

11 Taxes

This item is made up as follows:

	2017	2016	Change
Current taxes (IRES, IRAP and substitute tax)	166.8	130.5	36.3
Deferred taxes	1.5	2.8	(1.3)
Prepaid taxes	(75.7)	(14.0)	(61.7)
Total	92.6	119.3	(26.7)

Income taxes for the year went from € 119.3 million in 2016 to € 92.6 million in 2017, with a significant improvement in the tax rate from 35.1% to 25.8%. This improvement was substantially boosted by the

deprovision, through the payment of substitute tax, of the controlling interest in Aliplast Spa recorded in Herambiente Spa (10.6 million euros) and of the goodwill recorded in the company Inrete Distribuzione Energia Spa (8.6 million euros), in addition to the decrease of the nominal IRES rate from 27.5% to 24%. Also worthy of note are the benefits in terms of patent box, ace, tax credit for research and development, maxi and hyper amortisation (the latter relating to substantial investments in capital goods functional to technological and digital developments through "Industry 4.0").

Current taxes are broken down as follows:

	2017	2016	Change
IRES	113.0	99.7	13.3
IRAP	29.6	27.9	1.7
Substitute tax	24.2	2.9	21.3
Total	166.8	130.5	36.3

The statutory tax rate determined on the basis of the configuration of taxable income for the purposes of IRES is equal to 24%. The reconciliation with the effective rate is shown below.

	2017		2016	
	Nominal effect	Percentage effect	Nominal effect	Percentage effect
Earnings before taxes	359.4		339.6	
IRES				
Ordinary rate	(86.3)	(24.0)%	(93.4)	(27.5)%
IRAP deductions	0.6	0.2%	0.9	0.3%
Participation exemptions and investments impairment	(2.4)	(0.7)%	(3.7)	(1.1)%
Asset depreciation and goodwill	(2.8)	(0.8)%	-	(1.1)%
Tax and fiscal benefits	6.3	1.8%	5.3	1.3%
IRES previous years	4.3	1.2%	2.3	0.6%
Other increase/decreases	(1.7)	(0.5)%	(4.4)	(1.0)%
IRAP and other current taxes				
IRAP	(21.7)	(6.0)%	(27.3)	(8.0)%
Franked investment income	11.1	3.1%	1.0	0.3%
Taxes	(92.6)	(25.8)%	(119.3)	(35.1)%

This reconciliation is performed only in connection with the IRES, given that, as a result of the particular rules governing the IRAP, reconciliation between the statutory tax rate derived from financial statement information and the effective tax rate, determined according to fiscal regulations, is no longer very meaningful.

The item "tax and fiscal benefits" includes the benefits brought about by the patent tax, ace, tax receivables for research and development, maxi and hyper amortisation.

The item "Franked investment income" includes the substitute tax recorded in the financial period and the release of the relevant amount of substitute tax associated with operations carried out in previous years.

The prepaid and deferred taxes relating to the year 2017 refer to the following variations between taxable income and profit recorded in the financial statements.

Deferred tax assets	2017			2016		
	Temporary difference	Tax effect (IRES + IRAP)	Acquisitions Divestitures IFRS 5	Temporary difference	Tax effect (IRES + IRAP)	Acquisitions Divestitures IFRS 5
Prepaid taxes with effect on the income statement and comprehensive income statement						
Allowance for bad debts	138.9	33.3		76.3	16.4	
Provisions for risks and charges	152.1	35.3		139.5	30.3	
Provisions for employees benefits	13.8	3.7		13.0	3.5	
Depreciation and amortisation	357.7	90.8		271.8	66.7	
Equity investments	157.0	44.0		75.0	21.2	
Hedging operations (cash flow hedge)	0.7	0.1		1.1	0.3	
Other	50.6	13.5		18.9	4.8	
Total tax effect	870.8	220.7	1.7	595.6	143.2	0.5
Amount credited (charged) to the statement of comprehensive income		0.1			(2.0)	
Amount credited (charged) to the income statement		75.7			14.0	
Deferred tax liabilities						
Deferred tax liabilities	2017			2016		
	Temporary difference	Tax effect (IRES + IRAP)	Acquisitions Divestitures IFRS 5	Temporary difference	Tax effect (IRES + IRAP)	Acquisitions Divestitures IFRS 5
Deferred taxes with effect on the income statement and comprehensive income statement						
Provisions for risks and charges	48.0	13.8		55.4	15.0	
Provisions for employees benefits	2.2	0.6		2.1	0.6	
Amortisation (fta - fair value as deemed cost)	278.1	79.3		219.4	62.2	
Deductible goodwill	26.2	7.4		15.6	4.4	
Leases	8.1	2.3		7.9	2.2	
Capital gains recognized on instalments	1.6	0.4		2.1	0.5	
Other	56.1	13.7		31.4	7.6	
Total tax effect	420.3	117.5	23.5	333.9	92.5	5.4
Amount credited (charged) to the statement of comprehensive income		-			0.2	
Amount credited (charged) to the income statement		(1.5)			(2.8)	

