loans to associates. The receivables present at 31 December 2018, referred to the company Asti Energia e Calore, were transferred in November 2019 to the company Iren Energia.

The fair value of derivative contracts amounted to 693 thousand euro (311 thousand euro at 31 December 2018). For comments please see the paragraph "IREN S.p.A. financial risk management".

Financial receivables from others refer to participation in a film production under a Tax credit regime for 40 thousand euro (unchanged from 31 December 2018).

NOTE 6_OTHER NON-CURRENT ASSETS

These amounted to 1,872 thousand euro (10,660 thousand euro at 31 December 2018) and consisted mostly of tax credits accrued with the tax authority following the application for IRAP deduction from the IRES taxable base (608 thousand euro compared to 10,321 thousand euro at 31 December 2018). The reduction was due to the transfer of these receivables to the company Farmafactoring, with collection of almost all the nominal value transferred.

For the remainder of the item we can note receivables for loans to personnel of 142 thousand euro (161 thousand euro at 31 December 2018) and receivables for contributions accrued for innovation projects of 1,076 thousand euro (132 thousand euro at 31 December 2018).

NOTE 7_DEFERRED TAX ASSETS

This item amounts to 13,705 thousand euro (31 December 2018: 13,761 thousand euro) and refers to deferred tax assets arising from income components deductible in future years.

Reference should be made to the income statement, Note 37 "Income tax expense", for further details.

CURRENT ASSETS

NOTE 8_INVENTORIES

The item amounted to 3,041 thousand euro (1,751 thousand euro at 31 December 2018). The increase is attributable to the centralisation in Iren S.p.A. of the stock and management of materials used in common by all the Group companies.

NOTE 9_TRADE RECEIVABLES

These are detailed in the following table:

	thousands of euro	
	31/12/2019	31/12/2018
Receivables from customers	1,975	2,221
From subsidiaries	112,284	107,042
From joint ventures and associates	854	851
From shareholders - related parties	301	337
From other related parties	-	58
Provisions for impairment of receivables	(1,253)	(906)
Total	114,161	109,603

Receivables from customers

These primarily relate to receivables for refunds of expenses and recharging of considerations and leasing fees.

Receivables from subsidiaries

Receivables from subsidiaries relate to normal trade transactions performed at arm's length, and are mainly referred to corporate services, of a technical/administrative nature provided to the Group companies. The details of these receivables by counterparty are annexed in the "Transactions with related parties" section.

Receivables from joint ventures and associates

This item primarily refers to fees that may be charged back for offices held by Iren's employees in the associated companies, as well as to the recharging of insurance costs borne by the Parent. The details of these receivables by counterparty are annexed in the "Transactions with related parties" section.

Receivables from related-party shareholders

Receivables from related-party shareholders recorded a balance of 301 thousand euro (337 thousand euro at 31 December 2018) and refer to receivables for services and activities performed for the Municipality of Turin for 278 thousand euro (314 thousand euro at 31 December 2018), for FSU for 16 thousand euro (unchanged compared to 31 December 2018) and for the Municipality of Reggio Emilia for 7 thousand euro (unchanged compared to 31 December 2018).

Receivables from other related parties

These were not present at 31 December 2019. At 31 December 2018 the item presented a balance of 58 thousand euro and was referred to the recharging of costs for sponsorships at the 5T Consortium and IT assistance services performed for the Territorial Services Agency of Genoa.

Provisions for impairment of receivables

The provisions for impairment feature the movements shown in the following table:

	31/12/2018	Provisions set aside	Utilisation	31/12/2019
Provisions for impairment of receivables	906	350	(3)	1,253
Total	906	350	(3)	1,253

thousands of euro

NOTE 10_CURRENT TAX ASSETS

The item amounted to 7,722 thousand euro (2,334 thousand euro at 31 December 2018) and refers to receivables for IRES and IRAP advances.

NOTE 11_OTHER RECEIVABLES AND OTHER CURRENT ASSETS

These are detailed in the following table:

	31/12/2019	31/12/2018
Receivables from subsidiaries for Group VAT	48,353	7,867
Receivables from subsidiaries for tax consolidation scheme	25,401	46,810
VAT credit	58,667	59,817
Other tax assets	3,898	616
Advances to suppliers	1,481	2,909
Other receivables	1,579	1,822
Prepaid expenses	2,659	2,434
Total	142,038	122,275

thousands of euro

The Group exercised the Group VAT option following which for financial year 2019 payment of Group VAT entailed the transfer to the parent Iren S.p.A. of all obligations regarding VAT settlements and periodic payments. The Group also exercised the option, pursuant to Art. 118 of the new Consolidated Income Tax Act, for Group tax consolidation. This requires that the consolidated companies transfer their IRES receivables/payables to the Parent Iren S.p.A.

Tax credits consist mainly of receivables from the tax authority for withholdings.

NOTE 12_CURRENT FINANCIAL ASSETS

The item amounted to a total of 382,343 thousand euro (418,642 thousand euro at 31 December 2018). All financial receivables recognised in this item are due within 12 months. The carrying amount of these receivables approximates their fair value as the impact of discounting is negligible.

Current financial receivables relate to:

Financial receivables from subsidiaries, associated companies and joint ventures

The total of this item is broken down in the following table:

	thousands of euro	
	31/12/2019	31/12/2018
From subsidiaries	29,259	16,419
From Joint ventures and associates	352,951	401,976
Total	382,210	418,395

Receivables from subsidiaries are referred to interest accrued in the context of the centralised treasury relationship (26,260 thousand euro) and to the loan to the subsidiary Territorio e Risorse (3,000 thousand euro).

Receivables from Joint ventures and Associates refer for 352,900 thousand euro to OLT Offshore LNG Toscana (401,900 thousand euro at 31 December 2018). On this subject we can note that during financial year 2018 the Board of Directors began work on a programme for the disposal of the assets related to this investee, working to identify a buyer. On 20 September 2019 the Iren Group and Snam signed an agreement for the acquisition by Snam of the equity investment in Offshore LNG Toscana, owned by Iren Mercato, and of the said shareholders' loan. The operation was completed on 26 February 2020 following receipt of the authorisations from the competent authorities. For further details, see the chapters "Significant events of the period" in the Director's Report and "Significant events after the reporting date" in the present Separate Financial Statements.

Other financial receivables

These amount to Euro 132 thousand (Euro 248 thousand at 31 December 2018) and primarily relate to financial prepayments.

NOTE 13_CASH AND CASH EQUIVALENTS

Cash and cash equivalents may be analysed as follows:

	thousands of euro	
	31/12/2019	31/12/2018
Bank and postal deposits	239,022	256,660
Cash and valuables in hand	93	118
Total	239,115	256,778

NOTE 14_ASSETS HELD FOR SALE

These were 240,000 euro (unchanged compared to 31 December 2018) and refer to the equity investment in Plurigas, in liquidation. The investment was classified among assets held for sale because during 2014 the company ceased to do business.

LIABILITIES

NOTE 15_EQUITY

Equity may be analysed as follows:

	thousands of euro	
	31/12/2019	31/12/2018
Share capital	1,300,931	1,300,931
Reserves and Retained Earnings (Losses)	365,815	362,928
Net profit (loss) for the period	241,413	125,928
Total	1,908,159	1,789,787

Share capital

Share capital amounts to 1,300,931,377 euro (unchanged compared to 31 December 2018), which is fully paid up and comprises 1,300,931,377 ordinary shares with a face value of 1 euro each.

On 5 April 2019 the Shareholders' Meeting of Iren S.p.A. Authorised the Board of Directors to carry out a purchase programme involving the Company's treasury shares aimed at purchasing a maximum number of shares of 26,000,000, such as, however, not to exceed 2% of the share capital. The programme was launched on 14 May and, at 31 December, 3,950,587 shares were purchased for a total price of 9,054 thousand euro, recognised as a reduction in shareholders' equity in the item "Reserves and Retained Earnings (Losses)".

For further details on the operation, please see the disclosures in "Significant events of the period" in the Director's Report.

Reserves

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

	thousands of euro	
	31/12/2019	31/12/2018
Treasury shares negative reserve	(9,054)	-
Share premium reserve	133,020	133,020
Legal reserve	64,642	58,345
Cash flow hedging reserve	(9,340)	(5,150)
Other reserves and Retained earnings (losses)	186,547	176,713
Total	365,815	362,928

Hedging reserve

Changes in the fair value of effective hedging derivatives are recognised with a contra-entry directly in equity under the cash-flow hedging reserve. These contracts were entered in to hedge exposure to the risk of interest rate fluctuations on floating rate loans.

Other reserves and retained earnings (losses)

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

During financial year 2019 as a result of the shareholders' meeting resolution approving the 2018 annual financial statements, on 22 May, the retained earnings reserve increased by 10,637 thousands of euro. For further details, reference should be made to the statement of changes in equity.

Dividends

At the Ordinary Shareholders' Meeting of Iren S.p.A. resolved on 22 May 2019, the distribution of a dividend of 0.084 euro per share which was paid starting from 26 June 2019.

NON-CURRENT LIABILITIES

NOTE 16_NON-CURRENT FINANCIAL LIABILITIES

Non-current financial liabilities amounted to 2,835,231 thousand euro (2,676,602 thousand euro at 31 December 2018) and consist of:

Bonds

These amounted to 2,516,069 thousand euro (2,185,550 thousand at 31 December 2018). The item is referred to Public Bond issues, accounted for at amortised cost, against a total nominal amount in issue at 31 December 2019 of 2,541,470 thousand euro (2,209,340 thousand at 31 December 2018). The details of Public Bonds with maturity at more than 12 months are presented below:

- Bond maturity 2021, coupon 3%, issue amount 300 million euro, in issue at 31 December 2019 for 181,836 million following repurchases (tender offers) carried out in 2015, 2016 and 2017 (amount at amortised cost 181,243 thousand euro);
- Bond maturity 2022, coupon 2.75%, issue amount 500 million euro, in issue at 31 December 2019 for 359,634 thousand euro following tender offers of 2016 and 2017 (amount at amortised cost 357,966 thousand euro);
- Bond maturity 2024, coupon 0.875%, amount 500 million euro, all in issue (amount at amortised cost 495,613 thousand euro);
- Green Bond maturity 2027, coupon 1.5%, amount 500 million euro, all in issue (amount at amortised cost 491,949 thousand euro);
- Green Bond maturity 2025, coupon 1.95%, amount 500 million euro, all in issue (amount at amortised cost 494,622 thousand euro);
- Green Bond maturity 2029, coupon 0.875%, amount 500 million euro, all in issue (amount at amortised cost 494,676 thousand euro).

The bond loans were subscribed by Italian and foreign institutional investors and are listed on the Irish Stock Exchange; the Public Bonds were given a Fitch rating.

The change in the total book value compared to 31 December 2018 was due to the issue of the third Green Bond, the reclassification as short-term of a Bond maturing and the allocation of the financial expenses accruing, calculated on the basis of the amortised cost method according to the IAS/IFRS standards.

Non-current bank loans

Medium/long term loans relate exclusively to the non-current portion of loans/credit lines due at more than 12 months granted by banks and amounted to 297,430 thousand euro (481,059 thousand euro at 31 December 2018).

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

thousands of euro

	fixed rate	floating rate	TOTAL
min/max interest rate	-	0.00% - 0.159%	
maturity	-	2021-2034	
1.1.2021 – 31.12.2021	-	27,229	27,229
1.1.2022 – 31.12.2022	-	36,480	36,480
1.1.2023 – 31.12.2023	-	31,686	31,686
1.1.2024 – 31.12.2024	-	26,032	26,032
subsequent	-	176,003	176,003
Total payables beyond 12 months at 31/12/2019	-	297,430	297,430
Total payables beyond 12 months at 31/12/2018	146,306	334,753	481,059

All loans are denominated in euro.

The changes in medium/long term loans during the year are summarised below:

thousands of euro

	31/12/2018 Total payables beyond 12 months	Increases	Repayments	Amortised cost adjustments	31/12/2019 Total payables beyond 12 months
- fixed rate	146,306	-	(146,343)	37	-
- floating-rate	334,753	30,000	(67,229)	(94)	297,430
TOTAL	481,059	30,000	(213,572)	(57)	297,430

Total medium/long term payables at 31 December 2019 decreased overall compared to 31 December 2018, as a result of:

- disbursement of an EIB loan for a total of 30 million euro in December 2019, as part of the District Heating and Environment project;
- reduction of a total of 213,572 thousand euro, owing to early repayment of loans in the context of the liability management activities and to the reclassification to short term of the portions of loans maturing within the next 12 months;
- changes in amortised cost for the purpose of IAS/IFRS accounting of loans.

Non-current financial payables for leases

Non-current financial payables for leases regard the portion with maturity beyond 12 months and amounted to Euro 7,833 thousand (Euro 1,868 thousand at 31 December 2018). This figure will be gradually reduced on the basis of repayment of the lease principal. The reason for the notable increase can be attributed to application of the standard IFRS 16.

Other financial liabilities

These amounted to 13,900 thousand euro (8,125 thousand euro at 31 December 2018) and refer to the fair value of derivative contracts entered into by Iren as hedges against the interest rate risk on floating rate loans (please see the paragraph "IREN S.p.A. financial risk management" for comments).

NOTE 17_EMPLOYEE BENEFITS

Changes in this item in 2019 were as follows:

	thousands of euro
Amount at 31/12/2018	18,284
Current service costs	50
Financial expense	275
Disbursements of the period	(1,579)
Actuarial (gains)/losses	1,046
Intragroup transfers of personnel	86
Amount at 31/12/2019	18,162

Liabilities for employee benefits consist of:

Post-employment benefits

Changes in this item during financial year 2019 were as follows:

	thousands of euro
Amount at 31/12/2018	14,047
Financial expense	217
Disbursements of the period	(861)
Actuarial (gains)/losses	396
Intragroup transfers of personnel	86
Amount at 31/12/2019	13,885

Other benefits

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

Additional months' salaries (long-service bonus)

The long-service bonus has been provided for to cover the additional amount due to employees in force at the end of the year in respect of the amount accrued at that date for those reaching the minimum pensionable service.

Movements of the year are shown in the following table:

	thousands of euro
Amount at 31/12/2018	664
Current service costs	24
Financial expense	10
Disbursements of the period	(8)
Actuarial (gains)/losses	51
Amount at 31/12/2019	741

Loyalty bonus

Employees reaching 25, 30 or 35 years of service are entitled to a loyalty bonus as defined by the national sector labour contract in force on reaching the required years of services.

Movements of the year are shown in the following table:

	thousands of euro
Amount at 31/12/2018	648
Current service costs	26
Financial expense	7
Disbursements of the period	(60)
Actuarial (gains)/losses	(10)
Amount at 31/12/2019	611

Provisions for tariff discounts

Movements of the year are shown in the following table:

	thousands of euro
Amount at 31/12/2018	2,239
Financial expense	35
Disbursements of the period	(174)
Actuarial (gains)/losses	507
Amount at 31/12/2019	2,607

The tariff discounts include benefits related to the supply of natural gas for domestic use.

Following the signing of specific agreements with the trade unions, the "Energy discount" awarded up to 30 September 2017 to employees in service was converted into other forms of employee benefits. The "Energy discount" awarded up to 30 September 2017 to retired employees was revoked unilaterally and replaced with lump sums included in provisions for former employee benefits.

Premungas Provisions

The Premungas fund is a supplementary pension plan which allows the employee to obtain the same amount of remuneration received upon retirement. The benefit is paid to employees hired with a Federgasacqua contract up to 28 February 1978.

Movements of the year are shown in the following table:

	thousands of euro
Amount at 31/12/2018	415
Financial expense	6
Disbursements for the year of releases and withdrawals	(205)
Actuarial (gains)/losses	102
Amount at 31/12/2019	318

Provisions for ex-employee benefits

The provisions, which at 31 December 2018 amounted to 271 thousand euro, were completely utilised during financial year 2019. The included the amounts that were disbursed as a one-off to retired employees replacing the energy discount no longer paid starting from 1 October 2017.

Actuarial assumptions

The above-mentioned liabilities are measured by independent actuaries.

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

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

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

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

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

The economic and financial assumptions adopted in the calculations are the following:

Annual discount rate	0.60% - 1.00%
Annual inflation rate	1.00% - 1.50%
Annual increase rate of post-employment benefits	2.50%

In accordance with the provisions of IAS 19 the following additional information is supplied:

- sensitivity analysis for each material actuarial assumption at year end, showing the effects that would have resulted from changes in the actuarial assumptions reasonably possible at that date, in absolute terms;
- contributions for the following year;
- indication of the average maturity of the obligation for defined benefit plans.

This information is shown in the following table.

	Change in liabilities according to changes in discount rate		Service cost 2020	Duration of the plan
	+0.25%	-0.25%		
Post-employment benefits	288	(297)	-	8.43
Additional monthly salaries	193	164	25	10.51
Loyalty bonus	8	(8)	24	5.50
Tariff discounts	458	346	-	10.55
Premungas	7	(8)	-	9.32

NOTE 18_ PROVISIONS FOR RISKS AND CHARGES

Details and variations are shown in the table below:

	31/12/2018	Increases	Utilisations	Releases	31/12/2019	Current portion
Provisions for early retirement expenses	16,707	1,110	(4,329)	(2,809)	10,679	391
Other provisions	22,056	2,317	(4,228)	(11,574)	8,571	800
Total	38,763	3,427	(8,557)	(14,383)	19,250	1,191

thousands of euro

Provisions for early retirement expenses

The provisions refer to expenses associated with early retirement of some employees and arises from the results of agreements between the Iren Group and the Trade Unions that provide for retirement incentives for some employees, on a voluntary basis among the Group's personnel who are potentially involved. The operation must be seen in the wider context of professional and demographic rebalancing of the Iren Group's personnel, in view of a plan to recruit young people.

The incentive, completely chargeable to the Iren Group (in application of Art. 4 of Italian Law 92/2012), will enable the personnel in possession of the legal requisites to retire in advance with respect to the date of eligibility, making up in part for the delay in terminating the employment determined after the reform of the pensions system.

The provisions represent the estimated payment to the employees involved in the Plan, through the Pensions Agency, of a benefit of an amount equal to the pension that would be payable on the basis of the current rules (isopension) with payment to the Pensions Agency of the contribution until the minimum requirements for retirement are reached (in accordance with the aforementioned Law 92/2012), and a sum, for each of the employees involved, as a one-off payment as an incentive.

During the year, in order to continue in the programme for professional and demographic rebalancing of the personnel and following agreements with the Trade Unions, the Group set aside provisions for retirement incentives on a voluntary basis for employees interested and with the requisites introduced by Italian Law Decree 4/2019 containing the so-called "quota 100". Article 14 of the aforementioned Italian Law Decree 4/2019 introduces starting from 2019 the possibility of retiring with the requisites of 62 years of age and 38 years of contributions matured by 31 December 2021.

Among other provisions, the increase regard mainly lawsuits with suppliers and the adjustment of the provisions for long-term incentive schemes, while releases are mainly referred to the absence of risks for expense related to executive properties rented from the property fund, owing to the high probability of exercising the related redemption option.

NOTE 19_DEFERRED TAX LIABILITIES

Deferred tax liabilities of 945 thousand euro (1,005 thousand euro at 31 December 2018) are due to the temporary difference between the carrying amount and tax value of assets and liabilities recognised in the financial statements.

Deferred taxation is calculated with reference to the expected tax rates applicable at the time the differences will reverse.

Reference should be made to the income statement, note 37 "Income tax expense", for further details.

NOTE 20_OTHER PAYABLES, OTHER NON-CURRENT LIABILITIES

This item amounted to 10,774 thousand euro (10,595 thousand euro at 31 December 2018) and refers mainly:

- for 8,499 thousand euro (unchanged compared to 31 December 2018) to payables to companies that come within the tax consolidation procedure as IRES rebate for the IRAP claim for the years 2007 – 2011;
- for 852 thousand euro to the deferment of the portion of revenue accruing to subsequent years related to the transfer in usufruct to IRETI of certain software (1,705 thousand euro at 31 December 2018);
- for 1,336 thousand euro to portions of contributions related to future years (351 thousand euro at 31 December 2018).