In determining tax rates for the period, the Group took into due consideration the effects of the IAS tax reform introduced by law 244 from 24 December 2007, and associated implementation decrees, Ministerial Decree from 1 April 2009, no. 48 and Ministerial Decree 8 June 2011, to coordinate international accounting standards with the rules to determine the taxable base for IRES and IRAP purposes, as per article 4, paragraph 7-quarter, of 38/2005. In particular, the reinforced derivation principle of article 83 of the Consolidated Tax Act (TUIR) was applied, which calls for entities that use IFRSs to use, including in a departure from the provisions of the TUIR, "the criteria for the determination, recognition and classification in the financial statements provided for by said accounting standards.

Below is a summary of tax litigation as of 31 December 2017:

- Notices of assessment served to Hera Spa in 2010 for intercompany services (general management expenses and expenses related to use of the trademark) provided by Hera Spa, in its capacity as parent company of the Group. The deadline for appealing to the Court of Cassation has expired, as the rulings rejected the appeals of the financial administration, thus definitively closing the dispute;
- Notices of assessment for ICI served to Herambiente Spa and Hera Spa concerning the classification in the real estate registry of the Ferrara waste-to-energy plant. Notices of assessment issued over time relate to tax periods from 2009 to 2014 and altogether amount to 10.2 million euros. Regarding the first notices of assessment, the 2016 rulings by the court of Ferrara were all in favour of the Company. As a result of the appeals by the Municipality of Ferrara, the new hearing has not yet been scheduled. The Company filed an appeal for the subsequent assessment notices and currently all rulings are suspended awaiting the outcome of the correlated real estate registry decision. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- Notices of assessment for Ici/Imu served to Herambiente Spa concerning land, facilities and buildable areas located in Ravenna. Notices of assessment issued over time relate to tax periods from 2011 to 2015 and altogether amount to 2.1 million euros. The Company filed appeals or complaints against these notices in February 2017. The Group, having consulted with its lawyers, decided to proceed with any risk fund provisions for the disputes in question for an amount of 2.0 million euros.
- Request to appear for non-paid Ici/Imu from 2010 to 2015 served to the Frullo Energia Ambiente Srl company, concerning the real estate registry classification of the waste to energy plant located in the municipality of Granarolo dell'Emilia. Notices of assessment issued during 2016 and 2017 relate to tax periods from 2010 to 2015 and altogether amount to 29.2 million euros (including taxes, fines and interests). The Company filed appeals against these notices over the course of 2017. The rulings, filed on 12 February 2018, are all not in favour of the Company. At the current date, the appeals are being prepared. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- tax audits to Herambiente Spa, for covered fiscal years from 2009 to 2013 and focused mainly on the amount the company owed in relation to the IRAP subsidy "tax wedge". With respect to the 2009 tax period, the appeal hearing has not yet been scheduled after a favourable ruling for the company by the Provincial Tax Commission in 2015. In relation to the 2010 and 2011 tax periods, during the 2017 financial year, two rulings were issued, both in favour of the Company. In addition, in the course of 2016, notices of assessment relating to the 2012 and 2013 tax periods were served, against which the Company filed the relevant appeals. On 10 November 2017 the rulings were submitted, both not in favour to the Company. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- tax audits to Hera Trading Srl, concerning the tax periods from 2010 to 2014. The most significant of these notifications regards the correctness of the deduction of net financial income related to commodity derivatives and environmental certificates for the purposes of calculating IRES. During 2016 a notice of assessment was served concerning IRES for 2011 in the amount of 2.1 million euros, claiming an alleged deduction of costs in the amount of 7.8 million euros and against which the Company filed an appeal and the implementation of this notice was consequently suspended. On 18 January 2018 the ruling was handed down, which was unfavourable to the company, without applying the sanctions. At the current date, the appeals are being prepared. On 7 September 2017 an assessment notice was served in relation to 2012 IRES, for an amount of 0.5 million euros of taxes, for which the suspension of the notice was obtained. The hearing was held on 30 January 2018 and the ruling is now pending. The Group, having consulted with its lawyers, decided it was not necessary to proceed with any risk fund provisions for the disputes in question, as the alleged violations are considered unfounded.
- A tax audit on Hera Comm Srl, initiated in 2016 concerning IRES, IRAP and VAT for the tax period 2013, ended with the notification, of limited significance, that the reduced VAT rate of 10% had been incorrectly applied to the sale of gas and electricity. On 17 November 2017 an payment notice was served that was formulated 8 January 2018.