CURRENT LIABILITIES

NOTE 21_CURRENT FINANCIAL LIABILITIES

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

Short-term financial liabilities can be analysed as follows:

	thousands of euro	
	31/12/2019	31/12/2018
Bonds	167,831	89,069
Bank loans	108,948	254,345
Payables for finance leases	102,475	345
Financial payables to subsidiaries	106,894	139,755
Financial payables to associates	-	2,734
Other financial liabilities	894	10
Total	487,042	486,258

Bonds

The amounts refer to Private Placements with maturity within 12 months:

- at 31 December 2019 these were Notes issued in 2013 with maturity 2020; the amount refers to the value at amortised cost according to the IAS/IFRS standards, against a nominal value on maturity of 167,870 thousand euro;
- at 31 December 2018 the value at amortised cost of the Notes issued in 2014 was shown; these were repaid on maturity in February 2019 at their nominal value of 89,100 thousand euro.

Current financial payables for leases

Current financial payables for leases regard the portion of payables for leases due within 12 months. These amounted to 102,475 thousand euro (345 thousand at 31 December 2018). This figure will be gradually reduced on the basis of repayment of the lease principal. The reason for the notable increase can be attributed to application of the standard IFRS 16.

Bank loans

The related amounts are shown in the table:

	thousands of euro	
	31/12/2019	31/12/2018
Loans - current portion	22,229	240,440
Loans - current portion	75,000	-
Other current payables to banks	112	207
Accrued financial expenses and deferred financial income	11,607	13,697
Total	108,948	254,345

Financial payables to subsidiaries

Short-term payables to subsidiaries can be broken down as follows:

	thousands of euro	
	31/12/2019	31/12/2018
For invoices to be received	63	22
For centralised treasury	106,831	139,733
Total	106,894	139,755

Financial payables to associates

At 31 December 2019 the item was zero. At 31 December 2018 it amounted to 2,734 thousand euro and referred to payables related to centralised treasury management.

Financial payables to others

These amounted to 894 thousand euro (10 thousand at 31 December 2018) and refer mainly to payables to Farmafactoring consequent to the transfer of tax credits in the meantime collected by the Tax Authority and therefore to be returned to the same.

NOTE 22_TRADE PAYABLES

All trade payables are due within 12 months. The carrying amount of these payables approximates their fair value as the impact of discounting is negligible.

	thousands of euro	
	31/12/2019	31/12/2018
Trade payables	79,330	57,778
Trade payables to subsidiaries	15,094	9,153
Trade payables to associates	119	321
Payables to related-party shareholders	704	459
Payables to other related parties	24	71
Total	95,271	67,782

NOTE 23_OTHER PAYABLES AND OTHER CURRENT LIABILITIES

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

	thousands of euro	
	31/12/2019	31/12/2018
Amounts payable to subsidiaries for tax consolidation scheme	6,435	9,330
Payables to subsidiaries for group VAT	80,685	46,811
IRPEF payables and other tax payables	4,177	5,733
Social security charges payable	3,585	4,090
Payables to employees	8,162	8,652
Deferred income	961	976
Other payables	6,109	5,620
Total	110,114	81,211

Payables to social security agencies consist mainly of withholdings and contributions to be paid to INPS and INPDAP.

Deferred income of 961 thousand euro (976 thousand euro at 31 December 2018) refers mainly to the portion not accruing to the year of grants received for the purpose of financing research, development and innovation projects, to the deferment on reimbursement of surety expenses and to the deferment on the multi-annual revenue related to transfer in usufruct of IT software to the company IRETI for the portion accruing to the year.

The other payables refer mostly to adjustments of premiums related to insurance policies entered into in favour of the Group.

NOTE 24_ CURRENT TAX LIABILITIES

At 31 December 2019 the item was zero. At 31 December 2018 it amounted to 23,721 thousand euro and referred to tax liabilities for IRES.

NOTE 25_ PROVISIONS FOR RISKS – CURRENT PORTION

The item amounted to 1,191 thousand euro (2,012 thousand euro at 31 December 2018). For more details on the breakdown see Note 18 “Provisions for risks and charges”.

FINANCIAL POSITION

The net financial debt, calculated as the difference between short/medium/long-term financial liabilities and short/medium/long-term financial assets, can be broken down as indicated in the following table:

	thousands of euro	
	31/12/2019	31/12/2018
Non-current financial assets	(1,810,266)	(1,620,371)
Non-current financial debt	2,835,231	2,676,602
Non-current net financial debt	1,024,965	1,056,230
Current financial assets	(621,458)	(675,421)
Current financial debt	487,042	486,258
Current net financial debt	(134,416)	(189,163)
Net financial debt	890,549	867,067

Detail of Net Financial Position regarding related parties

Non-current financial assets are related to centralised treasury relationships with subsidiaries and associates for 1,809,533 thousand euro.

Current financial assets relate for 26,191 thousand euro to invoices for interest to be issued to subsidiaries.

Current financial liabilities of 106,894 thousand euro refer to financial payables to subsidiaries for centralised treasury and transactions and the related interest.

For additional information, see the annexed tables on transactions with related parties.

Below is the net financial position in the format proposed by the ESMA recommendation of 10 July 2005, which does not include non-current financial assets.

	thousands of euro	
	31/12/2019	31/12/2018
A. Cash in hand	(239,115)	(256,778)
B. Other cash and cash equivalents (details)		
C. Securities held for trading		
D. Cash and cash equivalents (A) + (B) + (C)	(239,115)	(256,778)
E. Current financial receivables	(382,343)	(418,643)
F. Current bank debt	86,719	13,904
G. Current portion of non-current debt	190,060	329,510
H. Other current financial debt	210,263	142,844
I. Current financial debt (F) + (G) + (H)	487,042	486,258
J. Current net financial debt (I) + (E) + (D)	(134,416)	(189,163)
K. Non-current bank debt	297,430	481,059
L. Bonds issued	2,516,069	2,185,550
M. Other non-current debt	21,732	9,992
N. Non-current financial debt (K) + (L) + (M)	2,835,231	2,676,602
O. Net financial debt (J) + (N)	2,700,815	2,487,438

The table below finally shows the changes in the year in current and non-current financial liabilities.

	thousands of euro
Current and non-current financial liabilities 31.12.2018	3,162,859
Opening of medium/long-term loans	530,000
Repayment of medium/long-term loans	(520,884)
Change in payables for leases	108,096
Fair value changes on derivatives	5,774
Other changes	36,428
Current and non-current financial liabilities 31.12.2019	3,322,273

VIII. NOTES TO THE INCOME STATEMENT

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

REVENUE

NOTE 26_REVENUE FROM GOODS AND SERVICES

Revenue from services provided can be broken down as in the table below:

	thousands of euro	
	Financial year 2019	Financial year 2018
Services provided to subsidiaries and associates	198,111	176,590
Services provided to subsidiaries and associates	32	32
Services to other companies	786	2,666
Total	198,929	179,288

Revenue from services to subsidiaries and associates relates to administrative and technical services provided in accordance with specific contracts.

The revenue for services provided to related-party shareholders regards services in favour of FSU for 32 thousand euro (unchanged with respect to 31 December 2018).

For additional information, see the annexed tables on transactions with related parties.

NOTE 27_OTHER INCOME

Other income includes:

	thousands of euro	
	Financial year 2019	Financial year 2018
Revenue from previous years	406	677
Operating grants	312	277
Capital gains on disposal of goods	53	93
Sale of materials	5,366	633
Insurance reimbursement	112	106
Sundry repayments	8,463	10,064
Total	14,712	11,850

Prior year revenue mainly regards the settlement of prior items with reference to estimates made in previous years and adjustments to prior years' invoices.

The sale of materials regards sales to third parties and subsidiaries as a consequence of the centralised management of the Iren S.p.A. warehouse of materials for shared use by the Group businesses.

Sundry repayments include reversible fees which were paid to Iren Directors and employees by Group companies and the recharging of costs for personnel seconded to subsidiaries.

COSTS

NOTE 28_RAW MATERIALS, CONSUMABLES, SUPPLIES AND GOODS

This amounted to 34,947 thousand euro (17,790 thousand euro in 2018) and mainly refers to purchases of various materials and fuel. The increase in value is attributable mainly to the centralisation in Iren S.p.A. of the stock and management of materials used in common by all the Group companies.

NOTE 29_SERVICES AND USE OF THIRD-PARTY ASSETS

Costs for services are broken down in the following table:

	thousands of euro	
	Financial year 2019	Financial year 2018
Professional services	18,572	16,405
Fees to the Board of Statutory Auditors	109	116
Services from subsidiaries and Group companies	10,674	10,355
Insurance	12,026	10,885
Expenses related to personnel (travel, training, canteen)	9,108	7,970
Bank and postal expenses	938	1,015
Advertising and public relations expenses	7,533	6,148
Electricity supplies	1,270	1,356
IT services	46,063	32,021
Other costs for services	4,856	8,161
Total	111,149	94,431

Costs for the use of third-party assets amounted to Euro 1,597 thousand (2018: Euro 11,941 thousand). We can note that in 2018 this item included costs for property leases (in particular rental of the executive buildings of the Core Multiutilities Fund) and for vehicle hire, for approximately 10 million euro. These expenses, starting from 1 January 2019, and not restated for the comparative period, are no longer recognised in the income statement and, in application of IFRS 16, the liabilities and rights of use related to the assets to which they refer are recognised in the balance sheet.

NOTE 30_OTHER OPERATING EXPENSE

Other operating expense is broken down in the following table:

	thousands of euro	
	Financial year 2019	Financial year 2018
Membership fees	1,918	1,879
Taxes and duties	1,300	1,028
Donations	2,052	1,905
Prior year expense	1,308	644
Other sundry operating expenses	1,292	1,748
Total	7,870	7,203

Prior year expense mainly refers to adjustments related to differences on estimates.

NOTE 31_CAPITALISED EXPENSES FOR INTERNAL WORK

Capitalised expenses for internal work amounted to 24,438 thousand euro (10,368 thousand euro in 2018) and refer for 3,070 thousand euro (2,966 thousand euro in 2018) to personnel labour expenses and for 21,368 thousand euro (7,402 thousand euro in 2018) to capitalised expenses for materials.

NOTE 32_PERSONNEL EXPENSE

Personnel expense is broken down as follows:

	thousands of euro	
	Financial year 2019	Financial year 2018
Gross remuneration	50,927	49,884
Social security contributions	15,809	15,340
Other long-term benefits	50	57
Other personnel expense	2,626	12,308
Directors' fees	634	649
Total	70,046	78,239

"Other personnel expenses" include provisions set aside for the charges associated with the new agreements for early retirements incentives according to Art. 14 of Italian Law Decree 4/2019 (or Quota 100), social security and recreational contributions, the contribution paid to the supplementary health care fund, insurance for accidents occurring outside working hours, and the portion of employee severance indemnity 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:

	31/12/2019	31/12/2018	Average of the year
Senior managers	51	49	51
Junior managers	123	120	119
White collar	807	790	797
Blue collar	79	77	80
Total	1,060	1,036	1,047

NOTE 33_DEPRECIATION AND AMORTISATION

Depreciation of property, plant and equipment amounted to 13,152 thousand euro (4,000 thousand euro in financial year 2018) and included the depreciation of the period of assets in right of use recognised starting from 1 January 2019 following the first application of IFRS 16. Amortisation of intangible assets amounted to 13,450 thousand euro (10,945 thousand euro in 2018).

For further details on depreciation/amortisation, reference should be made to the tables of changes in property, plant and equipment and intangible assets.

NOTE 34_ PROVISIONS AND IMPAIRMENT LOSSES

The amount of the item can be broken down as follows:

	thousands of euro	
	Financial year 2019	Financial year 2018
Provisions for impairment of receivables	350	9,600
Provisions for risks	1,100	209
Provision releases	(9,227)	(154)
Total net other provisions and impairment losses	(8,127)	55
Total	(7,777)	9,655

The provisions for impairment of receivables were set aside to adjust the amount of provisions to the amount of expected losses on the basis of the simplified model provided for in the standard IFRS 9, where “loss” means the present value of all future lost revenue, opportunely integrated to take into account future expectations (“forward looking information”).

The trend in provisions for risks is referable to the assessment of risks of liabilities in the IT field as well as to probable personnel expenses.

Releases were mainly associated with the cessation of risks for expenses related to the executive properties rented by the property fund, owing to the high probability of exercise of the related redemption option.

Details of changes in provisions are given in the comment on the Balance Sheet item “Provisions for risks and charges”.

NOTE 35_ FINANCIAL INCOME AND EXPENSES

Financial income

The breakdown of financial income is provided in the following table:

	thousands of euro	
	Financial year 2019	Financial year 2018
Income from investments	266,517	200,560
Bank interest income	380	567
Interest income from subsidiaries and associates	49,863	49,769
Interest income on loans	12,964	13,445
Fair value gains on derivatives	856	1,028
Gains made on derivatives	322	-
Actuarial gain on measuring employee benefits	11	79
Other financial income	731	32
Total	331,644	265,480

Interest income on receivables/loans refers to interest income from the joint venture OLT Offshore LNG Toscana.

Financial expense

The breakdown of financial expenses is provided in the following table:

	thousands of euro	
	Financial year 2019	Financial year 2018
Interest expense on loans	28,959	75,954
Interest expense on bonds	49,525	43,220
Interest expense on bank current accounts	55	19
Expenses paid on derivatives	4,366	3,503
Derivative fair value charges	735	714
Interest expense to subsidiaries	84	86
Interest cost – Employee benefits	276	257
Financial expense on leasing liabilities	2,964	54
Other financial expenses	146	3,023
Total	87,110	126,830

Interest expense on loans of the period includes expenses for liability management operations of 19.3 million euro (in financial year 2018, for liability management operations regarding loans and committed lines, there were expenses of 51.8 million euro).

Interest expense on bonds recorded an increase owing to greater stock.

Derivative fair value expenses consist of the reversal of a portion of the cash flow hedging reserve to the income statement, relating to certain hedging positions that do not meet the formal requirements for the application of hedge accounting.

Reference should be made to the note on “Employee benefits” in the Statement of Financial Position for details of financial expense on employee benefits.

The increase in the item related to financial expenses on payables for goods in leasing is attributable to application of the standard IFRS 16.

Other financial expenses were considerably reduced because in 2018 they included contingencies related to the closure of the receivable relationship with the subsidiary Iren Ambiente in relation to the sale of the equity investment in the company ReCos.

NOTE 36_VALUE ADJUSTMENTS ON EQUITY INVESTMENTS

At 31 December 2019 this item was zero, like at 31 December 2018.

NOTE 37_INCOME TAX EXPENSE

Income taxes amount to 3,234 thousand euro (19,976 thousand euro in 2018) and can be broken down as follows:

- current taxes of 5,331 thousand euro (2018: 16,120 thousand euro);
- net negative deferred tax assets and liabilities amounting to Euro 1,573 thousand (a positive Euro 3,465 thousand in 2018);
- taxes related to previous years a negative 524 thousand euro (a positive 391 thousand euro in financial year 2018).

Under the terms of Art. 96 of the Consolidated Income Tax Act, the interest expense rules provide for their deductibility up to a maximum of 30% of the Gross Operating Profit (“fiscal” GOP) with the option to carry forward any surpluses of non-deductible interest expense to subsequent years and, if Group taxation is adopted, with the right to offset such surpluses with any “fiscal” GOP surpluses accrued from other group companies.

For Iren S.p.A., in 2019, application of the rules pursuant to Art. 96 of the Consolidated Income Tax Act entailed forming surpluses of net non-deductible interest expense totalling 21,983 thousand euro which,

however, the company was able to fully offset with the GOP surpluses accrued within the Group thanks to Iren's decision to use Group taxation and pursuant to existing consolidated taxation agreements. The ensuing benefit in terms of lower IRES tax in the year was 5,276 thousand euro.

Pursuant to the consolidated taxation agreements, no remuneration is owed by the companies with surpluses of non-deductible interest expense to the Group companies that transferred their GOP surpluses.

The following table shows the reconciliation between theoretical and effective IRES tax rates. The reconciliation between ordinary and effective IRAP rate was not significant.

The table shows current taxes only, thus excluding deferred taxes. Therefore, changes to the theoretical tax refer to both temporary and final changes.

STATEMENT OF IRES RATE RECONCILIATION	<u>Financial year 2019</u>	<u>Financial year 2018</u>
A) Profit (loss) before tax	238,179	105,952
B) Theoretical tax charge (24% rate)	57,163	25,428
C) Temporary differences taxable in future years	-	-
<i>Alloc. Tax receivables write-down provision</i>	-	-
D) Temporary differences deductible in future years	9,582	21,965
<i>Fees to independent auditors and directors</i>	236	93
<i>Plus minus amortisations</i>	-	-
<i>Alloc. set aside and interest expense</i>	5,117	17,603
<i>Other</i>	4,229	4,270
E) Transfer of previous year temporary differences	(17,121)	(7,045)
<i>Dividends not received over the year</i>	-	-
<i>Utilisation of provisions and interest expense</i>	(16,286)	(3,237)
<i>Fees to independent auditors and directors</i>	(93)	(95)
<i>Other</i>	(742)	(3,714)
F) Differences not recoverable in future years	(251,235)	(186,169)
<i>Non-taxable share of dividends (95%) received at 31/12</i>	(253,192)	(187,809)
<i>Others</i>	1,956	1,640
G) Taxable income (A)+C)+D)+E)+F))	(20,596)	(65,297)
H) Current taxes for the year	(4,943)	(15,671)
M) Rate	-2%	-15%

NOTE 38_OTHER COMPREHENSIVE INCOME

Other comprehensive income amounted to a negative 4,993 thousand euro (a negative 785 thousand euro in 2018) and included other comprehensive income that will be subsequently reclassified to the Income Statement and other comprehensive income that will not be subsequently reclassified to the Income Statement.

Other comprehensive income that will not be subsequently reclassified to the Income Statement relates to:

- the effective portion of changes in the fair value of cash flow hedging instruments, a negative 5,513 thousand euro, which refers to derivatives hedging changes in interest rates.
- the tax effect of other comprehensive income, for 1,323 thousand euro.

Other comprehensive income that will not be subsequently reclassified to the Income Statement relates to:

- actuarial losses, related to defined benefit plans, for 1,057 thousand euro.
- the tax effect of other comprehensive income, for 254 thousand euro.

IX. GUARANTEES AND CONTINGENT LIABILITIES

Personal guarantees given amounted to 420,609 thousand euro (31 December 2018: 416,547 thousand euro) to be divided as follows:

- 62,767 thousand euro of bank and insurance guarantees given to various Banks. Among the above, it is worth noting guarantees given in favour of:

- Municipality of Turin, for 27,476 thousand euro, as definitive guarantee in the AMIAT/TRM;
- SEI Energia for 21,500 thousand euro as expenses for the Assumptor for the related arrangement procedure;
- INPS for 2,974 thousand euro as guarantees envisaged for planned retirement procedures;
- PETALO DUE Srl for 2,853 thousand euro as commitment to sign a notarial deed recognising the sale of a business unit and to settle prices and FIO costs;
- FCT Holding, for 2,000 thousand euro, as definitive guarantee in the Amiat/TRM tender procedure;
- REAM Sgr SpA, for 1,931 thousand euro, to guarantee lease payments of properties transferred to the real estate fund Fondo Core MultiUtilities;
- the Tax Authority for 404,000 euro, guaranteeing annual VAT reimbursement.

- 329,065 thousand euro in guarantees given on behalf of subsidiaries, primarily to guarantee credit facilities and their transactions (mainly commercial contracts/Parent Company Guarantees on behalf of Iren Mercato);

- 28,777 thousand euro of guarantees given on behalf of Associates. The most significant amounts refer to the associate Sinergie Italiane in liquidation (in particular, guarantees for credit facilities and letters of patronage for 25,332 thousand euro). The liquidators concluded the main procurement contracts and since 1 October 2012 the Company's operating activity therefore includes only the purchase of gas from the Russian Gazprom supplier and the sale of gas to shareholders or their subsidiaries, including Iren Mercato.

X. ANNEXES TO THE SEPARATE FINANCIAL STATEMENTS

LIST OF INVESTMENTS

INDEPENDENT AUDITORS' FEES

STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

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TRANSACTIONS WITH RELATED PARTIES FOR 2019

RECONCILIATION OF IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS

LIST OF INVESTMENTS

Company	Registered office	Currency	Share capital	% stake
SUBSIDIARIES				
Iren Ambiente S.p.A.	Piacenza	Euro	63,622,002	100.00
Ireti S.p.A.	Reggio Emilia	Euro	196,832,103	100.00
Iren Energia S.p.A.	Turin	Euro	918,767,148	100.00
Iren Mercato S.p.A.	Genoa	Euro	61,356,220	100.00
ASSOCIATES				
Plurigas (*)	Milan	Euro	800,000	30.00

(*) company in liquidation classified among assets held for sale

INDEPENDENT AUDITORS' FEES

Under the terms of Art. 149-*duodecies* of the Regulations implementing Italian Legislative Decree 58/1998, the fees for the year due to PricewaterhouseCoopers S.p.A. can be summarised as follows:

	Independent auditing services	Services other than independent auditing		Total
		Services for the purpose of issuing an attestation	Other services	
Iren S.p.A.	251	112	38	401

thousands of euro

STATEMENT OF CHANGES IN EQUITY, WITH ADDITIONAL INFORMATION

Nature/Description	Amounts in euro		
	31/12/2019	31/12/2018	31/12/2017
SHARE CAPITAL	1,300,931,377	1,300,931,377	1,276,225,677
CAPITAL RESERVE			
Share premium reserve (1)	133,019,647	133,019,647	105,102,206
Negative goodwill	56,792,947	56,792,947	56,792,947
Treasury shares negative reserve	(9,054,404)	-	-
INCOME-RELATED RESERVE			
Legal reserve	64,641,843	58,345,452	49,997,599
Other reserves:			
Extraordinary reserve	53,766,557	53,766,557	53,766,557
Contribution reserve	-	-	-
Fair value reserve	-	-	-
Other reserves taxable on distribution	1,402,976	1,402,976	1,402,976
Hedging reserve	(9,340,183)	(5,150,176)	(4,262,125)
Actuarial reserve, IAS 19	(3,596,399)	(2,793,362)	(2,896,390)
Retained earnings (losses)	78,180,732	67,544,008	-
TOTAL	1,666,745,093	1,663,859,426	1,536,129,447
Unavailable portion	1,489,538,463	1,492,296,476	1,431,325,482
Remaining available portion	177,206,630	171,562,950	104,803,965

(1) Distributable to shareholders after the legal reserve has reached one fifth of the share capital

KEY:

A: for capital increase

B: to cover losses

C: for distribution to shareholders

Amounts in euro

Possible use	Available portion	Summary of uses over the last three years	
		Coverage of losses	Other reasons
B	1,300,931,377		
A, B	133,019,647		
A, B, C	56,792,947		
	(9,054,404)		
B	64,641,843		
A, B, C	53,766,557		
A, B, C	-		
A, B	-		
A, B, C	1,402,976		
	(9,340,183)		
	(3,596,399)		
A, B, C	78,180,732		
	1,666,745,093		
	1,489,538,463		
	177,206,630		

DEFERRED TAX ASSETS AND LIABILITIES

	2019				
	differences				
	initial	formation	Merger	payment	remainder
<u>Deferred tax assets</u>					
Directors' fees	24	-	-	-	24
Independent Auditors' fees	93	236	-	93	236
Provisions for risks without deferred tax assets	8,943	2,041	-	8,947	2,038
Provisions for IRES IRAP risks	18,367	6,046	-	10,437	13,976
Provisions for IRES risks	6,483	-	-	-	6,483
Provisions for Impairment of receivables	10,681	-	-	-	10,681
Provisions for personnel	1,106	612	-	223	1,495
Provisions for personnel without deferred tax assets	1,688	-	-	67	1,621
Taxable contributions	75	-	-	-	75
Surplus amortisation & depreciation	2,686	-	-	378	2,308
Maintenance	212	-	-	-	212
Inventory write-down provision	254	-	-	-	254
Energy discount, MBO and interest	7,235	4,885	-	6,662	5,459
Derivatives	6,251	5,513	-	-	11,764
Provisions for post-employment benefits	2,379	460	-	49	2,790
Multi-annual costs	28	-	-	28	-
Default and other interest	116	-	-	116	0
GOP interest expense	1,349	-	-	-	1,349
Total taxable base/deferred tax assets	67,970	19,793	-	27,000	60,764
<u>Deferred tax liabilities</u>					
Surplus IRES amortisation & depreciation	2,670	-	-	-	2,670.0
Default interest income	242	-	-	242	-
Provisions for Impairment of receivables	44	-	-	-	44
Other	7	-	-	7	-
Adjustment to post-employment benefits	464	-	-	-	464
Previous land/buildings depreciation	760	-	-	-	760
Total taxable base/deferred tax liabilities	4,188	-	-	250	3,938
<u>TAX LOSSES</u>					
	-	-	-	-	-
Net deferred tax assets/liabilities	63,782	19,793	-	26,750	56,826

thousands of euro

2019

taxes				
taxes	taxes to equity	IRES (corporate income tax): 24.00%	IRAP (regional business tax) 4.82%	total
-	-	6	-	6
34	-	57	-	57
-	-	-	-	-
(1,053)	-	3,354	-	3,354
-	-	1,556	-	1,556
-	-	2,564	-	2,564
57	37	359	-	359
-	-	-	-	-
-	-	18	-	18
(91)	-	554	-	554
-	-	51	-	51
-	-	61	-	61
(548)	122	1,310	-	1,310
-	1,323	2,823	-	2,823
3	95	669	-	669
(7)	-	-	-	-
(28)	-	-	-	-
-	-	324	-	324
(1,633)	1,577	13,705	-	13,705
-	-	641	-	641
(58)	-	-	-	-
-	-	11	-	11
(2)	-	-	-	-
-	-	111	-	111
-	-	182	-	182
(60)	-	945	-	945
-	-	-	-	-
-	-	-	-	-
(1,573)	1,577	12,760	-	12,760

DEFERRED TAX ASSETS AND LIABILITIES

	2018				
	differences				
	initial	formation	merger	payment	remainder
<u>Deferred tax assets</u>					
Directors' fees	-	-	24	-	24
Independent Auditors' fees	95	93	-	95	93
Provisions for IRES IRAP risks	10,331	7,824	2,744	2,533	18,367
Provisions for IRES risks	6,026	-	457	-	6,483
Provisions for Impairment of receivables	-	9,600	1,081	-	10,681
Provisions for personnel	1,386	35	-	314	1,106
Provisions for personnel without deferred tax assets	1,688	-	-	-	1,688
Taxable contributions	-	-	75	-	75
Surplus amortisation & depreciation	1,849	378	459	-	2,686
Maintenance	-	-	212	-	212
Inventory write-down provision	-	-	254	-	254
Energy discount, MBO and interest	10,175	4,270	-	7,210	7,235
Derivatives	5,608	1,168	-	526	6,251
Provisions for post-employment benefits	2,692	144	-	457	2,379
Multi-annual costs	57	-	-	28	28
Default and other interest	-	-	116	-	116
GOP interest expense	-	-	1,349	-	1,349
Total taxable base/deferred tax assets	39,907	23,512	6,771	11,163	59,027
<u>Deferred tax liabilities</u>					
Surplus IRES amortisation & depreciation	138	368	2,164	-	2,670
Default interest income	-	-	242	-	242
Provisions for impairment of receivables	44	-	-	-	44
Other	-	-	7	-	7
Adjustment to post-employment benefits	464	-	-	-	464
Previous land/buildings depreciation	760	-	-	-	760
Total taxable base/deferred tax liabilities	1,406	368	2,413	-	4,188
<u>TAX LOSSES</u>					
	-	-	-	-	-
Net deferred tax assets (liabilities)	38,501	23,144	-	11,163	54,839

thousands of euro

2018

taxes				
taxes to inc. stat.	taxes to equity	IRES (corporate income tax): 24.00%	IRAP (regional business tax)	total
-		6	-	6
-		22	-	22
1,136		4,408	-	4,408
-		1,556	-	1,556
2,304		2,564	-	2,564
(56)	(11)	266	-	266
-		-	-	-
-		18	-	18
91		645	-	645
-		51	-	51
-		61	-	61
(696)	(10)	1,736	-	1,736
-	154	1,500	-	1,500
(24)	(52)	571	-	571
(7)		7	-	7
-		28	-	28
-		324	-	324
2,748	82	13,761	-	13,761
63		641	-	641
-		58	-	58
-		11	-	11
-		2	-	2
-		111	-	111
-		182	-	182
63		1,005	-	1,005
-		-	-	-
2,685	82	12,756	-	12,756

TRANSACTIONS WITH RELATED PARTIES

	thousands of euro				
	Trade Receivables	Financial Receivables, Cash and cash equivalents	Other receivables	Trade Payables	Financial Payables
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	-	-	-	51	-
Municipality of Parma	-	-	-	12	-
Municipality of Piacenza	-	-	-	-	-
Municipality of Reggio Emilia	7	-	-	234	-
Municipality of Turin	278	-	-	408	-
Finanziaria Sviluppo Utilities	16	41	-	-	-
SUBSIDIARIES					
Acam Acque	1,477	143,497	730	417	-
Acam Ambiente	1,199	23,568	(57)	260	-
Amiat	7,426	74,500	639	4,798	-
Amiat V	(13)	7,032	-	-	-
ASM Vercelli	2,243	-	476	1,986	34,735
Atena Trading	255	-	102	40	4,185
Bonifica Autocisterne	11	-	30	-	404
Busseto Servizi	21	-	-	-	203
CMT	116	6,307	-	-	-
Coin Consultech	-	-	31	-	-
Consorzio GPO	-	-	-	-	2,021
Ferrania Ecologia	19	21,010	-	-	-
Formaira	1	-	-	-	62
Iren Acqua Tigullio	515	-	1,042	5	3,377
Immobiliare delle Fabbriche	-	-	-	-	9,560
Iren Ambiente	16,007	226,975	606	996	272
Iren Energia	22,974	513,226	19,847	35	1,598
Iren Mercato	15,823	14	16,311	1,804	48,839
Iren Smart Solutions	2,743	64,068	2,977	729	-
IRETI	34,299	660,266	26,338	2,878	5,430
Iren Laboratori	1,071	-	649	149	3,488
Iren Acqua	3,446	33,862	3,706	222	441
Maira	15	-	-	-	778
ReCos	314	27,133	-	-	-
Salerno Energia Vendite	115	5,472	-	30	-
San Germano	1,259	15,911	-	100	-
Spezia Energia Trading	203	6,610	-	-	-
Studio Alfa	67	-	333	228	-
Territorio e Risorse	1	3,012	-	-	-
TRM	675	-	-	272	-
JOINT VENTURES					
Acque Potabili	105	-	-	-	-
Olt Offshore Toscana LNG	19	352,900	-	-	-

thousands of euro

	Other payables	Revenue and income	Costs and other charges	Financial income	Financial expense
RELATED-PARTY SHAREHOLDERS					
Municipality of Genoa	-	-	296	-	-
Municipality of Parma	-	-	77	-	-
Municipality of Piacenza	-	-	89	-	-
Municipality of Reggio Emilia	-	6	300	-	-
Municipality of Turin	-	591	818	-	-
Finanziaria Sviluppo Utilities	-	31	-	-	-
SUBSIDIARIES					
Acam Acque	1,705	3,973	417	3,597	-
Acam Ambiente	1,524	3,612	196	496	-
Amiat	5,264	21,343	3,876	1,826	-
Amiat V	60	387	-	240	-
ASM Vercelli	1,666	3,869	1,964	-	79
Atena Trading	404	752	23	-	5
Bonifica Autocisterne	40	48	-	-	-
Busseto Servizi	-	46	-	-	-
CMT	-	115	-	122	-
Coin Consultech	-	-	-	-	-
Consorzio GPO	-	-	-	-	-
Ferrania Ecologia	-	19	-	255	-
Formaira	-	4	-	-	-
Iren Acqua Tigullio	2,319	1,128	5	-	-
Immobiliare delle Fabbriche	25	-	-	-	-
Iren Ambiente	10,451	29,432	1,259	52,803	-
Iren Energia	26,210	33,023	653	137,366	-
Iren Mercato	12,526	27,295	3,112	18,148	-
Iren Smart Solutions	1,330	7,334	1,622	1,752	-
IRETI	18,188	65,340	2,560	98,074	-
Iren Laboratori	475	2,474	98	-	-
Iren Acqua	4,463	6,876	226	569	-
Maira	27	52	-	-	-
ReCos	476	688	-	562	-
Salerno Energia Vendite	-	1	30	62	-
San Germano	-	1,256	141	286	-
Spezia Energia Trading	-	189	-	141	-
Studio Alfa	59	67	183	-	-
Territorio e Risorse	-	1	-	12	-
TRM	-	668	272	-	-
JOINT VENTURES					
Acque Potabili	-	20	-	-	-
Olt Offshore Toscana LNG	-	-	-	12,964	-

TRANSACTIONS WITH RELATED PARTIES

thousands of euro

	Trade Receivables	Financial Receivables, Cash and cash equivalents	Other receivables	Trade Payables	Financial Payables
ASSOCIATES					
A2A Alfa	-	-	-	-	-
Acos Energia	-	-	-	-	-
Acos	-	-	-	-	-
Acquaenna	45	-	-	-	-
Aguas de San Pedro	1	-	-	-	-
Amter	108	-	-	2	-
Asa	402	-	-	1	-
Astea	14	-	-	-	-
Asti Energia e Calore	-	10	-	-	-
CSP - Innovazione nelle ICT	-	-	-	116	-
Fratello Sole Energie Solidali Impresa Sociale	62	-	-	-	-
Iniziative Ambientali	4	-	-	-	-
Mondo Acqua	3	-	-	-	-
Piana Ambiente	62	-	-	-	-
Valle Dora Energia	19	6,372	-	-	-
OTHER RELATED PARTIES					
Subsidiaries of Municipality of Genoa	-	-	2	2	-
Subsidiaries of Municipality of Parma	-	-	-	-	-
Subsidiaries of Municipality of Piacenza	-	-	-	-	-
Subsidiaries of Municipality of Reggio Emilia	-	-	-	-	-
Subsidiaries of Municipality of Turin	-	-	-	22	-
Total	113,429	2,191,785	73,764	15,796	115,392

thousands of euro

	Other payables	Revenue and income	Costs and other charges	Financial income	Financial expense
ASSOCIATES					
A2A Alfa	-	1	-	-	-
Acos Energia	-	-	-	-	-
Acos	-	-	-	-	-
Acquaenna	-	-	-	-	-
Aguas de San Pedro	-	-	-	-	-
Amter	-	110	2	-	-
Asa	-	268	-	-	-
Astea	-	14	-	-	-
Asti Energia e Calore	-	-	-	21	-
CSP - Innovazione nelle ICT	-	-	275	-	-
Fratello Sole Energie Solidali Impresa Sociale	-	121	-	-	-
Iniziative Ambientali	-	4	-	-	-
Mondo Acqua	-	-	-	-	-
Piana Ambiente	-	-	-	-	-
Valle Dora Energia	-	70	-	42	-
OTHER RELATED PARTIES					
Subsidiaries of Municipality of Genoa	-	6	58	-	-
Subsidiaries of Municipality of Parma	-	-	-	-	-
Subsidiaries of Municipality of Piacenza	-	-	1	-	-
Subsidiaries of Municipality of Reggio Emilia	-	-	-	-	-
Subsidiaries of Municipality of Turin	-	75	236	-	-
Total	87,212	211,305	18,790	329,340	84

RECONCILIATION OF IAS/IFRS FINANCIAL STATEMENTS WITH RECLASSIFIED FINANCIAL STATEMENTS (CONSOB Communication no. 6064293 dated 26 July 2006)

thousands of euro

IAS/IFRS STATEMENT OF FINANCIAL POSITION		RECLASSIFIED STATEMENT OF FINANCIAL POSITION	
Property, plant and equipment	144,816		
Intangible assets	61,447		
Investments in subsidiaries, associates and joint ventures	2,564,032		
Other equity investments	150		
Total (A)	2,770,445	Non-Current Assets (A)	2,770,445
Other non-current assets	1,872		
Other non-current liabilities	(10,774)		
Total (B)	(8,902)	Other non-current assets (liabilities) (B)	(8,902)
Inventories	3,041		
Trade receivables	114,161		
Current tax assets	7,722		
Other receivables and other current assets	142,038		
Trade payables	(95,271)		
Other payables and other current liabilities	(110,114)		
Current tax liabilities	-		
Total (C)	61,577	Net working capital (C)	61,577
Deferred tax assets	13,705		
Deferred tax liabilities	(945)		
Total (D)	12,760	Deferred tax assets (liabilities) (D)	12,760
Employee benefits	(18,162)		
Provisions for risks and charges	(18,058)		
Provisions for risks and charges - current portion	(1,191)		
Total (E)	(37,411)	Provisions for Risks and Employee Benefits (E)	(37,411)
		Net invested capital (G=A+B+C+D+E)	2,798,469
Equity (F)	1,908,159	Equity (F)	1,908,159
Non-current financial assets	(1,810,266)		
Non-current financial liabilities	2,835,231		
Total (G)	1,024,965	Non-current financial debt (G)	1,024,965
Current financial assets	(382,343)		
Cash and cash equivalents	(239,115)		
Current financial liabilities	487,042		
Total (H)	(134,416)	Current financial debt (H)	(134,416)
		Net financial debt (F)+(G)+(H)	890,549
		Own funds and net financial debt (F+I)	2,798,708

STATEMENT REGARDING THE SEPARATE FINANCIAL STATEMENTS PURSUANT TO ART. 81-TER OF CONSOB REGULATION NO. 11971 OF 14 MAY 1999 AS SUBSEQUENTLY AMENDED AND SUPPLEMENTED

1. The undersigned Massimiliano Bianco, Chief Executive Officer, and Massimo Levrino, Administration, Finance, Control and M&A Manager and Corporate Financial Reporting Manager of Iren S.p.A., hereby certify, also in view of the provisions of Art. 154-bis, paragraphs 3 and 4 of Italian Legislative Decree no. 58 of 24 February 1998:

- the adequacy in respect of the company's characteristics and
- the effective application during 2019 of the administrative and accounting procedures in preparing the consolidated financial statements.

2. It is also certified that:

2.1 the separate financial statements:

- a) are prepared in compliance with the applicable international accounting standards endorsed by the European Community pursuant to Regulation (EC) No. 1606/2002 of the European Parliament and Council, of 19 July 2002;
- b) correspond to the results of the books and account records;
- c) are suitable to give a true and fair view of the financial position and results of operations of the issuer and the group companies included in the consolidation scope.

2.2 the directors' report includes a reliable analysis of the operating performance and results, and of the situation of the issuer and of all companies included in the consolidation, together with a description of the major risks and uncertainties to which they are exposed.

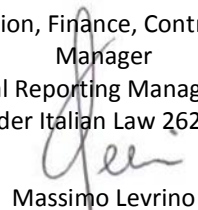
25 March 2020

The Chief Executive Officer



Massimiliano Bianco

Administration, Finance, Control and M&A
Manager
and Financial Reporting Manager appointed
under Italian Law 262/05



Massimo Levrino



Independent auditor's report

in accordance with article 14 of Legislative Decree No. 39 of 27 January 2010 and article 10 of Regulation (EU) No. 537/2014

To the Shareholders of
Iren SpA

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Iren SpA (the “Company”), which comprise the statement of financial position as of 31 December 2019, the income statement, the statement of other comprehensive income, the statement of changes in shareholders’ equity, the statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the financial statements give a true and fair view of the financial position of the Company as of 31 December 2019, and of the result of its operations and cash flows for the year then ended in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISA Italia). Our responsibilities under those standards are further described in the *Auditor’s Responsibilities for the Audit of the Financial Statements* section of this report. We are independent of Iren SpA pursuant to the regulations and standards on ethics and independence applicable to audits of financial statements under Italian law. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

PricewaterhouseCoopers SpA

Sede legale e amministrativa: Milano 20149 Via Monte Rosa 91 Tel. 0277851 Fax 027785240 Cap. Soc. Euro 6.890.000,00 i.v., C.F. e P.IVA e Reg. Imp. Milano 12979880155 Iscritta al n° 119644 del Registro dei Revisori Legali - Altri Uffici: **Ancona** 60131 Via Sandro Totti 1 Tel. 0712132311 - **Bari** 70122 Via Abate Gimma 72 Tel. 0805640211 - **Bergamo** 24121 Largo Belotti 5 Tel. 035229691 - **Bologna** 40126 Via Angelo Finelli 8 Tel. 0516186211 - **Brescia** 25121 Viale Duca d’Aosta 28 Tel. 0303697501 - **Catania** 95129 Corso Italia 302 Tel. 0957532311 - **Firenze** 50121 Viale Gramsci 15 Tel. 0552482811 - **Genova** 16121 Piazza Piccapietra 9 Tel. 01029041 - **Napoli** 80121 Via dei Mille 16 Tel. 08136181 - **Padova** 35138 Via Vicenza 4 Tel. 049873481 - **Palermo** 90141 Via Marchese Ugo 60 Tel. 091349737 - **Parma** 43121 Viale Tanara 20/A Tel. 0521275911 - **Pescara** 65127 Piazza Ettore Troilo 8 Tel. 0854545711 - **Roma** 00154 Largo Fochetti 29 Tel. 06570251 - **Torino** 10122 Corso Palestro 10 Tel. 011556771 - **Trento** 38122 Viale della Costituzione 33 Tel. 0461237004 - **Treviso** 31100 Viale Felissent 90 Tel. 0422696911 - **Trieste** 34125 Via Cesare Battisti 18 Tel. 0403480781 - **Udine** 33100 Via Poscolle 43 Tel. 043225789 - **Varese** 21100 Via Albuzzi 43 Tel. 0332285039 - **Verona** 37135 Via Francia 21/C Tel. 0458263001 - **Vicenza** 36100 Piazza Pontelandolfo 9 Tel. 0444393311

Key Audit Matters

Audit procedures in response to key audit matters

Assessment of recoverability of equity investments

Notes to the financial statements at 31 December 2019: Note 3 “Investments in subsidiaries, associated companies and joint ventures”

The financial statements of Iren SpA at 31 December 2019 show equity investments amounting to Euro 2,564.0 million, the breakdown of which is as follows:

1. *Iren Energia SpA*: Euro 1,139.1 million;
2. *Ireti SpA*: Euro 1,039.4 million;
3. *Iren Ambiente SpA*: Euro 243.4 million;
4. *Iren Mercato SpA*: Euro 142.1 million.

The overall value of such equity investments represented approximately 47% of the total assets of the financial statements as at 31 December 2019.

The Company assesses the recoverability of the value of the equity investments shown in the financial statements annually or, more frequently, whenever there are indications leading to presume the existence of an impairment loss.

Considering the current structure of the Iren Group, this assessment coincides with the assessment of the recoverability of goodwill values, performed when drawing up the consolidated financial statements, as the above subsidiaries correspond to the Cash Generating Units (CGU) identified, in accordance with the definition set forth in the international accounting standard IAS 36 - *Impairment of assets*.

The above assessment of the recoverability of goodwill is based upon the higher between fair

We carried out a preliminary understanding and evaluating of the impairment test procedures prepared by management and approved by the Board of Directors of Iren SpA on 27 febbraio 2020, in order to assess compliance with the requirements of the international accounting standard IAS 36.

Our procedures focused on a critical examination of the main assumptions behind the drawing up of the 2020-2024 Business Plan and of the discounting rates used; furthermore, specific sensitivity analyses were performed, aimed at evaluating the impact on the results of the tests of changes in the main parameters adopted.

Moreover, we also verified the overall mathematical correctness of the plan and of the impairment test model prepared by management, reviewing, for each company / business unit, the method followed to obtain the discounting rate and the constant growth rate of cash flows beyond the plan's time frame. We also compared the book value of each equity investment with the related recoverable value.

These activities were performed also involving experts belonging to the PwC network.

Finally, we verified the completeness and accuracy of the information provided in the



value less costs to sell and value in use of each CGU to which goodwill has been allocated. The value in use was determined by discounting future cash flows expected from each CGU in the 2020-2024 period, as well as their respective terminal values. These flows were extracted from economic and financial projections based on the Business Plan approved by the Board of Directors on 25 September 2020.

notes.

Investments are considered as a key audit matter due to their size and to the inherent estimate elements influencing the valuations made by the directors on their recoverability.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with International Financial Reporting Standards as adopted by the European Union, as well as with the regulations issued to implement article 9 of Legislative Decree No. 38/05 and, in the terms prescribed by law, for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Management is responsible for assessing the Company's ability to continue as a going concern and, in preparing the financial statements, for the appropriate application of the going concern basis of accounting, and for disclosing matters related to going concern. In preparing the financial statements, management uses the going concern basis of accounting unless management either intends to liquidate the Company or to cease operations, or has no realistic alternative but to do so.

The Board of Statutory Auditors ("Collegio Sindacale") is responsible for overseeing, in the terms prescribed by law, the Company's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with International Standards on Auditing (ISA Italia) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.



As part of an audit conducted in accordance with International Standards on Auditing (ISA Italia), we exercised our professional judgement and maintained professional scepticism throughout the audit. Furthermore:

- We identified and assessed the risks of material misstatement of the financial statements, whether due to fraud or error; we designed and performed audit procedures responsive to those risks; we obtained audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control;
- We obtained an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control;
- We evaluated the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management;
- We concluded on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Company to cease to continue as a going concern;
- We evaluated the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicated with those charged with governance, identified at an appropriate level as required by ISA Italia, regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identified during our audit.

We also provided those charged with governance with a statement that we complied with the regulations and standards on ethics and independence applicable under Italian law and communicated with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determined those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We described these matters in our auditor's report.



Additional Disclosures required by Article 10 of Regulation (EU) No 537/2014

On 14 May 2012, the Shareholders' meeting of Iren SpA engaged us to perform the statutory audit of the Company's separate and consolidated financial statements for the years ending 31 December 2012 to 31 December 2020.

We declare that we did not provide any prohibited non-audit services referred to in article 5, paragraph 1, of Regulation (EU) No. 537/2014 and that we remained independent of the Company in conducting the statutory audit.

We confirm that the opinion on the financial statements expressed in this report is consistent with the additional report to those charged with governance, in their capacity as audit committee, prepared pursuant to article 11 of the aforementioned Regulation (EU) No. 537/2014.

Report on Compliance with other Laws and Regulations

Opinion in accordance with Article 14, paragraph 2, letter e), of Legislative Decree No. 39/10 and Article 123-bis, paragraph 4, of Legislative Decree No. 58/98

Management of Iren SpA is responsible for preparing a report on operations and a report on the corporate governance and ownership structure of the Company as of 31 December 2019, including their consistency with the relevant financial statements and their compliance with the law.

We have performed the procedures required under auditing standard (SA Italia) No. 720B in order to express an opinion on the consistency of the report on operations and of the specific information included in the report on corporate governance and ownership structure referred to in article 123-bis, paragraph 4, of Legislative Decree No. 58/98, with the financial statements of Iren SpA as of 31 December 2019 and on their compliance with the law, as well as to issue a statement on material misstatements, if any.

In our opinion, the report on operations and the specific information included in the report on corporate governance and ownership structure mentioned above are consistent with the financial statements of Iren SpA as of 31 December 2019 and are prepared in compliance with the law.



With reference to the statement referred to in article 14, paragraph 2, letter e), of Legislative Decree No. 39/10, issued on the basis of our knowledge and understanding of the Company and its environment obtained in the course of the audit, we have nothing to report.

Genoa, 8 April 2020

PricewaterhouseCoopers SpA

Signed by

Andrea Manchelli
(Partner)

This report has been translated into English from the Italian original solely for the convenience of international readers

REPORT OF THE BOARD OF STATUTORY AUDITORS OF IREN S.P.A. TO THE SHAREHOLDERS' MEETING

(pursuant to Art. 153 of Italian Legislative Decree 58/1998 and Art. 2429 of the Italian Civil Code)

Dear Shareholders,

The Board of Statutory Auditors, pursuant to Article 153 of Legislative Decree 58/1998, the Consolidated Law on Finance (hereafter, "CLF"), and to Article 2429, paragraph 2 of the Italian Civil Code, is called upon to inform the Shareholders' Meeting about the supervisory activities it has performed and on any omissions or censurable events discovered. The Board of Statutory Auditors may also make observations and proposals with regard to the financial statements, their approval and issues falling under its responsibilities.

During the course of the year, the regulatory tasks assigned to the Board of Statutory Auditors under the current legal and regulatory provisions were carried out. The Board of Statutory Auditors supervised compliance with the law and the Articles of Association, as well as ensuring respect for the principles of proper administration. It also supervised the adequacy of the organisational, administrative and accounting structures of the company, as pertained to its responsibilities. To this end, the Board of Statutory Auditors did not find any irregularities that require mention in this Report.

1. Independence of members of the Board of Statutory Auditors

The Board has verified the absence of any causes for removal from office for its members, pursuant to Article 148 of the CLF, as well as the maintenance of independence requirements for the same: (i) under the terms of the Art. 148 paragraph 3 of the CLF, and (ii) under the terms of Application Criterion 8.C.1 of the Corporate Governance Code of Listed Companies.

2. Particularly significant transactions and events

The Board of Statutory Auditors attests, as far as it is responsible, to the compliance of the transactions of greatest economic and financial significance carried out by the company with the law and the articles of association and that they are not manifestly imprudent or risky, in potential conflict of interests or such that they would compromise the integrity of corporate assets.

The aforementioned transactions, as well as significant events in 2019 and after, in reference to IREN S.p.A. and the companies which are direct or indirect subsidiaries of the same ("IREN Group" or the "Group"), are outlined in the sections "Significant events of the period" and "Events after the reporting period and business outlook" in the Directors' Report at 31 December 2019.

3. Related-party or intra-group transactions

Pursuant to Art. 2391-*bis* of the Italian Civil Code, the Board of Directors has adopted, according to CONSOB general principles, rules which ensure the substantial and procedural transparency and fairness of transactions with related parties (see the Directors' Report for further information) and has approved a Related-Party Transactions Procedure, last updated on 30 May 2019 (available on the Iren website: www.grupporen.it). In the sections "Information on related-party transactions" in the Notes to the Separate Financial Statements of IREN S.p.A., and in the Notes to the Consolidated Financial Statements at 31 December 2019, the economic and financial transactions with related parties are illustrated. The details of these transactions are provided in section X "Annexes to the Separate Financial Statements" and in section XII "Annexes to the Consolidated Financial Statements". The Chair of the Board and/or one or more of the standing auditors regularly attend the meetings of the Committee for Transactions with Related Parties, monitoring the procedures concretely adopted for significant resolutions in the interest of the company and the Group, and has nothing specific to report.

In consideration of the model adopted by the Group with IREN SpA as the holding company provided with adequate centralised staff structures and of the direction and coordination work carried out, the company provides services to the subsidiaries on the basis of specific contracts. Any other non-recurring intra-group transactions are dictated by the need to rationalise the operations according to the management structure organised into Business Units.

4. Atypical and/or unusual transactions

The Notes to the IREN S.p.A. Separate Financial Statements and to the Consolidated Financial Statements, the information produced by the Board of Directors and the information received from directors and company management did not indicate the existence of any atypical and/or unusual transactions, including intra-group or with related parties, as defined in CONSOB Communication no. DEM/6064293 of 28 July 2006. In addition, as of the date this Report was prepared, the Board of Statutory Auditors has not received any communications from the auditing bodies of subsidiaries, associates, or investees, or from the Independent Auditors containing observations on this point that would require reporting.

5. Meetings of the Board of Statutory Auditors, the Board of Directors and the Board's Sub-Committees

During the year ended at 31 December 2019, the Board of Statutory Auditors met 21 times, with the participation of all of its members. Details on attendance can be found in the table presented in the specific section in the Report on Corporate Governance and Ownership Structures, prepared pursuant to Article 123-*bis* of the CLF.

In addition, the Board of Statutory Auditors attended the meetings of the Board of Directors (22 meetings) and, as a rule, ensured the presence of at least one of its members at meetings of the Control, Risks and Sustainability Committee (20 meetings), the Committee for Transactions with Related Parties (10 meetings) and the Remuneration and Appointments Committee (19 meetings).

6. Remarks pursuant to Italian Legislative Decree 39/2010, Italian Legislative Decree no. 254 of 30 December 2016, and on the independence of the Independent Auditors

As regards independent auditing of the accounts, the Board of Statutory Auditors recalls that this task is assigned to the audit firm PricewaterhouseCoopers S.p.A. (the Independent Auditors, or PwC), which on 8 April 2020 issued the Reports, under the terms of Art. 14 of Italian Legislative Decree no. 39 of 27 January 2010 and of Art. 10 of Regulation (EU) no. 537/2014, on the IREN SpA Separate Financial Statements and on the Group's Consolidated Financial Statements at 31 December 2019, also noting that they do not contain any findings.

The Board of Statutory Auditors supervised the efficacy of the independent account auditing process, periodically meeting with PwC staff to discuss the activities performed. On 8 April 2020, the Independent Auditing firm signed the Annual Confirmation of Independence under the terms of Art. 6 paragraph 2(a) of European Regulation 537/2014 and under the terms of paragraph 17 of ISA Italy 260.

Further appointments conferred on the Independent Auditors are governed by specific Guidelines "Awarding appointments to the Independent Auditors" compliant with the relevant legislation. The related amounts are presented in the Notes to the Separate Financial Statements and in the Notes to the Consolidated Financial Statements in the paragraph "Fees to independent auditors".

In addition, the Board confirms that the Consolidated Non-Financial Declaration has been drawn up in compliance with the prescriptions of Articles 3, 4 and 6 of Italian Legislative Decree no. 254 of 30 December 2016. The independent auditing firm PwC issued, with a specific report on 8 April 2020, a certification of the compliance of the information provided with respect to what is required by the aforementioned legislative decree and with respect to the principles, methodologies and methods provided for in the GRI (Global Reporting Initiative) reporting standard.

7. Remarks on the financial reporting process and internal audit system

During financial year 2019, the Board of Statutory Auditors supervised the adequacy of the administrative and accounting system and the reliability of the latter to correctly represent operating events by obtaining information from the Financial Reporting Manager and from the other managers of the administrative units. As a whole, the Board of Statutory Auditors considers that the administrative and accounting system is adequate and reliable in relation to the size and complexity of the Company and the Group.

In the context of its responsibilities, the Board of Statutory Auditors has supervised the adequacy of the internal audit system, by: (i) obtaining information from the managers of the respective corporate units; (ii) having meetings with the managers of the Risk Management and Internal Audit units; (iii) having at least one of its members attend meetings of the sub-committees of the board of directors; iv) exchanging information with the Independent Auditors.

In addition, the Board of Statutory Auditors was informed, through half-yearly reports sent to the Board of Directors, about the activities performed by the Oversight Committee established pursuant to Italian Legislative Decree 231/2001, as amended.

The Board of Statutory Auditors noted that certified by the Chief Executive Officer and the Financial Reporting Manager, pursuant to Art. 81-ter of CONSOB Regulation no. 11971 of 14 May 1999 and subsequent amendments, regarding the adequacy and effective application of administrative and accounting procedures in preparing the Separate and Consolidated Financial Statements.

The Board of Statutory Auditors considers, on the basis of the results of these control activities, that the internal audit system can be considered adequate for the size and complexity of operations.

8. Remarks on the adequacy of the organisational structure

To the extent of its responsibilities, the Board of Statutory Auditors has supervised the adequacy of the Company's organisational structure, acquiring information from managers of the corporate units, and considers this structure to be adequate, as a whole, for the Company's characteristics and the activities it performs.

9. Further activities of the Board of Statutory Auditors

Additionally, the Board of Statutory Auditors:

- (i) did not receive any complaints pursuant to Article 2408 of the Italian Civil Code or reports;
- (ii) issued no opinions under the terms of the law during the year;
- (iii) as the Internal Control and Audit Committee, concluded the process of selecting the new auditor for the nine-year period from 2021 to 2029, submitting its "recommendation" to the Shareholders' Meeting, which deliberated on the subject on 22 May 2019;
- (iv) acknowledged the existence of rules issued by the parent company so that the subsidiaries provide all the information necessary to the parent company to fulfil the disclosure requirements provided for by law;
- (v) in relation to the first-level subsidiaries, obtained information in regarding the organisational structure and internal auditing system through the central units of the parent company, meetings with the top management of the subsidiaries and communication with the respective auditing bodies;
- (vi) acknowledged that the annual Report on the remuneration policy and the fees paid was prepared pursuant to Article 123-ter of the CLF and had no specific remarks on the subject;
- (vii) as regards the Company's acceptance of the Corporate Governance Code, please see the Report on Corporate Governance and Ownership Structures;
- (viii) confirms that, during periodic meetings with representatives of the Independent Auditors, no aspects emerged which require mention in this report.

During its supervisory activities, as described above, no censurable events, omissions or irregularities were discovered which require noting in this Report.

In addition, the Board of Statutory Auditors does not consider that elements exist which would require it to make proposals to the Shareholders' Meeting pursuant to Article 153, paragraph 2 of the CLF.

The draft Separate Financial Statements and the Consolidated Financial Statements at 31 December 2019, and the Directors' Report were approved at the Board of Directors meeting held on 25 March 2020. The Separate Financial Statements show net profits of 241,413 thousand euro, while the Consolidated Financial Statements show net profits of 265,681 thousand euro for the period.

As the independent auditor, PwC, is not responsible for the statutory audit of the accounts, with reference to the Separate and Consolidated Financial Statements, the Board of Statutory Auditors verified its general compliance with the rules governing its preparation and structure. The Board of Statutory Auditors, within its responsibility, also verified that they essentially correspond to the events and information that it has been made aware of during execution of its responsibilities. The Board of Statutory Auditors has no specific remarks on this subject.

In the section "Risks and uncertainties" in the Directors' Report, the Directors describe the main risks to which the Company is exposed: financial risks (liquidity, interest rate, exchange rate), as well as credit, energy, operational and IT, reputational and strategic risks. Contingent liabilities are discussed in the sections "Guarantees and contingent liabilities", found in the Notes to the Separate Financial Statements and the Notes to the Consolidated Financial Statements.

In view of all of the above, the Board of Statutory Auditors, acknowledging the previously referenced certifications issued jointly by the Chief Executive Officer and the Financial Reporting Manager, considering the content of the reports prepared by PwC, does not find, in relation to its responsibilities, any reasons to object to approval of the draft Financial Statements at 31 December 2019 prepared by the Board of Directors or to the proposal for the allocation of the net profit for the period.

For The Board of Statutory Auditors

Michele Rutigliano - Chairman

A handwritten signature in blue ink, appearing to be 'M. Rutigliano', written in a cursive style.

Reggio Emilia, 8 April 2020

SUMMARY OF THE RESOLUTIONS OF THE SHAREHOLDERS' MEETING



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